

**THE STATE OF NEW HAMPSHIRE
DEPARTMENT OF SAFETY
REVENUES COLLECTED BY THE CRIMINAL RECORDS
AND PERMITS AND LICENSING UNITS**

**FINANCIAL AND COMPLIANCE
AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 2002**

**THE STATE OF NEW HAMPSHIRE
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Reporting Entity And Scope

The reporting entity and scope of this audit and audit report is the revenue collected by the Criminal Records and Permits and Licensing Units of the New Hampshire Department of Safety, Division of State Police, Support Services Bureau, for the nine months ended March 31, 2002.

Organization

The Department of Safety was established in 1961 and reorganized in 1987 under the provisions of RSA 21-P. The Department is under the executive direction of a commissioner who is appointed by the Governor, with the consent of the Executive Council, to a four-year term. The commissioner is authorized to nominate an assistant commissioner and division directors. The Division of State Police is one of seven divisions of the Department and is under the direction of the Director of State Police who serves a four-year term.

At March 31, 2002, the Criminal Records Unit employed 13 full-time and one part-time classified employee and the Permits and Licensing Unit employed five full-time classified employees.

Responsibilities

The Criminal Records Unit maintains the State's Criminal History Record Information (CHRI) Repository, the Automated Fingerprint Identification System (AFIS), and the Uniform Crime Reporting (UCR) System. Services are provided to all levels of law enforcement, government agencies, and the general public. Information entered into the CHRI Repository is received from the superior and district courts, as well as arrest data from law enforcement agencies. A primary responsibility of the Unit is the performance of education background checks authorized by RSA 189:13-a.

The Permits and Licensing Unit is responsible for the issuance of permits and licenses pertaining to security guards, private detectives, nonresident pistol/revolver concealed carry, as well as explosives (competency, use, purchase, transport, and storage) and fireworks (fireworks display competency and display fireworks storage). The Unit also conducts all background checks on prospective purchases of handguns through federal firearms licensed dealers in the State and performs inspections of all explosive storage sites located throughout the State.

Funding

The financial activity of the Criminal Records and Permits and Licensing Units is accounted for in the General Fund of the State of New Hampshire. A summary of the Units' revenues during the nine months ended March 31, 2002 is shown graphically on page 3.

The fiscal year 2002 estimated restricted revenue combined with supplemental warrants, balances forward, and transfers resulted in anticipated fiscal year 2002 restricted General Fund revenue of \$64,069. Fiscal year 2002 estimated unrestricted revenue totaled \$184,000 in the General Fund. The actual revenues of the Units is summarized below:

Summary Of Revenues	General
For The Nine Months Ended March 31, 2002	Fund
Unrestricted Revenues	\$ 106,374
Restricted Revenues	<u>626,902</u>
Total Revenues	<u>\$ 733,276</u>

Prior Audit

The most recent prior financial and compliance audit of the Department was for the 18 months ended December 31, 1993. The appendix to this report on page 53, contains a summary of the current status of the observations contained in that prior report related to the Criminal Records and Permits and Licensing Units. Copies of the prior audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

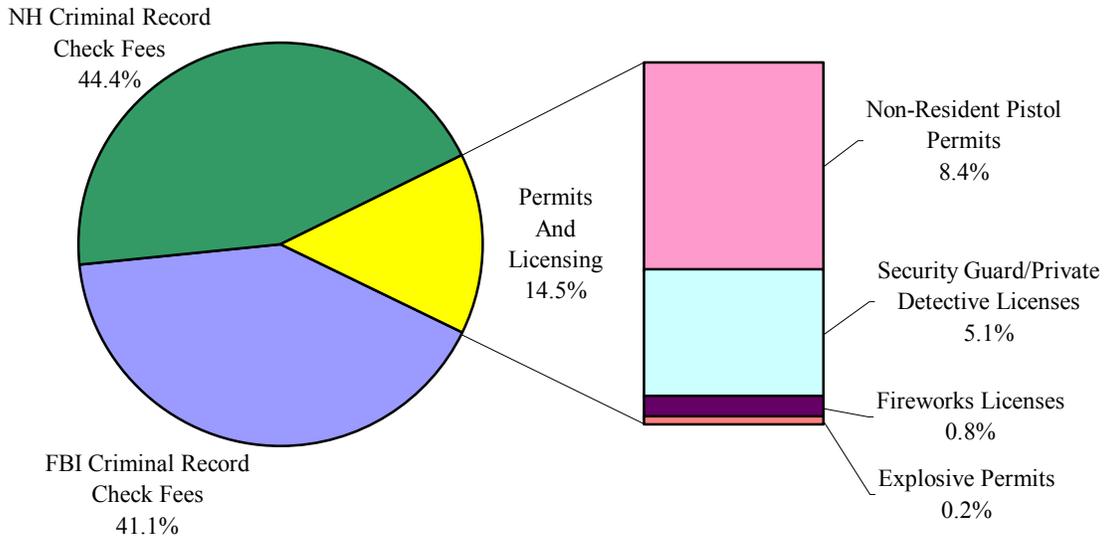
Audit Objectives And Scope

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statement of the Criminal Records and Permits and Licensing Units of the Department of Safety's Division of State Police for the nine months ended March 31, 2002. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we considered the effectiveness of the internal controls in place at the Criminal Records and Permits and Licensing Units and tested their compliance with certain provisions of applicable State laws, rules, regulations and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues and related budgetary accounts.

Our reports on compliance and on internal control over financial reporting, and on management issues, the related observations and recommendations, our independent auditor's report, and the financial statement of the Criminal Records and Permits and Licensing Units are contained in the report that follows.

Revenues Collected By The Criminal Records And Permits And Licensing Units - Nine Months Ended March 31, 2002



Revenues For The Nine Months Ended March 31, 2002

Criminal Records Unit

N.H. Criminal Record Check Fees	\$ 325,610
F.B.I. Criminal Record Check Fees	301,292
Total Criminal Records Unit	<u>\$ 626,902</u>

Permits And Licensing Unit

Non-Resident Pistol Permits	\$ 61,490
Security Guard/Private Detective Licenses	37,068
Fireworks Licenses	6,000
Explosive Permits	1,816
Total Permits And Licensing Unit	<u>\$ 106,374</u>

Total Revenue Both Units	<u>\$ 733,276</u>
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Auditor's Report On Compliance And On Internal Control Over Financial Reporting

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues – Budget and Actual – General Fund of The New Hampshire Department of Safety, Division of State Police, Criminal Records and Permits and Licensing Units for the nine months ended March 31, 2002, and have issued our report thereon dated July 31, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Criminal Records and Permits and Licensing Units' financial statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which are described in Observations No. 22 through No. 25 of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Criminal Records and Permits and Licensing Units' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Criminal Records and Permits and

Licensing Units' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in Observations No. 1 through No. 21 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the matter described in Observation No. 1 to be a material weakness as described above.

This auditor's report on compliance and on internal control over financial reporting is intended solely for the information and use of the management of the Department of Safety and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant
Office Of Legislative Budget Assistant

July 31, 2002

Internal Control Comments
Material Weakness

Observation No. 1: Effective Internal Control Frameworks Need To Be Established

Observation:

Effective internal control frameworks have not been established for the Criminal Records and Permits and Licensing Units. The Criminal Records and Permits and Licensing Units' internal control frameworks are insufficient to assist the Units in meeting their goals, objectives, and responsibilities.

Internal controls provide management a framework for controlling risk and assist organizations in achieving their goals and objectives including their responsibilities for effective and efficient operations that comply with policy, regulation, law, contracts, and report reliable financial data needed for informed decisions.

The following comments in this report include observations where the internal controls for the Criminal Records and Permits and Licensing Units are weak and expose the Units to significant risks that the Units' goals and objectives and responsibility for effective and efficient operations may not be met. While most of these comments relate to weaknesses in the control environment, control activities, and information and communication, the lack of effective control monitoring by management should not be overlooked.

Internal control is generally regarded as having the five interrelated components of control environment, risk assessment, control activities, information and communication, and monitoring. All five components must be present and functioning to provide reasonable assurance that an organization will achieve its goals and objectives on a long-term basis.

The control environment, also known as the "corporate culture," is the attitude toward internal control and control consciousness established and maintained by management. It is a product of management's philosophy, style, and supportive attitude, as well as the competence, ethical values, integrity, and morale of the organization's personnel. The organization's structure and accountability relationships are key factors in the control environment.

Risk assessment is the identification, analysis, and management of risks that threaten the accomplishment of objectives. Risks include internal and external events and circumstances that may occur that could adversely affect the entity's ability to record, process, summarize, and report transactions. Risks can arise or change due to circumstances such as changes in operating environment, personnel, information systems, activity, etc.

Control activities are policies and procedures that help ensure management directives are carried out and help prevent or reduce the risk that can impede accomplishment of the entity's objectives. Control activities include segregation of duties, physical controls, performance reviews, information processing, etc.

Communication is the exchange of useful information between and among people and organizations to support decisions and coordinate activities. The information and communication system relevant to financial reporting objectives, which includes the accounting system, consists of the methods and records established to record, process, summarize, and report entity transactions and to maintain accountability. Communication is also the method of providing an understanding of individual roles and responsibilities pertaining to internal control over financial reporting.

Management monitors controls to consider whether they are operating as intended and modified as appropriate for changes in conditions. Monitoring is a process that assesses the quality of internal control performance over time. It involves assessing the design and operation of controls on a timely basis, and taking necessary corrective actions.

The Criminal Records and Permits and Licensing Units are relatively small components of the Department of Safety, Division of State Police. The personnel structure of these Units and Division include individuals who are dedicated and committed to performing the important programmatic functions of the Units. However, Unit personnel do not necessarily have the financial management expertise necessary to 1) appreciate the need for, and 2) implement, operate, and monitor an appropriate internal control structure. As stated by an employee of one of the Units, “the financial operating aspects of the [Unit] are secondary to our mission” and “the Unit typically operates in a crisis mode, as there is too much work to do and not enough staff. Establishing and monitoring internal controls has not been a priority for the Unit.”

Recommendation:

The Department must assist the Criminal Records and Permits and Licensing Units in establishing an appropriate internal control framework to be effective in providing reasonable assurance that the Units continue to achieve their goals and objectives. As recommended in other comments in this report, the Department’s Divisions of Administration and Information Technology should provide assistance and direction to the Units in redesigning the Units’ business operations with appropriate internal controls for the financial, administrative, and operational systems.

In order for the Division of Administration to be effective in this effort, it will need to be established/reestablished as the financial “advisor” for all divisions of the Department. The Division should have the clear and categorical authority and responsibility for establishing the financial and administrative systems used by the Department and monitoring compliance with those systems. The fact that the Division apparently has not exercised this authority and responsibility in the past has contributed to some Department processes becoming uncontrolled, thus hampering the timely detection of errors and frauds that have occurred.

Auditee Response:

We concur. While the Division of Administration is not currently structured to provide a complete internal control function, it is working diligently to assist other divisions including Criminal Records and Pistol Permits in establishing accurate control procedures where possible.

It is also working with IT to do whatever possible in the computerized area to make the divisions more efficient and accountable. Since the current audit, the units have made considerable strides in tightening up controls and procedures.

Other Reportable Conditions

Observation No. 2: Processing And Recording Controls Over Financial Transactions Should Be Improved In The Criminal Records Unit

Observation:

The Criminal Records Unit's policies and procedures for recording financial transactions are not adequate to ensure that all transactions are recorded in a manner that promotes effective controls over revenue and the availability of data for management information purposes.

The Department of Safety maintains a database system that is used by its divisions to record financial and other transaction information. Terminals with printers serve the dual purposes of "cash registers" and data entry points for information recorded in the database. In order to have the most control effectiveness, transactions should be entered into the terminals immediately when they occur by the clerk who is processing the transaction; for example, when a customer makes payment over the counter or when a payment received in the mail is processed. In addition, sufficient and consistent information should be recorded to ensure that the source and propriety of the transaction can be subsequently determined to provide for an adequate "audit trail" to support the transaction and the accuracy and completeness of the clerks daily closeout of cash and checks processed.

The procedure used by the Criminal Records Unit to process transactions through the Department's database does not take advantage of the controls available in the database system. The database system terminal is not utilized as a "cash register," transactions are not entered as processed, transactions and transaction information are not consistently recorded in the system, and individual clerks who transacted the business are not identified. In large part, the fact that the Unit was not utilizing the controls in the database system, and had not established effective alternative controls, allowed a fraud that occurred in the Unit during the Fall of 2001 to go undetected.

Examples of transaction recording problems and deficiencies in the Unit's current processes included:

- Multiple cash transactions are lumped into one posting with the description of "cash" instead of a reference to the individual supporting transactions.
- Transaction reference descriptions are not consistent. In many transactions, the reference description was a birth date, in other transactions the reference was a last name or company name, and in others, it was check number received in payment for the record search.
- There is no clerk accountability established for transactions recorded in the Department's database as a single Unit clerk records essentially all transactions processed by the Unit under a single clerk user number. Posting all transactions under a single user number obfuscates the audit trail for these transactions.
- Zero-fee transactions are not recorded in the Department database.

- Revenue transactions are not always recorded timely. Clerks are not required to closeout daily, a process required by the Department database.

Recommendation:

The Criminal Records Unit, with the assistance of the Department's business office and Division of Information Technology, should thoroughly revise the Unit's current inefficient and uncontrolled method for processing and recording transactions. A controlled and efficient method for processing record checks, accepting payments, and entering information into the Department's database should be established. The revised process should enable the Unit to efficiently establish clerk accountability for transactions processed, obtain important management information on the performance of the Unit, and assist in a controlled deposit process.

The possibility of integrating the criminal record checking software with the Department's database should be considered to provide for the efficiency and control that would result from requiring all searches of criminal records by the Unit to result in a financial record that would be reconciled to revenue collected.

Auditee Response:

We concur. The Criminal Records Unit will work with the Business Office and Information Technology to improve its controls over recording financial transactions by looking into the possibility of integrating criminal records into the Department database in a more efficient manner.

Observation No. 3: Accountability Controls Over Financial Transactions Should Be Improved In The Permits And Licensing Unit

Observation:

The Permits and Licensing Unit has not established appropriate accountability controls in its clerk/cashier functions.

While all five Permits and Licensing Unit employees may accept license and permit revenue transactions over the counter and also process similar revenue transactions through mail receipts, one clerk is responsible for recording and processing for deposit all cash and checks collected by the entire Unit. Unit employees that accept over-the-counter transactions in this clerk's absence place the cash, checks, and related documents into a file drawer to await the clerk's return. Unit employees place all checks received in mail transactions in a cardboard box to await recording and processing by this clerk. Cash and checks may remain in the file drawer or in the cardboard box for up to a week if this key clerk is on leave or subject to heavy workloads. Because multiple employees accept cash and checks and place the amounts in the box and file drawer prior to any initial recording, and this temporary storage is accessible to all Unit and other Department employees that have access to the Unit's workspace, the cash and checks are subject to an

unnecessary risk of loss or theft. Compounding this risk is the fact that the accountability for any missing cash or checks may not be readily determinable due to the general lack of security over the storage of the cash and checks.

While no instances of loss or theft of cash or checks from the Unit were noted during the course of the audit, the risk of undetected loss is significant.

Recommendation:

The revenue collection policies and procedures used by the Permits and Licensing Unit must be revised to ensure proper controls and accountability over cash and checks collected. The Permits and Licensing Unit should request assistance from the Department's business office to design and implement controlled procedures to safeguard the Unit's revenue collection processes.

The Unit should not be dependent on one clerk for processing revenue transactions. Each Unit employee should be accountable for the cash and checks they collect both over the counter and/or through the mail. Unit operating procedures should require employees to keep their receipts segregated and safeguarded and to balance daily cash and checks received to documentation such as permit and license applications supporting those receipts.

Cash and checks presented by the employees for daily deposit should be referenced and reconciled to appropriate documentation supporting the amount of deposit in the daily closeout. The amount of the daily closeout and associated documentation should be reviewed and approved by a supervisor or other independent employee.

Cash and checks should be processed for deposit on the day of receipt or as soon as possible thereafter. Cash and checks should not be allowed to accumulate awaiting an employee's return from time off.

Auditee Response:

We concur. The Permits and Licensing unit has revised its cash collection procedures and accountability. They no longer rely upon one clerk to process all transactions. Each clerk is now accountable for the receipts that they receive daily. The receipts are collectively recorded by one individual. They are then turned over to a second individual who verifies the daily collections and initials the verification. The receipts are then taken to the vault area where they are again verified and initialed and turned in for the completion of the A-17 daily deposit by the vault personnel.

Observation No. 4: Policies And Procedures Documentation Should Be Established Or Updated

Observation:

The Criminal Records Unit has not documented its policies and procedures for its functional area and the Permits and Licensing Unit's policies and procedures manual is neither current nor comprehensive. The last revision of its manual occurred approximately five years ago.

Issues noted that indicate a need for a revision of the Permits and Licensing Unit's policies and procedures documentation include:

- Outdated fee schedule, incomplete/outdated statutes and rules, and some items on the table of contents were missing from the manual.
- Written procedures for documenting background checks on permittees and licensees are not contained in the manual. Audit testing revealed three instances where the documentation for a background check was inaccurate without explanation, and instances where different clerks were using inconsistent documentation procedures for background checks.

A well-designed and properly maintained system of documenting policies and procedures is an effective form of communication necessary in a comprehensive internal control framework and is particularly important to the proper functioning of controls over accounting and financial reporting. In addition to properly communicating the functioning of internal controls, documented policies and procedures help to clearly outline the specific authority and responsibility of individual employees, thus providing the essential foundation needed for establishing employee accountability. Documentation also serves as a reference tool for employees seeking guidance on the proper handling of less frequently encountered transactions and situations, enhancing consistency, and lessens the threat of disruption to operations posed by employee turnover.

Recommendation:

The Criminal Records and Permits and Licensing Units should document their accounting and other operating policies and procedures. While traditionally such documentation has taken the form of a policies and procedures manual, other forms of documentation such as online documentation may be more efficient and effective for the Units. The documentation of policies and procedures should be readily available to all employees who need it. It should delineate the authority and responsibility of all employees and should indicate which employees are to perform which procedures. The policies and procedures should be promulgated by an appropriate level of management to emphasize their importance and should be updated periodically according to a predetermined schedule. Changes in procedures that occur between the periodic reviews should be updated in the documentation promptly as they occur. Procedures should be described as they are intended to be performed and should explain the design and purpose of control-related procedures to increase employee understanding and support of controls.

Each system of documentation whether in the form of a manual or other format, should be maintained as a comprehensive and current resource so that it remains useful to employees in the normal course of performing their assigned duties. While it is recognized that establishing and maintaining a current and comprehensive documentation of policies and procedures is a time-consuming task, the documentation should be regarded as a critical component of the Unit's control structure as well as a potential source of increased efficiency in the long-term, as employees become accustomed to performing their duties according to management's plans and objectives.

Auditee Response:

We concur. The Criminal Records unit is currently writing and updating a policy and procedures manual for use in the unit.

Permits and Licensing is currently in the process of updating their policies and procedures manual as it is a critical component in a units ability to have control.

Observation No. 5: Cash Drawer Procedures In The Permits And Licensing Unit Should Be Improved

Observation:

The policies and procedures over access to and maintaining a cash drawer in the Permits and Licensing Unit need improvement.

There is no start-up cash utilized by the Permits and Licensing Unit to make change for currency offered in payment for permits and licenses. If a customer wishes to pay with cash and no change is available from prior business, the Permits and Licensing Unit clerk will go to the Department's vault to obtain change. Reportedly, the clerk may need to obtain change from the vault two to six times per day.

While there is primarily one clerk who accepts payments from walk-in customers, other clerks may tend the counter when this clerk is temporarily out of the room. If in transacting business these clerks need to make change, they will use the day's accumulated receipts from the primary clerk's cash drawer or will go to the vault if the appropriate change is unavailable. Allowing multiple clerks access to one cash drawer prevents the primary clerk from being singly accountable for the cash and checks. Because several employees have access to the funds, the responsibility for any missing cash and checks may not be determinable.

Recommendation:

Management must emphasize the need, and provide appropriate resources including adequate start-up cash, locking cash drawers, and an emphasis on clerk accountability, for each clerk to be solely responsible for the cash and checks they collect.

The Permits and Licensing Unit should provide a start-up cash drawer for each clerk that regularly works at the Unit's counter. Clerks should not be required or allowed to regularly walk to the vault to obtain change for customers or be allowed to access another clerk's cash drawer to obtain change. Clerks' cash drawers should be locked when not in use and when the clerk is not present to prevent others access to the drawer.

Auditee Response:

We concur. The Permits and Licensing Unit has obtained a \$50.00 cash drawer from the Business Office. The clerks no longer have a need to go to the vault each time when change is required. The money is maintained in a locked drawer when the clerk is not present.

Observation No. 6: Management Information Reports Should Be Utilized To Review Unit Activity

Observation:

Management information reports generated from the Department of Safety's database system are not being utilized as a control to review the financial activity of the Criminal Records and Permits and Licensing Units. In addition, inconsistent procedures used by the Units in recording transactions in the database lessen the effectiveness of the potential controls available in the database system.

The Criminal Records and Permits and Licensing Units have not been provided the proper assistance in developing effective and efficient policies and procedures for recording and reporting financial transactions in the Department of Safety's database system. In part, because the Units' are not familiar with the potential controls available through the Department's database system, the operational activities of the Units have not been tailored to take advantage of the system and the Units' recording of transactions have lacked the specific detail and consistency needed to make the use of the system's controls effective and efficient.

- As discussed in Observation No. 2, Criminal Records Unit personnel do not enter transactions directly into the database, do not necessarily enter their own transactions, do not necessarily closeout daily, do not record all transactions (e.g. no-fee transactions), do not record payor information in a consistent manner, and do not maintain support for transactions recorded.
- Transactions posted by the Permits and Licensing Unit lack consistent payor reference descriptions. In many transactions reviewed, the payor reference was a birth date; in other transactions the reference is an individual or company name. The inconsistent recording of information, and the lack of relevance of some information entered, makes its use by the Unit less than optimal.

Recommendation:

The Criminal Records and Permits and Licensing Units should work with the Department's business office and Division of Information Technology (IT) to develop policies and procedures for processing and recording transactions that will take advantage of the Department's database system and its inherent controls.

A review of the information entered into the system should be performed in order to ensure that information important for the efficient operation of the Units is recorded and available for management information reporting. Transactions entered into the database should be referenced back to the supporting license or permit application where applicable.

In addition, the business office and IT should assist the Units in obtaining management information reports that would allow for efficient and effective review of Unit activity.

Auditee Response:

We concur. As in Criminal Records, Permits and Licensing will work with Information Technology to see what current reports are available. It may also define reports that could be constructed by IT that would be useful tools for management. Permits will pursue this.

The Permits and Licensing Unit will review what reports are available to the unit and also review what reports may be designed for them by IT that will make their operation more efficient and effective.

Observation No. 7: Fee Structure In The Department Database Should Be Kept Current

Observation:

The Criminal Records Unit fee structure and revenue distribution information in the Department database was not current during the nine months ended March 31, 2002, causing inaccurate distributions of revenue between two revenue source accounts: account 7452, N.H. Criminal Record Check; and account 7583, FBI Record Check.

- The Safety database revenue allocation process does not consider the effect of reduced fees for criminal record checks performed on school volunteers or volunteers for public or private not-for-profit agencies that provide services to the elderly, disabled, or children. The Safety database allocates all criminal record check revenues by posting the first \$10 of the fee collected to account 7452 with any net amount (remainder) posted to 7583. This allocation process does not reflect proper fee allocation when a reduced fee is collected from a volunteer worker. (Prior to January 23, 2002 the \$10 N.H. criminal record check fee was waived. Effective January 23, 2002, a \$5 fee was charged.)

While the total revenue collected from these transactions was accurate, the distribution of the total between the two accounts was not. Analyses based on inaccurate reporting of revenue

between accounts can lead to inappropriate management and other decisions affecting Unit operations.

Recommendation:

The Criminal Records Unit should establish effective lines of communication with the Department business office and Division of Information Technology to ensure that Unit transactions are accurately recorded and reported in accordance with statute-based or administrative rule-based fee changes.

Unit management should ensure that there is an effective system of monitoring in place to review accounting information for accuracy and to detect when the Unit's transactions are not accurately recorded and reported.

Auditee Response:

We concur. This situation has been corrected. The Business Office was not notified when this occurred thus the distribution was incorrect. The Business Office has reminded Criminal Records that when changes are made, they must notify the Business Office immediately to prevent errors from occurring.

Observation No. 8: Fees Should Not Be Waived Without Proper Authority

Observation:

During the period of the audit, the Criminal Records Unit, without the proper authority to do so, apparently waived criminal record check fees for certain requestors.

RSA 106-B:7, I (b) and N.H. Admin. Rule Saf-C 5703.06 and 5703.07 include provisions establishing the collection of fees for processing criminal record checks. While N.H. Admin. Rule Saf-C 5703.07 (a) and (c) exempts certain organizations from the requirement for paying the criminal record check fee, there are no other provisions allowing the waiving of these fees.

According to the Administrator of the Criminal Records Unit, prior to a change in policy, the counter clerk, on a case-by-case basis, could receive verbal authority from the Administrator to waive the \$10 fee if the requestor appeared not able to afford it. This prior policy, in effect during the first part of the audit period, has been changed to require written authority from the Director of the State Police prior to waiving a fee. However, it is not apparent in statute or rule where the Director is granted authority to waive fees.

Recommendation:

The Criminal Records Unit should collect all fees required by statute and administrative rule. No fees should be waived unless the applicant meets the criteria outlined in N.H. Admin. Rule Saf-C 5703.07 or other provision of statute or rule allowing fees to be waived.

If the Criminal Records Unit determines that it needs flexibility to allow for the waiving of fees, the Unit should request a revision to its statutes and/or rules.

Auditee Response:

We concur. While the waiving of fees is based on a written request through the Director of State Police, the rules for this purpose do not state that this is the exact procedure for waiver. Criminal Records will work with the Department of Safety Legal person to incorporate this procedure into rules.

Observation No. 9: Policies And Procedures Should Be Established For Prepaid And Billed Accounts

Observation:

Neither the Criminal Records Unit nor the Department of Safety business office have established policies and procedures to properly control prepaid and billed accounts for the Unit's regular customers.

In addition to properly communicating the functioning of internal controls over financial reporting, written policies and procedures help clarify specific authority and responsibility of employees, thus providing the essential foundation needed to establish employee accountability. Written policies also serve as a reference tool for employees seeking guidance on the proper handling of less frequently encountered transactions and situations. Furthermore, written policies lessen the threat to continuity posed by employee turnover.

The Criminal Records Unit has five customers that it regularly bills for criminal record requests. The business office does not have written policies and procedures for determining who is eligible for receiving records on a billable/credit basis or to properly control the billing process. According to the business office, the determination of who is allowed a billable account is made by one of three business office employees on a case-by-case basis.

The Criminal Records Unit also has eleven customers that maintain prepaid accounts with the Criminal Records Unit. There are no specific written policies and procedures regarding prepaid accounts for the Unit (or for the Division of State Police). The Department does have written policies and procedures for prepaid accounts specific to the Division of Motor Vehicles (N.H. Admin. Rule Saf-C 5604) and, according to the business office, these procedures are followed for all prepaid accounts regardless of the Division originating the account.

The lack of written policies and procedures for properly controlling the Criminal Records Unit's billing process may have contributed to the situation where the Unit failed to bill four of the five accounts, and the business office failed to recognize the missing invoices, for the period May through November 2001. The breakdown in the timely billing of the accounts was apparently due to employee oversight.

Recommendation:

The Criminal Records Unit in conjunction with the Department's business office should establish comprehensive written policies and procedures for prepaid and billed accounts. The policies and procedures should include consideration of criteria for establishing the accounts and processing, recording, and reporting account activity. The policies and procedures should establish proper controls such as segregation of duties including proper review and approval functions.

The Department should consider whether there are other areas of its operations that also would benefit from similar policies and procedures.

Auditee Response:

We concur. The Business Office will work with Criminal Records to establish written policies and procedures to properly control prepaid and billed accounts for regular customers. It should be noted that the Department no longer bills for criminal request fees. The five customers currently being billed are old customers going back several years. Currently, we only accept prepaid accounts. The determination on pre-paid will be made by the Director of Administration or a designee in consultation with the Administrator of Criminal Records. The Business office will also assume the billing of the current five customers as we do this for other divisions. This will relieve Criminal Records of this responsibility.

Observation No. 10: Continued Use Of Receipt Books Should Be Reviewed And Controlled

Observation:

The Department of Safety business office has not effectively controlled and monitored the issuance and recovery of the pre-numbered receipt books provided to Department clerks and cashiers to document the receipt of cash transactions.

Preparing and accounting for manual receipt documents is an inefficient control process subject to neglect and abuse. In order for the control provided by the receipt books to remain effective, all receipts must be accounted for. If the receipt books are allowed to disappear, the control over cash collected becomes ineffective and missing cash can go undetected.

In our review of the business office's log of receipt books and related processes that covered the nine months ended March 31, 2002, we noted that there was no policy for the business office to follow-up on receipt books that remained with the clerks for extended periods of time. In addition, return dates were not consistently documented in the log and, according to business office personnel, some books were never returned by the cashiers. Due to the lack of consistent care in completing entries in the log, it is difficult to determine to which cashier some of the books were issued.

Recommendation:

The Department should review its procedures to determine whether the continued use of paper receipt documents is an efficient and effective way to control the receipt of cash. As discussed in other observations, the Department should consider further automating its cashier functions to allow for an automated receipting process that would be more efficient and effective.

As long as the Department continues to use manual cash receipt documents, the Department business office, as the issuing agent, must improve its control over the receipt books. Control processes must be strictly adhered to and monitored to ensure they remain effective. The log should be periodically reviewed for completeness and for indications of receipt books that may be missing or outstanding for an unreasonable amount of time.

Auditee Response:

We concur. Until such time as the function is automated, the business office has taken steps to ensure that there is control over the issuance of receipt books as follows: 1: When a person comes to get receipt books, the business office signs out the books, recording the numbers, who received the books and the date. If the area requesting the books has other outstanding books, they are requested to submit in writing that the other books are still in use and what number of receipts they are. When used books are returned, they are recorded back in and the date with a check of the pages within the books to assure they are all accounted for.

Observation No. 11: System And User Documentation Should Be Complete and Current

Observation:

System and user documentation for the Department's computerized information systems - primarily the Department's database - are reportedly not complete or current. The Division of Information Technology (IT) estimates that 90% of its system documentation and approximately 40% of its user documentation is current. According to IT, while some of the Department database documentation is not complete, some functions of the database may not be documented at all.

The lack of comprehensive system and user documentation puts the Department's and Units' ability to most effectively use the Department's investment in IT assets at risk. In addition, the Department and Units run the risk of significant disruption of operations in the event that critical systems develop problems requiring immediate attention. This disruption could be compounded during periods when key IT employees terminate employment.

Generally accepted control objectives for information and related technology (COBIT) illustrate the need for developing and maintaining procedures to ensure the organization's proper use of the IT systems that are put in place. This business requirement is enabled by a structured approach to the development of user and operations procedure manuals, service requirements, and training materials. Providing adequate user procedure manuals, operations manuals, and

training materials should be regarded as an integral part of every information system development, implementation, or modification project. To be most effective, the manuals should be available for use contemporaneously with any changes to the systems.

This same comment was contained in our report on the audit of revenues collected by the Department's Division of Motor Vehicles for the year ended June 30, 1999. At that time, the Department's IT section estimated that 10% of the Department's system documentation and 30% of the user documentation was current.

Recommendation:

The Department should continue in its efforts to develop comprehensive system and user documentation for its applications. The Department should establish and maintain controls to ensure that critical documentation remains current.

Auditee Response:

We concur. Information Technology has made gains in this area, however it has not been 100% completed. It should be noted that a complete new system is anticipated to be installed by Sept/Oct 2003. At that time, this observation should be eradicated as a complete new system and user documentation will be in place.

Observation No. 12: Control Processes Currently Used By The Criminal Records Unit Need To Be Secured To Remain Effective

Observation:

Control procedures currently used by the Criminal Records Unit have been allowed to become ineffective due to lack of attention.

Keys to the locking cash drawer in the Unit stay in the drawer lock 24 hours per day. Although it would be difficult for nonemployees to gain access to the cash drawer, the cash drawer should be locked and the keys kept in a secure location whenever the responsible clerk is away from the workstation. Unsecured cash drawers prevent accountability for the accumulated cash and checks contained in the drawers.

The Unit's stamps that are used to indicate "Record Found" or "No Record Found" are not sufficiently safeguarded, as the stamps are not secured during the workday when the counter clerks are away from their workstations or after normal business hours. In addition, the stamps appear readily reproducible and are not an effective certification to the public of the results of a criminal record search.

The Unit's closeout processes intended to provide accountability over cash and checks received by clerks are not effective in establishing accountability due to lax receipt documenting,

excessive handling of cash and checks (cash and checks change hands four times prior to being presented to the vault for deposit preparation), and lax monitoring of closeout procedures.

Recommendation:

The Criminal Records Unit needs to reestablish the importance of effective controls with its employees. Control procedures that have been allowed to become ineffective through inattention should be reinstated where appropriate and revised and established if more effective and efficient procedures are available. Unit management must regularly monitor to ensure the controls remain appropriate for the Unit and Unit employees are adhering to the controls.

Auditee Response:

We concur. The key to the locking cash drawer is now removed and kept in the clerk's locked desk drawer when the clerk is away from the cash drawer. The Criminal Records stamp is now secured in the key locked desk when the clerk is away from the area. The Criminal Records Unit has incorporated the close out procedures used by the Division of Motor Vehicles with monitoring by the unit manager.

Observation No. 13: Criminal Records Unit Closeout Policies And Procedures Should Be Revised

Observation:

The Criminal Records Unit's end-of-day closeout policies and procedures are not relevant to clerks' activities and therefore are not adhered to.

The Unit adopted the Department's Division of Motor Vehicle cash drawer closeout policy on March 12, 2001. The policy is intended to establish and maintain clerk accountability for amounts collected and submitted to the vault for deposit. The policy states:

1. Employee's cash drawers shall be counted by both the employee and a supervisor from their bureau or section at the close of the business day.
2. Both employees must initial the computer generated closeout sheet and also indicate that the cash advance is correct.
3. All close out forms, listing cash and checks, will be computer generated and printed and will be issued to the vault attendant in an orderly manner.

The closeout policy adopted by the Unit was initially designed for Division of Motor Vehicles counter clerks who record transactions directly into the Safety database as the transactions occur over the counter or as received in the mail. The policy does not establish clerk accountability for Unit processed receipts where the clerk initially receiving the cash and checks does not record the transactions. Requiring compliance with this closeout policy may not be appropriate for the Unit and during the nine months ended March 31, 2002, the Unit was not complying with this policy.

In order for management to encourage control consciousness among its employees, it is important to adopt policies that are relevant, reasonable, and efficient. Policies that are not relevant are recognized as such by employees and, in addition to not complying with the policies, employees become accustomed to being selective as to what policies they need/want to adhere to.

Recommendation:

As noted in other observations, the Unit needs to revise its cash and check receipt and recording process to provide for a more controlled and efficient process. Once that revision has occurred, the Unit will need to establish appropriate end-of-day close out policies and procedures to ensure that accountability for all transactions is established and controlled from the receipt of the cash and checks to the presentation of the closeout to the vault.

In order for the control policies to be effective, they will need to be efficient and relevant to the procedures used by the Unit. The Unit will need to continually monitor employee compliance with the policies and procedures to ensure the procedures provide the controls anticipated by the Unit.

Auditee Response:

We concur. The following is being implemented. The employee who receives the cash receipts will record them on an A-15 or computerized format similar to an A-15. All cash receipts will be forwarded to an independent employee who will be responsible for reviewing the A-15 at days end, initial, if correct, or resolve through unit manager if incorrect. Funds will then be taken to the vault for deposit.

Observation No. 14: Revenue Input Screens Should Be Created To Promote Accurate Data Entry

Observation:

Both the Criminal Records and Permits and Licensing Units use “miscellaneous revenue” screens to enter revenue transactions into the Department of Safety database.

In reviewing transactions recorded in the database, we observed instances where transactions were posted to the wrong accounts, apparently due to clerk error, oversight, or lack of training.

Entering information using a miscellaneous revenue screen is inefficient and increases the risk of incorrect and inconsistent data entry.

Recommendation:

The Criminal Records and Permits and Licensing Units should work with the Department’s business office and Division of Information Technology to develop data entry screens specific to

the needs of the Units. Well-designed screens will assist clerks to enter data efficiently, accurately, and in a manner consistent with management's intentions.

Auditee Response:

We concur. The IT division has been contacted to look into the feasibility of creating or designing new screens for the bureaus. It is felt that if the task is financially doable with relatively little effort, that it would be more efficient for the clerks to accurately enter the information.

Observation No. 15: The Criminal History Record Information Database Should Create A Transaction Register Of Criminal Record Inquiries

Observation:

The Criminal Records Unit uses an inefficient and ineffective system of manual lists, logs, and counts of processed documents to provide controls over the recording of revenues and to generate statistics of Unit operations.

The manual lists and logs prepared at the counter for walk-in customers are inefficient and ineffective as control processes. The completion of the lists and logs are additional requirements on the clerks and customers and the generation of the record response is not conditioned on the lists/logs prior to completion. Consequently, the lists and logs are not consistently completed, limiting their utility.

The daily manual counts of processed record release authorization forms by clerks processing record check requests received in the mail is inefficient and prone to error.

None of the Unit's current control methods including manual lists, logs, and document counts help ensure that the Criminal History Record Information (CHRI) database is being used in a controlled manner and as intended by management and by statute. There are no mitigating controls that would detect if the CHRI database was being misused and criminal record checks were being made without the approval of the subject of the check or that criminal record checks were being made without the clerk reporting and depositing the correct fee.

Recommendation:

The Criminal Records Unit should establish an automated transaction register for the noncriminal justice record checks. The transaction register should provide a count of all noncriminal justice record checks. This record could then be reconciled to the actual fees collected and deposited. In addition, the transaction register could be used to provide comfort to management that the CHRI database was operating in a controlled manner and was not subject to abuse.

Auditee Response:

We concur. Criminal Records will work with Information Technology in examining and possibly developing a new database or enhancing the current database to establish an audit trail for non-criminal justice record checks. This would allow records to agree to fees collected. It should be noted that this might be a complex problem not easily resolved.

Observation No. 16: User Access To The Department's Information System Should Be Restricted To Current Job Requirements

Observation:

User access to the Department's computerized information system is not effectively monitored to ensure access to the system is restricted to current job responsibilities.

The Department has not been as aggressive as it should be in limiting user access to its computer system.

- Per a review of a listing of 29 users/permissions assigned to the Department's business office, it was noted that 12 users had permissions in the system that had expired but were still assigned. Four of those assigned users with expired permissions no longer worked in the business office; three had left employment with the Department and one user had transferred out of the business office to a motor vehicle substation. While, according to the Department, expired permissions could not be used to access the system without reactivation, the effort necessary to reactivate an expired permission is generally less than the effort necessary to establish a new user. An inappropriately reactivated user can be used to cover or disguise the actual identity of a user inappropriately accessing the system.
- The Criminal Records and Permits and Licensing Units have a total of four users. Two of the four users appear to have excessive permissions in the system in relation to their current job responsibilities.

Controlling and restricting access to information systems is critical to protect the integrity of the systems, including the information contained in and reported by the systems. A generally accepted practice is to limit user access to only those areas needed to perform current job responsibilities. Constant monitoring is necessary to ensure that user access remains consistent with changing job responsibilities. The user access profiles of employees who leave employment or change job responsibilities should be immediately changed to prevent unauthorized access to information either by the employees themselves or by other users who inappropriately reactivate and take control over other individual's expired permissions.

A similar comment was included in our 1999 and 1993 audit reports on the Division of Motor Vehicles and the Department, respectively.

Recommendation:

The Department's business office and the Division of Information Technology should aggressively monitor and control user access to the Department's information system. User access to the system should be regularly reviewed and challenged to ensure that user access is limited to information and functions required for performance of the employee's current job responsibilities. The access for terminated employees should not be allowed to be reactivated unilaterally without input from the Department's personnel section or other approving authority.

Auditee Response:

We concur. After revising the lists as compiled by the LBA during the audit, we have updated and removed expired user permissions. The Business Office has also established a procedure whereby they will be notified as to all personnel leaving the Department and/or transferring within the Department so that permissions can be terminated completely on the effective date if not sooner should the situation call for it. If it is a transfer between divisions, the new division will have to submit a new permission request as required to the Business Office/I.T. The observation of two users having excessive permissions has been corrected as one person has left the Department. It should be noted that the second person that was considered to have excessive permissions is still in place. The only permission that would be considered excessive is access to a Financial-processing menu, which is relatively insignificant.

Observation No. 17: Permits And Licensing Application Forms Should Be Formatted To Promote Accurate And Complete Applications

Observation:

The Permits and Licensing Unit does not use its application forms as a control mechanism for determining and ensuring that all necessary information is provided by applicants prior to licenses and permits being issued by the Unit. The Unit's forms request information that is not required by statute or rule such as notary signatures, and the Unit has not been consistent in ensuring that required information is included on applications it approves.

A review of applications revealed the following instances where the Unit's applications and application review process could be improved.

- Eight out of 35 applications reviewed included instances where what would appear to be required information was not included. Examples of information not provided by the applicants included: the license type being applied for, the address of the employing agency, the name of the prior and present employer, date of birth (necessary for a records check), position the applicant holds with the employer, the exact location of a sales outlet, and fireworks sales outlets providing an expired town permit when a current town permit was required.

- Three of 35 applicants used an old version of an application form. Two of the three downloaded the old version dated 7/97 from the Unit website instead of using the current version dated 8/01 and one applicant used an application form with a revised date of 11/91.
- Two of the 35 applications reviewed were processed as renewals when by statute and rule they should have been processed as new applicants.

Well-designed application forms provide an information-gathering framework that is useful to ensure that all necessary information is received from an applicant. When used as a control, empty or unanswered questions on a form indicate an incomplete application necessitating additional information prior to issuing a permit or license. In order to use forms in this manner, the forms must have fields for all information required by statute, rule, and Unit policy and all required fields on the form must be clearly identified. Additional information requested from applicants that is not used for qualification determination purposes should also be identified as such. By clearly identifying required fields of information, the process of determining when an application is complete becomes a much easier process.

Recommendation:

The Permits and Licensing Unit should continue in its reviews of its licensing application forms to ensure that the forms promote eliciting information that is required by statute, rule, and Unit policy. Forms should be revised to highlight information required prior to the issuance of a permit or license. Information that would be beneficial to individuals in assessing how to accurately respond to questions on the applications should also be included to promote accuracy and limit delays in processing. Information, certifications, or other responses that are deemed to be irrelevant to the process should be removed from the applications. If the Unit determines that information required by rule or statute is unnecessary, the Unit should seek to have the statute or rule amended.

Auditee Response:

We concur in part. The forms have been updated, however, the question of relevant information on the form is not the case. The information requested is sometimes optional but if answered, is very helpful in full background checks.

Observation No. 18: Control Logs Should Be Completed And Retained

Observation:

Control logs instituted to reduce the risk of fraud in the Criminal Records Unit are not consistently retained as part of the accounting record.

The Criminal Records Unit instituted the use of a “cash verified log” and a “criminal record request log” to improve the documentation and audit trail supporting revenue collected from criminal record checks. The cash verified log is completed by the clerk and lists the amount of

cash and checks received each day. Customers sign the criminal record request log and indicate the number of record checks requested. The logs are intended to be used in a reconciliation process at the close of each business day to support the amount of receipts submitted by the clerk for deposit.

Problems in the Unit's use of the logs include:

- For two of fifteen transactions tested, there was no cash verified log on file at the Unit. It was unclear whether the form was not retained or whether the form had not been completed.
- For one of fifteen transactions tested, there was no criminal record request log on file at the Unit. It was unclear whether the form was not retained or whether the form had not been completed.
- For two of fifteen transactions tested, the amount of receipts collected per the criminal record request log did not agree to the amount of receipts collected per the cash verified log for the same date. For example, total receipts per the criminal record request log for a certain Friday was \$160 when the cash verified log recorded \$30 for that day. It appears the \$160 was posted on the cash verified log on the following Tuesday, which was the next business day, due to a holiday weekend.

Had the Unit effectively used and monitored this control process, it may have become alerted to and reacted appropriately to the increased risk of fraud it faced when a clerk in the Unit became delinquent in depositing cash in the fall of 2001.

Recommendation:

The Criminal Records Unit should recognize that the preparation and use of manual logs as a revenue control activity is inefficient and only marginally effective. However, as long as the Criminal Records Unit uses the completion of logs as a control procedure in its daily processes, the logs must be consistently completed and retained as part of the audit trail. Unit management should be promptly notified of, and follow up on, missing logs.

Auditee Response:

We concur. The feasibility of maintaining manual logs (80-100,000 per year) is not good as storage is a big problem and the process would be labor intensive. However, we believe it would not be difficult to assign electronic codes to the transactions that could produce a computerized log. This possibility will be explored with Information Technology.

Observation No. 19: Lack Of Applicant Accuracy/Honesty Should Trigger Permits And Licensing Unit Checks Of Applicant References

Observation:

The Permits and Licensing Unit does not consistently check the references of applicants for security guard/private detective licenses when questions of the applicants' character or integrity arise.

N.H. Admin. Rule, Saf-C 2203.07 (a) provides that “[i]f during the investigation of the applicant a question arises about the applicant's character or integrity, the commissioner shall send each of the named references on the application a questionnaire.” The responses to this questionnaire are presumably used to assist in establishing the applicant's fitness for a license.

- In one out of 11 security guards/private detective license applications reviewed, the applicant did not respond accurately to a question on the application that asked if the applicant had ever been arrested for a crime that had not been annulled by a court. However, the Unit did not send the applicant's references a questionnaire reportedly because the Unit determined that the charge on the applicant's record was not an offense that would prevent the issuance of a license.

It appears that the Unit is not consistently checking the applicant's references when required by the administrative rule. While consideration of an applicant's criminal record is important in determining an applicant's suitability for a license, the administrative rule also makes clear that the applicant's character, integrity, and truthfulness are also important considerations.

Recommendation:

The Permits and Licensing Unit should review current policies and procedures to ensure that references are checked when questions arise about the character or integrity of an applicant. If the Unit determines that compliance with the administrative rule is unnecessary, the Unit should request that the rule be appropriately amended.

Auditee Response:

We concur in part. The fact that someone has forgotten a criminal conviction years ago does not always trigger references to be checked. A letter is always sent to the applicant requiring them to explain why they failed to list a conviction and to explain what the conviction was. Most of the time, they are minor convictions. The reference request, in minor cases, holds up the applicant's license request for days. Sometimes the references never are returned; thus licenses are issued.

Observation No. 20: Information Technology Personnel Should Comply With State Computer Access Control Policies

Observation:

Division of Information Technology (IT) employees violate generally recognized computer access controls by sharing user identifications and passwords when working on the Criminal History Record Information (CHRI) system.

The Department of Administrative Service's (DAS) *Internal Controls Tool Kit*, issued October 1995, specifies that separate logons and passwords should be established for each user to protect sensitive data from loss or unauthorized access. The DAS Division of Information Technology (DITM) policy paper DITM-PL06-0501-1.0 states in part "unique user ids and passwords enable auditing and tracking of user activity." The policy also states in part "users should only work on a computer system while logged on with their own user id and must never share passwords." The DITM *Computer Password Standard* specifies the basis that individual agencies should use for changing passwords on applications. Changing passwords is best accomplished via prompting the user at a specified interval to change their password.

The CHRI system has a production component and a test component. The Criminal Records Unit uses the production component for record searches. The test component is a copy of the production component used for system development and change testing. Per IT, there are three IT employees who develop and implement changes to the CHRI system.

- User ids and passwords are shared between the three IT employees when working on the CHRI system, contrary to Department policy.
- The three IT employees each apparently have the ability through the use of the common user ids and passwords to both modify or change the CHRI system and also migrate changes into production. This is a violation of proper IT segregation of responsibilities that require proper testing and authorizations of changes to systems prior to migration of changes into production status.
- The CHRI system used by the Criminal Records Unit does not prompt users at a specified interval to change their passwords. Users only change passwords if they determine that there is a need.

Recommendation:

Access controls must be improved for the CHRI system. Management of the Department and IT must impress upon all employees the importance of adhering to proper control procedures. Employees must not believe they have the authority to avoid or otherwise bypass the control system for expediency or other reasons.

- User ids and passwords must not be shared.

- Effective change controls must be established for the CHRI system. Programmers should not be allowed to migrate changes into production.
- IT should investigate the possibility of instituting required password change controls into the CHRI system to ensure that user passwords meet an approved standard and are changed regularly.

Auditee Response:

We concur.

- Individual user ids and passwords will be created for all IT users accessing the CHRI system.
- Work Orders will be produced to document each change made to the CHRI system. Programmers will not migrate changes into production. After quality control testing is completed by a second member of the team, the Team Leader will authorize in writing the Data Base Administrator to migrate changes into production.
- IT will institute a policy for password change controls into the CHRI system and ensure the passwords are changed regularly.

Observation No. 21: Explosive Permit And License Fees Should Be Recorded As Restricted Revenue

Observation:

The Department's business office records explosive permit and license fees as unrestricted General Fund revenue. RSA 158:9-c, IV, appears to direct that revenue collected from these purposes be recorded as restricted revenue as it states that revenue "shall be used for administration and enforcement, any excess to be deposited as unrestricted general fund revenue."

The business office's recording of explosive permit and license fees as unrestricted revenue makes the comparison of fee revenue to the Unit's administration and enforcement costs difficult.

During the nine months ended March 31, 2002, approximately \$2,000 was recorded as collected for explosive permits and licenses. While the amount for this period is relatively insignificant, explosive permit and license revenue will tend to increase and be more significant in the future as increases in fee amounts take effect.

As noted in observation No. 33 the Department, Division, and Unit have not taken efforts to ensure that the cost of administration and enforcement of the explosive permit and license laws are covered by fees imposed. The lack of a regular analysis of costs versus fees may have contributed to the unreasonably low fees charged during the nine months ended March 31, 2002.

Again, as noted in observation No. 33, the revised fee schedule also was not based on an analysis of administration and enforcement costs.

Recommendation:

Explosive permit and license fee revenue should be recorded as restricted revenue as provided for in statute. Recording the fees in this manner will make the comparison of costs to fee revenues easier and encourage timely management review of Unit activity including fees charged.

Auditee Response:

We do not concur. During the FY2002 session, explosive and permit fees were increased substantially from previous fees which more than cover the cost of administration. As to the recording of the revenue as unrestricted and not restricted as the statute reads. This situation can be found throughout the state in many commissions and boards. The statutes have not been changed but the legislature has diverted the funding, through budget, to the General Fund and generally funded the budget that is involved. Footnote 6 in the current budget solidifies this as it directs all revenue not connected with Motor Vehicles etc. to be deposited into the General Fund.

State Compliance Comments

Observation No. 22: Fees Should Be Charged For Performing Criminal Record Checks On Applicants For Security Guard And Private Detective Licenses

Observation:

The Permits and Licensing Unit does not charge the fee required by RSA 106-F:8, III to applicants for security guard and private detective licenses.

RSA 106-F:8, III states that the “commissioner shall set a reasonable fee....to cover the expenses of the record check and investigation provided in RSA 106-F:7. The fee shall be charged to the applicant.”

The Unit issued approximately 1,700 licenses subject to RSA 106-F:8, III during the nine months ended March 31, 2002 without collecting the fee provided by this statute. The Unit reportedly was unaware of the requirement for the fee and further, it anticipated that a reasonable fee to cover the expenses of the record check and investigation referred to in statute would be approximately \$15. Using the Unit’s \$15 estimate, it appears the Unit failed to collect approximately \$25,500 during the nine-month audit period.

Recommendation:

The Commissioner and the Department should establish a reasonable fee to cover the expenses of the record check and investigation required by RSA 106-F:7 and 8. The amount of the fee should be based on an analysis of the expenses of the Unit to perform the check as required by statute. The fee should not be set arbitrarily.

Auditee Response:

We concur. The Commissioner has now established a fee to cover the expense of security guard and private detective licensing. The fee has been established at \$15.00 with the consideration that it is adequate to cover the cost incurred.

Observation No. 23: Non-Resident Pistol Permits Should Be Issued To Allow For Renewal As Provided In Statute

Observation:

Non-resident pistol permits are not issued so as to allow for renewals on a schedule as provided for in statute.

RSA 159:6 states in part that a license shall be issued “...to such applicant authorizing the applicant to carry a loaded pistol or revolver in this state for not less than 4 years from the date of

issue...” and that “...when required, license renewal shall take place within the month of the fourth anniversary of the license holder’s date of birth following the date of issuance.”

The Permits and Licensing Unit issues non-resident pistol permits that expire four years from the date of issuance. The Unit does not issue licenses with an expiration date that considers the renewal due date provided for in RSA 159:6.

- The expiration dates on each of three renewal applications tested was not in accordance with the licensing provisions in statute. In one of the applications tested, the application was submitted for processing according to statute, but the Unit held the renewal application and did not issue the permit for three months, until the expiration of the permit being renewed.

Recommendation:

The Permits and Licensing Unit should issue permits that provide for renewals as directed by statute. In some instances it will be necessary for the Unit to issue a permit with a term of greater than four but less than five years.

If the Unit determines that the statute’s provisions that require the renewal of permits in the applicant’s birth month present an unreasonable burden on the Unit, legislation should be requested to eliminate that requirement from the statute.

Auditee Response:

We concur. The Department of Safety believes that the administrative rules should be reviewed and updated to specifically clarify how renewals are to occur. As of now, the rules and statute appear to be vague.

Observation No. 24: Proof Of Bonds And/Or Insurance Coverage Should Be Required For Fireworks Sales, Storage, And Display Licensees

Observation:

The Permits and Licensing Unit does not require applicants for fireworks sales and storage licenses to submit proof of bonding and/or insurance and is not consistently requiring proof of insurance prior to a display of fireworks.

N.H. Admin. Rule, Saf-C 2603.02-.03 (expired) requires applicants for licenses to sell or market fireworks to file a bond annually in the amount of \$500,000 for each name of business and location applied for.

N.H. Admin. Rule Saf-C 2603.05-.06 (expired) requires applicants for the storage of class B fireworks, the wholesaling of fireworks, or a person approved for the display of fireworks pursuant to RSA 160-B:7 and RSA 158:9-f to provide the commissioner with proof of insurance

in the minimum coverage amount of \$100,000 per accident. The appropriate insurance shall be in effect prior to engaging in fireworks related business.

- During a review of license applications for the sales of fireworks, it was noted that none of the four applications reviewed included the proof of bond required by N.H. Admin. Rule Saf-C 2603.02-.03 (expired). The missing proof of bonding did not prevent the applicant from being licensed by the Permits and Licensing Unit.
- Per discussion with Permits and Licensing Unit personnel, the Unit does not require or maintain a copy of proof of insurance for the storage of class B fireworks, the wholesaling of fireworks, or a person approved for the display of fireworks. A proof of insurance is required by N.H. Admin. Rule Saf-C 2603.05-.06 (expired).

Not requiring applicants to obtain and document the proper bonding and insurance coverage prior to licensing increases the risk that a licensee may not be able to cover claims that might occur as the result of a licensee's negligence or other accident related to engaging in fireworks related business.

Recommendation:

The Permits and Licensing Unit should review current procedures for licensing applicants to ensure that all relevant statutes and rules are being considered and adhered to. If the Unit determines that current laws or rules are not sufficient or are not relevant, the Unit should undertake an effort to have the statutes or rules appropriately amended.

Auditee Response:

We concur. Permits and Licensing now requires a copy of bond coverage on all sales licenses before the license is issued. All fireworks displays will require proof of insurance. Copies of insurance coverage will be maintained on all displays plus storage.

Observation No. 25: The Adequacy And Status Of Administrative Rules Should Be Reviewed

Observation:

It is not readily apparent that all administrative rules required by statute have been adopted relative to areas regulated by the Permits and Licensing Unit and some rules that have been adopted are nearing their expiration date. For example:

- Rules required by RSA 106-F:3 (b)-(d) related to examination procedures for security guard and private detective license applications, requisite standards for integrity, and use of fees do not appear to have been adopted.

- Rules required by RSA 158:9-h, III relative to explosives have been adopted but are at, or near, expiration.
- Rules required by RSA 160-B:8, II relative to increasing the amount of sale necessary to constitute a wholesale sale to account for inflation or other economic factors do not appear to have been adopted.
- Rules required by RSA 160-C:4 relative to permissible fireworks, adopted as N.H. Admin. Rules Saf-C 2600, expired in 2000 and rules adopted as Saf-C 5000 are at, or near, expiration.

Recommendation:

The Permits and Licensing Unit should review all relevant statutes and administrative rules to ensure that all required rules have been adopted and are current. If in its review the Unit determines that statutes requiring rules are no longer necessary or need to be revised, the Unit should request to have the statutes amended.

Auditee Response:

We Concur. The Permits and Licensing Unit is currently reviewing all Rules and Regulations for revision and revising as necessary.

Auditor's Report On Management Issues

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues – Budget and Actual – General Fund of The New Hampshire Department of Safety, Division of State Police, Criminal Records and Permits and Licensing Units for the nine months ended March 31, 2002 and have issued our report thereon dated July 31, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

In planning and performing our audit of the financial statement of the Criminal Records and Permits and Licensing Units for the nine months ended March 31, 2002, we noted certain issues related to the operation of the Units that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules, regulations, or contracts.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance are included in Observations No. 26 through 33 of this report.

This auditor's report on management issues is intended solely for the information and use of the management of the Department of Safety and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant
Office Of Legislative Budget Assistant

July 31, 2002

Management Issues Comments

Observation No. 26: The Limitation Of The Scope Of New Hampshire Criminal Records Checks Should Be Made Clear To Users

Observation:

The limitation of the New Hampshire criminal records check, which reports criminal activity occurring in New Hampshire only, may not be apparent to users of these record checks and may cause users to obtain undue assurance from the lack of information returned from the check.

The criminal records check service offered to third parties by the Criminal Records Unit reports records of New Hampshire convictions only. While arrest information not leading to conviction is available for personal request, this information is not provided on reports sent to third parties. Any convictions occurring outside the state are also not reported on the record check report. While the Criminal Records Unit record search is limited to reporting New Hampshire convictions, there is no banner, disclaimer, or other information included on the record search report that indicates the limitation of the record search. Individuals unfamiliar with the operations of the Unit and the limitations of its record searches could draw false assurances from a “clean” record reported by the Unit by incorrectly assuming that there is no record anywhere on the subject. While the Unit does not promote this potential misunderstanding, it does not take steps to prevent it.

Good business practice includes procedures to ensure that customers are well informed about products and services they are purchasing. These procedures help to eliminate confusion, ensure efficiency and effectiveness in operations, and ensure customer satisfaction. This communication and understanding of services provided is especially important when the service affects public safety.

Recommendation:

In order to reduce the potential for citizens to take false assurances from New Hampshire criminal record checks, the Unit should take all appropriate steps to inform its users of the limitations of the record searches it performs. The Unit should make a prominent statement on the face of all record search reports indicating the limitation of the record search. The Unit should also suggest on the record search reports methods for customers to consider including broadening their searches to other jurisdictions. Signs describing the limitation of the reports and encouraging questions from customers should be placed prominently at the counter where the public requests record checks.

Auditee Response:

We do not Concur. The Department has brought this matter to the attention of the Legislature on numerous occasions. The current Criminal Record Release Authorization Form used to obtain a criminal history record is sufficient to release New Hampshire criminal history record

information only. Information contained on the form is in accordance with Administrative Rule SAF-C 5703.11. There is no language on the form that suggests the requester will receive any criminal history record information from other than the State of New Hampshire. The Department of Safety is actively involved with the State Legislature in drafting legislation that will enable the state to participate in the Federal National Crime Prevention and Privacy Compact. This will effectively allow non-criminal justice agencies to receive criminal history record information through the Federal Bureau of Investigation, thus rendering additional wording on our authorization forms moot.

Observation No. 27: Formal Fraud Deterrence And Detection Programs And Fraud Reporting Policy Should Be Established

Observation:

The Department has not established formal fraud deterrence and detection programs or a fraud reporting policy or taken alternative steps to reduce the risk and potential impact of fraud occurring within the organization.

The alleged fraud that occurred in the Criminal Records Unit during the nine months ended March 31, 2002 and information that has emerged during the related investigation indicates that the Unit and Department business office did not detect and respond to the warning signs of the fraud occurring. Had effective fraud deterrence and detection programs been in place, the alleged fraud may have been detected prior to the perpetrator of the alleged fraud confessing to having stolen State funds.

The principal mechanism for deterring and detecting fraud is the establishment and operation of effective controls. An integral factor of an entity's control environment is the control consciousness of its people. Management is responsible for establishing controls and monitoring compliance, and is the primary influence on the degree of importance its employees attach to controls. High control consciousness at all levels of an entity is a significant factor in deterring fraud.

The effectiveness of a fraud reporting policy is enhanced when employees have a clear understanding of fraud indicators and what constitutes a fraudulent act. It is important that the reporting procedure be non-threatening for the reporter and provide for the reasonable protection of all parties.

Comments recommending the Department's establishment of formal fraud deterrence and detection programs and a fraud reporting policy were contained in our report on the audit of revenues collected by the Department's Division of Motor Vehicles for the year ended June 30, 1999.

Recommendation:

The Department must undertake efforts to establish formal fraud deterrence and detection programs or take alternative steps to reduce the risk and potential impact of fraud occurring within its organization. This effort should be undertaken at a Department level and will require the involvement of individuals having knowledge of the value of, and commitment to, the proper policies, procedures, and other controls that, if implemented and followed, would help deter and detect fraud occurring in any area of the Department. This effort will also require working across and with the several divisions of the Department. To be successful, those involved in implementing the programs and policies will need the authority to require division involvement and cooperation.

The Department must also establish a fraud reporting policy and provide its employees with regular and ongoing fraud awareness training. The Department should take measures to ensure that the policy facilitates and encourages reporting and protects all parties involved.

Auditee Response:

We concur. The Human Resources Unit is currently looking into possibilities of fraud detection and deterrence programs. From the information obtained, the unit will put together a training program that will train department personnel how to detect fraud and what steps to carry out in the finding. This program will then be offered to all department personnel as a mandatory training.

Observation No. 28: Security Features For Permits And Licenses Should Be Improved

Observation:

The security features on permits and licenses issued by the Permits and Licensing Unit are not as controlled and robust as they could be.

The Unit issues laminated picture licenses to security guards and private detectives and individuals qualifying for competency with explosives and fireworks. Paper licenses and permits are issued to individuals qualifying for out-of-state gun permits, storage of explosives, etc. Other than stamping both the licenses and permit forms with an easily duplicated signature stamp, there are no significant security features applied to the licenses and permits to discourage or prevent individuals from making false copies of the documents. As the laminated and paper license and permit documents issued by the Unit allow holders to perform functions generally regarded as having high risks to the public, the control over these documents should be extraordinary.

Recommendation:

The Permits and Licensing Unit should increase the security features on the permits and licenses it issues.

- Laminated picture licenses at a minimum should include a security laminate that identifies the documents as officially issued. Other features making the laminated picture permits and licenses more difficult to duplicate or forge should also be considered.
- Paper permit and licensing documents allowing high-risk activities such as purchasing and transporting explosives should also be highly controlled. Paper permit and licensing documents should be issued on security paper. Other features making the paper permits and licenses more difficult to duplicate or forge should also be considered.

Auditee Response:

We concur. A request to change the current system was attempted three years ago. A special, very expensive paper was required to produce the ID's. At that time it was decided that the expense could not be borne. However, currently, a new system is in process of being purchased. The Division of Information Technology is in charge of the process, which hopefully can be completed within the year.

Observation No. 29: Appropriate Uses Of FBI Criminal Background Checks Should Be Determined

Observation:

The Permits and Licensing Unit and some local police departments have not limited the use of the Federal Bureau of Investigation's (FBI) fingerprint checks and Federal identification resources to those uses allowed by federal statute. Due to a combination of a lack of full understanding of controlling provisions of the federal law and related rules and a lack of review of Unit procedures, the Unit may have violated Federal guidelines for the use of these Federal resources during the nine months ended March 31, 2002. In addition, some local departments were inappropriately sending fingerprint cards to the Criminal Records Unit causing unnecessary work for the Unit.

To the extent authorized by section 552a of Title 5, (commonly known as the "Privacy Act of 1974"), the FBI provides, on request, criminal history records to State criminal history record repositories for noncriminal justice purposes allowed by Federal statute, Federal Executive Order, or a state statute that has been approved by the Attorney General and that authorizes national indices checks. While Federal law allows agencies to access the FBI criminal record database in the investigation of criminal activities, access for noncriminal justice purposes is limited to those allowed by Federal statutes and Executive Orders and state statutes which have been approved by the Attorney General of the United States. Other uses of the FBI criminal record database are not allowed.

- During the nine months ended March 31, 2002, the Permits and Licensing Unit used Federal identification resources to perform record checks prior to the issuance of many of the permits and licenses issued by the Unit. Other than for licenses issued to armed security guards and private detectives, the Department was unable to provide documentation to evidence that

these record checks using Federal resources were supported or authorized by Federal or State statutes. While the Unit had a limited waiver to some provisions of the above noted federal statute, the waivers did not appear to cover all of the Unit's uses of the Federal identification resources.

- Some local police departments require applicants for resident pistol permits to submit fingerprints that are forwarded by the departments to the Criminal Records Unit for FBI record checks. The Criminal Records Unit reportedly returns these cards to the local departments unprocessed, as this is not a sanctioned use of the FBI criminal record database.

Recommendation:

The Permits and Licensing Unit should work with the Division of State Police National Crime Information Center (NCIC) section and the FBI to establish appropriate uses of the FBI fingerprint checks and Federal identification resources by the Unit.

Policies and procedures should be established that are consistent with State and Federal statutes, the NCIC Compact, and with rules, procedures, and standards established by the Compact Council under Article VI of the Compact to protect the accuracy and privacy of the records. The policies and procedures should be provided to all authorized users of the system and all users should be periodically reminded of the necessity to adhere to the policies and procedures.

If the Unit determines that the FBI fingerprint and other record checks using Federal identification resources are necessary for the performance of their duties, changes to State statutes should be requested that would meet the Federal requirements of statutory authority prior to these national checks. Any State statutes revised for this purpose would also need to be submitted to the U.S. Attorney General for approval.

The Department should regularly communicate the appropriate uses of the FBI fingerprint checks with the local departments and all other users of the FBI fingerprint checks processed through the Criminal Records Unit.

Auditee Response:

We do not Concur. The audit report states the Criminal Records Unit, the Permits and Licensing Unit, and some local police departments do not have a clear understanding of the allowed uses of the Federal Bureau of Investigation's (FBI) fingerprint checks and Interstate Identification Index (III) in checking the background of individuals applying for certain permits and licenses.

In response, the State Police have a very clear understanding of the uses of fingerprint checks and the Triple I index. It is the Department's understanding that based upon audit finding, the audit team felt checks were improperly conducted. The Department contends that it had authorization to conduct such checks. In correspondence from the Federal Bureau of Investigation, dated December 20, 2000, the Access Integrity Unit began a review of state statutes as to previously accepted checks by the FBI (a practice that had been going on since the 1970's) to see how the parameters of the State statutes met Public Law 92-544. As a result of

that review, the FBI notified the State by correspondence dated March 29, 2001 of statutes that did not comply with Pub. L. 92-544, and provided the State with an initial grace period through May 1, 2002 to conduct such checks while making legislative changes. While the Department sought these changes, these checks were permitted under FBI guidelines to continue. Further, the FBI extended the grace period until May 1, 2003.

During the 2002 Legislative session, the Department sought changes in law to correct flaws in the law as outlined by the FBI. While some changes were successful, others were not and the Department has ceased performing these checks.

Observation No. 30: FBI Invoices For Fingerprint Processing Should Be Reviewed/Audited Prior To Payment

Observation:

Neither the Criminal Records Unit nor the Department business office reviews, analyzes, or compares monthly fingerprint invoices from the Federal Bureau of Investigation (FBI) to Division of State Police Records to determine the reasonableness of the amounts to be paid by the Division.

The FBI invoices the Unit monthly for the cost of the FBI record searches on noncriminal justice fingerprints submitted by the Division. During the nine months ended March 31, 2002, the invoices from the FBI were supported by computer files that listed the individuals whose fingerprints were submitted for administrative (as opposed to criminal) record searches. Generally, the searches are related to teacher/school volunteer background checks submitted by the Criminal Records Unit and background checks related to permitting and licensing submitted by the Permits and Licensing Unit. The Criminal Records Unit submits the invoice to the business office for payment without establishing that it is paying the appropriate amount. The following issues were noted related to the invoices submitted by the FBI.

- The Criminal Records Unit never forwarded the July 12, 2001 FBI invoice in the amount of \$22,092 to the business office for payment processing. This apparent oversight was not detected until the unpaid invoice was brought to the Unit's attention in May of 2002.
- The Criminal Records Unit does not have a good understanding of what fingerprint cards they are paying FBI processing charges for. The Unit reportedly does not consistently review the support accompanying the invoices to ensure the Unit is only paying the appropriate amount. The Unit was also unclear why it was being billed for transactions listed under a different originating agency identifier (ORI) number, yet the Unit approved the invoices to be paid without establishing the appropriateness of the amount.

Recommendation:

The Criminal Records Unit should establish policies and procedures to ensure that it is properly reviewing and approving all invoices prior to submitting the invoices to the Department's

business office for payment. This review and approval process could be performed on a sample of items on each invoice if experience establishes a reasonable expectation of accuracy in the invoices.

Auditee Response:

We Concur. The Criminal Records Unit will now perform a sample review on each invoice to check billing accuracy.

Observation No. 31: Annual Job-Performance Evaluations Should Be Conducted For Business Office Employees

Observation:

The Department of Safety business office does not conduct annual performance evaluations for business office employees. Annual performance evaluations are required by statute and administrative rule and are suggested by appropriate internal control practices.

RSA 21-I:42, XIII, directs the Department of Administrative Services, Division of Personnel, to develop and implement a performance evaluation system for all classified employees which includes, among other things, annual written evaluations for all full-time classified employees. N.H. Admin. Rule, Per 801.06 states that “[e]ach appointing authority shall be responsible for conducting at least one evaluation per year for each full-time classified employee pursuant to RSA 21-I:42, XIII.”

The control environment has a pervasive influence on the way business activities are structured, objectives established, and risks assessed. The control environment influences the control consciousness of its people. Effectively controlled entities strive to develop and retain competent people, as well as establish appropriate policies and procedures to foster shared values and teamwork in pursuit of the organization’s objectives. One of the primary control procedures suggested for use in striving to retain competent employees and to ensure that employees are aware of and meet the organization’s control objectives is the preparation of periodic formal job performance evaluations. Employee evaluations provide feedback necessary to ensure that both the employer’s and employee’s needs are recognized and appropriately considered.

While both the Criminal Records and Permits and Licensing Units report that they perform annual performance evaluations, the Department’s business office reports that it does not perform regular performance evaluations.

Recommendation:

The Department’s business office should conduct regular written evaluations for all full-time classified employees in accordance with statute and administrative rule. The results of these evaluations should be used to assist the Department in its human resources activities and also assist employees to better meet the needs of the Department.

Auditee Response:

We concur in part. This would be an audit observation conducted on the Business Office, However, it is felt that this observation is not necessary in this requested Criminal/Pistol Permits audit. While the merits of evaluations are sometimes debatable, nevertheless the requirement was not followed to 100%.

Observation No. 32: SPOTS User Interface Should Be Improved To Promote Accuracy

Observation:

The user interface for performing and interpreting information from out-of-state record searches using the State Police On-Line Telecommunications System (SPOTS) is not user-friendly and may contribute to inaccurate results from criminal background checks performed by the Permits and Licensing Unit.

The Unit uses SPOTS to search the State's criminal record databases and access the Federal Bureau of Investigation (FBI) National Crime Information Center (NCIC) and Interstate Identification Index (III) systems. The NCIC and III allow the Unit to access criminal history databases of multiple jurisdictions across the country to determine whether an applicant for a license or permit has a criminal record that would prohibit licensure or permitting in New Hampshire. (See Observation No. 29 questioning Unit authority for accessing Federal criminal records for noncriminal justice purposes.) Unit clerks, performing the background checks for license and permit applicants, are required to review multiple fields of information from other states that use name and spelling variations to try to determine whether records exist under variations of names or aliases, etc., in any number of jurisdictions. The fact that the user interface requires review of variations of information presents a significant risk that the search will be incomplete or otherwise not identify when an applicant may have a criminal record that would prevent the Unit from issuing a license or permit.

- During a review of documents and audit testing, three errors in record checks performed by the Unit were noted. One error was noted during a document review and two errors were noted in a sample of 35 test items. In each of these errors, when Unit operators had originally performed the record checks, they had not detected state criminal record identifier (SID) numbers that indicated that the subject of the search had a criminal record history. These errors were noted when the clerks reperformed these searches at the auditor's request.

Recommendation:

The Permits and Licensing Unit should work with the Department's Division of Information Technology to analyze the user interface for SPOTS to determine whether the interface could be improved to lessen the occurrence of inaccurate returns from record searches.

The Unit should review proper searching procedures with its clerks to ensure that clerks are consistently performing SPOTS record searches in a manner that will return accurate results.

Training efforts should be ongoing to ensure that clerks develop and maintain the skills to perform comprehensive searches.

Auditee Response:

We concur. The Permits and Licensing section will try to obtain more training on the reading of out-of-state records. It is believed that this would solve the problems of inaccuracy. However, there is a national movement to standardize state responses, which the State will adopt when ready.

Observation No. 33: Fees Should Be Established That Reflect Costs Of Providing Services

Observation:

Fees charged by the Permits and Licensing Unit have not been based on an analysis of actual costs of providing services but have been based on fees charged by neighboring states.

The Permits and Licensing Unit requested and received, through Chapter 280 of the Laws of 2002, authority to increase certain explosive and fireworks permit and license fees. The fee schedule submitted by the Unit and approved by the chapter law was based on fees charged by neighboring states and was not based on a review of the Unit's costs to perform the necessary background checks, inspections, testing, etc., required prior to issuing explosive and fireworks permits and licenses. While the fees charged by the Unit were increased by the chapter law, there was no analysis made of whether the increase was sufficient to cover the permitting and licensing costs of the Unit and the costs of other areas of the Department that support the Unit.

Recommendation:

The Permits and Licensing Unit, with the assistance of the Department's business office, should perform an analysis of the Unit's costs of performing its permitting and licensing activities and also the costs of other Department sections providing support to the Unit's activities. Once the costs of operating and supporting the Unit are understood, the Unit should ensure that fees are sufficient to recover those costs.

The review and analysis of costs and fees should be performed for all Unit fees periodically to ensure that the fees remain appropriate to cover changing costs of the Unit's and Department's operations.

Auditee Response:

We concur in part. While it is good business practice to assure that fees charged for services should for the most part, cover the cost of doing business, the fixed schedule as passed in chapter 280, L' 2002 were established by the Commissioner and Assistant Commissioner as being sufficient at this time without burdening the recipients.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues – Budget and Actual – General Fund of The New Hampshire Department of Safety, Division of State Police, Criminal Records and Permits and Licensing Units for the nine months ended March 31, 2002. This financial statement is the responsibility of the Department of Safety, Division of State Police. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, certain financial activity of the Criminal Records and Permits and Licensing Units of the Division of State Police for the nine months ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statement referred to in the first paragraph. The accompanying schedule on page 52 is presented for the purpose of additional analysis and is a not required part of the financial statement of the Criminal Records and Permits and Licensing Units. Such information has been subjected to the auditing procedures applied in our audit of the financial statement referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 31, 2002 on our consideration of the Criminal Records and Permits and Licensing Units' internal control over financial reporting and on our tests of its compliance with certain provisions of laws and rules, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Office Of Legislative Budget Assistant
Office Of Legislative Budget Assistant

July 31, 2002

**THE STATE OF NEW HAMPSHIRE
DEPARTMENT OF SAFETY
REVENUES COLLECTED BY THE CRIMINAL RECORDS
AND PERMITS AND LICENSING UNITS**

**STATEMENT OF REVENUES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2002**

	<u>Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
<u>Unrestricted Revenues</u>			
Non-Resident Pistol Permits	\$ 90,000	\$ 61,490	\$ (28,510)
Security Guard/Private			
Detective Licenses	58,000	37,068	(20,932)
Fireworks Licenses	33,000	6,000	(27,000)
Explosive Permits	3,000	1,816	(1,184)
Total Unrestricted Revenues	<u>\$ 184,000</u>	<u>\$ 106,374</u>	<u>\$ (77,626)</u>
<u>Restricted Revenues</u>			
N.H. Criminal Record Check Fees	\$ -0-	\$ 325,610	\$ 325,610
F.B.I. Criminal Record Check Fees	64,069	301,292	237,223
Total Restricted Revenues	<u>\$ 64,069</u>	<u>\$ 626,902</u>	<u>\$ 562,833</u>
Total Revenues	<u>\$ 248,069</u>	<u>\$ 733,276</u>	<u>\$ 485,207</u>

The accompanying notes are an integral part of this financial statement.

**THE STATE OF NEW HAMPSHIRE
DEPARTMENT OF SAFETY
REVENUES COLLECTED BY THE CRIMINAL RECORDS
AND PERMITS AND LICENSING UNITS**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2002**

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement of the Criminal Records and Permits and Licensing Units of the Department of Safety has been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The Department, including its Criminal Records and Permits and Licensing Units of the Department's Division of State Police, Support Services Bureau, is an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports the revenues collected by the Criminal Records and Permits and Licensing Units of the Division and Department. The revenues collected by the Criminal Records and Permits and Licensing Units are accounted for and reported in the General Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR).

B. Basis Of Presentation - Fund Accounting

The State of New Hampshire and the Department use funds and account groups to report on their financial position and the results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Governmental Fund Types

General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund. By law, and with certain exceptions, all revenues of governmental funds are paid daily into the State Treasury.

C. Measurement Focus And Basis Of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the flow of current financial resources measurement focus and reported on a modified accrual basis of accounting. Accordingly, the State of New Hampshire accounts for its financial transactions relating to the General Fund on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available to finance operations of the fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services.

D. Budgetary Data

General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes annual budgets for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary funds, with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents appropriations for individual projects, which extend over several fiscal years. Fiduciary-type funds are not budgeted.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current biennium. During the 2002 Legislative session, no significant supplemental budget requests affecting the Department were approved. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the department level. As shown on the Schedule of Budgetary Components – General Fund on page 52, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, and transfers.

Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative

Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing which means the balances are reported as reservation of fund balance. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

Variances - Favorable/(Unfavorable)

The variance column on the Statement of Revenues - Budget and Actual - General Fund highlights differences between budget and actual revenues. These variances are caused by actual revenue exceeding budget generating a favorable variance or actual being less than budget generating an unfavorable variance.

When statements are presented at an interim date, a date other than a June 30 fiscal year end, the variance reflects the difference between the twelve-month budget period and a partial year's actual revenue. Thus, on the nine-month financial statement dated March 31, 2002, unfavorable variances are expected as nine months of actual revenues are compared to the amount of revenues expected to be collected in the twelve-month period.

**THE STATE OF NEW HAMPSHIRE
DEPARTMENT OF SAFETY
REVENUES COLLECTED BY THE CRIMINAL RECORDS
AND PERMITS AND LICENSING UNITS**

**SCHEDULE OF BUDGETARY COMPONENTS
GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2002**

<u>Revenues</u>	<u>Operating Budget</u>	<u>Supplemental Appropriation Warrants</u>	<u>Balances Brought Forward</u>	<u>Net Transfers In/(Out)</u>	<u>Budget</u>
<u>Unrestricted Revenues</u>					
Non-Resident Pistol Permits	\$ 90,000	\$ -0-	\$ -0-	\$ -0-	\$ 90,000
Security Guard/Private					
Detective Licenses	58,000	-0-	-0-	-0-	58,000
Fireworks Licenses	33,000	-0-	-0-	-0-	33,000
Explosive Permits	3,000	-0-	-0-	-0-	3,000
Total Unrestricted Revenues	\$ 184,000	\$ -0-	\$ -0-	\$ -0-	\$ 184,000
<u>Restricted Revenues</u>					
N.H. Criminal Record Check Fees	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
F.B.I. Criminal Record Check Fees	-0-	-0-	64,069	-0-	64,069
Total Restricted Revenues	\$ -0-	\$ -0-	\$ 64,069	\$ -0-	\$ 64,069
Total Revenues	\$ 184,000	\$ -0-	\$ 64,069	\$ -0-	\$ 248,069

APPENDIX

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of July 31, 2002, of the status of the observations contained in the audit report of the Department of Safety for the eighteen months ended December 31, 1993 that were related to the operations of the Criminal Records and Permits and Licensing Units. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

An audit report has also been issued on the revenues collected by the Division of Motor Vehicles for the year ended June 30, 1999. A copy of this report can be obtained at the above address.

Internal Control Comments	Status
<i>Material Weakness</i>	
1. Inadequate Audit Trail – Nixdorf	● ● ●
 <i>Reportable Conditions</i>	
6. Processing And Security Of Receipts (See Current Year Observation No. 2 And No. 3)	○ ○ ○
7. Recurring Issues With System Documentation (See Current Year Observation No. 11)	● ○ ○
8. User Access Privileges To Nixdorf (See Current Year Observation No. 16)	○ ○ ○
9. Untimely Revenue Deposits And Distributions From The Holding Account (See Current Year Observation No. 3 And No. 18)	○ ○ ○
13. Understatement Of Revenue And Expenditures	○ ○ ○

Status Key

Fully Resolved	● ● ●
Substantially Resolved	● ● ○
Partially Resolved	● ○ ○
Unresolved	○ ○ ○

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