

**STATE OF NEW HAMPSHIRE
OFFICE OF INFORMATION TECHNOLOGY**

**FINANCIAL AND COMPLIANCE
AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 2006**

**STATE OF NEW HAMPSHIRE
OFFICE OF INFORMATION TECHNOLOGY**

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This report can be accessed in its entirety on-line at www.gencourt.state.nh.us/lba

**STATE OF NEW HAMPSHIRE
OFFICE OF INFORMATION TECHNOLOGY**

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire Office of Information Technology for the nine months ended March 31, 2006.

The following report describes the financial activity of the Office of Information Technology, as it existed during the period under audit. Unless otherwise indicated, reference to the Office, OIT, or auditee refers to the Office of Information Technology.

Organization

The Office of Information Technology was established within the Office of the Governor July 1, 2003 by RSA 4-D:1. The Office of Information Technology is under the supervision of the Chief Information Officer, who is a non-classified employee appointed by the Governor with the advice and consent of the Council. The Office of Information Technology is organized into five divisions, as follows:

1. *Office of the Chief Information Officer (CIO)*

The Office of the CIO manages the State's information technology (IT) strategy and provides infrastructure necessary for managing the State's IT needs. The Office of the CIO is further divided into three bureaus.

a. Logistics Bureau

- Provides consultation when agencies need to procure IT products and services. Approves procurement of IT services/products over \$250 (per RSA 21-I:11, XI and XII).
- Administers OIT's business such as finance and human resources.

b. Project Integration Bureau (PIB)

- a. When a project requires multiple OIT divisions and agency participation, PIB provides process framework and support services to promote efficiency. Some recent examples of projects are: N.H. Employment Security system upgrade project, Department of Health and Human Services Lotus Notes (mainframe-based software) update project, OIT Approval and Expenditures (A&E) project.

c. Enterprise Resource Planning Bureau (ERP)

- a. Provides technical and coordination support for the statewide ERP initiative.

2. *Agency Software Division (ASD)*

ASD service is provided to larger, partner agencies that receive the maximum level (Level 5) of OIT services.

- ASD has an assigned agency liaison for each partner agency.
- Provides technology consulting services.
- Primary focus is on software application support.
- Liaison can facilitate communication between agency and other service areas of OIT.

3. Operations Division

- Manages data centers, servers, storage solutions, and data transfers.
- Supports the State's legacy systems (mainframe), which include State payroll and vendor payments.
- Administers core network functionality.
- Provides Oracle database administration.
- Provides hardware and software support for Linux, Windows, Wang Systems, and IBM mainframes environment.

4. Technical Support Services Division

- Provides Help Desk services.
- Provides standardized training to agencies.
- Provides regional direct technical support including installation and configuration services for PCs, mobile technology, and peripherals.
- Provides installation, support, and maintenance for the State's multi-protocol wide-area network.

5. Web Services Division

- Works with agencies in creating better web pages that follow the State's Web Site Standards and Guidelines.
- Promotes e-Government by providing more services online. Some examples: On-line licensing, Department of Safety car registration, Rx (prescription) drug price finder.

At March 31, 2006, the Office of Information Technology employed 380 full-time and nine part-time employees.

Responsibilities

In accordance with RSA 4-D:1, the New Hampshire Office of Information Technology is responsible for managing and coordinating all technology resources in the executive branch of government, developing and implementing strategies to enhance State customer service, and creating statewide efficiencies through the use of information and other technologies.

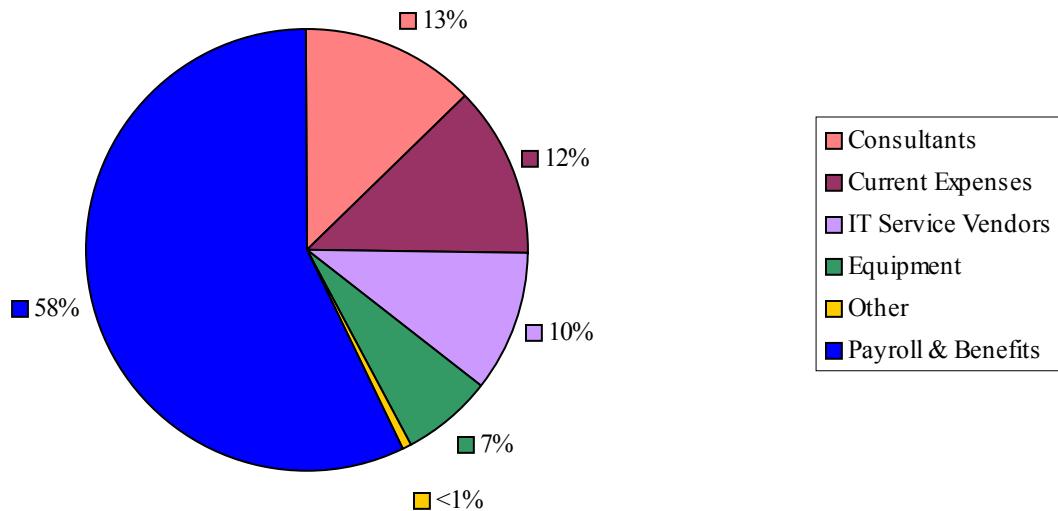
Funding

The financial activity of the Office of Information Technology is accounted for in the General Fund of the State of New Hampshire. A summary of the Office's revenues and expenditures for the nine months ended March 31, 2006 is shown in the following schedule. The Office's expenditures by type are shown graphically on the following page.

**Summary Of Revenues And Expenditures
For The Nine Months Ended March 31, 2006**

	General Fund
Total Revenues	\$ 35,825,740
Total Expenditures	<u>\$ 36,120,380</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ (294,640)</u>

Office Of Information Technology
Expenditures By Type
Nine Months Ended March 31, 2006



Prior Audit

There have been no previous audits of the Office of Information Technology.

Audit Objectives And Scope

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statements of the Office of Information Technology for the nine months ended March 31, 2006. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place at the Office of Information Technology and tested OIT's compliance with certain provisions of applicable State laws, rules, and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues, including cost allocation and recovery,
- Expenditures, and
- Equipment.

Our report on internal control over financial reporting and on compliance and other matters, our report on management issues, the related observations and recommendations, our independent auditor's report, and the financial statements of the Office of Information Technology are contained in the report that follows.

Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the governmental activities and each fund of the New Hampshire Office of Information Technology for the nine months ended March 31, 2006, as listed in the table of contents, and have issued our report thereon dated October 27, 2006, which was qualified with respect to the lack of presentation of the financial position of the Office of Information Technology in the government-wide and governmental fund financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office of Information Technology's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 Office of Information Technology's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Observations No. 1 through No. 17 of this report.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements 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, we believe that none of the reportable conditions described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Office of Information Technology's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which are described in Observations No. 18 through No. 20 of this report.

We noted certain other management issues, which are described in Observations No. 21 through No. 23, which we reported to the management of the Office of Information Technology in a separate letter dated October 27, 2006.

This auditor's report on internal control over financial reporting and on compliance and other matters is intended solely for the information and use of the management of the Office of Information Technology 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

October 27, 2006

Internal Control Comments
Reportable Conditions

Observation No. 1: Billing and Revenue Collection Process Should Be Improved

Observation:

The Office of Information Technology (OIT) has not established adequate policies and procedures to promote the timely collection of revenue. At March 31, 2006, OIT was not current in its billing of agencies and approximately \$6.8 million, or 25% of the invoices that were issued to State agencies during the prior nine-month period, remained outstanding and uncollected. OIT had not determined the amount of receivables outstanding at March 31, 2006 that related to prior year invoices.

OIT's reported policy is to issue invoices for service provided within 30 days following the month-end.

- During the nine months ended March 31, 2006, OIT billed user agencies, on average, 63 days after month-end. The range was 48 to 78 days after month-end. At March 31, 2006, OIT had issued invoices for services provided through January 2006. According to OIT, inadequate human resources caused the delay in invoicing. Delays in billing user agencies result in delays in the OIT recovering its costs and also delays in user agencies being able to recover costs from their funding sources. Each delay results in the potential for increased difficulty in resolving discrepancies or other potential problems or errors.
- Once invoices are issued, OIT does not actively follow-up to ensure timely collection. OIT does not provide user agencies with payment due dates and has not established documented procedures for the dispute of invoices. OIT has historically made collection effort only at the fiscal year end as part of the State's annual closing process. Prior to its hiring of a statistician in January 2006, OIT did not closely monitor its collection of revenues on invoices, and the amount of its uncollected receivables.
- OIT initially records all collected revenue in one revenue account and subsequently allocates the revenue to the appropriate revenue accounts. As of March 31, 2006, OIT had not allocated approximately \$4.5 million of revenue collected on services provided through January 2006. Delays in allocating revenues may hinder OIT in ensuring revenue requirements are met.

OIT appeared to be making progress in issuing more timely invoices, as well as implementing a tracking mechanism for outstanding receivables going forward, by fiscal year-end.

Recommendation:

1. OIT should establish policies and procedures for the timely processing of revenue. Policies and procedures should include establishing controls to ensure that invoices are issued timely, collections on the invoices are monitored for timely receipt, and collected revenues are posted timely to the correct revenue accounts. Established policies and procedures should include payment instructions to user agencies, including policies and procedures for the resolution of disputed invoices.

- OIT should continue in its efforts to improve its billing and collection process. Consideration should be given to account management as well as the timeliness and collectibility of the invoices.

Auditee Response: Concur and Concur in Part

- Item 1(1).** OIT should establish policies and procedures for the timely processing of revenue. The procedures should include establishing controls to ensure that invoices are issued timely, collections on the invoices are monitored for timely receipt, and collected revenues are posted timely to the correct revenue accounts.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	The Logistics Bureau will develop an annual calendar that will list invoice release dates, invoice due dates and revenue redistribution dates.	12/31/2006
2.	The Logistics Bureau will develop procedures that document the invoice release and revenue collection process.	01/31/2007
3.	The Logistics Bureau will provide invoice and revenue collection procedure training to key staff members.	01/31/2007

- Item 1(2).** Agencies should be provided with payment instructions.

Response for this Item: Concur in Part

OIT Invoices already include instructions for payment and with a contact name, email, and telephone number for questions. This information is at the bottom of every invoice. What is not included is the Payment Due Date.

Step	Action	Expected Date of Implementation
1.	Invoice due dates will be added to each invoice.	10/19/06
	<i>Note: The September Invoices were released with an Invoice Due Date.</i>	

Observation No. 2: Cost Allocation Process Should Be Improved

Observation:

The Office of Information Technology (OIT) has developed a complex process for allocating its operational and other information technology costs to user agencies. Costs are categorized as either direct costs, and allocated to agencies based on the actual costs of services provided to and received by each agency, or as shared costs, and allocated similar to an overhead charge to the agencies based on each agency's pro-rata share of the costs of providing services.

OIT intends to invoice agencies for the actual costs incurred in providing services. OIT uses several methodologies to allocate those costs among the agencies. While, overall, OIT appears to have a reasonable approach for allocating its costs to user agencies, there were several issues noted in OIT's cost allocation methodology, as well as the system used to calculate those allocations, that highlight limitations in the cost allocations.

1. Hourly rates for services provided by certain OIT employees vary from month-to-month based upon the number of billable hours worked by the employee during the month and the cost of supplies and equipment used by that employee. In one instance tested, it was noted the billed hourly rate for one employee varied, by as much as \$14.75 an hour, from one month to the next. This variance was due to differences in the amount of non-billable time, including leave time used, incurred in one month compared to another. The OIT allocation model allocates direct salary, benefits, and certain other costs including supplies and equipment for certain employees based on the employee's number of billable hours in a billing period. Therefore, when an employee takes leave, the payroll costs for that nonbillable leave time are distributed among the agencies for which the employee did provide service during the same billing period. This results in a higher hourly billing rate than if the employee had not taken leave and had worked a greater number of billable hours during the billing period. Also, when equipment is purchased for the employee's use, for example a calculator or a computer, the cost of that equipment is charged to the agencies that received the services of that employee during the month the equipment was paid for.
2. Overhead rates, for example for web support services or purchasing services, vary based on the number of agencies receiving those OIT services during the month. In months when relatively few agencies receive the service, the per-unit cost is higher than in months when a relatively larger number of agencies receive the same type of service.
3. The methodology used to allocate the OIT office rental expense considers the number of employees working in the building and distributes costs based on the agencies those employees service. However, it was noted that the methodology did not properly consider the pro-rata cost for two non-OIT employees who also worked in the building. Their portion of the rental costs was distributed among the agencies supporting OIT services.
4. The system used to allocate costs is set so that the calculations stop at the second level of system detail, even though the system is designed to operate at an accuracy level of four or more levels of detail. The system is set at two levels of detail, reportedly because the system was copied from another larger application in State government that had been limited to two levels of detail to avoid bogging down the system under the complexity of the calculations.

The OIT system was not reset to calculate at the higher level of accuracy even though it was agreed that the more exact calculations for OIT would not significantly affect the operation of the system. While testing did not reveal any significant differences in amounts allocated based on limiting the levels of detail, the potential exists for more accurate allocations to be made by resetting the system.

OIT's model of allocating to and recovering from user agencies the precise costs of operations results in a high burden on OIT to work at a level of exactitude and detail that exacerbates the issues noted above. Moreover, it does not allow OIT to recover a reasonable margin to accumulate a balance of resources necessary to provide for improved and expanded services to State government. While it would not be allowable to charge agencies and programs for more than the cost of services, generally, the cost of services commonly includes a reasonable margin for the purpose of covering costs not easily and otherwise allocable, including: incidentals, planning, contingencies, etc.

Recommendation:

OIT should consider whether its current process for allocating its exact costs is efficient and effective for OIT as well as equitable to agencies and programs involved. Consideration should be given to the level of accuracy of the allocation calculations, as well as the equity of the results of those calculations. While fairness to user agencies is important, undue complexity increases the opportunity for errors as well as other inefficiencies and, as noted in the examples above, may unintentionally cause inequity in the billing of service costs and other unintended effects.

Auditee Response: Concur in Part

Item 2. Response for this Item: Concur in Part

This observation raises a concern about hourly rates for time tracking employees varying due to time off. This is normal in project tracking. As long as the employees consistently work for the same agency or agencies, then over time, the administrative time will be charged in a consistent manner. Because of the way that the Agency Software Division units are grouped, Project Time and Administrative time are fairly distributed. For example, OIT has a group of employees that track their time to the Department of Safety and the Department of Justice. Each month they work a portion of their time in both. If one employee takes time off, it impacts both agencies, because the other employees have to cover the first employee's ASD projects. Grouping of employees is critical to ensuring that allocation works. OIT has reviewed any issues identified by agencies and has not found issues with the ASD Time Tracking methodology.

In Web Services, the model does not work as well and will need to be reviewed.

Step	Action	Expected Date of Implementation
1.	The methodology used to allocate the OIT office rental expense at Nash has been adjusted to include all space in the building, regardless of whether individuals in the building are OIT employees.	07/2006
2.	The system used to allocate costs has been adjusted to operate at an accuracy level of four instead of an accuracy level of two, effective July 1, 2006.	07/2006
3.	OIT will review the methodology for time distribution for web billing to determine if a more equitable method for web billing is possible.	03/2007
4.	OIT will establish procedures for conducting a periodic internal review of allocation accuracy.	03/2007
5.	Prior to the renewal of CAP95 software maintenance in May 2008, OIT will research cost allocation models in other states and at other New Hampshire State agencies. A cost-benefit analysis will be conducted.	04/2008
6.	OIT will participate in the Enterprise Resource Planning (ERP) project. If the model recommended by the ERP consultants and project team will ensure that State revenue collections remain at a minimum unchanged or a cost benefit analysis indicates that efficiency savings balance with reductions in revenue, then OIT will adopt the recommended ERP Cost Allocation model.	09/2008
7.	In the event ERP is unable to implement Cost Allocation to the standard defined in Step 6, and in the event OIT determines that a better Cost Allocation model exists, OIT will budget for replacement in the FY10-11 budget.	09/2008

Observation No. 3: Service Contract Processes And Controls Should Be Improved And Formalized

Observation:

The Office of Information Technology (OIT) has not adopted policies and procedures for the oversight and control of information technology (IT) service provider contracts.

In accordance with RSA 21-I:11, XI, OIT is responsible for the review and approval of all State IT contracting, either as a contracting party or as a reviewing and authorizing agency.

1. OIT has not adopted policies and procedures to ensure the timely transfer of control of IT contracts from the user agency to OIT. Since OIT's inception, the direct responsibility for certain IT contracts has been transferred to OIT through the budget or other authority. OIT has not consistently taken active control over these contracts in a timely manner. For example, OIT encumbered funds in August 2005 and paid funds in April 2006 related to an IT service contract for a user agency, yet OIT did not obtain Governor and Council approval to accept assignment of that contract until June 2006. By not taking timely control of the contract, OIT increased the risk that confusion over the agencies responsible for the contract could result in no State agency actively monitoring the contract.
2. OIT does not have policies and procedures for the periodic proactive review of the continued need for outsourcing certain IT services. OIT relies on system users, both in OIT and outside OIT, to identify when the contracted service can be more efficiently performed in-house and without outside IT vendor assistance.

OIT reported that it documents its decision to outsource IT services in a Project Concept Document (PCD). However, audit testing revealed that OIT did not consistently complete PCDs to support its decision to outsource IT services during the nine months ended March 31, 2006. A sample of 30 expenditures included payments on four contracts that would appear subject to the PCD requirement. A PCD was on file for only one of those four contracts tested. During the nine months ended March 31, 2006, more than 12% of OIT expenditures were for consultant service contracts.

3. Once a vendor is selected for a service contract, OIT e-mails a contract to the vendor for signature. The e-mailed document is not transmitted in a format that protects the document from inadvertent or other changes. The vendor prints the document, and returns the executed contract to OIT for State signatures. OIT does not perform a formal review of the returned document to ensure that the conditions in the contract remain unchanged. Signing the contract without reviewing for changes places the State at risk that it may inadvertently agree to unintended contract conditions.

Recommendation:

OIT should establish policies and procedures to improve its controls over IT service contracts.

1. OIT's degree of responsibility for all IT contracts should be clearly identified. OIT should accept responsibility for its IT contracts in a timely manner and not wait for a contract event to accept monitoring responsibility.
2. OIT should establish policies and procedures for periodic reviews of whether contracted IT services continue to be efficient and effective. The reviews should occur in a time frame that allows for the consideration, development, and acceptance of feasible alternatives.
3. OIT should review the security of e-mailed contract documents to determine whether the risk associated with the convenience of e-mail is acceptable. If OIT continues to use e-mail for transmittal of contract documents, OIT should ensure that controls are in place to protect the State from inadvertent or otherwise un-agreed to changes.

Auditee Response: Concur

Item 3(1). OIT's degree of responsibility for all IT contracts should be clearly identified. OIT should accept its responsibility for its IT contracts in a timely manner and not wait for a contract event to accept monitoring responsibility.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	The Contracts Unit will review and update existing inventory of contracts funded by OIT.	12/31/2006
2.	The Contracts Unit will identify any remaining contracts that need to be reassigned to OIT due to a transfer to funding to OIT from the agency.	12/31/2006
3.	If the term of the contract extends beyond June 30, 2006, the Contracts Unit will begin to take steps to seek Governor and Council approval for reassignment of these contracts. The schedule for reassignment will be determined based upon the quantity of contracts to be transferred.	04/30/2007

- Item 3(2).** OIT should establish policies and procedures for periodic reviews of whether contracted IT services continue to be efficient and effective. The reviews should occur in a time frame that allow for consideration, development, and acceptance of feasible alternatives.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	The Project Concept Document (PCD) will include documentation of alternatives considered and justification of the selected alternative.	12/31/2006
2.	Communication regarding the new PCD requirements will be distributed to OIT Managers and agencies.	12/31/2006
3.	PCDs will be reviewed to ensure that they are complete and provide documentation of the alternative selected.	12/31/2006
4.	The Contracts Unit will only bring forth a contract or RFP for CIO approval if an approved PCD is on file.	01/31/2007

Observation No. 4: Memorandums Of Agreement Should Support Work Performed For User Agencies

Observation:

The Office of Information Technology (OIT) purchases information technology (IT) equipment and supplies and provides IT services to agencies and, subsequently, invoices those agencies for the cost of those goods and services. At March 31, 2006, OIT had not established memorandums of agreement or other formal agreements with the agencies to which it provided services during the nine months ended March 31, 2006.

- At March 31, 2006, OIT was in the process of drafting agreements for “partner agencies.” While the definition of partner agency is unclear, as OIT uses the term in different manners, partner agencies generally include those agencies that transferred IT personnel to OIT and receive higher levels of OIT service. As of March 31, 2006, OIT had not finalized any service agreements with its partner agencies.
- At March 31, 2006, OIT had not drafted any memorandums of agreement to be used when providing services to smaller, non-partner agencies.

The lack of formal service agreements increases the risk that the rights and responsibilities of each party will become unclear and subject to dispute, including charges for services provided.

Recommendation:

OIT should establish policies and procedures requiring formal memorandums of agreement with all user agencies to evidence OIT and user agency concurrence on services and support to be provided and the costs to be incurred. While memorandums of agreement with partner agencies may cover ongoing services, memorandums covering limited services with nonpartner agencies may need to be more specific to those limited services to be provided.

Auditee Response: Concur and Concur in Part

- Item 4(1).** OIT needs to enter into Memorandums of Agreement (MOA) with the full-service agencies.

Response for this Item: Concur

In October 2005, a draft MOA was presented to two agencies as a pilot project and negotiations concerning terms and conditions commenced. At the end of the audit period, one agency had signed the MOA. The Department of Transportation signed the MOA on March 30, 2006.

Step	Action	Expected Date of Implementation
1.	Four additional agencies signed the MOA: Departments of Revenue (4/18), Resources and Economic Development (6/14), Education (6/23) and the Office of Energy and Planning (5/31).	06/23/06
2.	It is anticipated that five additional agencies will complete final negotiations with OIT and sign MOA.	12/15/06
3.	Remaining eight agencies to complete negotiations and sign MOA.	06/30/07

- Item 4(2).** OIT needs to enter into MOAs with remaining Executive Branch agencies.

Response for this Item: Concur in Part

OIT does not believe that an MOA will be needed for agencies that receive the services that OIT is required by law to provide. These services include IT-purchase review and contract support and web site maintenance. OIT will create an abbreviated version of the MOA for agencies whose services exceed the services required by law.

Step	Action	Expected Date of Implementation
1.	Compare Executive Branch Agencies to the invoice generation reports and to the MOA list. Conduct a gap analysis to determine which agencies will need to have an MOA.	03/31/2007
2.	Adjust the MOA for the smaller agencies	03/31/2007
3.	Create a project plan for the MOA project.	03/31/2007
4.	Complete the signature process for the MOA project	10/31/2007

Observation No. 5: Agency Specific Charges Should Be Approved

Observation:

The Office of Information Technology (OIT) has not established policies and procedures requiring user agencies to authorize purchases made by OIT on their behalf and ultimately charged to the user agencies through OIT's cost allocations.

OIT does not consistently request user agency approval prior to making agency specific purchases that are subsequently charged to the user agencies. OIT employees working with the agencies are often authorized by user agencies to approve agency IT purchases, effectively giving OIT control of the user agency's appropriations. OIT does not currently have a policy requiring its employees to obtain user agency acceptance prior to making purchases that will be charged to the user agency accounts or require user agency acceptance and approval of purchases, prior to paying the vendors.

- In a sample of 30 non-payroll expenditures tested, 25 expenditures were subsequently billed directly to user agency accounts. Documentation supporting five of those 25 (20%) expenditures tested did not evidence prior or subsequent approval of the user agency for the expenditures. Not requiring approval of expenditures charged to user agencies increases the risk that agencies are unaware of expenditures made on their behalf and charged to their accounts. Lack of user agency knowledge of expenditures may result in disputed charges and other questioned expenditures and increases the risk that user agencies may be inappropriately charged for equipment and supplies that do not become part of the agency operations.

Recommendation:

OIT should implement policies and procedures requiring user agency authorization prior to OIT's purchase of agency specific equipment and supplies, and agency acceptance of the purchased items, prior to the purchases being charged to user agency accounts.

The practice of allowing OIT employees to provide these user agency approvals should be discontinued to ensure that user agencies participate in the IT decision affecting their operations

and to ensure that OIT employees do not have incompatible purchasing responsibilities that could increase the risk of improper purchasing activity.

Auditee Response: Concur

Item 5. Response for this Item: Concur

- OIT concurs with agency approval of Direct expenditures related to purchases, contracts and non-State personnel services.
- OIT concurs with agency approval of expenditures that are manually allocated at the time of vendor invoice payment.

Step	Action	Expected Date of Implementation
1.	OIT will draft a new process for the Approval and Expenditure system (A&E) agency approval process and the A&E item acceptance process. The new process will require Agency Approval of all Direct Charges or manually allocated charges.	02/28/2007
2.	OIT will educate A&E users and Agency Business Offices regarding the new agency approval process.	03/31/2007
3.	OIT will train Business Office staff and Financial Approvers regarding the new process.	03/31/2007
4.	OIT will set-up new Agency Approvers and Acceptors and remove access for existing managers that approve orders for their agencies.	03/31/2007

Observation No. 6: Administrative Policies And Procedures Manual For The ETA System Should Be Developed

Observation:

The Office of Information Technology (OIT) has not developed an administrative policies and procedures manual containing sufficient detail to allow a back-up employee to perform the many complex administrative duties pertaining to daily Employee Time Accounting (ETA) system tasks. OIT relied upon the knowledge and experience of one key employee to perform these functions. No other OIT employee was fully trained to perform critical administrative procedures for the ETA system during the nine months ended March 31, 2006.

Administrative procedures for the ETA system included:

- Bi-weekly, posting employee leave to the State's payroll system (GHRS),
- Retrieving updates of employee information from GHRS,

- Employee timekeeping and leave error identification and resolution, and
- Responding to employee requests for corrections.

Recommendation:

1. OIT should not allow critical agency operations to be dependent upon the continued performance of key employees. Policies and procedures manuals should be established to support significant agency operations. Manuals should be sufficiently detailed to allow for the continuation of agency operations with the minimum of disruption, regardless of the availability of the current performer of the responsibilities.
2. To remain effective, policies and procedures manuals require periodic review and update, and employees using the manuals require periodic training in their use.

Auditee Response: Concur

Item 6. OIT has not developed an administrative policies and procedures manual containing sufficient detail to allow a back-up employee to perform the many complex administrative duties pertaining to daily Employee Time Accounting (ETA) system tasks. OIT relied upon the knowledge and experience of one key employee to perform these functions. No other OIT employee was fully trained to perform critical administrative procedures for the ETA system during the nine months ended March 31, 2006.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	An administrative policies and procedures manual has been drafted and will be complete once OIT staff has been trained in these ETA administrative functions: <ul style="list-style-type: none"> • Bi-weekly, posting employee leave to GHRS. • Retrieving updates of employee information from GHRS. • Employee timekeeping and leave error identification and resolution. • Responding to employee requests for corrections. 	12/31/2006
2.	OIT staff members will be cross-trained to perform all duties currently handled by the current ETA Administrator.	12/31/2006

Observation No. 7: Controls Over Payroll Should Be Improved

Observation:

Test of documentation supporting a sample of 30 payroll items indicated weaknesses in the payroll process in place at the Office of Information Technology (OIT) during the nine months ended March 31, 2006.

Issues noted included:

1. Personnel file documentation was incomplete or contained documents for other employees in several of the 30 files reviewed.
 - Personnel documentation belonging to an employee other than the individual selected for testing was located in three of the 30 (10%) selected employees' files, compromising confidential information.
 - Various payroll documents were missing for three out of the 30 selections (10%), including documents supporting the current pay rate as well as deductions from the employee's pay.
2. Documents supporting leave time used and hours worked during the selected pay period were not accurate or complete for several of the items tested.
 - Leave time used was not posted to the State's payroll system (GHRS) in a timely manner for two of the 16 (13%) selections where the tested payroll item included the use of leave time. Not posting leave activity in a timely manner increases the risk that the transaction will not be processed.
 - For three of the 28 (11%) selections where a timesheet was required, a timesheet was submitted via the Employee Time Accounting (ETA) system, however the timesheet remained in suspense and had not gone through the approval process. While the timesheet has no direct effect on GHRS as the timesheets are not used as a source document in determining employee payroll, the delay in timesheet approvals increases the risk that the correction of any errors that may ultimately be recognized in the review and approval process may be negatively impacted due to the passage of time.

During the nine months ended March 31, 2006, approximately 378 employees were on OIT's payroll. Many of these employees had transferred to OIT from other State agencies. While some of the problems in the employee personnel files may predate the employees' transfer to OIT, as the current employer, OIT has a responsibility to ensure payroll records, including personnel files, are complete and accurate.

Recommendation:

1. OIT should improve its controls over employee payroll. Employee personnel files should be reviewed to ensure that all required documentation is included.
2. OIT should establish policies and procedures addressing the timely review and approval of employee timesheets. Leave time should be posted to GHRS in a timely manner.

Auditee Response: Concur

Item 7(1). Personnel File documentation incomplete and contained files for other employees in several of the 30 files reviewed.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	<p>It will be the responsibility of the OIT Human Resources Manager to develop a checklist of pertinent documents that need to be filed in an employee's personnel file. This checklist will be in compliance with Division of Personnel Administrative Rules.</p>	12/31/2006
2.	<p>Each employee file will be reviewed to ensure that the files contain the documents listed on the checklist.</p> <p>In the event a document is missing, it will be recorded in the file and efforts will be made to retrieve the document or a note will be made that it is unavailable.</p>	12/31/2007

Item 7(2). Documents supporting leave time taken and hours worked during the selected pay period were not accurate or complete for several items tested.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	<p>HR will work with the ETA Administrator to ensure that at the onset of every pay period, OIT employees complete an ETA timecard and that managers have approved each timecard. Reminders will be sent from ETA Admin to those employees/managers who have not completed and approved timecards or leave requests.</p> <p><i>Note: With the implementation of ERP, ETA will not be utilized and OIT will follow Leave/Time processes as directed.</i></p>	12/31/2006

2.	It will be the responsibility of the OIT Human Resources Manager to create a document describing the payroll process including inputting leave on the ETA system within the pay period the leave is taken. This document will be published to the OIT website.	03/01/2007
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Observation No. 8: Controls Over Employee Leave Accounting Should Be Improved

Observation:

The Office of Information Technology's (OIT) control activities over its Employee Time Accounting (ETA) system are not sufficiently robust to ensure that the ETA system and the State's payroll system (GHRs) report accurate information.

OIT established the ETA system to track and report employee work and leave activity online. The ETA system is a front-end system that interfaces with GHRs via a bi-weekly batch process. The ETA system and GHRs ostensibly report the same work and leave activity and balance information. GHRs remains the official record of leave balances.

OIT has not established policies and procedures to ensure that the information contained in the two reporting systems is and remains accurate and consistent.

OIT has only reconciled the information in the two systems once during the three years that ETA has been utilized. The OIT employee who generally administers ETA, and therefore was not independent of the operation of the system, performed that reconciliation during the nine months ended March 31, 2006.

The reconciliation revealed minor inconsistencies between ETA and GHRs resulting from keying and other errors. Audit testing also revealed that, for two of the 30 items (7%) selected for testing, leave time was not posted timely into GHRs, as supervisors had not approved the leave in a timely fashion. The leave time for these test items appeared to be accurately accounted for in ETA.

Recommendation:

OIT should improve its controls over its employee leave accounting. Policies and procedures should be established to implement a periodic reconciliation of the ETA and GHRs information. An employee independent of the OIT leave-posting responsibilities should perform the reconciliation.

Auditee Response: Concur

Item 8. Policies and procedures should be established to implement a periodic reconciliation of the ETA and GHRS information. An employee independent of the OIT leave-posting responsibilities should perform the reconciliation.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	OIT will establish policies and procedures that will reconcile leave balances between the two reporting systems at least monthly.	1/31/2007
2.	An OIT employee independent of the ETA Administrator will be trained to perform the reconciliation step after the close of each and every pay period on GHRS.	1/31/2007

Observation No. 9: Continuity Of Operations Plan Should Be Implemented

Observation:

The Office of Information Technology (OIT) has not prepared a continuity of operations plan to minimize disruption of OIT and Statewide operations should physical disaster or other foreseen or unforeseen disturbance impact the State's information technology (IT) operations. The purpose of a continuity of operations plan is to document the recovery strategies, plans, and policies and procedures necessary to implement a recovery process for essential IT resources.

OIT maintains and supports numerous Statewide and agency-specific IT communications systems, networks, servers, databases, etc. As agencies have become dependent upon IT systems for operations, it is crucial to minimize the risk associated with those systems becoming unavailable, due to internal or external circumstances. A continuity of operations plan is intended to provide employees documented and tested policies and procedures to follow in the event of a system failure to minimize the effects on operations. A well-designed plan includes tested recovery strategies and plans as well as policies and procedures intended to implement an efficient and effective system recovery.

Recommendation:

OIT should implement and maintain a formal continuity of operations plan for all critical IT systems. In developing a suitable plan, OIT should perform appropriate risk and cost-and-benefits analyses. The plan and analysis of the plan should consider the risk of system failure and the cost of implementing certain aspects of the plan against the benefits of minimizing the effects of those failures.

Once established, it is important to keep the plan current and relevant by performing regular tests of key provisions of the plan including determining the effects on agency operations of a disaster or systems failure, the expected recovery times from such situations, and the testing of any other computer systems to be used as backup. The testing program should include employee training in the operation of the plan and a critique of the plan's effectiveness. It should address any need for revisions including any systems and technology changes. All employees should be trained in their roles and responsibilities relative to the plan.

Auditee Response: Concur

Item 9. Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	The Logistics Bureau will create an emergency staff contact list for its own staff and key OIT staff members. The list will be distributed to all Logistics Bureau staff for on-site and off-site retention.	12/31/06
2.	The Logistics Bureau will complete a risk assessment to determine which units need to have Continuity of Operations Plans.	03/31/07
3.	OIT Divisions will complete risk assessments to determine which units need to have Continuity of Operations Plans.	06/30/07
4.	The Logistics Bureau will draft, test and implement Continuity of Operations Plans to address the risks identified in Step 2.	09/30/07
5.	OIT Divisions will draft, test and implement Continuity of Operations Plans to address the risks identified in Step 2.	12/31/07
6.	When State agencies draft continuity of operations plans, and those plans have information technology components, the Office of Information Technology will support those agencies in their efforts.	N/A

Observation No. 10: Formal Risk Assessment Policies And Procedures Should Be Established

Observation:

The Office of Information Technology (OIT) does not have formal risk assessment policies and procedures in place for recognizing and responding to risks potentially affecting its operations.

OIT does not have formal policies and procedures in place for periodically reviewing its operations for risks that could jeopardize its ability to continue to function as leadership intends. Currently, when risks are identified, OIT may take action; however, there are no formal policies and procedures to continuously review operations for risks. A lack of understanding of risks generally pushes an entity toward a reactive mode when significant risks are realized/occur. A reactive mode may compromise the efficiency and effectiveness of a response due to the lack of prior identification and understanding of the risks and ramifications.

Management's assessment of risks facing the organization is an integral component of internal control. The purpose of an entity's risk assessment is to identify, analyze, and, where appropriate, respond to risks and thereby manage risks that could affect the entity's ability to reach its objectives. Effective risk assessment practices should be a core element of management's planning activities. Risk assessment should be an ongoing activity.

An entity faces many risks. Risk can be defined as the threat that an event or action will adversely affect an entity's ability to achieve its objectives. Risk can be classified in many ways. For example:

External risks - threats from broad factors external to the entity including changes in the political arena, statutes and rules, and funding availability.

Operational risks - threats from ineffective or inefficient processes for acquiring and providing goods and services, as well as loss of physical, financial, or information assets.

Information risks - threats from the use of poor quality information for operational, financial, or strategic decision-making within the entity and providing misleading information to others.

A continuous review of OIT's processes and activities using a risk-based mindset would promote effective planning and assist in resource allocation decision-making. Risks identified should be analyzed to determine whether current internal controls mitigate risk to a level desired by management or whether other actions are required in response to the risk.

One risk factor specifically identified by OIT during audit inquiry was the risk of new technologies not being adequately addressed in current OIT policy. Specifically, devices such as flashdrives were identified as posing a risk that information could be removed from State premises without detection, may be copied onto personally-owned equipment that does not have the same level of security as State equipment, and could be potentially misused. While there is a *Computer Use Policy Agreement* in place that all employees are required to sign, it does not specifically address new technologies that could enter the State system, management's concern on this matter, and how those situations should be handled.

In addition, inquiry into the recording and maintenance of payroll information revealed that employee leave records, which include personal identification information, during the nine months ended March 31, 2006 were transferred to the Department of Administrative Services in a manner that was not particularly secure. OIT has since altered the method of transfer as a result of the audit inquiry.

Recommendation:

OIT should establish risk assessment policies and procedures that formalize its risk assessment process and provide for a regular and continuous risk assessment of its operations. A formal risk assessment process is a necessary tool to assist in the effective management of risks. Identifying risks significant to OIT and other State operations that it is involved with and strategies to mitigate those risks should enhance the effectiveness of OIT's planning and resource allocation processes and OIT's and State government's control processes.

Auditee Response: Concur

- Item 10(1).** OIT should establish risk assessment policies and procedures that formalize its risk assessment process and provide for regular and continuous risk assessment of its operations.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	Create an OIT Risk Assessment Task Force to include the IT Security Group Manager, a Logistics Bureau Manager, and other employees as assigned by the CIO.	01/31/2007
2.	Complete Risk Assessment research and create a Risk Assessment Plan for OIT that extends beyond protecting IT resources.	01/31/2007
3.	Implement Risk Assessment templates and practices in OIT. Assign responsibilities for risk identification and mitigation in critical areas.	04/31/2007
4.	Mitigate mission critical risks.	07/30/2007
5.	Mitigate critical risks.	10/30/2007
6.	Complete risk assessment and mitigate or get management acceptance of remaining risks.	01/31/2008
7.	Implement ongoing Risk Assessment and Mitigation practices with oversight accountability assigned.	01/31/2008

- Item 10(2).** Risk Assessment policies should include evaluating file transfers, and new technologies.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	OIT assigned responsibility for IT Security and IT Security Planning began.	04/2006
2.	OIT purchased and implemented vulnerability management software. The software included a risk assessment tool.	08/2006
3.	OIT categorized IT assets, established each asset's criticality and assigned accountability for each asset.	08/2006
4.	OIT created a Statewide IT Vulnerability Policy.	08/2006
5.	OIT began recurring scans to identify vulnerabilities.	08/2006
6.	The IT Security Group was created, and three positions were allocated to the Security Group.	08/2006
7.	Integrated IT Security Scanning into the formal System Development Methodology documentation.	09/2006
8.	The IT Security Group staffed with three full time employees.	10/2006
9.	IT Security integrated into all RFPs and Contracts released by OIT.	11/2006

Observation No. 11: Formal Fraud Risk Mitigation Efforts Should Be Developed And Implemented

Observation:

The Office of Information Technology (OIT) has not established a formal fraud assessment, prevention, deterrence, and detection program and has not established a fraud reporting policy.

Fraud encompasses an array of irregularities and illegal acts characterized by intentional deception. Persons outside or inside the organization can perpetrate it for the benefit or to the detriment of the organization. Fraud runs the spectrum from minor employee theft and unproductive behavior to misappropriation of assets, fraudulent financial reporting, and intentional noncompliance with a law or rule to an undue benefit.

Management is responsible for assessing the risk of fraud and implementing measures to reduce the risks of fraud to an organization. Fraud assessment, prevention, deterrence, and detection are crucial to the controlled operations of an organization.

- Assessment is critical since risks can only be effectively managed if risks are identified.
- Prevention reduces opportunities. Preventative methods are typically part of the organization's internal control – tone at the top and control procedures.

- Deterrence consists of those actions taken to discourage the perpetration of fraud and limit the exposure if fraud does occur. The principal mechanism for deterring fraud is the establishment of effective internal controls. Management has the primary responsibility for establishing and maintaining controls.
- Detection consists of identifying indicators of fraud sufficient to warrant recommending an investigation. These indicators may arise as a result of controls established by management, tests conducted by management or staff, and other sources both within and outside the entity.

Management is responsible for assisting in the deterrence and detection of fraud by examining and evaluating the adequacy and effectiveness of controls, commensurate with the extent of the potential exposure/risk in the various segments of an entity's operations.

The attributes of an effective fraud reporting policy include:

- The policy is in writing;
- The reporting policy describes fraudulent activities and the actions required when fraud is suspected or detected;
- The policy is communicated to all employees; and
- Management obtains written assurance from each employee that the policy and related reporting mechanism is understood.

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 is non-threatening for the reporter and provides for the reasonable protection of all parties.

Recommendation:

OIT should establish formal fraud risk mitigation policies to help limit OIT's exposure to fraud and to promote timely detection.

- OIT should establish a formal fraud assessment, prevention, deterrence, and detection policy to help limit OIT's exposure to fraud and promote early detection of fraud that might occur. OIT should take measures to foster a high degree of control consciousness among its employees and ensure that its employees understand that adhering to controls is a primary concern of management.
- OIT should establish a fraud reporting policy and provide its employees with fraud awareness training. OIT should take measures to ensure that the policy facilitates and encourages reporting and protects all parties involved.

Auditee Response: Concur

Item 11.

OIT should establish formal fraud risk mitigation policies to help limit OIT's exposure to fraud and to promote timely detection. OIT should establish a formal fraud assessment, prevention, deterrence, and detection policy to help limit OIT's exposure to fraud and promote early detection of fraud that might occur. OIT should take measures to foster a high degree of control consciousness among its employees and ensure that its employees understand that adhering to controls is a primary concern of management. OIT should establish a fraud reporting policy and provide its employees with fraud awareness training. OIT should take measures to ensure that the policy facilitates and encourages reporting and protects all parties involved.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	Create an OIT Risk Assessment Task Force to include the IT Security Group Manager, a Logistics Bureau Manager, and other employees as assigned by the CIO.	01/31/2007
2.	Complete Risk Assessment research and create a Risk Assessment Plan for OIT that extends beyond protecting IT resources. Fraud risk mitigation will be a component of the plan.	01/31/2007
3.	Implement Risk Assessment templates and practices in OIT. Assign responsibilities for risk identification and mitigation in critical areas, including fraud risk mitigation.	04/31/2007
4.	Mitigate mission critical risks.	07/30/2007
5.	Mitigate critical risks.	10/30/2007
6.	As part of the Risk Assessment Plan and risk mitigation process, OIT will establish a fraud reporting policy that facilitates and encourages reporting and protects all parties involved.	10/30/2007
7.	OIT will have conducted fraud awareness training for OIT employees.	10/30/2007
8.	OIT will complete risk assessments and mitigate or get management acceptance of remaining risks.	01/31/2008
9.	Implement ongoing Risk Assessment and Mitigation practices with oversight accountability assigned.	01/31/2008

Observation No. 12: Incompatible Duties Should Be Properly Segregated

Observation:

Employee responsibilities for the operation of two Office of Information Technology (OIT) application systems were not adequately segregated during the nine months ended March 31, 2006 to allow for an effective review and approval function.

- One user of the OIT Approval and Expenditure (A&E) system, which processes information technology (IT) related requests and purchases for State agencies, has the highest level of system approval authority, and also is an end user of the system. Therefore, this individual has the incompatible abilities of initiating transactions as well as approving those same transactions.
- The developer of the A&E system is also the database administrator for the A&E system. This employee has the incompatible functions of system security access and privileges and maintaining the data stored in the system.
- One user of the OIT Allocation System (OASys), which determines amounts invoiced to agencies, has the ability to input or alter data, maintains review authority for system output, and is also a user. This employee has the incompatible abilities of initiating transactions as well as approving those same transactions.

These instances of employees being responsible for incompatible duties within the systems were reportedly the result of inadequate staffing levels.

Recommendation:

OIT should review its assignment of employee responsibility over the A&E and OASys to ensure that assigned as well as unintended employee duties and responsibilities are properly segregated and provide the intended controls over OIT's critical systems.

Auditee Response: Concur

Item 12. Response for this Item: Concur

The Office of Information Technology concurs that a functional realignment of staff responsibilities needs to take place. In the short term, steps can be taken to make some limited functional reassignment for specific applications such as A&E and OASys. While this solution solves the immediate need, there exists the same overlap in responsibility with other applications that needs to be addressed through the addition of new staff. It is important to note however that within the A&E system, all user activity is logged for audit purposes. All OASys data is reviewed by more than one person prior to invoice production and is released to the web where it is available to all agencies to review.

Step	Action	Expected Date of Implementation
1.	All A&E user accounts have been reviewed and aligned to remove incompatible duties.	6/2006
2.	Reassign A&E database administration functions from the application developer.	8/2006
3.	Long term, a new position request has been made to add a database administrator for web application development to properly segregate all development from database activities.	7/2007
4.	OASys responsibilities will be reviewed and reassigned to ensure proper segregation of duties and protection of data from unwanted changes.	7/2007

Observation No. 13: Robust Password Controls Should Be Implemented

Observation:

Password controls over the Office of Information Technology (OIT) Approval and Expenditure (A&E) and Employee Time Accounting (ETA) systems were not in compliance with State information technology policies during the nine months ended March 31, 2006.

- The A&E system did not require passwords to be changed at regular intervals and passwords were not consistently disabled at employee termination. In addition, new user passwords were e-mailed to employees.
- The ETA system did not require passwords to be changed at regular intervals and passwords were not required to be complex.

Robust access controls are essential to maintain the security and integrity of important systems and data. Passwords are a primary access control intended to prevent unauthorized use of computers and the access to controlled information and applications on those computers and on other systems accessible through those computers.

Recommendation:

OIT should implement appropriate password controls to ensure the security and integrity of its systems and data, and the systems and data to which they are connected. Effective use of password change controls should mandate that users create passwords with complex characters and change passwords regularly.

As a leader in State information technology services, OIT should require its employees to adhere to the State's policies on the effective use of password controls. In addition, management should ensure that a periodic review of application access rights is conducted and the access permissions for terminated employees are deleted timely.

Auditee Response: Concur

Item 13.

OIT should implement appropriate password controls to ensure security and integrity of its systems and data, and the systems and data to which it is connected. Effective use of password change controls should mandate users create passwords with complex characters and change passwords regularly.

As a leader in State information technology services, OIT should require its employees to adhere to the State's policies on the effective use of password controls. In addition, management should ensure that a periodic review of application access rights is conducted and the access permissions for terminated employees are deleted timely.

Response for this Item: Concur

This observation raises a concern about password standards and account management that is pervasive throughout the State's environment. The Chief Information Officer has initiated action through the creation of a Security Group within his office to improve account management controls which includes establishing metrics that track the adherence of the policies to state applications.

Step	Action	Expected Date of Implementation
1.	Creation of an Information Security Group in the Office of the CIO.	7/2006
2.	Requirement that the account management process of all applications be documented and that stale user accounts be deactivated or deleted.	7/2006
3.	Monthly reporting of stale account status for all applications and domain accounts required and tracked.	7/2006
4.	Establishment of a more stringent "User Account and Password Policy" that affects all users and establishes requirements to manage inactive or terminated employees.	08/2006
5.	Establishment of "Administrator Account Maintenance Policy" which includes requirement that administrator accounts be separated from day-to-day user accounts and establishes more rigorous standards than those that exist for average users.	9/2006

Observation No. 14: Computer System Access Controls Should Be Reviewed

Observation:

The Office of Information Technology (OIT) had an unusually large number of employees with high-level access in the Approval and Expenditure (A&E) system during the nine months ended March 31, 2006. The A&E system is used to review and approve agency information technology (IT) purchase requests and to make those IT purchases.

During the nine months ended March 31, 2006, six OIT employees were designated system administrators in the A&E system. System administrators have the highest level of permission access in the A&E system, including applying the Chief Information Officer's (CIO) approval to transactions. At least one of these employees was also an end user of the A&E system (see Observation No. 12). Management was reportedly not aware of the number of users that had system administrator/CIO approval rights. Reportedly, the employees were granted these access rights to allow State IT purchases to occur when the CIO was unavailable to authorize the transactions. While the A&E system logs the identity of the person applying CIO approval to the system, the OIT employee signing a payment voucher for IT equipment would not necessarily know to, and, during the nine months ended March 31, 2006, generally did not, review the system logs to identify the person who applied the purchase approval in the A&E system. Audit testing revealed that, for the items reviewed, no one other than the CIO applied the CIO approval in the system.

In addition, during the nine months ended March 31, 2006, there were a number of employees assigned backup system administrator rights in the A&E system. Although more limited than full system administrator authority, backup system administrators have a high level of system access, which was incompatible with the primary job functions of some of these employees. For example, the buyer, who fills the approved purchase orders on OIT's behalf, also has backup system administrator rights in the A&E system. This level of access gives the employee the ability to add new users and apply some approvals, which would be incompatible with the employee's primary function as a buyer. This situation is reportedly due to the A&E system structure, which requires full backup system administrator permissions in order to allow the buyer to group purchases in the A&E system for efficient purchasing purposes. This OIT efficiency effort unintentionally increases the risk of inappropriate initiation and/or approval of IT purchases.

Recommendation:

OIT should review the employee access levels in the A&E system. As a part of that review, OIT should consider whether the number of people with access levels higher than those required to perform their duties accurately reflects management's intent and is in the best interest of OIT and of the State. If it is determined that this level of permissions is required or that it would be too costly to re-configure A&E, mitigating controls should be placed in operation.

The review of employee access levels should be a regular, periodic process to ensure that access privileges remain consistent with changes in employee job responsibilities and with management's intentions.

Auditee Response: Concur

Item 14.

OIT should review the employee access levels in the A&E system. As a part of that review, OIT should consider whether the number of people with access levels higher than those required to perform their duties accurately reflects management's intent and is in the best interest of OIT and of the State. If it is determined that this level of permissions is required or that it would be too costly to re-configure A&E, mitigating controls should be placed in operation.

The review of employee access levels should be a regular, periodic process to ensure that access privileges remain consistent with changes in employee job responsibilities and with management's intentions.

Response for this Item: Concur

The Office of Information Technology has put in place a series of controls that affect account management and the segregation of administrative duties from day-to-day operations. This also includes monthly review of all accounts to identify inactive ones and allow them to be disabled.

Step	Action	Expected Date of Implementation
1.	New processes in place that require monthly review of all user accounts.	7/2006
2.	New policy in place requiring administrative accounts to be segregated from user accounts to separate day-to-day functions from those that require higher privileges.	7/2006
3.	Stale user account review.	8/2006

Observation No. 15: Comprehensive Policies And Procedures Should Be Prepared For All Significant Operational Areas

Observation:

The Office of Information Technology (OIT) has not established comprehensive policies and procedures for its significant operational areas and functions.

OIT is a relatively new agency, established July 1, 2003. Much of OIT's attention to date has apparently and understandably been focused on establishing operations and providing services to the State and the user agencies. As noted here and in other observations, as of March 31, 2006, OIT had not established comprehensive policies and procedures for agency payroll, billing and collections, equipment control, risk awareness and mitigation, provision of services, etc. While it is understood that the emphasis up to this point primarily focused on establishing the agency operations, OIT's focus needs to include establishing the formal policies and procedures that will

provide for consistency in decision making and transaction processing and also provide for direction and guidance to employees in performing their responsibilities according to management's plan and design. Effective policies and procedures minimize the risk of over-reliance upon the abilities and experience of individual key employees and the risk of operating in an ad-hoc manner; situations that are common in organizations that have not established, and required employee compliance with, formal operating policies and procedures.

Recommendation:

OIT should establish policies and procedures for all significant operational areas and functions. The policies and procedures must be documented and include guidance on making decisions according to management's goals and objectives as well as internal control procedures established by management that employees are expected to follow. While it is recognized that this is a time-consuming task, policies and procedures manuals could increase efficiency as employees become more accustomed to performing their duties in accordance with management's plans and goals and objectives.

Auditee Response: Concur

Item 15. OIT should establish policies and procedures for all significant operational areas and functions. The policies and procedures must be documented and include guidance on making decisions according to management's goals and objectives as well as internal control procedures established by management that employees are expected to follow.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	The Logistics Bureau will conduct a policy and procedure gap analysis.	01/15/2007
2.	The Logistics Bureau will identify a priority order for the documentation of missing policies and procedures.	01/31/2007
3.	The Logistics Bureau will document the most critical functions based on a risk assessment.	03/31/2007
4.	The Logistics Bureau will document remaining policies and procedures.	12/31/2007
5.	The Logistics Bureau will implement a regular policy and procedure review cycle.	12/31/2007

Observation No. 16: Accounting For Software Licenses And Leased Equipment Should Be Improved

Observation:

The Office of Information Technology (OIT) has neither implemented standard State equipment policies and procedures nor implemented alternative policies and procedures to account for software licenses and equipment leases under its control. Issues related to the lack of controls and associated records have resulted in a lack of auditable documentation for software and the majority of leased items.

1. OIT is responsible for maintaining the software licenses it purchases for various State agencies. However, those licenses have not been consistently tracked. The transfer of software licenses from other agencies has reportedly complicated the tracking of those licenses. Without consistent tracking of software licenses, the State may unknowingly be in violation of software license agreements or be inefficiently using the licenses it owns.

Additionally, software is not included in the OIT equipment inventory listing. While only software exceeding the capitalization threshold of \$500,000 is required to be reported to the Department of Administrative Services (DAS) for inclusion in the State-wide financial reports, all items with a value of \$100 or greater and a useful life of over one year are required to be inventoried for accountability purposes per DAS policies. According to DAS, this would include software.

2. OIT has been unable to provide complete information regarding the equipment leases for which it is responsible. There is no listing of equipment items that are leased by OIT, and some leased items were not given proper accounting treatment. For example, testing of 18 items included in OIT's equipment inventory listing revealed that three items (17%) were actually leased and not owned.

Recommendation:

1. OIT should inventory significant computer software under its control. OIT should track the software it utilizes, both software owned by OIT and software owned by other agencies, to ensure licensing and maintenance remain current. While the transfer of software licenses from other agencies has complicated the tracking of those licenses, OIT should undertake an effort to properly account for and manage the software under its control.
2. Controls over leased equipment should be improved. An inventory of leased equipment should be maintained that accounts for all leased equipment under OIT's control.

Auditee Response: Concur

Item 16.

It is anticipated that the existing NH FIRST project, i.e. Lawson ERP system implementation [new computerized State accounting and payroll system], will provide improved processes for accounting for assets purchased (such as licensing and leased equipment). OIT will utilize the best practice processes that will be defined. This functionality will be implemented during Phase II of the NH FIRST project, to be completed no later than September 2008, as outlined on SUNSPOT [State intranet].

Defining this process “outside of the NH FIRST Project” would result in the potential restructure of these processes once the NH FIRST project is implemented.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	OIT has requested two positions to perform asset management in the FY08-09 budget.	6/2006
2.	Initiate the draft definition of standard accounting policies and processes (an asset management plan) in preparation for the NH FIRST project asset accounting process review(s).	4/2007
3.	Participate in the NH FIRST project and take part in the review and definition of asset and inventory tracking processes including those defined for software licenses and leased equipment.	4/2007 – 9/2008
4.	Pending budget approval of two asset management positions, implement preliminary standard policies and processes within the scope of direction in which the NH FIRST project is progressing.	12/2007
5.	Adopt and implement accounting processes and ongoing tracking defined for the NH FIRST project for Software Licenses and Leased equipment.	9/2008

Observation No. 17: Controls Over Equipment Inventory Should Be Improved

Observation:

The Office of Information Technology (OIT) has neither implemented standard State equipment policies and procedures nor implemented alternative policies and procedures for equipment under its control.

At March 31, 2006, OIT reported \$7.3 million of capital equipment valued at original cost. Capital equipment is equipment with original cost of \$10,000 or more. As noted in Observation No. 23, OIT does not report equipment controlled by OIT but owned by other State agencies.

Examples of issues related to OIT's equipment control and reporting included:

1. A single OIT employee is primarily responsible for essentially all equipment accounting and reporting processes, creating a lack of segregation of duties and increasing the risk that errors or fraud may occur and go undetected. There was no evidence of review and approval of the fiscal year 2005 P-16, *Equipment Inventory*, submitted to the Department of Administrative Services (DAS).
2. OIT does not complete some State equipment reporting forms. OIT does not utilize the form P-21, *Monthly Equipment Adjustment Report*, to report monthly equipment inventory activity to DAS. OIT reportedly does not consistently complete the form P-11, *Declaration of Surplus Property*, at the time of the equipment disposal, increasing the risk that the form will not be completed and used to control the appropriate disposal of equipment. OIT did complete P-11 forms for the three capital equipment items reported as surplused during the nine months ended March 31, 2006.
3. OIT's method of conducting its physical inventory is likely to result in an incomplete inventory. OIT performs the inventory observation by locating equipment items included on its inventory records. Performing an inventory using the records as a source increases the risk that items incorrectly omitted from the source records will not be detected and the records corrected.
4. OIT does not consistently record equipment in inventory when the equipment is received. Often, equipment is not added to the inventory records until a later date. This issue, combined with the method of performing the physical inventory noted above, results in an increased risk that the inventory listing is incomplete. One of four capital equipment items (equipment with an initial cost of \$10,000 or more) selected for audit testing (25%) did not have a State equipment identification tag attached and was not included on the OIT inventory listing.
5. OIT has not established any OIT-specific policies and procedures for OIT owned and controlled equipment. For example, there are no policies and procedures related to securing laptop computers and data.
6. Testing revealed that nine of 18 (50%) selected capital equipment items listed on the OIT inventory could not be located, and documentation was not available to support the cost of an

additional eight items of the 18 (44%). The one item for which documentation was available was purchased during the nine months ended March 31, 2006.

7. As of March 31, 2006, OIT reported 59 items of capital equipment with an original cost of \$7.3 million. The capital equipment items reported by OIT were, as a group, approximately 80% depreciated. This extent of depreciation suggests a significant portion of the State's critical IT equipment may be nearing the end of its useful life.

Issues related to the lack of controls and associated records resulted in a lack of auditable documentation for equipment items below the State's capitalization threshold of \$10,000.

While OIT management recognizes these equipment control weaknesses in its operations, OIT reported it has not seen it efficient and effective to utilize its limited staff to address these equipment issues to date.

Recommendation:

OIT should improve its equipment controls. Significant equipment accounting and reporting responsibilities should be properly segregated and all equipment transactions should be recorded in the accounting records (including inventory records) as they occur.

OIT should establish written procedures for all duties and responsibilities involved in the proper accounting and reporting of equipment inventory.

Inventory observations should be performed in a manner that reduces to an acceptable level the risk that the procedures will not account for all State-owned and controlled equipment.

Auditee Response: Concur

Item 17. It is anticipated that the existing NH FIRST project, i.e. Lawson ERP system implementation [new computerized State accounting and payroll system], will provide improved processes and controls for equipment inventory. OIT will utilize the best practice inventory processes that will be defined. This functionality will be implemented during Phase II of the NH FIRST project, to be completed no later than September 2008, as outlined on SUNSPOT [State intranet].

Defining a process "outside of the NH FIRST Project" would result in the potential restructure of these processes once the NH FIRST project is implemented.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	OIT has requested two positions to perform asset management in the FY08-09 budget.	6/2006

2.	Initiate the draft definition of standard inventory controls; and policies and processes in preparation for the NH FIRST project inventory process review(s).	4/2007
3.	Participate in the NH FIRST project and take part in the review and definition of standard inventory controls, policies, and processes.	4/2007 – 9/2008
4.	Pending budget approval of two asset management positions, implement preliminary standard policies and processes within the scope of direction in which the NH FIRST project is progressing.	12/2007
5.	Adopt and implement inventory processes and written procedures defined for the NH FIRST project.	9/2008

State Compliance Comments

Observation No. 18: Statutorily Required Reports Should Be Prepared And Submitted

Observation:

The Office of Information Technology (OIT) did not prepare and submit several statutorily required reports during the nine months ended March 31, 2006.

1. In accordance with RSA 4-D:3, II, OIT is required to submit a cost savings report to the Fiscal Committee, every 60 days, until reorganization is complete and the projected costs savings have been realized.
 - No reports required by RSA 4-D:3, II were submitted during the nine month audit period. In lieu of these reports, OIT submitted reports in response to a budget footnote (Chapter 176:19, Laws of 2005) requiring budget reductions. While previous reports had been submitted as required by RSA 4-D:3, II, there was no indication that any of the reports were a final report, and no indication that reorganization was complete and the projected cost savings had been realized.
2. In accordance with RSA 4-D:7, III, OIT is required to submit a bi-monthly report to the Legislative Oversight Committee.
 - No reports required by RSA 4-D:7, III were submitted during the nine month audit period. OIT explained that reports were not submitted, as the Legislative Oversight Committee had not held an organizational meeting during the period, resulting in the lack of a committee to report to.
3. In accordance with RSA 20:6, 7, OIT is required to submit a biennial report to the Governor and Executive Council by October 1 of each odd numbered year.
 - The October 1, 2005 biennial report required by RSA 20:6, 7 was not submitted by OIT. OIT apparently was unaware of the requirement to file this report.

Recommendation:

OIT should prepare and submit statutorily required reports. If OIT considers statutorily required reports to be no longer necessary, OIT should request a change in statute or relief from the reporting requirement from the responsible body as appropriate.

Auditee Response: Concur

- Item 18(1).** OIT should prepare and submit statutorily required reports. Per RSA 4-D:3, II, OIT is required to submit a cost savings report to Fiscal Committee, every 60 days, until reorganization is complete and the project cost savings have been realized.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	OIT will seek legislative clarification of RSA 4-D:3, II.	01/2007
2.	Targeted month for the legislative clarification of RSA 4-D:3, II to be received.	06/2007

- Item 18(2).** OIT should prepare and submit statutorily required reports. Per RSA 4-D:7, III, OIT is required to submit a bi-monthly report to the Legislative Oversight Committee.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	Responsibility for bi-monthly reports to the Legislative Oversight Committee will be assigned.	12/31/2006
2.	A schedule for ongoing Legislative Oversight Committee bi-monthly reports will be created and managed.	01/31/2007
3.	The first bi-monthly report to the Legislative Oversight Committee will be submitted.	02/28/2007

- Item 18(3).** OIT should prepare and submit statutorily required reports. Per RSA 20:6, 7, OIT is required to submit a biennial report to the Governor and Executive Council by October 1 of each odd numbered year.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	OIT will assign the responsibility for meeting the biennial report requirement.	04/01/2007
2.	OIT will submit the biennial report required by RSA 20:6, 7.	10/01/2007

Observation No. 19: Administrative Rules Should Be Adopted

Observation:

The Office of Information Technology (OIT) has not adopted administrative rules in accordance with RSA 541-A.

Per RSA 541-A:16, I, each agency shall adopt as a rule a description of its organization, stating the general course and method of its operations and the methods by which the public may obtain

information or make submissions or requests. Each agency shall also adopt procedural rules and rules relating to rulemaking petitions and declaratory rulings. OIT has not adopted the rule required by RSA 541-A:16, I.

OIT was reportedly not aware of the statutory requirement to file the rule. There are no statutory requirements to adopt administrative rules that are specific to OIT.

Recommendation:

OIT should adopt the required administrative rule as soon as practical.

Auditee Response: Concur

Item 19. OIT should adopt the administrative rule required in RSA 541-A:16, I.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	OIT will research the administrative rule requirement and review administrative rules filed by other State agencies.	12/2006
2.	OIT's rulemaking process will commence.	01/2007
3.	Targeted month for adoption of OIT's administrative rule(s).	05/2007
4.	OIT will assign responsibility and create a plan for periodic review and update of administrative rules.	05/2007

Observation No. 20: Statements Of Financial Interest Should Be Filed

Observation:

The Office of Information Technology (OIT) did not have a process established during the nine months ended March 31, 2006 to ensure that all Information Technology Council (IT Council) members filed a Statement of Financial Interest with the Secretary of State in accordance with RSA 21-G:5-a.

RSA 4-D:4 established the IT Council to advise the Chief Information Officer. Seven members of the 11-member IT Council (64%) did not file a Statement of Financial Interest with the Secretary of State as of July 1, 2005 in accordance with RSA 21-G:5-a, yet these members were allowed to enter into or continue their duties as members of the IT Council during the nine months ended March 31, 2006. While four of the members did file a Statement of Financial Interest, only two of them were filed by the July 1 deadline, and none of them indicated on the form that they were members of the IT Council.

Recommendation:

OIT should establish a process to ensure that all members of every OIT-related board, commission, advisory committee, board of directors, and authority, whether regulatory or administrative, file statutorily mandated statements. While RSA 21-G:5-a was repealed effective June 2, 2006, OIT should ensure that any other statutes requiring periodic filing, such as the newly reenacted RSA 15-A, also effective June 2, 2006, are communicated to all persons required to file due to their association with OIT.

Auditee Response: Concur

Item 20. OIT should establish a process to ensure that all members of every OIT-related board, commission, advisory committee, board of directors, and authority, whether regulatory or administrative, file statutorily mandated statements. Although RSA 21-G:5-a was repealed effective June 2, 2006, the newly reenacted RSA 15-A needs to be addressed.

Response for this Item: Concur

Step	Action	Expected Date of Implementation
1.	OIT will notify IT Council members in writing that a Statement of Financial Interest must be filed for each member.	11/30/2006
2.	OIT will discuss the Statement of Financial Interest filing requirement at the IT Council meeting.	12/2006
3.	IT Council members will file a Statement of Financial Interest by the RSA 15-A deadline.	01/2007
4.	OIT will establish a process and accountability for fulfilling the ongoing requirements of RSA 15-A.	01/2007

Auditor's Report On Management Issues

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the governmental activities and each fund of the New Hampshire Office of Information Technology for the nine months ended March 31, 2006, as listed in the table of contents, and have issued our report thereon dated October 27, 2006, which was qualified with respect to the lack of presentation of the financial position of the Office of Information Technology in the government-wide and governmental fund financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Office of Information Technology for the nine months ended March 31, 2006, we noted issues related to the operation of the Office of Information Technology 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, contracts, and grant agreements.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable condition or noncompliance are included in Observations No. 21 through No. 23 of this report.

This auditor's report on management issues is intended solely for the information of the management of the Office of Information Technology 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

October 27, 2006

Management Issues Comments

Observation No. 21: All Executive Branch Agencies Should Be Provided Service

Observation:

There is an apparent operational conflict between RSA 4-D:2, which directs the Office of Information Technology (OIT) to provide service to all executive branch agencies, and OIT's implementation of budget footnote I, which requires OIT to recover budgeted estimated revenue.

1. According to RSA 4-D:2, I, OIT is responsible for “[p]roviding technical information technology consultation to **all** executive branch agencies and to any other agency that requests it, including technical advice during the development or acquisition of information systems.” [Emphasis added.]
2. According to budget footnote I, if OIT's estimated revenue is less than budgeted, OIT's total appropriation shall be reduced by the amount of the shortfall in either actual or projected budgeted revenue.

OIT does not routinely provide service to non-partner agencies if there is a question of whether the user agency has sufficient funding to pay for the cost of the services. In order for non-partner agencies to receive services, OIT's Chief Information Officer (agency head) must approve providing the service.

OIT's cost recovery model requires an agency to have sufficient appropriations for information technology (IT) costs, for OIT to provide services. Otherwise, in OIT's model, expenditures could not be recovered from the agency and, according to the budget footnote, OIT would have to reduce its appropriations. As a result, OIT informs agencies requesting IT services who do not have apparent and sufficient IT appropriations that services will be provided for emergency repairs only, any services must be approved by the Chief Information Officer, and services may take a month or more to complete.

As part of the establishment of OIT, IT staff and related appropriations from various agencies were transferred to OIT, and those agencies generally have a sufficient budget established to reimburse OIT for IT service costs. Those agencies, generally referred to as partner agencies, receive services and support from OIT, and reimburse OIT for expenditures made on their behalf. Agencies that did not formerly have their own IT person or budget may not have sufficient budgeted appropriations for IT costs, and therefore may not receive OIT services upon request.

While OIT's implementation of the budget footnote may appear to contradict the statute, OIT should not automatically assume that agencies are unable to pay for IT services because the agencies did not originally budget for such service as a partner agency.

Recommendation:

OIT should review its current operating procedures related to providing services to non-partner agencies to determine whether the current procedures of providing services based on the ability to pay most effectively serves the State and its agencies. OIT may want to seek legislative clarification as to whether its practice of making service availability decisions based on budgetary restrictions rather than on an agency's need for service is as intended by policymakers.

As provided by statute, OIT should provide technical IT consultation to all executive branch agencies that require it in order to provide efficient and effective services on behalf of the State. Consideration should be given to the creation of a reserve within OIT for unanticipated IT costs, which could be used to provide services to non-partner agencies as well as fund unanticipated needs of the partner agencies.

Auditee Response: Concur

Item 21. All Executive Branch Agencies Should Be Provided Service

Response: Concur

- OIT has prepared a “Small Agency Support Recommendation” report for presentation to the Legislative Oversight Committee (RSA 4-D:7) pursuant to Chapter 177:188 laws of 2005. The plan will be presented to the Oversight Committee in January 2007.
- OIT submitted a budget change request for four positions to meet the objectives outlined in the “Small Agency Support Recommendation” report.
- During the budget hearings for the 2008-2009 biennium, OIT will seek legislative support for the four positions and funding requested in the change budget.

Observation No. 22: All IT Activity Should Be Considered For Transfer To OIT

Observation:

At March 31, 2006, some State information technology (IT) responsibilities and related financial accounts remained outside of the purview of the Office of Information Technology (OIT). It is unclear whether the exclusion of these responsibilities and accounts from OIT responsibility was deliberate or an oversight.

According to Chapter 223:16 of the Laws of 2003, personnel and activity under the Director of Information Technology Management in the Department of Administrative Services (DAS) shall be transferred to OIT, subject to the approval of the Joint Legislative Fiscal Committee. Additionally, resources and activity in any amount or subdivision of any agency or department may be transferred to OIT with the prior approval of the Joint Legislative Fiscal Committee.

At March 31, 2006, the following IT related activity and accounts remained under the control of DAS:

- Portions of a capital appropriation made to DAS in 2001 for IT projects remain available. A portion of these funds was used to create the Venture Fund, reportedly for use by agencies for IT infrastructure. As of the end of fiscal year 2006, over \$300,000 remained available in these accounts.
- DAS revolving fund for e-government activities. DAS is authorized to assess a fair and equitable charge to agencies for e-business services, which are to be used during the biennium to fund the revolving account. As of the end of fiscal year 2006, over \$400,000 was available in this account.
- RSA 21-I:37 names DAS as the agency responsible for approvals related to the utilization of data maintained in automated data processing facilities and equipment paid for by Federal funds.

Because certain IT responsibilities are shared between OIT and DAS, accountability for the responsibilities can become obscured. If the responsibilities for IT infrastructure and e-business services rests with OIT, accounts funding the responsibilities should also be under OIT's control.

Recommendation:

OIT should further clarify the scope of its responsibility for State IT functions.

OIT should work with DAS to determine whether these, and potentially other, State IT responsibilities and sources of IT funding and activity would be more appropriately controlled and accounted for by OIT. If so, OIT should seek the appropriate approvals to effect a transfer of those activities. If consensus cannot be arrived at, OIT should seek legislative guidance on the scope of its responsibilities.

Auditee Response: Concur

Item 22. All IT Activity Should Be Considered For Transfer to OIT

Response: Concur

- OIT agrees that it should work with DAS and the IT Legislative Oversight Committee to continue to clarify the scope of its responsibility for State IT functions.
- OIT agrees that it should work with DAS and the IT Legislative Oversight Committee to continue progress toward clarifying those IT responsibilities and sources of IT funding and activity that are most appropriately controlled by OIT.

Observation No. 23: Ownership Of Equipment In Use By OIT Should Be Reconsidered

Observation:

The Office of Information Technology (OIT) has possession and use of equipment owned and reported by other State agencies in accordance with Department of Administrative Services (DAS) guidance. Some of this equipment was purchased with federal funding assistance. OIT is not necessarily knowledgeable about any restrictions or requirements, if any, that may be placed on the equipment by Federal grantor agencies, increasing the risk of noncompliance. Also, OIT performs the annual inventory observation of this equipment, contrary to the guidance provided by DAS. Separating the responsibility and oversight of ownership from use and control of the equipment increases the risk that the equipment may be misappropriated without detection, or may not be used as intended by the owner.

DAS guidance provides that, in general, the ownership and inventory and reporting responsibility for equipment used by OIT but purchased prior to fiscal year 2005 remains with the agency that originally purchased the equipment. The exception is equipment previously under the DAS Data Center (ASDC), which was transferred to OIT for accounting and reporting purposes.

Recommendation:

OIT should review and consider the special control implications of having physical control and inventory responsibility for equipment that it does not own. This review should include discussions with the agencies that own the equipment to ensure that all relevant aspects, including federal or other funding organization requirements, are considered. If appropriate, OIT should recommend the equipment be transferred to OIT to promote efficient and effective State information technology operations, including allowing for a more efficient control structure over that equipment.

Auditee Response: Concur in Part

Item 23. Ownership Of Equipment In Use By OIT Should Be Reconsidered

Response: Concur in Part

- OIT concurs that ownership of new equipment acquisitions should be reviewed to ensure they are appropriately recorded, tracked, and depreciated. It is anticipated that the existing NH FIRST project will provide improved processes and controls for equipment inventory. OIT will use the best practice inventory processes that will be defined.
- OIT does not concur with reconsidering the transfer of existing equipment from source agencies to OIT. OIT recognizes that there are control issues with using equipment that is owned by another agency. However, the control issues are limited to two buildings and with each passing year become less significant due to depreciation of the assets and replacement of aging equipment. It is OIT's belief that the costs of transferring the equipment to OIT from the agencies will far outweigh any benefit derived.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying financial statements of the governmental activities and each fund of the New Hampshire Office of Information Technology for the nine months ended March 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Office of Information Technology's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 opinions.

As discussed in Note 1, the financial statements referred to above are not intended to present the financial position of the Office of Information Technology in the government-wide or fund financial statements.

As discussed in Note 1, the financial statements of the Office of Information Technology are intended to present certain financial activity of only that portion of the governmental activities of the State that is attributable to the transactions of the Office of Information Technology. They do not purport to, and do not, present fairly the financial position of the State of New Hampshire as of March 31, 2006 and the changes in its financial position for the nine months ended March 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matter discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the governmental activities and each fund of the Office of Information Technology for the nine months ended March 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The Office of Information Technology has not presented the management discussion and analysis that the Government Accounting Standards Board has deemed necessary to supplement, although not required to be part of, the basic financial statements.

The Budget to Actual (Non-GAAP Budgetary Basis) Schedule on page 60 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2006 on our consideration of the Office of Information Technology's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, grant agreements, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office Of Legislative Budget Assistant
Office Of Legislative Budget Assistant

October 27, 2006

**STATE OF NEW HAMPSHIRE
OFFICE OF INFORMATION TECHNOLOGY**

**STATEMENT OF ACTIVITIES
FOR THE NINE MONTHS ENDED MARCH 31, 2006**

	<u>Program Revenues</u>	<u>Charges For</u>	<u>Net (Expenses)</u>
	<u>Expenses</u>	<u>Services</u>	<u>Revenues And Change In Net Assets</u>
<u>Governmental Activities</u>			
General Government			
<i>Office Of Information Technology</i>	\$ 36,634,588	\$ 36,634,588	\$ -0-
Total Governmental Activities	<u>\$ 36,634,588</u>	<u>\$ 36,634,588</u>	<u>-0-</u>
<u>General Revenues</u>			
Total General Revenues			<u>-0-</u>
Change In Net Assets			<u>\$ -0-</u>

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

**STATE OF NEW HAMPSHIRE
OFFICE OF INFORMATION TECHNOLOGY**

**STATEMENT OF REVENUES AND EXPENDITURES
GOVERNMENTAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2006**

	<u>General Fund</u>
Revenues	
Agency Software Division	\$ 13,874,683
Operations Division	8,050,799
Office Of The Chief Information Officer	6,554,448
Technical Support Services Division	6,380,809
Web Services Division	915,426
Other	<u>49,575</u>
Total Revenues	<u>35,825,740</u>
Expenditures	
Agency Software Division	15,073,366
Operations Division	8,306,409
Technical Support Services Division	6,900,408
Office Of The Chief Information Officer	4,916,785
Web Services Division	901,943
Other	<u>21,469</u>
Total Expenditures	<u>36,120,380</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>(294,640)</u>
Other Financing Sources (Uses)	
Net Appropriations	<u>-0-</u>
Total Other Financing Sources (Uses)	<u>-0-</u>
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	<u>\$ (294,640)</u>

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

**STATE OF NEW HAMPSHIRE
OFFICE OF INFORMATION TECHNOLOGY**

**RECONCILIATION OF THE STATEMENT OF REVENUES
AND EXPENDITURES - GOVERNMENTAL FUND - TO THE
STATEMENT OF ACTIVITIES
FOR THE NINE MONTHS ENDED MARCH 31, 2006**

Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	\$ (294,640)
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Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because (See Note 1-C):

Some Expenses Reported In The Statement Of Activities Do Not Require The Use Of Current Financial Resources And Therefore Are Not Reported As Expenditures In The Governmental Fund:

Changes In Compensated Absences And Workers Compensation	(438,761)
Interest Expense Related To Capital Lease Obligation	(44,819)

Revenues Reported On The Statement Of Activities That Do Not Meet The Criteria For Available Under Modified Accrual Are Not Reported As Revenues In The Governmental Fund (See Note 1-E) 939,211

Governmental Funds Report Capital Outlays As Expenditures. However, In The Statement Of Activities, The Cost Of Those Assets Is Allocated Over Their Estimated Useful Lives As Depreciation Expense. This Is The Amount By Which Depreciation Exceeded Capital Outlays In The Current Period: (See Note 2)

Capital Equipment	<u>(160,991)</u>
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Change In Net Assets Of Governmental Activities	\$ <u>-0-</u>
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The accompanying notes are an integral part of this financial statement.

**STATE OF NEW HAMPSHIRE
OFFICE OF INFORMATION TECHNOLOGY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Office of Information Technology have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The Office of Information Technology is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report the financial activity of the Office of Information Technology.

The financial activity of the Office of Information Technology is accounted for and reported in the State's General Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Office of Information Technology, as a department of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Office of Information Technology cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position or change in fund balance of the Office of Information Technology in the General Fund.

B. Government-Wide And Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities reports information on the financial activities of the Office of Information Technology. As none of the Office of Information Technology's activities are business-type, the activities reported in the Statement are all governmental. Business-type activities rely significantly on fees and charges for support. Governmental activities are normally supported through taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not meeting the definition of program revenues, including resources that are

dedicated internally, are reported as general revenues. Certain indirect costs are included in program expenses reported for individual functions.

Fund Financial Statements

Separate financial statements are provided for governmental funds. The General Fund is reported in the fund financial statement.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the State generally considers non-grant revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues that the State earns by incurring obligations are recognized in the same period the obligations are recognized. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

D. Financial Statement Presentation

The State of New Hampshire and the Office of Information Technology use funds 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. The Office of Information Technology reports its financial activity in the fund described below:

Governmental Fund Types:

General Fund: The General Fund accounts for all financial transactions not specifically accounted for in any other fund. All revenues of governmental funds, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

E. Revenues And Receivables

Revenues consist primarily of payments from user agencies for information-technology related goods and services provided to those other State agencies. In the government-wide financial statements revenues include receivables representing amounts due to the Office of Information

Technology at March 31, 2006 which will be collected sometime in the future. In the governmental fund financial statements, revenues recognized from receivables at March 31, 2006 are limited by availability criteria to those amounts, regardless of whether they have been invoiced, that could be collected by the Office of Information Technology within 60 days after period-end.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported by the State in its CAFR in the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The Office of Information Technology's capital assets are reported in Note 2.

Equipment is capitalized when the cost of the individual items exceeds \$10,000 and all other capital assets are capitalized when the cost of the individual items or projects exceeds \$100,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation expense is recognized in the government-wide financial statements. Capital assets are depreciated using the straight-line method over the following useful lives:

Equipment	5 years
Computer Software	5 years
Building Improvements	20 years
Buildings	40 years
Infrastructure	50 years

G. Revenues And Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are listed by activity type (governmental or business-type). Additionally, revenues are classified between program and general revenues. The Office of Information Technology's program revenues include charges for services provided. In general, resources not dedicated to a program, as well as resources that are internally dedicated, are reported as general revenues rather than program revenues. The Office of Information Technology's Statement of Activities reports no general revenues during the period.

In the governmental fund financial statements, revenues and expenditures are reported by function. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted". General-purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction, available for only specified purposes. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first.

H. Interfund And Intra-Agency Transactions

As a general rule, the effect of interfund and intra-agency activity is eliminated from the government-wide statements, with the exception of activities between funds that are reported in different functional categories of governmental activities. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

I. Budget Control And Reporting

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 a separate budget 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 that 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 fund types with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparison schedule in the State of New Hampshire CAFR.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests to meet expenditures during the current biennium. 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.

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 legally defined as non-lapsing, which means the balances are reported as reservation of fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and

the expenditure and liability are recorded. The Office of Information Technology's unliquidated encumbrance balance in the General Fund at March 31, 2006 was \$6,223,010.

A Budget To Actual (Non-GAAP Budgetary Basis) Schedule - General Fund is included as required supplementary information.

NOTE 2 - CAPITAL ASSETS AND OTHER EQUIPMENT

In addition to capital assets, the Office of Information Technology also accounts for equipment and other assets with an original cost between \$100 and \$10,000. While only capital assets are reported on the Office of Information Technology's financial statements, State policies require departments to inventory all assets with an original cost of \$100 or more and a useful life of greater than one year for accountability purposes.

Capital asset activity for the nine months ended March 31, 2006 was as follows.

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Transfers /</u> <u>Deletions</u>	<u>Balance</u> <u>March 31, 2006</u>
Capital Assets:				
Capital Equipment	\$ 7,278,044	\$ 94,711	\$ 71,748	\$ 7,301,007
Total Capital Assets	<u>7,278,044</u>	<u>94,711</u>	<u>71,748</u>	<u>7,301,007</u>
Less Accumulated Depreciation For:				
Capital Equipment	6,621,719	255,702	71,748	6,805,673
Total Accumulated Depreciation	<u>6,621,719</u>	<u>255,702</u>	<u>71,748</u>	<u>6,805,673</u>
Capital Assets, Net	<u>\$ 656,325</u>	<u>\$ (160,991)</u>	<u>\$ -0-</u>	<u>\$ 495,334</u>

NOTE 3 - CAPITAL LEASE COMMITMENT

The Office of Information Technology has entered into a lease agreement as lessee for office space. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments. The future minimum lease payments and the net present value of those payments at March 31, 2006, are as follows:

<u>Payable</u>	<u>Governmental Activities</u>
March 31, 2006	\$ 94,839
June 30, 2006	379,357
June 30, 2007	379,357
June 30, 2008	<u>94,839</u>
Total	<u>948,392</u>
Amount Representing Interest	<u>(149,397)</u>
Present Value Of Minimum Lease Payments	<u>798,995</u>

NOTE 4 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The Office of Information Technology, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan and covers the majority of full-time employees of the Office of Information Technology. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of AFC multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. Members in service with ten or more years of creditable service who are between ages 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

All covered Office of Information Technology employees are members of Group I.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the nine months ended March 31, 2006, Group I members were required to contribute 5% and group II members were required to contribute 9.3% of gross earnings. The State funds 100% of the employer cost for all of the Office of Information Technology's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Office of Information Technology's payments for normal contributions for the nine months ended March 31, 2006 amounted to 5.9% of the covered payroll for its group I employees. The Office's normal contributions for the nine months ended March 31, 2006 were \$1,012,305.

A special account was established by RSA 100-A:16, II (h) for additional benefits. The account is credited with all the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus $\frac{1}{2}$ of 1%.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 54 Regional Drive, Concord, NH 03301 or from their web site at <http://www.nh.gov/retirement>.

Health Insurance For Retired Employees

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees who were hired on or before June 30, 2003 may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee Benefit Risk Management Fund, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these benefits on a pay-as-you-go basis by paying actuarially determined contributions into the fund. The New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees also contributes to the fund.

The cost of the health benefits for the Office of Information Technology's retired employees and spouses is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Accordingly, the cost of health benefits for retired Office of Information Technology employees and spouses is not included in the Office of Information Technology's financial statements.

**STATE OF NEW HAMPSHIRE
OFFICE OF INFORMATION TECHNOLOGY
REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2006**

	Budgeted Amounts		Actual Amounts		Favorable / (Unfavorable)
	Original	Final	(Budgetary Basis)	Variance - Final	
Revenues					
Agency Software Division	\$ 28,302,787	\$ 28,327,941	\$ 10,417,477	\$ (17,910,464)	
Operations Division	18,153,355	17,977,416	6,606,680	(11,370,736)	
Technical Support Services Division	14,290,531	14,382,274	4,123,310	(10,258,964)	
Office Of The Chief Information Officer	4,379,527	4,331,742	797,824	(3,533,918)	
Web Services Division	1,493,278	1,524,410	526,274	(998,136)	
Other	-0-	15,381	41,813	26,432	
Total Revenues	66,619,478	66,559,164	22,513,378	(44,045,786)	
Expenditures					
Agency Software Division	27,584,457	27,617,611	17,330,755	10,286,856	
Operations Division	11,808,966	11,638,027	9,821,550	1,816,477	
Technical Support Services Division	10,309,338	10,388,081	6,720,551	3,667,530	
Office Of The Chief Information Officer	4,359,527	4,311,742	899,546	3,412,196	
Web Services Division	1,493,278	1,524,410	908,334	616,076	
Other	-0-	15,381	18,175	(2,794)	
Total Expenditures By Division	55,555,566	55,495,252	35,698,911	19,796,341	
Capital Outlays	11,063,912	11,063,912	2,307,039	8,756,873	
Total Expenditure s	66,619,478	66,559,164	38,005,950	28,553,214	
Excess (Deficiency) Of Revenues Over (Under) Expenditure s	\$ -0-	\$ -0-	\$ (15,492,572)	\$ (15,492,572)	

The accompanying note is an integral part of this schedule.

Note To The Required Supplementary Information - Budgetary Reporting For The Nine Months Ended March 31, 2006

The Office of Information Technology's biennial budget is prepared principally on a modified cash basis and adopted for governmental and proprietary funds. The "actual" results column of the Budget To Actual Schedule is presented on a "budgetary basis" to provide a meaningful comparison to budget.

The budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances. For reporting purposes, the original budget is equal to the initial operating budget plus any balances brought forward, additional appropriations, and other legally authorized legislative and executive changes made before the beginning of the fiscal year. The final budgeted amount includes the original budget plus supplemental appropriation warrants and transfers made throughout the fiscal year.

The variance column on the Budget To Actual Schedule highlights differences between the final budget and actual revenue and expenditures. For revenue, a favorable variance is caused by actual revenue exceeding budget. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year. For interim period financial statements, the variance is largely due to comparison of an annual budget amount with actual financial activity of a partial year.

Budgetary vs GAAP basis

Because the budget is prepared on a budgetary basis and not in accordance with generally accepted accounting principles (GAAP), there are differences in the revenue and expenditure amounts reported in the Statement of Revenues and Expenditures and the Budget To Actual Schedule. The major differences between the budgetary basis and the GAAP basis are:

1. Expenditures are recorded when cash is paid or committed (budgetary), rather than when the obligation is incurred (GAAP). In addition, revenue based on these accruals is adjusted on a GAAP basis only.
2. On a GAAP basis, major intra-agency transactions are eliminated in order to not double count revenues and expenditures reported in the Office of Information Technology's financial statements.

The following schedule reconciles the differences between budgetary accounting methods and the GAAP basis accounting principles for the nine months ended March 31, 2006.

**RECONCILIATION OF BUDGETARY TO GAAP
FOR THE NINE MONTHS ENDED MARCH 31, 2006**

Excess (Deficiency) Of Revenues

Over (Under) Expenditures (Budgetary Basis) **\$ (15,492,572)**

Adjustments And Reclassifications:

To Record Accounts Receivable	15,524,415
To Record Net Accrued Salaries And Benefits	
And Other Accounts Payable	<u>(326,483)</u>

Excess (Deficiency) Of Revenues

Over (Under) Expenditures (GAAP) **\$ (294,640)**