

**JOINT LEGISLATIVE FISCAL COMMITTEE**

Legislative Office Building, Rooms 210-211

Concord, NH

Friday, March 8, 2019

**MEMBERS PRESENT:**

Rep. Mary Jane Wallner, Chair

Rep. Ken Weyler

Rep. Susan Ford

Rep. Lynne Ober

Rep. Peter Leishman

Rep. Patricia Lovejoy (Alt.)

Sen. Lou D'Allesandro

Sen. President Donna Soucy

Sen. Dan Feltes

Sen. Cindy Rosenwald

Sen. Chuck Morse

(The meeting convened at 10:04 a.m.)

MARY JANE WALLNER, State Representative, Merrimack County, District #10: Good morning and welcome to the March Fiscal Committee. And before we get started, I'd like to recognize Stephen Smith and Mike Kane from Legislative Budget Assistant, and I think they want to recognize someone who's been of great service to our state.

MICHAEL KANE, Legislative Budget Assistant, Office of Legislative Budget Assistant: Sure. There's two Pams over there. Sorry about that.

So, for the record, Mike Kane, the Legislative Budget Assistant. With me is Steve Smith, Director of Audits, and we have Pam Veeder, who's our -- one of our best auditors. Pam has been working with the LBA Office for 30 years. She's probably one of the most kindest, funniest, and you know, most intelligent auditors that we have that we are sad to see her go. But Pam just working with the staff and a lot of staff over the years is going to leave an impact for many years. And so I'm going to pass it over to Steve so I don't embarrass Pam too

much, so.

STEPHEN SMITH, Director, Audit Division, Office of Legislative Budget Assistant: Thank you, Mike. Again, for the record, Steve Smith, Director of Audits. Yeah, as Mike stated, 30 years of service. She started with us back in February of 1989. She began as a staff auditor and over the years worked her way up to Senior Audit Manager. And after 30 years with the Audit Division Pam will be retiring at the end of this month. So we wanted to take this opportunity to acknowledge her publicly here before the Committee.

Over the years Pam has done, as you can imagine, many areas of State Government, and various agencies and departments, and as well as supporting significant elements of the State CAFR and single audits working with KPMG, and Ernst & Young many years ago. And as many of you are aware, she's presented many reports before you in this Committee over that period of time.

So on behalf of the Audit Division, I would like to publicly acknowledge Pam's 30 years of dedicated service to the State of New Hampshire. She'll be missed and -- but we're excited for this next chapter of her life and wish her well.

(Applause.)

PAM VEEDER, MBA, CPA, Senior Audit Manager, Audit Division, Office of Legislative Budget Assistant: I just want to say thank you very much. I really appreciate this. And I am proud and honored to have worked for the State of New Hampshire for this many years. And I am surely glad that I had the opportunity to do it, worked with some wonderful folks, and I'll take a lot of good memories with me. So thank you so much.

CHAIRWOMAN WALLNER: Thank you. Thank you for your service. We really appreciate it.

MS. VEEDER: Thank you.

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**

(1) **Acceptance of Minutes of the February 8, 2019 meeting**

CHAIRWOMAN WALLNER: Thank you. Okay. So let's get started. The first thing on our agenda today is the acceptance of the minutes of the February 8<sup>th</sup> meeting. Do I have a motion?

\*\* LOU D'ALLESANDRO, State Senator, Senate District #20: Move the minutes.

KEN WEYLER, State Representative, Rockingham County, District #13: Second.

CHAIRWOMAN WALLNER: Senator D'Allesandro moved to accept the minutes and Representative Weyler seconded. All in favor? Any opposed?

\*\*\* {MOTION ADOPTED}

(2) **Old Business**:

CHAIRWOMAN WALLNER: There is no Old Business.

**CONSENT CALENDAR**

(3) **RSA 9:16-a, Transfers Authorized**:

CHAIRWOMAN WALLNER: Let's now go to Tab 3 in our book which is the first Consent Calendar. I have had no requests to take anything off Consent. Has anyone changed their mind since we met briefly? I recognize Representative Leishman for a motion.

\*\* PETER LEISHMAN, State Representative, Hillsborough County, District #24: Thanks, Madam Chair. I'll move Item three. And I'd like to thank the Department, the rest area issue was, I think, as many of the folks at the Department and the Legislature knew was paramount and seeing 12 part-time rest areas open is just a great thing. So thank you very much. Thanks, Madam Chair.

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**

REP. WEYLER: Second.

CHAIRWOMAN WALLNER: Representative Leishman moves Consent Calendar and Representative Weyler seconds. Any discussion? All in favor? Any opposed? Seeing none. The motion passes.

\*\*\* {MOTION ADOPTED}

- (4) RSA 14:30-am VI Fiscal Committee Approval Required for Acceptance and Expenditure of Funds Over \$100,000 from Any Non-State Source:

CHAIRWOMAN WALLNER: We'll move on to Tab 4.

\*\* LYNNE OBER, State Representative, Hillsborough County, District #37: Move to approve.

CHAIRWOMAN WALLNER: And Representative Ober moves to approve Tab 4.

SEN. D'ALLESANDRO: Second.

SUSAN FORD, State Representative, Grafton County, District #03: Second.

CHAIRWOMAN WALLNER: And Senator D'Allesandro seconds. Any discussion? All in favor? Any opposed? Motion passes.

\*\*\* {MOTION ADOPTED}

- (5) RSA 14:30-a, VI Fiscal Committee Approval Required for Acceptance and Expenditure of Funds Over \$100,000 from Any Non-State Source and RSA 124:15 Positions Authorized:

CHAIRWOMAN WALLNER: Moving now to Tab 5. We are really moving along fast now. Amazing!

JOINT LEGISLATIVE FISCAL COMMITTEE

March 8, 2019

**\*\*** REP. OBER: Move to approve.

CHAIRWOMAN WALLNER: Tab 5.

REP. OBER: Yes, I move to approve.

CINDY ROSENWALD, State Senator, Senate District #13:  
Second.

CHAIRWOMAN WALLNER: Representative Ober moves to approve and Senator Rosenwald seconds. All in favor? Any opposed? Hearing none, the motion passes.

**\*\*\* {MOTION ADOPTED}**

**(6) RSA 106-H:9, I, (e) Funding: Fund Established:**

CHAIRWOMAN WALLNER: Moving on to Tab 6. This is a single item, Tab 6.

**\*\*** SEN. D'ALLESANDRO: Move to approve.

CHAIRWOMAN WALLNER: Senator D'Allesandro moves to approve.

REP. LEISHMAN: Second.

CHAIRWOMAN WALLNER: Representative Leishman seconds. Any opposed? All in favor? Motion passes.

**\*\*\* {MOTION ADOPTED}**

**(7) RSA 228:12 Transfers from Highway Surplus Account:**

CHAIRWOMAN WALLNER: On to Tab 7, which is a transfer from the Highway Surplus.

SEN. D'ALLESANDRO: Replacement item.

CHAIRWOMAN WALLNER: Oh, yes, I'm sorry. We have a replacement item, 19-065. Does everyone have that item? And do we have a motion?

\*\* REP. FORD: Move to approve.

REP. OBER: Second.

CHAIRWOMAN WALLNER: Senator Feltes.

DAN FELTES, State Senator, Senate District #15: Thank you very much, Madam Chair. I know that Senator Morse has a few questions about this, and he's on his way. So if we could hold it for a little bit, that be great.

CHAIRWOMAN WALLNER: Okay. If that meets with everyone's approval, we'll hold that until Senator Morse joins us and we'll move on to Tab 8.

**(8) RSA 227-G:5, I. (b) Forest Funds:**

\*\* SEN. D'ALLESANDRO: Move approval.

CHAIRWOMAN WALLNER: Senator D'Allesandro moves approval.

SEN. ROSENWALD: Second.

CHAIRWOMAN WALLNER: Senator Rosenwald seconds. Any discussion? All in favor? Any opposed? Motion passes.

\*\*\* {MOTION ADOPTED}

**(9) Miscellaneous:**

**10) Informational Materials:**

CHAIRWOMAN WALLNER: We are now ready to move into our Informational items. Is that the record for Fiscal Committee?

MR. KANE: Probably is.

REP. OBER: This may be a record.

CHAIRWOMAN WALLNER: We are moving to -- are there informational items that people would like to have come off? We are going to -- we will go back to Tab 7 when Senator Morse comes.

I do know that there is an organization in the audience, BFA, who would like to come up and talk about one of their Informational items, and we'll invite you up and tell us about your item.

DONNA SOUCY, State Senator and Senate President, Senate District #18: Madam Chair, I believe we have a special guest.

CHAIRWOMAN WALLNER: I see that. It was like yes.

SEN. PRESIDENT SOUCY: Mike, take a moment to say hello.

(U.S. Senator Jean Shaheen enters the Committee Room.)

CHAIRWOMAN WALLNER: Hello.

JEAN SHEEHAN, United States Senator, State of New Hampshire: I was in Concord. I just thought I would come by and wish you all well. Brings back memories; PTSD, but not too much. So I just wanted to come in and say hello. Nice to see you.

(Senator Shaheen greets the Committee.)

(Applause.)

CHAIRWOMAN WALLNER: Well, this was a big day, huh? Great. Welcome. And can you direct us to your materials? We had them. I believe they came in a little late so everybody should have them in their --

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**

REP. WEYLER: 19-070.

JAMES KEY-WALLACE, Executive Director, Business Finance Authority: Thank you, Madam Chair. Good morning. For the record, my name is James Key-Wallace. I'm the Executive Director of the Business Finance Authority here to talk today about the status report on last year's legislation to ask the BFA design a student loan forgiveness program at a pilot level for regenerative medicine companies here in the state.

So in that legislation it said, okay, BFA, this legislation has passed. We want you all to go and design and propose the way a program would work, and then bring your proposal to the Joint Fiscal Committee and get feedback. And then take that feedback, come back six months from now with a near final/final program design, get everyone's okay on it, and then we would roll it out.

At the same time, they also asked us in last year session to come up with creative ideas on how to fund a pilot level program, materials have an idea on that which I'm happy to talk about today. Before I get into the program design how it might work, I wanted just to take a moment to set some additional context. The BFA is aware that in the Governor's Budget proposal there is language and funding to expand a student loan forgiveness program in some ways built on the design that we're going to talk about today. That's really a separate proposal with separate legislation. That's not what these materials speak to and not what the status report is about today. This is really about what we were asked to do last year and bring, you know, to you all today. So, with that, I'll just sort of get into it.

So this is a \$5 million pilot level proposal. It's a workforce recruitment tool for companies who we're hoping will settle in New Hampshire in regenerative medicine space, mostly on the back of the ARMI initiatives spear-headed by Dean Kamen and others.

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**



So one of the things that we did to start off is say what are the student loan proposals and student loan forgiveness programs in other states already today.

So we did a survey of lots of different types of programs, federal, state, private, hybrids and said let's just pull the best pieces of each and try and work that into a design here in New Hampshire. And the way that this program works at a high level is if you were one of these regenerative medicine employers, you have to qualify per the statute. You register as an employer. There's a small fee, registration fee, you have to get in the game as an employer. Then your employees who do that type of work they're now eligible.

And so if one of those employees says I want to enroll in the student loan forgiveness program, they would call up the BFA who would establish a separate trust for the program. We would get documentation of all your student loans that you owe at the time, doesn't matter if they're four-year degrees, two-year degrees, as long as they're a, you know, higher education degree certificate of some kind, and the employer wants to hire you then, you know, you're in the program.

So we'd say what are your student debts? You would sign a contract with the Student Loan Forgiveness Trust that says I will work at one of these types of employers for five years, and that's in the statute.

So you'll work here for five years. There's, of course, usual customary breaks for things like maternity, military leave, you know, disability, all these different things that can disrupt someone's life. So flexibility in the program. So you agree you're going to work for five years. At the end of year one, we'd say what is your student loan balance at the moment? The Trust would pay down a portion of the principle of your student loans. So they do that through a temporary advance to that individual. We'd keep track of it. So now the student loans -- they owe less to the student loan companies. They keep making their payments along the way. Year two, they're still

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**

employed at one of these employers. We make another advance. Year three, year four, and then in year five that fifth advance will have paid off that individual's student debt entirely. And if they fulfilled the terms of the contract, those temporary advances from the Trust are forgiven. So it's now no longer on that individual's personal balance sheet, I guess, as they call it, and they're student debt free.

If they fail to complete the terms of the five years, just like every -- pretty much every other student loan program that you look around the country, they owe the money back over a period of time that's reasonable for them to repay it. They're no worse off because the money that's been advanced is the same that's been paid down student loan so it's a wash.

One advantage and the reason the program is structured this way of doing this where you're paying against their principle, it's like paying your mortgage off early, right? So if you keep making your regular mortgage payments but someone has made a big payment against your mortgage, your regular payment now doesn't just go to interest. As someone who had a lot of student debt I know this. You pay, and pay, and pay, and it feels like the debt never goes away because it's all going to interest. When the principle gets knocked down that same payment is now going to principle more so than interest. So your own payments begin to pay off your loans a lot faster. And so this cuts the, you know, total money out the door for these folks by just an enormous amount. We think it's a really good design.

So that's the bare bones of how it's proposed to work. There are the questions of how do you fund it? The legislation passed last year did not appropriate funds to fund the program; but they said, hey, James, can you come with some ideas? So we did -- we have an idea. This is not in the Governor's proposed budget or part of the conversation to date on the budget; but for the pilot level program, our proposal is just for you to consider is this.

So the BFA when it was incorporated in 1992 has \$20 million in State guarantee bonds, right? So that's existing debt that's out there already. That's money that's used to go and lend companies and do what we do with it. So that's on the BFA's books. It's also on the State's books since the State guaranteed debt. It's in the CAFR. It's contingent liability. If we were to take those bonds, which mature next year, actually, and move them from kind of this bucket at the BFA to this bucket in the State's General Bonding Obligations, it would do two things. It would improve the bond rating on that particular bond, because even though the State guarantees that bond, for some reason if it's one step away gets a lower bond rating. It's a mystery to the bond market I don't understand, which would improve their rate on the bond, the interest rate.

And so if we moved it from the BFA taking that same existing debt, it's not new debt, take it from the BFA to the State, it would save the BFA about half a million dollars a year in interest expense. So then we would be able to take the 5 million required, front it to the Trust, put it in there on BFA capital knowing that over the next ten years we would slowly rebuild that 5 million through the half million dollars interest savings each year. So it's a way to sort of more efficiently position existing debt and use interest savings to fund the program without having to do a direct appropriation. So it's a clever idea, we think. It's just one idea. We're open to other ideas as well.

CHAIRWOMAN WALLNER: Great. You open for some questions?

MR. KEY-WALLACE: Absolutely.

CHAIRWOMAN WALLNER: Okay. Representative Ober.

REP. OBER: Thank you, Madam Chairman. Unfortunately, we got this material at 9:32 this morning. We're meeting at 10 o'clock, so I don't think most of us have read it because we were in a meeting. That's an interesting proposal. Have we had it a little earlier I might have asked you if we could have the Treasurer

come talk to us because while that saves you interest, I don't know what that does to how much money they'll be able to bond in HB 25 because he watches that very carefully or how that might fall down on our communities who also look for that. And I would ask that we have a follow-up with the Treasurer at some point to discuss that, because it's an interesting proposal. It's worthy of discussion. I'd just like to get some financial details behind it to make sure that it's good for 100% of us, and I'm sure you don't mind having that investigation.

MR. KEY-WALLACE: I certainly don't. The Treasurer is on the Board of the Directors of the BFA. You know, I would never presume to speak for the Treasurer, have had discussions with this. My understanding is in order to make sure it doesn't count against a sort of responsible self-imposed bond cap of new bonds the State puts on itself each year, you would need to take dedicated existing revenue streams separate from General Funds. Am I getting the language off a little? But dedicate some revenue that's dedicated to that bond for just that purpose. But Treasurer Dwyer, I'm certain, could speak much more thoroughly than I could.

CHAIRWOMAN WALLNER: Thank you. So I think in a future meeting we will invite him and you to come back and continue the discussion about this, unless there are other questions at this point.

SEN. FELTES: Do you need a motion?

CHAIRWOMAN WALLNER: This is an informational item. We don't really need a motion, but we will invite you back. The Treasurer will come back and continue the discussion and thank you.

MR. KEY-WALLACE: Thank you, Madam Chair. And I know we are obligated to come back in six months. We are certainly welcome to come as soon as you would like.

CHAIRWOMAN WALLNER: I think probably ask you to come back with the Treasurer, maybe a little sooner than that; but I know in six months we'll see you again.

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**

MR. KEY-WALLACE: Thank you very much.

CHAIRWOMAN WALLNER: Thank you. Thank you. And Senator Morse has joined us and I think we'll go back to Tab 7. And we are looking at the Replacement Item 19-065 and invite people from the Department of Transportation up. I know that Senator Morse, I think, has some questions. All right.

VICTORIA SHEEHAN, Commissioner, Department of Transportation: Good morning. For the record, Victoria Sheehan, Commissioner of DOT, and with me is Marie Mullen, Director of Finance.

CHAIRWOMAN WALLNER: Senator Morse.

CHUCK MORSE, State Senator, Senate District #22: Good morning, Commissioner. Sorry for being late but all I do is talk about water. Salt and sand, can you just explain how that's affecting the State right now, because I'm certainly seeing it in my district; but I have a feeling it's not my district that's killing the state, so.

MS. SHEEHAN: This has been a challenging winter. A number of the storm events that we have had started as snow and have turned over to freezing rain and sleet, which has meant we have used more salt than we typically would in a season. Even in District I, our most Northern District, where typically the temperatures are colder and they get more snow and less of wintery mix. At this point in the season we have used about 11,000 tons more salt than we had at the same time last year. So the type of weather that we have been getting has been such that we have required more salt usage to keep the travelling public safe.

CHAIRWOMAN WALLNER: Further question.

SEN. MORSE: The -- I know there was a discussion about a month ago about our employees first, hired trucks, and how's

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**

that playing out because you can see benefits going up in this. Are we hiring trucks or are we okay with employees?

MS. SHEEHAN: Again, the majority of the hours that we have worked are north of Concord. The Northern District, because we have more consistent winters, we primarily use our own staff because we do have more consistency in the type of weather that we see. In the southern part of the state though where the severity of the winters can vary significantly from year to year, that's where we use the contractors to supplement our forces. And, really, the Districts that have been taxed the most are north of Concord, District 3, District 2, and the high elevation areas and District 1. So we are still relying on our employees to take care of those roadways.

SEN. MORSE: That's why the increase in benefits?

MS. SHEEHAN: Marie, can give you more detail.

MARIE MULLEN, Director of Finance, Department of Transportation: I can just clarify. Yeah, the increase in benefits is related to the overtime, so we are accounting for the portion of retirement and then the FICA and Medicare requirements related to that. So that's what's related to, not necessarily medical or dental or anything like that.

SEN. MORSE: An everybody is happy?

MS. SHEEHAN: I will say our employees are tired at this point in the season. And for the North Country, we have potentially eight more weeks of winter. We consider ourselves on call until mid-April.

SEN. MORSE: Just a comment though. I have a bunch of people that have been with me for a long time and when it snows they're the happiest people I know, so, and they love it. They'll go 40 hours. So I shouldn't say that, should I? Somebody checking their times. But anyhow, I -- I just think this winter people

don't realize our sales are actually up in the plowing companies in the southern tier but it's a different winter.

MS. SHEEHAN: We don't have many inches on the ground to show for it, but we have had a lot of winter weather. A lot of those storms where it was freezing rain and wintery mix which meant we had to be out there treating the roadways, but you don't have a snowbank as the evidence of the work that was done.

CHAIRWOMAN WALLNER: Further question? Yes.

SEN. D'ALLESANDRO: Thank you, Commissioner. Thank you very much, Marie. What about the mix for your salt-sand mix, and what kind of effect does that have on roadbeds themselves? I've noticed in my city that the roads are falling apart, absolutely falling apart. I don't know if you're using more salt, less sand, but real deterioration on the roads because of the conditions because of the way you have to treat them. What's the effect on our system?

MS. SHEEHAN: It really isn't the pavement that's impacted by the increased use of salt and sand. It's more the other structures. So anything that's constructed with concrete or steel really sees increased deterioration as a result of the additional salt usage. We have done a lot to reduce our salt use, especially on the corridors that are going through areas where we have impaired bodies of water. But the end of the day, you have to keep the travelling public safe so it's a constant balancing act.

Using brine, for example, does help minimize the amount of overall salt that we use. So while it can be a more corrosive product if it's in direct contact with something, overall it brings down the total amount of salt that we use. We are using the best management practices available to us to try and balance these competing interests of preserving the environment but keeping the public safe.

CHAIRWOMAN WALLNER: Further questions. Yes, Representative Leishman.

REP. LEISHMAN: Thanks, Madam Chair. Kind of a follow-up to Senator Morse. As far as sand supplies, I have noticed a lot of rocks being mixed in, you know. Is the quality of sand you're able to get this late in the season difficult to find because the sand definitely has got more rock content to it than real sand?

MS. SHEEHAN: So it depends on the type of roadway which treatment we're going to use. We do not use sand on our high-volume roadways. We only use sand on a low volume road. There are some municipalities want to use gravel and stone instead of sand, because they think it gives more traction. So we -- we have certain specifications for the different products that we use; but depending on the location we might be using a different strategy. So that's possibly why you're seeing more stone or rock on municipal roads or low volume roadways because that's a choice that road agents are making in how they maintain their roadways.

REP. LEISHMAN: Just a quick follow-up. This is actually on 101 over Temple Mountain. I noticed stones maybe that big in the mix.

MS. SHEEHAN: In some areas where we have changes in elevation, even we are trying to use material that would give us more traction on those hills, in particular.

REP. LEISHMAN: Okay. Thanks, Madam Chair.

CHAIRWOMAN WALLNER: Thank you. Further question? Seeing none. Thank you very much for coming in today.

**\*\*** SEN. MORSE: Move approval.



CHAIRWOMAN WALLNER: Senator Morse moves Item 19-065 and Senator Feltes seconds. All in favor? Any opposed? Seeing none, the item passes.

**\*\*\* {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: I believe we are done with the agenda and we move into the audit. We have two audits today. Thank you.

**AUDITS:**

MR. SMITH: Thank you, Madam Chair. Again, for the record, Steve Smith, Director of Audits for the LBA. We are here to present the Lottery Commission Management Letter for Fiscal Year ending June 30, 2018. Joining me from our Division is Jim LaRiviere. He was the Audit Manager on this audit, and also from the Commission is Lynda Plante, the Deputy Director, and Jim Duris, the CFO. So I'll turn it over to Jim to present the Management Letter.

CHAIRWOMAN WALLNER: Thank you.

JAMES LARIVIERE, CPA, Senior Audit Manager, Audit Division, Office of Legislative Budget Assistant: Thank you. Good morning, Madam Chair, and Members of the Committee. Again, for the record, my name is Jim LaRiviere. We are here today to present the Lottery Management Letter, a by-product of our audit of the Lottery Fiscal Year 2018 Financial Statements. The Lottery's Fiscal Year 2018 Financial Statements were presented to the Committee at the February 8<sup>th</sup> meeting.

This Management Letter report contains three Internal Control Observations. Each categorizes a significant deficiency in internal control. No material weaknesses in internal control were identified. The Lottery concurred with each of the Recommendations. The Observations begin on Page 3.

Observation No. 1 identifies a weakness that existed in the Lottery's contract monitoring controls. We recommend that the

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**

Lottery strengthen its contract monitoring controls, including more closely monitoring expenses claimed by its vendors to ensure that only valid and contract-related expenses paid by the vendor and submitted -- paid by the vendor and are submitted for Lottery reimbursement.

The Lottery should also ensure that its employees submit timely claims for reimbursement of business expenses and that those claims be subject to Lottery and State review and approval prior to payment.

Observation No. 2 on Page 4 raises a question over potential conflict of RSA 284, Section 47, and the State's Constitution regarding the use of Lottery revenues. We recommend the Lottery review with Legal Counsel whether the funds directed for services of problem gamblers should be considered a cost of administering the Lottery and thereby determine whether a conflict exists between the statute and the State Constitution.

Observation No. 3 on Page 5 discusses the Lottery's need to complete the development and implementation of its Games of Chance Information System. The Lottery should ensure that adequate resources are made available for the development and implementation of Games of Chance Information System in a manner that will provide the Lottery with the information needed to securely manage its operations, including the performance of appropriate reconciliations.

The Appendix beginning on Page 7 reports the current status of Observations contained in the Fiscal Year 2017 and Fiscal Year 2016 Management Letters. As noted in the table at the bottom of the Page 8, nine comments were Fully Resolved, four comments are identified as Remediation In Process, and one comment remains Unresolved.

There are a couple of prior audit comments that I want to bring to the Committee's attention. Comment 2017-3 and Comment 2016-2. Comment 2017-3, Mitigate ICS System Risks, is identified as unresolved. Lottery reported that it requested a service

organization's controls report as we recommended. However, a report has not been provided. We continue to recommend the Lottery work with the ICS provider to obtain a service organization controls report for the ICS System.

Comment 2016-2, Lottery Funds on Deposit With State Treasury Should Be Credited With Interest was initially reported in the Fiscal Year 2016 Management Letter.

In the Fiscal Year 2017 Management Letter, we reported the issue as Fully Resolved as the State Treasury paid the Lottery for interest on its funds for Fiscal Year 2016 and retroactively for Fiscal Year 2015. However, the Lottery has yet to receive interest on its funds held with State Treasury during Fiscal Years 2017 and 2018.

This concludes my presentation. We'd be happy to answer any questions the Committee may have. Thank you.

CHAIRWOMAN WALLNER: Thank you. Do we have questions? Yes, Senator D'Allesandro.

SEN. D'ALLESANDRO: Thank you, Madam Chair. How much money would that amount to, that the fact that those interest payments for those two years? And, first of all, what's the corpus of the deposit and what -- what kind of interest is paid?

MR. LARIVIERE: The Lottery receives interest off its sales from its retailers which gets deposited into an account and that account gets swept overnight into an account with State Treasury. So the funds are on hand with State Treasury, and according to State Law Lottery is to receive interest on those funds.

SEN. D'ALLESANDRO: Right.

MR. LARIVIERE: The Lottery did receive funds for Fiscal Year 15, 2015 and '16.

SEN. D'ALLESANDRO: Right.

MR. LARIVIERE: There was a receivable that was booked for Fiscal Year 2017, and then they were informed that Fiscal Year 2018 also interest was going to be provided. However, at the date of this report the interest had not been transferred to the Lottery fund.

SEN. D'ALLESANDRO: Right, I got that. But what's --

MR. LARIVIERE: As far as the amount?

SEN. D'ALLESANDRO: Yes.

JIM DURIS, Chief Financial Officer, New Hampshire Lottery Commission: We accrued or for 2017 it was approximately \$40,000. And so we expect probably a little bit less for '18.

SEN. D'ALLESANDRO: Thank you. Thank you.

CHAIRWOMAN WALLNER: Thank you. Further question? Yes, Senator Rosenwald.

REP. ROSENWALD: So in 2017 the Lottery Commission ran newspaper ads in Manchester and Nashua suggesting that Keno be adopted. Is that a necessary cost of Administration under the Constitution?

LINDA PLANTE, Deputy Director, New Hampshire Lottery Commission: I'm not sure. I'm Lynda Plante with the Lottery. I'm not sure the necessary cost, I'm not sure of that language. It was part of, you know, the agreement, but I don't have the Constitution with me to see if it's a necessary part.

REP. ROSENWALD: Thank you.

MS. PLANTE: I could look that up for you if you like.

CHAIRWOMAN WALLNER: Representative Weyler.

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**

REP. WEYLER: Thank you, Madam Chair. I just want to comment on the challenges faced by both the auditor and the agency because it's the only agency that gets audited every year. So it's a real challenge for the auditor to keep finding things, and for the agency to keep correcting them. And I'm always impressed that the auditor can always find some little things and the agency usually has corrected the past ones because you know you'll be back next year and be talking about last year's comments. So it's a real challenge, and I appreciate the work that's done, and you're always ready for audits. So many agencies are surprised it's time again. Thank you.

CHAIRWOMAN WALLNER: Further questions, comments? Seeing none. I ask that Ken --

**\*\*** REP. WEYLER: I would move that we accept the report, place it on file, and release in the usual manner.

REP. OBER: Second.

CHAIRWOMAN WALLNER: Representative Weyler moves and Representative Ober seconds. Any further discussion on the audit? Seeing none. All in favor? Any opposed?

**\*\*\* {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: So audit is complete. Thank you.

MR. LARIVIERE: Thank you.

CHAIRWOMAN WALLNER: We'll move on to the second audit of the day.

MR. SMITH: Thank you. This next audit is an internal control review. A little different than perhaps some of the audits we present in that it's not specific to a State Agency or Department. This was a statewide look at employee reimbursements. And although it was statewide, DAS is here and

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**

responded to many of the Observations because they are the central agency that promulgates the policies, procedures, as well as the controls around these types of reimbursements. And, obviously, we cannot audit ourselves as a Legislative Branch so that was excluded from our scope and our testing.

So I'd like to introduce Kimberly Bisson. She's our newest Manager in the Audit Division, and this is her very first presentation before the Committee.

CHAIRWOMAN WALLNER: Welcome.

MR. SMITH: And also joining us from the Department of Administrative Services is Commissioner Charlie Arlinghaus and then Dana Call, the State Comptroller. With that, I'll turn it over to Kim.

KIMBERLY BRISSON, MSA, CPA, Audit Manager, Audit Division, Office of Legislative Budget Assistant: Good morning, Madam Chair, Members of the Committee. For the record, my name is Kimberly Bisson, and I'm here to present our report on our assessment with the internal controls and operation over reimbursements and other non-wage payments to employees made during the nine months ended March 31<sup>st</sup>, 2018.

As Steve mentioned, the scope of our audit included all agencies in the Executive and Judicial Branch of the State Government but excluded the Legislative Branch.

If you turn to the Table of Contents, you will see the report contains 11 findings and recommendations, none of which suggest legislative action may be required. The Department of Administrative Services and other responsible agencies concurred or concurred, in part, with each Observation.

During the nine months ended March 31<sup>st</sup>, 2018, State Agencies disbursed approximately 4.3 million in non-wage payments to employees, paid either by a separate check or by additional amounts included within the employee's bi-weekly

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**

payroll. Approximately 3.9 million or 90% of the payments were related to travel reimbursements.

We conducted our audit in accordance with Government Auditing Standards. The objective of the audit was to evaluate whether the State has designed, communicated, implemented and operated suitable internal controls over reimbursements and other non-wage payments to Executive and Judicial Branch employees.

As reported in the Summary of Results beginning on Page 1, we found that the State's controls over non-wage payments to employees consisted of controls promulgated in state-wide policies and procedures and NHFirst system controls, as well as controls designed and implemented at the State Agencies initiating payments.

We found the design and operation of the State's internal controls for managing non-wage payments to be insufficient to provide reasonable assurance the State's internal control objectives would be achieved. We found that the Department of Administrative Services establishment, operation, and maintenance of State-wide controls over non-wage payments lacks sufficient specificity and monitoring to reasonably ensure that the control objectives were met, and also contributed to an environment that did not demonstrate a strong control consciousness for the need to establish and maintain effective controls over its end user Agencies' related processes.

We found the design and operation of Agency controls to be varied with the operation of controls at some Agencies and parts of Agencies better than others.

We noted some agencies appeared to consistently required compliance documentation prior to processing reimbursement requests and evidence management review whereas others did not.

In attempting to meet its objectives of efficient and effective processing employee non-wage payments, weaknesses in

the design and operation of the related internal controls put the State at increased risk for exposure to error, fraud, non-compliance and other abuses of State resources.

While we found weaknesses in the design and operation of the statewide and agency-specific controls, we did not identify evidence of fraud or significant abuse in the transactions tested. We did find instances of non-compliance and indications that employees by taking advantage of certain policies may have received reimbursements that exceeded their actually-incurred reimbursable costs.

The audit objective, scope, and methodology are described on Pages 4 and 5, and Page 5 also notes that there were no prior audits that specifically addressed non-wage payments to employees.

The Observations begin on Page 6.

In Observation No. 1 on Page 6, we recommend the State strengthen internal controls over processes related to non-wage payments as weaknesses in the design and operation of controls at DAS and other States Agencies have put the achievement of management objectives, including efficient and effective State operations, at increased risk.

In Observation No. 2 on Page 7, we observed weaknesses in the State's policies and procedures over expense reimbursements and other non-wage payments, which resulted in inconsistencies in the application of and inherent to policies and procedures across State Agencies, as well as instances where some agencies and employees appear to have opportunities for reimbursements that others did not.

We recommend DAS review current policies and procedures and revise, as necessary, to ensure they are clear, consistent, comprehensive, and adequately address the risk inherent in the reimbursement of employee expenses.



In Observation No. 3 on Page 15, we discussed weaknesses and Management's review and approval of reimbursement requests which resulted in reimbursements made without submission of all required documentation, as well as reimbursement of expenses potentially incurred solely for the convenience or enjoyment of the employee. We recommend DAS and Agencies implement effective review and approval controls to promote adherence to Statewide statutes, rules, and policies and procedures.

Observations 4 and 5, beginning on Page 18, recommend establishing a formal risk assessment process related to reimbursements and other non-wage payments, and improving communication and information sharing controls between both DAS and user agencies and within agencies.

Observation No. 6 on Page 21 addresses the timeliness of payments and recommends DAS and State Agencies strengthen controls promoting the timely submission and reimbursement of employee travel expense requests.

In Observation No. 7 on Page 22, we observed that the Department of Transportation's current process for initiating reimbursement of employees in State mileage expenses through its MATS System does not capture information similar to that required on the State's standard travel reimbursement request forms, such as starting and ending locations and purposes of travel. Due to insufficient supporting documentation, we were unable to determine whether 33 of the 69 or approximately 48% of the tested DOT transactions were made in accordance with established State criteria.

We recommend DOT consider establishing a process that would require its employees to document reimbursement claims in a manner equivalent to that required of other State Employees.

Observation No. 8 on Page 25 recommends the State review its practice of reimbursing employees for call-back mileage as the Collective Bargaining Agreement and *Manual of Procedures* appear to conflict with RSA 4:15 which prohibits reimbursement

of employees' expenses for travel between their residences and Department offices. The State should also ensure that the reimbursements are properly categorized and included in or excluded from taxable wages.

In Observation No. 9 on Page 27, we recommend the Judicial Branch review its current practice of reimbursing certain judges and justices without the completion of a travel reimbursement request form, implement an effective review and approval process for all employees' expense reimbursements, as well as review its current mileage reimbursement practices to ensure commuting miles are treated appropriately.

In Observation No. 10 on Page 30, we observed that a \$34,000 settlement payment was erroneously charged to a consumable supplies account and did not receive Department of Justice authorization or approval in accordance with RSA 99-D.

We recommend that DAS establish formal documented policies and procedures to ensure all settlements payments in response to claims brought against the State are made in accordance with statute and are effectively communicated to all State Agencies.

In Observation No. 11 on Page 31, we observed that the State is not consistent in its tax treatment of clothing, footwear, and equipment reimbursement and allowances as some payments were included within the employee's taxable wages while others were excluded.

We recommend DAS review its current process for paying and determining the tax status of such payments, establish appropriate policies and procedures, and provide adequate training to Agencies to ensure payments are made in compliance with State policy and IRS guidelines.

The Appendix beginning on Page 35 include summarized data for the nine months ended March 31<sup>st</sup>, 2018, including non-wage payments to employees by agency on Page 35, by account on Page

36, as well as by total amount paid to the top 25 employees on Page 37.

This concludes my presentation. I'd like to thank the Department of Administrative Services and their staff for their cooperation throughout the engagement. I would like to thank the Committee for your time this morning, and we would be happy to answer any questions you may have.

CHAIRWOMAN WALLNER: Questions? Yes, Representative Weyler.

REP. WEYLER: Thank you, Madam Chair. Go to audit, there's one thing I've missed not only in this audit but the last several. So many acronyms and every once in a while, there's a new one I haven't seen before. Sometimes you have to hunt around to find what it is. Used to put list of acronyms in the audit. I kind of missed that the last year or two. Used to always have a list of acronyms.

REP. OBER: It's very helpful.

REP. WEYLER: I'd like to see that again so I have some idea. That's like code words for those that are on this end, right? Thank you.

CHAIRWOMAN WALLNER: Any other questions?

SEN. D'ALLESANDRO: Nice first audit. Congratulations!

MS. BISSON: Thank you.

SEN. D'ALLESANDRO: Good work.

CHAIRWOMAN WALLNER: Does the Department want to respond?

CHARLES ARLINGHAUS, Commissioner, Department of Administrative Services: So there are a couple of things. There are, obviously, a lot of -- probably nobody on this Committee is surprised by anything particularly in this audit, for example.

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**

This is something -- this is a good description of sort of what we do every day and, in particular, what Dana's shop does every day and what we do is look for things that need fixing. And one of the areas that needs fixing is, if you look at the first report of our Department from 1931, most of these issues were there then, particularly how we deal with travel, how we deal with reimbursement. Somebody gave me a copy of that in my first three months on the job. And I went and saw Joe and I'm, like, gee, some things never change, do they? But travel and reimbursement for meals and lodging is at the center of this.

This is some people will know that we have spent multiple years at this point, Joe and Tom Kehr who does *Manual Procedure* for us have had a regular Monday morning meeting with Department of Justice for literally three years to revise the travel rules, not just in respect to State regulations, but in respect to federal wage laws as well. We are -- we are actually promulgating a new set of travel rules. I have a consultation with the union, with the SEA, and possibly with the other unions, but only scheduled with the SEA, I think, Tuesday or maybe Wednesday. I don't remember. But so this -- we hope that this will make a significant difference.

But the audit points out something that is out there, and that there's inconsistency at the Agency level, and we are trying to get on top of it to a greater extent than we are now. I think that's going to make a difference.

Our new Director of Personnel is working on a program for a new employee orientation which should address things -- one of the things that should address is just generally culture. But -- and it's not about this. It's about a bunch of things. But we need to get to a point where people understand, you know, we had an issue in our Department where someone tried to use a P-Card for food and you can imagine that, right, that you -- that, you know, if Administrative Services has a P-Card that spends for food, I think the rest of the Agencies would explode. But she honestly thought, oh, gees, we had a meeting and we were going to order coffee for the meeting. And, you

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**

know, we had to explain that State Employees don't get coffee and that, you know, bring your own. And that it was a new employee came in from the outside, no -- no sense of the culture. And so, you know, it's not -- it's not her fault, it's our fault. And so we are trying to address those things one at a time. All of the non-wage issues are difficult. If you read the Observation -- which Observation that's the liquor payment?

DANA CALL, State Comptroller, Department of Administrative Services: Ten.

MR. ARLINGHAUS: Ten. So number ten and you read that and, you know, there's 99-A or B.

MS. CALL: D.

MR. ARLINGHAUS: Does it apply or does it not apply to certain payments, and there's a difference of opinion what the law seems to say to some observers and what the laws say to Department of Justice and, gees, they did this without your approval. Yeah, we wouldn't have approved that. Why wouldn't you approve that? So a lot of it is about communication between Agencies, and I think that one of the other benefits of an audit like this is it's a wonderful stick.

MS. CALL: Something to wave.

MR. ARLINGHAUS: Yes, something to wave. It's much easier to encourage cooperation when there's an external force looking over your shoulder forcing it on you, and they're the external force.

DANA CALL, State Comptroller, Department of Administrative Services: Well, I would just agree. I actually thanked the LBA for this and they were -- we were sort of spear-heading a lot of this. But it really does give us a road map for where we need to focus on and training would be one of the biggest steps that we are going to take with our new Personnel Director. So thank you.

CHAIRWOMAN WALLNER: Thank you. And thank you for presenting this to us, lots of useful information in here. Any further questions or comments? Yes, Representative Leishman.

REP. LEISHMAN: Thanks, Madam Chair. You referenced in the audit a settlement at the Liquor Commission. Do you know if those settlement funds were General Funds or from the Liquor Fund?

REP. OBER: General funds.

MS. CALL: This particular was paid out of a Liquor Accounting Unit which would be Liquor expenditures prior to what they transfer to the General Fund.

REP. LEISHMAN: Okay. Thank you. Thanks.

CHAIRWOMAN WALLNER: Any questions?

REP. OBER: Madam Chair.

CHAIRWOMAN WALLNER: Representative Ober.

REP. OBER: For the Commissioner. Commissioner, it used to be that General Funds were used for those Liquor settlements and the recent one was passed after we changed the law to say that Liquor Funds were used. Is that where we are?

MR. ARLINGHAUS: I think it's related to the -- so settlements are typically paid by the fund for which the, you know, tree falls on your head in a park. It's paid out of the Park's fund, that kind of thing. So because where it happens and if something related to something happened on the highways is paid from the Highway Fund.

So in this case when the Liquor expenditures went from being General Funds to Liquor Funds, would naturally be paid there. Esoteric argument about, you know, it's six and one-half dozen or the other because if you pay more expenses out of the

Liquor Fund they have less of a transfer. So it's sort of the same thing but that's why. Whatever fund incurs the damage, so to speak, is where the funds get paid out of.

REP. OBER: Yeah, we made that change, if I could have a follow-up, in HB 2. You were Chairman, weren't you, Peter, of Division I when that change went through?

REP. LEISHMAN: I think so.

REP. OBER: So that will be six years ago.

REP. WEYLER: Usually all came out of the Attorney General's and combine not only the money he got in settlement but the money he had to pay out in settlement was all in kind of a common account, as I recall it. So this was different way of doing it, but it balanced the accounts a little better.

MS. CALL: Yes, that account still exists. So if it's paid under the 99-D that's referenced in the finding, it's paid out of the accounting unit in Administrative Services that is meant for settlement. This was a little bit different.

CHAIRWOMAN WALLNER: Further questions.

\*\* REP. WEYLER: Move we accept the report, place on file, and release in the usual manner.

REP. OBER: Second.

CHAIRWOMAN WALLNER: Representative Weyler moves that we accept the report and Representative Ober seconds. All in favor? Any opposed? Seeing none opposed, the item passes and thank you very much.

\*\*\* {MOTION ADOPTED}

**(11) Date of Next Meeting and Adjournment**

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**March 8, 2019**

CHAIRWOMAN WALLNER: Appreciate it. Next meeting I think must be April 12<sup>th</sup>. So Friday, April 12<sup>th</sup>.

REP. OBER: Friday, April 12<sup>th</sup>.


CHAIRWOMAN WALLNER: Finance Committee will have the budget on its way to the Senate at that point. And thank you for making this meeting go so smoothly. We did it in one hour. That's pretty good for the Fiscal Committee. Thank you.

(The meeting adjourned at 11 o'clock a.m.)



## CERTIFICATION

I, Cecelia A. Trask, a Licensed Court Reporter-Shorthand, do hereby certify that the foregoing transcript is a true and accurate transcript from my shorthand notes taken on said date to the best of my ability, skill, knowledge and judgment.

  
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Cecelia A. Trask, LSR, RMR, CRR  
State of New Hampshire  
License No. 47

