

JOINT LEGISLATIVE FISCAL COMMITTEE

Legislative Office Building, Rooms 210-211

Concord, NH

Friday, March 21, 2014

MEMBERS PRESENT:

Rep. Mary Jane Wallner, Chair

Rep. Ken Weyler

Rep. Peter Leishman

Rep. Dan Eaton

Rep. Sharon Nordgren (Alt.)

Sen. Jeanie Forrester

Sen. Chuck Morse

Sen. Bob Odell

Sen. Sylvia Larsen

Sen. Andy Sanborn

(Meeting convened at 10:08 a.m.)

CHAIRWOMAN WALLNER: Good morning. Is it on?

JANET CLAYMAN, Legislative Assistant, NH House of Representatives: Yeah, I just turned it on.

(1) Acceptance of Minutes of the February 14, 2014, Meeting and March 10, 2014 special meeting:

CHAIRWOMAN WALLNER: Oh, there it is. Okay. Good morning. I'll call the Fiscal Committee to order, the March Fiscal Committee, and the first item of business is accepting the minutes --

****** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: -- of February 14th. Representative Eaton moves.

SEN. PRESIDENT MORSE: Second.

CHAIRWOMAN WALLNER: And Senator Morse seconds the approval of the minutes of the February 14th meeting. All in favor? Any opposed? Seeing none opposed, the minutes passed.

*** {MOTION ADOPTED}

(2) Old Business:

CHAIRWOMAN WALLNER: On the table we have two -- we have Old Business. Anything to come off the table? Seeing nothing to come off the table. We'll leave the one tabled item there and move to Item 14-006, which is a report from the Department of Health and Human Services about the Sununu Youth Center, and I'd like to have the people from Health and Human Services come up who worked on that report, and I think we are going to be able to find the report under Tab --

SEN. SANBORN: Two.

REP. WEYLER: Behind the blue.

CHAIRWOMAN WALLNER: Two. There you go, behind the blue. Thank you. And if you could introduce yourself for the record, that would be great.

MARY ANN COONEY, Associate Commissioner, Department of Health and Human Services: Good morning. I'm Mary Ann Cooney, Associate Commissioner for the Department of Health and Human Services, and I'm joined today with Director Maggie Bishop for the Division of Children, Youth, and Families.

CHAIRWOMAN WALLNER: Thank you. Welcome.

MS. COONEY: If it's okay, I'd like to provide just a few opening remarks to provide an introduction.

CHAIRWOMAN WALLNER: Great.

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MS. COONEY: The Department of Health and Human Services was directed under 2013 Chapter Law 249 to assess and report its recommendations to the Fiscal Committee of the General Court as to the most appropriate, cost-effective, long and short-term uses of the Sununu Youth Services Center. The Sununu Youth Services Center is our detention center for adjudicated youth. It also serves as, I would say now, a more evolving treatment facility for those who are currently incarcerated as juveniles.

What was required under law was an analysis of the advantages and disadvantages of the current use of the facility, potential alternative uses, the viability of using any other facility to provide secure detention committed services given the declining census at the center. And I think that was key under the -- when we received our direction, a lot of it had to do with both the cost and that the census has been consistently low. And, also, ways that the current cost to run the facility could be reduced.

Maggie Bishop is going to go into significant detail for the Committee, if you request it. However, she's going to provide really the methods under which we received some of the information, talk about the Executive Committee, for lack of a better term that was used, and any other questions from the Committee.

CHAIRWOMAN WALLNER: All right.

MAGGIE BISHOP, Director, Division of Children, Youth and Families, Department of Health and Human Services: Thank you.

CHAIRWOMAN WALLNER: Thank you.

MS. BISHOP: So just to walk through what I did initially was we sent out letters inviting several people in the community to join an Executive Committee that would kind of oversee and drive the evaluation that we were about to do. On page -- on the back on Page 15 of the report is a list of what ended up being

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the Executive Committee. There were other people invited but either could not or chose not to join us.

In addition to the Committee that kind of went through this process with the Department, we also did some individual interviews with judges, because one of the people that was invited that could not attend the Executive Committee was Judge Kelly, but we did get an opportunity to interview at least three judges, CASA, so we wanted to make sure the evaluation had a nice umbrella to make sure we were looking at it from all lenses.

I'm going to just go directly to the information that's in the executive summary around what it is we came away with. So after about six months of evaluating and looking at the Sununu Center, we did bring in -- we asked the national -- some national experts to come in and do an analysis of the work currently happening at the Sununu Center to see, you know, is there something else that we should be doing. Is there a different direction. We reference that evaluation in the report, and it pretty much confirmed that the direction we're going in is the direction that nationally researchers are saying you need to go with these children.

And just to bring clarity, the children at Sununu Youth Services Center are not what one would think in a juvenile locked facility. They are delinquents and they are only there because they have been committed as a delinquent; but these children have significant mental health issues, and it's those mental health issues that keep it unsafe for them. They have already not made it through every residential facility in the state, but they can't be kept safe while treatment occurs. So more and more what we have found is the facility, like other facilities in other states, becomes a treatment -- a safe treatment place for some of these children. There are some that about 10% that are not there because of mental health challenges, but I would clearly say on a given day it's more like 80 to 90% that are there for that mental health component.

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With that said, we looked at and came up with a short and long-term proposal on what we would like to look at, and I'm going to go to the long-term first because it will set the stage for the short-term. We actually learned this from some of the Committee Members looking at other states and what has happened, and in Vermont their facility became a Medicaid certified facility for the same purposes that we are now looking at it because the children they were serving, their mental health needs were what they were addressing. And so we would like to consider going down that same path, looking at becoming a -- Sununu Center would become a Medicaid rehabilitation center. And if I could, I'm going to jump to a scenario of, you know, however many years it takes us to do this.

In the future, what could happen is a judge could have a child in front of them that's a delinquent. And it could be a delinquent child who commits criminal acts, is dangerous, but does not have mental health challenges. That child could get committed to Sununu Youth Services Center like they do today. But the other 85% of the children before a judge, because it's a mental health challenge, could place the child at the rehabilitation center, and then we could draw Medicaid and bring in Medicaid funds for those children, both for the cost of our staff, and as well as some of the services our staff provide. That would be the long-term plan that we could provide both the safety and security needed as well as the treatment, which we are doing today.

From the inside out, outside in, it wouldn't look any different. What would look different is the way in which we bill for the staff and for the services we provide. And in Vermont, they were able to do it and they weren't half as close to having the mental health component that we already have down there. So that's the long-term plan.

There would be requiring some legislative changes around the current statute, the name of the facility, and then we would have to become certified as a Medicaid facility -- reimbursable

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facility. But, again, it's been done in Vermont and a couple of other states for the same reason.

Short-term, this came out of the executive group's discussion with stakeholders and community about an unmet need currently for children who struggle with mental health issues. We have the Philbrick Center which is an acute facility and by acute your stay there is supposed to be very, very short term, a day or so. Unfortunately, the children get stuck at Sununu -- at Philbrick because the acuteness gets resolved, but then they don't have a safe place to go. That causes a backup. We have children sitting in emergency rooms, you know, waiting to go into Philbrick.

There's a proposal in this report that suggests perhaps we could use a unit or a floor at Sununu Center that is separate from the rest, in the short run, for kids who at Philbrick Center that need a place to stay longer than a couple days or to avoid sitting in an emergency room, and it would be for children who have insurance because we cannot use Medicaid right now the way the facility is. So we want to look at carving out almost a Philbrick South. Philbrick, our doctors down there are Philbrick doctors already. Our medical staff are there already. And so we have everything that Philbrick has; it's just that we happen to be a detention center. But we could carve out a wing where insurance companies, and we want to work with them on this, could potentially pay less money by having them come to Sununu Center than sit in the emergency room or stay at Philbrick longer than they need to. We don't know which way we are going to go yet. We want to continue on that path and look at both options. I'm going to pause to see if there are questions or comments.

CHAIRWOMAN WALLNER: Yes, Representative Weyler.

REP. WEYLER: Thank you, Madam Chair. Thank you, Ms. Bishop. Reading this through and the fact that you have a decline in population, but still the staff remains, and it seems like it's very high. I see here 30 certified teachers, 61 youths. And if

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we wanted to spend more money on counseling and wanted to pay money for counselors, perhaps we could reduce the teaching staff. Have we looked at all into distant learning and, you know, maybe have students in one room being monitored while they're looking at different on-line classes that we wouldn't -- 'cause we are spending so much for teachers that might only be teaching three hours a day or less.

MS. BISHOP: We have looked at that, Representative. We've, actually, we've looked at everything and we will continue to look at that. There are programs in the state, I think it's called VLACS --

REP. WEYLER: Right.

MS. BISHOP: -- where there's on-line learning. There's all kinds of things we can bring in. I think one of the things that we want to do, but just to be clear, there's a high population of those children that are also special-ed. They have IEPs. There's an expectation that while they're with us that their education actually improves and doesn't decline while they're with us. So, again, yes, I know on the surface the number of staff, especially in the education area, is high. The student-teacher ratio is extremely low. We are looking at that, and we are looking at other options.

In the report, we -- in fact, there were very -- there were many members on the Committee that was insistent that we put in the language around we looked at contracting out services. We looked at privatizing. And, again, it depends on what it is that we want to do as a system here. And if we go in the direction that I'm suggesting, I think there's also time to look at and revamp any program that's in there. I think we should be constantly reviewing that. But until we know what is going to be the end outcome of becoming certified as a Medicaid facility, I wouldn't want to make too many changes. But, again, it's something that we are continuing to look at.

REP. WEYLER: Thank you. Thank you, Madam Chair.

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CHAIRWOMAN WALLNER: Thank you. Further questions? I do have one question. Over the years many times when we've been talking about the Sununu Center, the thought about becoming Medicaid certified has come up. That's come up several times over the years, and I wondered what does it entail? What have been the road blocks in the past?

MS. BISHOP: Again, I think -- yeah, well, there's several issues. The structural issue itself has always been the primary one. People got stopped by the fact that it was locked. But, fortunately, there are some states, and Vermont is one, who took that battle on and won. And so what's different today is that has been -- that paved -- that road has been paved for us a little bit, and we are going to pretty much steal shamelessly from Vermont. We have a meeting actually scheduled in April. We have had conference calls already to go up to Vermont, and we are going to piggy-back on what they have done and just New Hampshire it. No sense recreating the wheel. They have -- they documented for us what they went through to become a Medicaid certified, and it's really what's happening in the walls, behind the walls, which is what's different as well, Representative.

We have -- in years gone by, these were not kids who were mentally ill. And so going down that Medicaid track was a burden. Today, the population is what's going to make it successful and it did in Vermont. These are children that we spend 80% of our time serving them in Medicaid reimbursable ways, and that's not how it was 20 years ago or even 10 years ago.

CHAIRWOMAN WALLNER: Thank you.

MS. COONEY: And I think, just to tag onto that, the population, because Maggie has just referred to the population shift, you know, there was a census that was up around 110, 120, at one time in Sununu Center, and it was built to house 144 youth. But because of the efforts within Division of Children, Youth, and Families, some of the methods that we've been able to be fairly successful with, with other options for residential

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care, and other foster care situations, the majority of the services now are conducted in the community. And that has, by design, then necessitated that the most serious -- serious kids, kids with the most serious issues are the ones that are in Sununu.

CHAIRWOMAN WALLNER: Thank you. Do you have additional comments?

MS. BISHOP: I do not, Madam Chair. Although if I could just add one final piece because I do know since the report was filed and went public there have been some concerns about that we'd be serving more youth, like we'd be taking children who don't belong in a locked facility. That would not happen. We actually would serve the same kids on Medicaid models that we are today. And it would have to be only kids that have to be in a secure facility. In case that comes up as an afterthought, I want to make sure I put that on the table.

CHAIRWOMAN WALLNER: Any other questions, comments, about the report? Thank you very much for presenting it to us. Look forward to continue working on it.

CONSENT CALENDAR

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

CHAIRWOMAN WALLNER: Now let's move on to Tab 3 which is the Consent Calendar.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Is there anyone who wants anything removed from Consent? Seeing nothing. Representative Eaton moves that we accept the Consent Calendar.

SEN. LARSEN: Second.

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CHAIRWOMAN WALLNER: And Senator Larsen seconds. All in favor? Any opposed? Consent Calendar passes.

*** {MOTION ADOPTED}

- (4) 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 Restricted:

CHAIRWOMAN WALLNER: Tab 4 is another Consent Calendar.

** REP. EATON: Move approval.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Want anything removed? I want to make sure no one wants something removed. Representative Eaton moves approval. Representative -- Senator Larsen seconds. All in favor? Any opposed? None opposed.

*** {MOTION ADOPTED}

- (5) RSA 124:15 Positions Restricted:

CHAIRWOMAN WALLNER: Moving forward on Tab 5.

** REP. LEISHMAN: Move approval.

CHAIRWOMAN WALLNER: This is positions restricted. Representative Leishman moves approval. Is there a second?

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Eaton seconds. Any discussion? All in favor? Any opposed? Positions restricted passes.

*** {MOTION ADOPTED}

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(6) **RSA 21-I:56, II, Reclassification of Positions or Increases:**

CHAIRWOMAN WALLNER: Tab 6, Reclassification of Positions.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Any discussion? Representative Eaton moves and Senator Larsen seconds. All in favor? Any opposed? Tab 6 passes.

*** {MOTION ADOPTED}

(7) **RSA 21-P:12-d, Fire Standards and Training and Emergency Medical Services Fund:**

CHAIRWOMAN WALLNER: Tab 7. This is fire safety -- Fire Standards and Training.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Any discussion? All in favor? Any opposed? Item passes.

*** {MOTION ADOPTED}

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

CHAIRWOMAN WALLNER: Tab 8 is the transfer of Highway Surplus Accounts.

** REP. EATON: Move approval.

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CHAIRWOMAN WALLNER: Representative Eaton moves approval. Do I have a second?

SEN. PRESIDENT MORSE: Second.

CHAIRWOMAN WALLNER: Senator Morse second. Any discussion? All in favor? Any opposed? Item passes.

*** {MOTION ADOPTED}

(9) Chapter 143:3, Laws of 2013, Assignment of Office Space:

CHAIRWOMAN WALLNER: Tab 9, this is office space.

** SEN. LARSEN: Move approval.

CHAIRWOMAN WALLNER: Senator Larsen moves approval. Do I have a second? Representative Eaton seconds. Any discussion? All in favor? Any opposed? Item passes.

*** {MOTION ADOPTED}

(10) Chapter 143:31, Department of Administrative Services; Transfer Among Accounts and Classes:

CHAIRWOMAN WALLNER: And moving on to Tab 10, Department of Administrative Services, Transfers.

** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Representative Eaton moves approval.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Any discussion? All in favor? Any opposed?

*** {MOTION ADOPTED}

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CHAIRWOMAN WALLNER: We're going to make a record here. Unless, wait just a minute, better be careful.

(11) Chapter 144:95, Laws of 2013, Department of Transportation Transfer of Funds:

CHAIRWOMAN WALLNER: Tab 11.

****** REP. EATON: Move approval.

CHAIRWOMAN WALLNER: Department of Transportation. Representative Eaton moves approval.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Senator Larsen seconds. Any discussion? All in favor? Any opposed?

REP. LEISHMAN: I abstain.

CHAIRWOMAN WALLNER: Oh, could we record that Representative Leishman abstains from the vote. All in favor? Any opposed? Item passes.

***** {MOTION ADOPTED}**

(12) Miscellaneous:

CHAIRWOMAN WALLNER: Now move into Miscellaneous, and I will ask Jeff Pattison to join us.

JEFFRY PATTISON, Legislative Budget Assistant, Office of Legislative Budget Assistant: Good morning, Madam Chairman. Our office had a resignation earlier this week. One of our performance auditor has resigned to take another position, and I'm coming before the Committee this morning to get permission to fill that vacancy.

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** REP. EATON: Move approval.

SEN. SANBORN: Second.

CHAIRWOMAN WALLNER: Representative Eaton moves approval and Senator Sanborn seconds. All in favor? Any opposed? And that approves Mr. Pattison can move forward with replacing the audit position.

*** {**MOTION ADOPTED**}

REP. WEYLER: On Tab 11.

CHAIRWOMAN WALLNER: Tab 11.

REP. WEYLER: There were two items. I didn't think it was a --

CHAIRWOMAN WALLNER: Oh, I'm sorry. I knew we messed up.

REP. WEYLER: Item 041.

CHAIRWOMAN WALLNER: Uh-oh. So let's go back and let's do -- let's do --

REP. EATON: 041.

CHAIRWOMAN WALLNER: -- 041.

** REP. EATON: Move approval.

SEN. LARSEN: Second.

CHAIRWOMAN WALLNER: Representative Eaton moves approval, Senator Larsen seconds.

REP. WEYLER: That's what I was going to write down anyway.

REP. EATON: Okay.

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CHAIRWOMAN WALLNER: All in favor?

REP. LEISHMAN: And that would be the specific one, Madam Chair, that I would abstain.

CHAIRWOMAN WALLNER: And that's the one that Representative Leishman abstains from. So our first vote was for 14-030 and our second, this vote, was 14-041. Thank you.

*** {MOTION ADOPTED}

(13) Informational Materials:

CHAIRWOMAN WALLNER: Informational items. Anything that we want to deal with? And now we'll move into the Audits. And we have, I believe, four audits today; is that right?

(A brief recess was taken for the Court Reporter to change a disk in the steno machine.)

Audits:

CHAIRWOMAN WALLNER: Thank you. Thank you, Mr. Mahoney.

RICHARD MAHONEY, Director, Audit Division, Office of Legislative Budget Assistant: Thank you, Madam Chairman. For the record, I'm Richard Mahoney, the Director of Audits for the Office of Legislative Budget Assistant. The first audit that will be presented to the Committee this morning is the Lottery Commission Management letter. Joining me this morning to present the report to the Committee is Jim LaRiviere, James LaRiviere. Jim is a Senior Audit Manager with our office. And we're joined by Charles McIntyre, Executive Director of the Lottery Commission.

CHARLES MCINTYRE, Executive Director, New Hampshire Lottery Commission: Good morning.

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MR. MAHONEY: And Lynda Plante who's the --

LYNDA PLANTE, Deputy Director, New Hampshire Lottery Commission: Deputy Director.

MR. MAHONEY: -- Deputy Director of the Lottery Commission.

CHAIRWOMAN WALLNER: Thank you.

JAMES LARIVIERE, Senior Audit Manager, Audit Division, Office of Legislative Budget Assistant: Good morning, Madam Chair, Members of the Committee. For the record, my name is Jim LaRiviere, and we are here to present the 2013 Management Letter of the Lottery.

The Management Letter is a byproduct of our financial audit, the results of which were presented at the January 10th meeting. The report includes five internal -- internal control comments and one compliance comment, which Lottery concurred with all six of the comments. The Observations begin on Page 3.

Observation No. 1 notes that the Lottery has not developed formal winning number draw procedures for one of its on-line games prior to the start of the game. To limit operational and financial risk, we recommend that all critical game procedures, including draw procedures, be settled, documented, and policy procedure guidance approved by management and tested prior to the implementation of the game.

Observation No. 2 on the same page recommends the Lottery strengthen controls over the draw room and draw procedures. Prior Management Letter comments recommended the Lottery further limit access to the draw room and draw equipment, improve attention to the draw procedures, and ensure that the policies and procedures address game draw processes. During Fiscal Year 2013, we noted that similar significant deficiencies still existed. This Management Letter recommends the Lottery continue to review and strengthen its controls over its game draw system and processes and access to its draw room facility.

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The next comment, number three, on Page 5, addresses the need for control improvement over the instant ticket reconstruction requests. Reconstruction of instant tickets are generally necessary when instant tickets are damaged or defaced. Inappropriate requests of reconstructions could be used to identify winning tickets and their location. The Lottery's policies and procedures to control risk from unauthorized instant ticket reconstructions were not effectively designed during Fiscal Year 2013.

We recommended the Lottery redesign its controls for requesting, approving, and monitoring the reconstruction of instant tickets to effectively segregate those duties and allow controls to operate as intended.

On Page 6, Observation No. 4, reports the Lottery was not in compliance with a multi-state lottery rule requiring the filing of annual certification of changes to the Lottery's computer gaming system and internal control system.

We recommend the Lottery comply with the rule by submitting the required annual certifications.

On the following page, Observation No. 5, recommends improving the overall Lottery's Replay Program. Risks to the Replay Program were first reported in the Fiscal Year 2009 Management Letter. In response to a similar comment in the Fiscal Year 2012 Management Letter, the Lottery initiated a process intended to obtain a Service Organization Control report or SOC 2 report prepared describing the controls over the Replay Program.

We recommend the Lottery continue in its efforts to understand and document the Replay Program, including relevant controls in place at the vendor and hasten its plan for obtaining a SOC 2 report on the controls over the operation of the Replay Program.

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Observation No. 6 on Page 9 is a State Compliance comment. The Lottery expended approximately \$117,000 of Lottery funds to support the Gaming Regulatory Oversight Authority established in RSA 284-A:1. The use of Lottery funds for this purpose appears contrary to Part 2, Article 6-b of the State Constitution.

We recommended the Lottery request an opinion from the Attorney General's Office as to whether the use of Lottery money to fund the Authority is in compliance with Article -- excuse me -- with Part 2, Article 6-b of the State Constitution.

On Page 11 behind the tab reports the current status of Observations contained in our Fiscal Year 2012 Management Letter. As noted in the table at the bottom of the page, nine of the comments were fully resolved, one was substantially resolved, and two were partially resolved.

This concludes my presentation. I'd like to thank the Lottery's Executive Director, Charles McIntyre, and his staff for their assistance throughout the audit and thank you, the Committee, for your time. We'd be happy to answer any questions.

CHAIRWOMAN WALLNER: All right. Do we have questions?

REP. WEYLER: Question.

CHAIRWOMAN WALLNER: Yes, Representative Weyler.

REP. WEYLER: Thank you, Mr. LaRiviere, for your thorough work. Director McIntyre, where you're involved in more than one multi-state game, and I assume all of them have drawing rooms for the numbers?

CHARLES MCINTYRE, Executive Director, New Hampshire Lottery Commission: Good morning, Representative Weyler. Yeah, that's correct. We house one drawing room for the Tri-State games. There's another drawing room which -- there's several, actually, in Iowa, which run the MUSL games which is Powerball and games

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like it, and then the Lucky For Life game the drawing room is housed in Connecticut.

REP. WEYLER: So we just have the one for the three states?

MR. MCINTYRE: That's correct. As agreement, each of the states has a specific function. Ours is to house the draw room and handle drawings. Vermont's is to handle the business office. And, originally, Maine's was to handle the data center but that was prior ago and now they really don't do anything.

REP. WEYLER: I'm glad to learn that. I hoped there wouldn't have to be 50 different drawings rooms for Powerball or something.

MR. MCINTYRE: No, no, no. It's really just one centralized. Moreover, we have a backup agreement with MUSL. For example, if our building was to fail, if we have a disaster, the drawings would be housed by MUSL. They handle hundreds of drawings a week for other jurisdictions for that reason.

REP. WEYLER: Thank you very much.

MR. MCINTYRE: Thank you.

REP. WEYLER: Glad to see you're making progress.

MR. MCINTYRE: Thank you very much.

CHAIRWOMAN WALLNER: Representative Leishman.

REP. LEISHMAN: Thank you, Madam Chair. Just like to thank you, Charlie, for working with the folks at Audit and you're willingness to concur with all of their recommendations. I think that's admirable. Thank the Audit group for their good work.

MR. MCINTYRE: Certainly, I wouldn't -- I would be remiss if I didn't thank them for their efforts and more just in terms of doing an audit which is important, but on this occasion they

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were exceptionally user-friendly for our audit purposes this time. They really made an effort to try and be just accessible but not be intrusive. So, really, they did an excellent job. I want to thank Dick and Bill Mitchell and Jim and the rest of the crowd.

CHAIRWOMAN WALLNER: Thank you.

REP. LEISHMAN: Thank you, Madam Chair.

CHAIRWOMAN WALLNER: Further comment?

REP. WEYLER: Just going to make the motion.

CHAIRWOMAN WALLNER: All right, Representative Weyler has a motion.

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

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Weyler moved, Representative Eaton seconds. All in favor? Any opposed? Will be placed on file. Thank you very much.

MR. MCINTYRE: Thank you, Madam Chair.

***** {MOTION ADOPTED}**

CHAIRWOMAN WALLNER: Now let's move to the Liquor Commission.

MR. MAHONEY: Thank you, Madam Chairman. Joining me this morning to present the Liquor Commission Management Letter is Jean Mitchell. Jean is a Senior Audit Manager with our office who was responsible for managing the Audit on a daily basis at the Liquor Commission. We are also joined by Craig Bulkley and Steve Kiander from the Liquor Commission.

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JEAN MITCHELL, Senior Audit Manager, Audit Division, Office of Legislative Budget Assistant: Good morning, Madam Chair, Members of the Committee. For the record, my name is Jean Mitchell. I'm here today to present to you the Fiscal Year 2013 Management Letter of the Liquor Commission. This Management Letter is a byproduct of our 2013 financial audit of the Commission.

The Liquor Commission's Comprehensive Annual Financial Report was presented to the Committee at the January meeting. This report contains 12 comments, one of which is a material weakness, and nine are significant deficiencies, and two are State Compliance comments. The Commission concurs with 11 of the comments and concurs, in part, with one comment, and no comments suggest legislative action may be required.

Observation No. 1 begins on Page 3. This Observation is a material weakness. Weaknesses were identified in SLC's control environment, particularly its support structure for financial accounting and reporting. These weaknesses were evidenced by the need for auditors to propose and for SLC to make one material and seven significant audit adjustments to the Fiscal Year 2013 financial statement.

During the audit period, SLC's financial accounting and reporting expertise was centered in two long-term employees. There were no comprehensive policies and procedures to support these two employees' positions. Both of these employees left employment subsequent to the audit period.

We recommend that SLC strengthen its core financial accounting and reporting resources to include adequate training of personnel and effective policies and procedures to support job responsibility.

Observation No. 2 starts on Page 5. This Observation highlights the need for SLC to further develop its risk assessment process and to develop and implement business

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continuity and disaster recovery plans to protect financial operations from foreseeable disruptions.

The next Observation is No. 3. In this Observation we recommend that SLC finalize and implement formal fraud risk mitigation policies to help limit the Commission's exposure to and promote timely detection of fraud. These policies should include a formal fraud assessment, prevention, deterrence, and detection policy and a fraud reporting policy, as well as appropriate training. A similar comment appeared in our 2006 Management Letter report.

Observation No. 4 is located on Page 7 and recommends SLC formalize and document its review of quarterly price changes by vendors.

Observations No. 5 and 6 relate to compliance with established store policies implemented to aid in the control of store sales revenue. Observation No. 5 begins on Page 8.

SLC implemented a cash handling policy to establish and maintain accountability over sales proceeds. As noted in the bulleted items on Page 8, from the random sample of 29 stores and days tested, instances were noted where SLC did not comply with this policy.

In Observation No. 6 on the following page, we noted examples of where two stores where voided transactions were tested and the reasons for the voids and the manager's signature approving the voids was not noted on the documents.

Observation No. 7 and 8 relate to control over license and permit revenue collected by the Division of Enforcement and Licensing. On Page 10, Observation No. 7 recommends a review of the licensing procedures and systems and improvement to the stores' reconciliation procedures.

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At the top of Page 11 is Observation No. 8. We recommend improved accountability controls over license and permit revenues.

The last two significant deficiencies begin on Page 12, with Observation No. 9 describing the need for SLC to enforce and monitor store payroll controls, especially controls related to part-time employee -- part-time store employees signing their time sheets. Continuing on to Page 13 is Observation No. 10. We note computer applications for tracking inventory could be better aligned with SLC's work flow.

The State Compliance comment is located on Page 14. It's Observation No. 11. This comment recommends that SLC develop and maintain a formal written store plan for all retail liquor stores in compliance with RSA 177:3. A similar comment was also included in our prior audit reports.

The last comment, No. 12 on Page 15, identifies administrative rules which has not been adopted by the SLC, and we recommend they adopt the required rules. A similar comment was noted in our 2009 performance audit.

If you turn behind the tab is the current status of the 2006 Management Letter comments of the New Hampshire Liquor Commission. Of the 16 Observations, 11 are fully resolved, one is substantially resolved and four are partially resolved.

This concludes my presentation. I would like to thank the Liquor Commission management and staff for their assistance during the audit. And with your permission, Madam Chair, I'd like to turn the presentation over to Craig Bulkley and Steve Kiander of the Liquor Commission.

CHAIRWOMAN WALLNER: Thank you.

STEVE KIANDER, Chief Financial Officer, New Hampshire Liquor Commission: Good morning. For the record, my name is Steve Kiander, and I am the CFO for the Liquor Commission and

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would like to thank the LBA and Jean for their professionalism during the audit. And we do, you know, concur as stated in the audit observations. And if there's any questions, we'd be happy to take those.

CHAIRWOMAN WALLNER: Thank you. Thank you for being here.

REP. WEYLER: Question.

CHAIRWOMAN WALLNER: Yes, Representative Weyler.

REP. WEYLER: Thank you for being here and thank you, Madam Chair. Thank you, Miss Mitchell, for your thorough work.

The thought occurs to me that I don't know the answer to. You're one of the highest users of credit cards across the state system. Are we getting the minimum rate on all of those? And if not, why not?

MR. KIANDER: That is a very good question. And we are, in fact, the biggest user of credit cards throughout the state. It comprises a great majority of our sales. It's a necessary business expense, especially in the retail environment. Past practice the Liquor Commission has been deeply involved in the agreement with contract provider with the State of New Hampshire, and we will be part of that going forward. We have been able to negotiate and get an interchange rate that has been as low as can be for the volume of sales that we do.

REP. WEYLER: Thank you. That's the answer I was looking for.

CHAIRWOMAN WALLNER: Thank you. Representative Eaton.

REP. EATON: I'm not even sure this is an appropriate question, but it appears at least every year, if not every other year, if you go to the White Farm there is a massive wrapped bundle of shelving that comes from SLC. And usually the reason given that I find out up there is from a reset in a store. And

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having been in the business, used the heavy grade shelving, it's very expensive, and the shelving I've been looking at when I see it at White Farm anybody would be more than happy to use. And is there a reason why you go through that expense?

CRAIG BUCKLEY, Chief Operating Officer, New Hampshire State Liquor Commission: Thank you for the question, Representative. For the record, my name is Craig Bulkley. I'm the Chief Operating Officer for the Commission.

As I think the Committee may be aware, the Commission has been working on a pretty aggressive effort to modernize a number of our stores. For quite a few years there was very little done as far as upgrading old tired interiors. And we have taken it as a primary mission to upgrade quite a few stores over the last several years. Part of that upgrade is to replace older racking, whether it be the metal racking or, in some cases, the old wooden racking. And we are replacing that with a more modern set of racking that you might see in the local Concord store here down on Storrs Street or any of the other stores that we've recently renovated.

If you've been to the New Bedford store or to the Milford store, or any of the stores that we've recently done, you're going to find that the interiors have all been changed out and new racking has been put in there. And, obviously, the old racking goes to the White Farm. So you're going to continue to see that as we replace what I consider to be tired interiors with modern, up-to-date racking and other facilities within each of these stores that we upgrade.

CHAIRWOMAN WALLNER: Thank you. Further questions? Yes, Senator Larsen.

SEN. LARSEN: In the past, there have been some issues with credit card security, and I'm wondering how your -- what's your review of how your -- your security levels to prevent credit card fraud?

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MR. BULKLEY: We are working very closely with Commissioner Hodgdon and her group dealing with PCI, along with DoIT. And we've made a number of changes and have spent a lot of money to come into compliance with PCI standards.

We currently have a POS software package that is not completely compliant and, therefore, we have some – what do we call them – mitigating efforts to, basically, randomly select server hard drives from our stores on a quarterly basis. They are tested to make sure that there's no information related to credit cards on those. So we're doing all the things that we're supposed to be doing in order to be in compliance. And that is an ongoing effort because it's an evolving effort because those PCI standards change and tighten up from year to year. But we are working with the rest of the State Agencies that are involved in this to make sure that we're as secure as we can be.

CHAIRWOMAN WALLNER: Further questions? Seeing none. I call on Representative Weyler.

** REP. WEYLER: Thank you, Madam Chair. I move we accept the report, place it on file, and release in the usual manner.

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Weyler moves we place it on file and Representative Eaton seconds. All in favor? Any opposed?

*** {MOTION ADOPTED}

CHAIRWOMAN WALLNER: We will Place that on file. Thank you. Thank you very much. And moving on now to the Turnpike.

MR. MAHONEY: Thank you, Madam Chairman. Our last Management Letter for presentation this morning is for the Turnpike System for the Fiscal Year ended June 30th, 2013. I'm again joined by Jean Mitchell who was also the Senior Audit Manager in charge of this audit as well. And we are joined by

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Patrick McKenna, the Deputy Commissioner of the Department of Transportation and Marie Mullen, a Senior Administrator with the Department.

MS. MITCHELL: Good morning, again, Madam Chair. For the record, my name is Jean Mitchell. The next report I am here to present is the Fiscal Year 2013 Management Letter of the Turnpike System. Like the State Liquor Commission, this report is a byproduct of our Fiscal Year 2013 financial audit of the system that was presented to you at the January meeting.

This report contains six internal control comments, one of which is classified as a material weakness. There's also one State Compliance comment and two management issue comments. Turnpikes does concur with three of the comments, concurs in part with two of the comments, but does not concur with four of the comments. None of the comments suggest that legislative action may be required.

The Observations start on Page 3 with Observation No. 1. This Observation is classified as a material weakness. While Turnpikes' financial accounting processes have continued to improve over the past Fiscal Years, auditors identified two material errors in Turnpike's financial reporting that were not prevented and detected and corrected by Turnpikes' internal controls.

We recommend Turnpikes continue in its efforts to improve its financial accounting and reporting processes and keep its finance staff current and trained in financial reporting standards.

Observation No. 2 is located on Page 5. This is the first of five identified significant deficiencies included in the report. Turnpikes is highly dependent upon its electronic toll system to accurately determine, charge, collect, and report toll revenues. Turnpikes has implemented both physically-observed and camera-based lane audits to test the accuracy of its electronic toll transaction system. While we did note improvement in the

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descriptive narratives and follow-up of the physically-observed audits, we did note certain procedures were not completed related to the fourth quarter camera-based lane audit of the open road tolling vendor that we had selected for our test and review.

We recommend Turnpikes continue to improve its toll audit procedures, including ensuring all intended audit procedures are performed.

Observation No. 3 begins at the top of Page 6. This Observation relates to unpaid toll violation fees. As described in the Observation, Turnpikes is not pursuing electronic toll violations as aggressively as outlined in the Administrative Rules. The policies and procedures to pursue collection of outstanding tolls are more lenient than those outlined in the Administrative Rules which expired in August of 2013 and have not been readopted as of December 20th, 2013, the date of this report.

Observation No. 4 starts at the bottom of Page 7. It relates to information technology controls over the electronic tolling system. The audit comment recommends Turnpikes continue to strengthen its controls by performing regular comprehensive risk assessments, ensuring appropriate segregation of duty controls are in place at its vendor, and implementing detection controls to identify any unauthorized changes made to its tolling system.

The next Observation No. 5 starts on Page 9. This Observation recommends Turnpikes review and determine with the assistance of the Department of Administrative Services whether Turnpikes is required by the Manual of Procedures to submit significant rental and other contracts that are billed as time and materials as opposed to fixed dollars, known as Force Account Agreements, to the Governor and Council for approval. Historically, Turnpikes has not submitted these contracts to G & C even though there is no clear exemption from the Manual of Procedures requirements.

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Observation No. 6 is located on Page 10. This Observation recommends that Turnpikes' financial and operation management take a more active role in monitoring the toll violator activity and the pursuit of apparent violators.

A State Compliance comment is located on Page 12. This Observation identifies that Chapter 241:6, the Laws of 2004, which is not codified in RSAs, required the completion of a certification prior to the use of the electronic toll facility. The Observation notes that Turnpikes could not evidence that it had issued a certification for either Turnpikes' first or any subsequent installation of electronic tolls at any of its facilities. This Observation recommends Turnpikes prepare and provide responsive certifications.

The final two comments are other management issue comments and they begin with Observation No. 8 on Page 14.

This Observation proposes Turnpikes consider consolidating its financial operations currently split between Department headquarters in Concord and Turnpikes' toll facility at the Hooksett Toll Plaza to take advantage of increased efficiencies for better communication, integration of financial information, and scale of operation.

Our final Observation can be found at the top of Page 15.

During Fiscal Year 2013, Turnpikes' management decided to discontinue the preparation of a Comprehensive Financial Annual Report known as a CAFR presentation of its financial statements. Turnpikes has prepared CAFR presentations since 2005. The Fiscal Year 2013 financial report included audited financial statements and notes but omitted the management discussion and analysis information of generally accepted accounting principles required to be presented to supplement the basic financial statements and place the financial statements in appropriate operational, economic or historical context. We recommend Turnpikes again consider preparing a CAFR.

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Behind the tab is the current status of the Fiscal Year 2012 Management Letter of the Turnpike System. Of the six Observations, three are fully resolved, one is substantially resolved, and two are partially resolved.

This concludes my presentation. I'd like to thank the Turnpike System management and staff for their assistance during the audit, and I'd like to turn the presentation over, with your permission, Madam Chair, to Patrick McKenna and Marie Mullen.

CHAIRWOMAN WALLNER: Yes, thank you.

MS. MITCHELL: If you have any comments.

PATRICK MCKENNA, Deputy Commissioner, Department of Transportation: Thank you. Thank you, Jean. For the record, my name is Patrick McKenna. I'm the Deputy Commissioner of the Department of Transportation. Joining me this morning is Marie Mullen. She's a Senior Administrator in our Finance Division. Thank you for having us here this morning. Thank you for your report.

I'd like to first begin by recognizing some of the folks at our Department of Transportation who work in our financial operation, as well as within Turnpikes, who work hard every day to improve our operational reporting and otherwise.

Mr. Len Russell sitting behind us has been with the Department for some period of time. He's been a tremendous help to me. I've been with the Department for about three years now. And without Len's assistance, I would not know what I know about the Department of Transportation. He's a tremendous resource for our Department.

Marie Mullen sitting beside me. She is really one of the brightest folks we have in the Department. She's an outstanding resource financially for us and has done a tremendous amount of work. I'll reference some of that work in just a moment.

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Mary Ellen Emmerling is one of our financial analysts who reports to Marie. Lisa Yanco is one of our accountants who focuses on Turnpike operations. And then within the Hooksett branch itself, Margaret Blacker is an Administrator and handles business operations for us there, as well as our Turnpike Administrator, Chris Waszczuk, who works hard every day, not only on the project side of the system, but also on the financial activities as well. Tremendous resources for the Department. We appreciate -- I certainly appreciate their efforts.

What I'd like to do initially is start from the back and move backwards. I'll limit my comments and, ultimately, respond to any questions you may have. The one thing I'd like to point to is really Page 17 on the -- on the items of prior audits; and, namely, I'd like to -- I'd like to address item number two in previous -- previous audits.

We have had a significant material weakness, and that's been noted, I think, probably more than a decade here at this Committee, and one that we take very seriously. And we've worked diligently over the past three years. It's been a multi-year, multi-agency, and multi-branch of government effort to help resolve this item.

You might note that in the balance sheets in the financial reports that we put before you -- placed before you in January that fixed assets are really, they comprise about 86% of the balance sheet in the Turnpikes' system. It is a significant, very significant element. The -- the development of state systems to track these items are progressing with the ERP system, Lawson system that we have. We don't currently have a fixed asset module that integrates into the State's system. But aside from that, we really took great strides, I think, to create compensating controls in the past three years. And we have worked -- we have worked very hard with LBA. We have worked with the -- and I'd like to recognize Karen Benincasa, the State's Comptroller. We worked very hard with her and her predecessor to make movement and develop compensating controls.

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We actually -- Marie Mullen really headed up the effort. We did a 60-year reconciliation of fixed assets. We went all the way back to the inception of the system itself to go back and track through all the bridge records, all the road records, everything that we do. And that's fairly unusual effort to go back to that point, but that's really the basis that we wanted to start from.

We found in, I would say, probably through that effort confirmed the material weakness that existed in that financial reporting. We made several corrections. We have done so in Fiscal Year 12, a year ago, as well as in this past Fiscal Year. Marie actually led up the effort to develop the Comprehensive Policy and Procedure Manual with regard to fixed assets. We worked with the Comptroller on that as well. It was very difficult effort, very complicated effort, and one that we're extremely gratified and pleased that we have in place. And I think as is represented by the LBA's finding here that that item is substantially completely resolved. We, obviously, have to follow those policies and procedures going forward and we plan to.

So I'd just like to thank -- we also worked with State Treasurer Provencher in that effort as well. Her -- herself personally, as well as her staff, have been very helpful with us and that's really the -- the main component that I'd like to draw your attention to, and I'm certainly willing to respond to any questions you may have.

CHAIRWOMAN WALLNER: Thank you. Do we have questions for Mr. McKenna? Yes, Representative Leishman.

REP. LEISHMAN: Thank you, Madam Chair. And thank you and congratulations to your new appointment.

MR. MCKENNA: Thank you very much.

REP. LEISHMAN: But I do have a concern. I have the greatest respect for our audit people, and it's not often that I've seen that out of like the nine Observations the Department is either

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not willing to concur with four or partially concur with two. So I'm -- should I be concerned about that or not?

MR. MCKENNA: Well, I -- I certainly appreciate Representative's question. I think as we go through a process like this, we work -- we work hard to work through issues. Some of these -- some of these items are -- are matters of opinion. The auditors, obviously, have opinions in certain of these areas as does the Department. I think we've worked very hard to make considerable progress. There are matters that on plain face we -- we do not concur with. We continue to work to improve our financial reporting and operations. Some of the -- the items on there are just basic matters of differences of opinion. I don't think they're really emblematic of anything more than that. Our answers, I believe, are plain and concise as I believe the findings were as well.

REP. LEISHMAN: I guess just a further response. Again, it puzzles me because generally the different departments, even branches of government, whether it be legislative or judicial, have concurred primarily with all recommendations and your Department is not. So I just wanted to make that a concern of mine.

MR. MCKENNA: Certainly. Noted.

REP. LEISHMAN: Thank you, Madam Chair.

CHAIRWOMAN WALLNER: Further comment? Yes, Senator Morse.

SEN. PRESIDENT MORSE: Congratulations on your new appointment.

MR. MCKENNA: Thank you, Senator.

SEN. PRESIDENT MORSE: The Observation 9, whose decision would it be to decide whether or not we are going to continue with the reporting or not continue with the reporting? Is that a Department decision, the Governor's decision, or legislative?

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MR. MCKENNA: Thank you for the question, Senator Morse. That really is an effort that we undertook. We actually had training. There's an annual training that is generally held by the State's external auditor. The Department of Transportation attends that every year going over accounting standards and otherwise. During that training it was noted that there were certain reportings that weren't necessarily required by -- by standards. And we had follow-up discussions with the State Comptroller to look for ways to become more efficient as a state in financial reporting. One of those elements was to take a look at the elements of our financial reporting that might be considered duplicative and as an effort to become more efficient in that regard.

And so we worked concurrently, really, with the State's Comptroller's office. We worked -- we pursued in discovery mode with the State Treasurer, as well as with the -- with bond counsel through the State Treasurer to determine if there were any bond covenant compliance issues associated with that. We do, for the Committee's information, we do a series of additional financial reports that I think we may have been remiss in not bringing forward to the Committee's attention in the past. And we are, certainly -- we have copies of these for you, particularly, if anyone is having trouble sleeping on any given night, and we'll hand those out.

We do an official statement that, I believe, the Treasurer's actually referenced on several occasions to bond -- to disclose when we are going out to the capital markets for bonds. It's a very detailed, series of reports here. And then we do an Annual Report that follows on those that provide really all of that information. So, in addition to the annual financial report that we've created, which has full footnotes and otherwise, we also have at least one, if not multiple, series of even more detailed financial reporting that are already done and continue to be maintained.

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SEN. PRESIDENT MORSE: But that's reporting. I mean, basically the -- what are they going to be able to audit in the future?

MR. MCKENNA: We -- the financial statements. We created a set of financial statements. We're essentially linking in on a statewide basis. The State prepares a CAFR. The Turnpike System has to submit information into that CAFR in a detailed manner, and all of that -- all of that is available and will go through an audit process, similar to what we go through today.

SEN. PRESIDENT MORSE: I guess my question then would be for the accounting side. How many different departments would walk away from this if we change, because they all change, how many are we talking about?

MR. MAHONEY: Well, Senator, there are a number of proprietary funds in the State's accounting system. The Turnpike System is an enterprise fund which is a type of proprietary fund. The Liquor Commission is also an enterprise fund. The Lottery Commission is an enterprise fund. The Employee and Retiree Health Benefits Fund is also a proprietary fund. It's an internal service fund. And then there are the State Revolving Loan Funds at the Department of Environmental Services, which are now separately presented in the State's Comprehensive Annual Financial Report as an enterprise fund -- as an enterprise fund.

Historically, our office has recommended the preparation of a CAFR as best practice when it comes to external financial reporting. I was reminded earlier this week going back to 1988 when we used to audit the New Hampshire Retirement System, we recommended that they prepare a Comprehensive Annual Financial Report. To this day, they and as well as the Lottery Commission and the State itself submits their CAFRs to the Government Finance Office Association to be recognized for financial reporting excellence. And each one of those organizations has received that certificate in the past and continue to do so today.

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With regard to what we would be losing in terms of our audit coverage, certainly, when the Turnpike System issues their own financial statements, they are much more detailed in terms of their notes to the financial statements than you would see in the State's Comprehensive Annual Financial Report. As you can imagine, the State's Comprehensive Annual Financial Report covers the entire state and it can't possibly provide the kind of detail that the Turnpike System would provide in a stand-alone financial statement.

Likewise, the Lottery Commission would also not be covered to the extent it is in the Statewide Comprehensive Annual Financial Report. And in order to be consistent with or compliant with government auditing principles or GAAP, Generally Accepted Accounting Principles, I should say, as a minimum, management discussion and analysis must accompany the financial statements, as well as other required supplementary information. So whenever financial statements are presented separately, they need to be accompanied by an MD&A it's called.

And for Fiscal Year 2013 the Turnpike System, in consultation with the Comptroller's Office, decided not to issue an MD&A, and we so noted that in our Independent Auditor's Report when we issued that over the Turnpike System's financial statements. So it remains to be seen what exactly our office would audit for Turnpikes in Fiscal Year 2014 because we have not yet received a decision from the Comptroller's Office with regard to their intention of financial reporting, not only for the Turnpike System, but for Lottery and Liquor. When Liquor does prepare financial statements, they do prepare a CAFR which we audited this year. So we're in kind of a holding pattern, Senator, with regard to Fiscal Year 2014. But all of those funds, as Patrick mentioned, would be included in the Statewide Comprehensive Annual Financial Report but to a less detailed degree.

SEN. PRESIDENT MORSE: Can I just follow-up on the question that I asked, Patrick? Whose decision is it? Is it the

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Legislature's, the Governor's, or the Department's decision to discontinue what we have been doing?

MR. MAHONEY: In statute right now, Senator, the only Comprehensive Annual Financial Report that is required to be prepared is the Statewide Comprehensive Annual Financial Report. There is nothing in statute that requires either the Turnpike System, the Liquor Commission, or the Lottery Commission to prepare Comprehensive Annual Financial Reports or any of the other proprietary funds in the state.

We are currently auditing the retiree -- the Employee and Retiree Health Benefits Fund at the Department of Administrative Services. And as I sit here, although I haven't had a conversation with the Comptroller recently about this, I'm not sure what type of financial statements will be issued with regard to that audit, if separately issued, or whether those will also be just what is in the Statewide Comprehensive Annual Financial Report. So there's only one statutory requirement for a CAFR.

And the decision, to finish my answer, Senator, in terms of whose decision is it on a Department level basis, I'm not sure. I know that Patrick McKenna in Department of Transportation has worked closely with the Comptroller. I have talked to the Comptroller and she feels that she should be involved in those decisions because she's concerned that they be prepared consistently and appropriately. So my assumption is that it's a joint decision, but the Comptroller's weighing heavily on these decisions.

CHAIRWOMAN WALLNER: Any further question?

REP. WEYLER: I have a couple.

CHAIRWOMAN WALLNER: Yes, Representative Weyler.

REP. WEYLER: Thank you, Madam Chair. Thank you, again, Miss Mitchell. I enjoy reading your studies.

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REP. LEISHMAN: Doesn't put him to sleep.

REP. WEYLER: So much information. Thank you, Commissioner. A couple areas I want to look at. I know we started paying 15-cents to E-ZPass for every toll they collected. Is that still the case?

MR. MCKENNA: I'm not sure I'm following.

REP. WEYLER: The electronic tolling, E-ZPass, you have to pay something to the E-ZPass organization.

MR. MCKENNA: We do have a series of operating agreements with our vendor Xerox. I believe the cost per transaction is below -- I believe it's in the neighborhood of seven and a half cents. So fairly low cost per transaction.

REP. WEYLER: Have we -- have we calculated what it costs for the live people to collect the tolls?

MR. MCKENNA: It's significantly higher. Probably in the neighborhood of triple that.

REP. WEYLER: Is it worth advertising to get more people to use E-ZPass because of the funds we would save?

MR. MCKENNA: We -- we do have some efforts under way. The Commissioner actually put an emblem on his -- on the vehicle that we use. So we're -- every time he uses that vehicle or someone in the Department does, we're advertising as we're driving.

There are -- there are a number of signage elements and also what we found is we have had a fairly significant increase in the utility of E-ZPass surrounding the advent of when we moved to an electronic tolling, ORT. When that happened in Hampton, we went up considerably. We seem to be seeing that at the Hooksett Plaza as well. So it does seem to be really

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accelerating. We're well over 60% electronic. And, actually, of note, we have modified the Administrator of Turnpikes, Chris Waszczuk, actually implemented two years ago a demand staffing model associated with the fact that we were seeing additional use of E-ZPass, and we actually went to a demand model rather than a normal shift basis for staffing of the tolls otherwise. So we -- a lot of part-time assistants and done on a basis of, for instance, anticipating a holiday weekend or otherwise, we would increase staff rather than have normal staff in those positions.

REP. WEYLER: I'm glad to hear that. And the last area I want to talk about Miss Mullen may be interested in. As I drive down our highways I see that we may own more woods than anybody else in the state if we look at all the miles. And I'm wondering if we've ever looked at some management, like, Forest and Lands, or maybe even selective harvesting. I know at one point the Commissioner told me he was actually burning wood in the patrol sheds and saving all kinds of oil. How extensive have we looked at our woodlands that in the median strips and on the outside? You've got a lot of wood.

MR. MCKENNA: Yes. Thank you. We actually have an internal group that's actually a statewide group that looks for innovations. And we have had a project initiated by that group that looked at really unused woods or otherwise. They're starting to move in that regard to bring those to -- we have several processing plants that use wood chips and otherwise. So some of the down trees and that sort of thing that you would see we are starting to develop. We are also working with -- we are working with other agencies, too, especially with Forestry at DRED to look at harvesting selectively in some of the areas that are within ownership within the State within DOT.

REP. WEYLER: Delighted to learn that. Thank you very much. Thank you, Madam Chair.

CHAIRWOMAN WALLNER: Further questions? Comments? Seeing none. I ask Representative Weyler to make a motion.

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

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Weyler moved and Representative Eaton second that we place the audit on file. All in favor? Any opposed? Motion passes.

*** {**MOTION ADOPTED**}

CHAIRWOMAN WALLNER: Thank you. One more.

MR. MAHONEY: Thank you, Madam Chairman. Our final audit report this morning is appropriately, I think, the State Treasury. Joining me this morning to present the audit report to the Committee is Monica Mezzapelle. Monica is an Audit Manager with our office, and she was responsible to conduct the audit on a daily basis at the State Treasury. I believe we're going to be joined by the State Treasurer, Catherine Provencher, as well as Bill Dwyer. Bill Dwyer is the Deputy State Treasurer.

CHAIRWOMAN WALLNER: Great. Thank you and welcome.

CATHERINE PROVENCHER, State Treasurer, Treasury Department: Good morning.

CHAIRWOMAN WALLNER: Welcome.

MONICA MEZZAPELLE, Audit Manager, Audit Division, Office of Legislative Budget Assistant: Good morning, Madam Chair, and Members of the Committee. For the record, my name is Monica Mezzapelle.

I'm here this morning to present the Financial Audit Report of the State Treasury for Fiscal Year 2013. Our report contains 13 Observations, 11 of which are classified as significant deficiencies and two as State Compliance comments. Treasury

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concluded with 12 of the Observations in the report and partially concluded with one Observation. Our report also contains Independent Auditor's Report, the financial statements, and notes to the financial statements.

On Pages 1 and 2 of the report, we briefly describe some of Treasury's responsibilities and its funding. Treasury is responsible for the management of the State's cash, investments, debt, trust and agency funds, and abandon property program.

During the audit period, Treasury had revenues of approximately \$39 million, which primarily consisted of the Abandon Property Escheatment and debt repayment from certain self-paying agencies. Treasury also had expenditures of approximately \$182 million. The expenditures primarily consist of debt service payments and meals and rooms taxes to each of the cities and towns.

Expenditures in the Capital Projects Fund represent the cost of issuing bonds and these were approximately 400 -- \$646,000. The financial statements included in this report present the financial activities of the State Treasury and not the financial activities the Treasury performs on behalf of the State, such as the management of the State's cash and debt.

Our Observations begin on Page 6. Observation No. 1 recommends Treasury work with the Department of Administrative Services and other State Agencies to bring the State into compliance with the Federal Treasury-State Agreement which is intended to improve the transfer of Federal funds between the Federal government and the states. The State's non-compliance with the terms of the agreement has led to a number of significant other findings over the last few years.

Starting in the middle of Page 7 is Observation No. 2. This Observation recommends that Treasury should take to review and improve its information technology and related controls.

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On Page 9, Observation No. 3 recommends Treasury review the circumstances that allow for posting errors that occur and go undetected and to strengthen its controls accordingly. Also on Page 9, Observation No. 4 recommends Treasury implement policies and procedures for maintaining information on loans that the State guarantees or is contingently liable for.

On Page 10, Observation No. 5 recommends Treasury update its Capital Projects list supporting bond issues more timely to allow for better allocation of bond proceeds and debt service to those State Agencies responsible for repaying the debt.

On Page 11, Observation No. 6 notes a financial institution had not been timely provided with an updated list of account signers. This Observation recommends Treasury improve its control for timely notifications to financial institutions.

Starting on Page 12, Observation Nos. 7 through 11 address trust and agency account issues. Observation No. 7 recommends improving segregation of duties of a trust and agency funds. Observation No. 8 recommends improving recordkeeping, and Observation No. 9 recommends maintaining a list of authorized initiators of trust and agency transactions.

On Page 15, Observation No. 10 notes there are three accounts maintained by Treasury that appear to require review to determine the purpose and ownership. We are recommending Treasury work with legal counsel to determine the purpose and ownership of those accounts.

In Observation No. 11 on Page 16, we recommend Treasury establish policies and procedures for reviewing trust and agency information in the State's CAFR to ensure funds are properly recorded.

On Page 17, Observation No. 12 is the first Compliance comment. In this Observation we note Treasury had not prepared their financial report required by statute. We are recommending Treasury submit this report as required.

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And the last Observation is on Page 18. Observation No. 13 notes Treasury had not created and operated a Conservation Number Plate Trust Fund in the Land and Community Heritage Investment Program Administrative Fund. We are recommending Treasury comply with the provisions of the statute or seek statutory amendment if accounts will not serve the State as initially intended.

The financial section of the report begins on Page 19 with the Independent Auditor's Report, followed by the financial statements, and notes to the financial statements. And on the last page of the audit report immediately behind the tab, we are including a summary of the current status of the 2005 Audit Observations. In this summary we note 14 Observations that were fully or substantially resolved and seven that remain partially or completely unresolved.

And with that, I conclude my presentation, and we would like to thank Madam Treasurer and her staff for their cooperation throughout the audit. And I'll be glad to answer any questions the Committee may have.

CHAIRWOMAN WALLNER: Thank you. Treasurer Provencher.

MS. PROVENCHER: Thank you. Good morning, Madam Chair, and Members of the Fiscal Committee. For the record, my name is Catherine Provencher. I'm your State Treasurer. And with me is Bill Dwyer, the Deputy State Treasurer. I'd like to point out that Bill has been nominated by the Governor to serve as our State's Commissioner of Treasury, and I'm hopeful that on Wednesday he will be confirmed to serve in that function until such time as there's an election by the Legislature.

I would like to thank Monica Mezzapelle and her co-worker Owen Haberle for the professional service that the Treasury received during the course of the audit. They camp out at the Treasury for a while, and I appreciate their patience. We do have a thin staff at the Treasury, and we do our best to make

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sure that the auditors get what they need so I appreciate their patience.

The Treasury takes the audit very seriously. The last time we were audited was 2005. So it had been an eight-year period since the last time we were audited. I -- if you'll indulge me for just a moment though. I don't think all the Observations should be read by the reader equally. I think some have more import than others.

Observation No. 6 related to the signatory on the accounts, I think is the most serious Observation in the report, and we absolutely take that seriously and have instituted procedures, especially considering what's going to happen next week, to ensure that all of the State's accounts are appropriately signed, if you will. And we'll follow-up with all of our banking and investment institutions to ensure that what they have on their side for records is what the actual signer should be.

And I also would like to just for a moment say that it's management's job on my side -- it's funny, I've sat on both sides of this table and --

REP. WEYLER: How's it feel?

MS. PROVENCHER: And for most of my career I was on that side of the table. You know, it's management's job to balance risks and expectations, right, within the -- the resources that we have to work within. And so while we take the Observations very seriously, part of the management's responsibility is to prioritize those risks and expectations and the auditor's job is to throw everything in the report, regardless of expectations or resources available to mitigate those risks. So we take the audit report away and say, okay, we have the risks identified here. We have -- we at the Treasury -- actually, Bill's the front man on it -- we do an internal risk assessment, broad risk assessment at the Treasury, and we periodically update that. So we have all these risks and we need to balance where we put our resources. So that's why you'll see from 2005 there will be

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findings that remain unresolved. Management might have put those on the list and said, you know what, this risk is more important right now than this risk that was identified by the auditors in 2005.

Unfortunately, the other thing with the unresolved findings is what happens over an eight-year period, you resolve some of the findings and then you have staff vacancies, et cetera, and then the weakness recurs. So with that setting I just -- we do appreciate the audit. We do take it very seriously, and it becomes part of our risk analysis profile in totality at the State Treasury. And I'm happy to answer any questions that you have.

CHAIRWOMAN WALLNER: Thank you. I think that was very helpful. I just want to say thank you for the fine job you've done as State Treasurer. I know we are going to miss you. And welcome, Mr. Dwyer. I think we look forward to working with you. So I just would like to give you a round of applause.

(Applause.)

CHAIRWOMAN WALLNER: And back to questions and comments.

REP. WEYLER: Just a couple comments.

CHAIRWOMAN WALLNER: Representative Weyler.

REP. WEYLER: Thank you very much, Miss Mezzapelle. It's an interesting audit. I have noted through the years and Cathy would, you know -- excuse me, Treasurer Provencher would note the same trend. I used to read all these audits. They used to all start off with this Department does not obey its own rules of the laws of the State of New Hampshire. We've made progress. And then the most typical reply to every audit, especially the one I remember from the court system was, every criticism was met with we don't have enough staff and enough money. And we are finally seeing less of that. So we have got the word out that that's somewhat unacceptable. I mean, we all have to deal with

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what we have, and the time to talk about more staff and more money is when we do the budget and tell us why and that's the time. Otherwise, I'm delighted to see that we have had a change from not seeing that so consistently. And, obviously, you know, that that one's getting a little trite.

I will congratulate you again on moving forward, but I know we will probably see you again, especially in Division II so I'm delighted about that and welcome Mr. Dwyer.

WILLIAM DWYER, Deputy Treasurer, New Hampshire Treasury Department: Thank you.

REP. WEYLER: You have some big shoes to fill.

MR. DWYER: Yes, I do.

REP. WEYLER: Even though you've got big shoes any way. Thank you both.

CHAIRWOMAN WALLNER: Yes, Senator Morse.

SEN. PRESIDENT MORSE: Congratulations.

MS. PROVENCHER: Thank you.

SEN. PRESIDENT MORSE: We are going to miss you here, but I'm sure we will see you. I have a question on an audit before yours that I respect your opinion. We are often going to you about bonding, and I am wondering if you have any concerns one way or the other about Turnpike not having their own CAFR?

MS. PROVENCHER: The quick answer is no. And I -- this gets back to managing risks and expectations, right? The -- there is no compliance requirement for the Turnpike System to have a separately issued Comprehensive Annual Financial Report. There are many other mechanisms that the Turnpike System uses to get its financial position out to the marketplace. Annually -- actually, we just did it last month -- annually we are required

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to update, it's called an Annual Report, and we post it to the marketplace through the Municipal Securities Regulatory Board updating the Turnpike System's official statement every year.

Turnpike has also, while they're not audited, but Turnpike has moved toward issuing monthly financial statements. So it becomes -- it does become a priority. Does the effort expended to present a separate Turnpike Comprehensive Annual Financial statement outweigh the benefit of monthly financial -- more timely monthly financial statements for the Turnpike System, et cetera? I think it's -- and I know statewide, I think, are the questions that need to be asked and thoughtfully deliberated on all of the separate financial statements.

If -- if, however, there are stakeholders that are being better informed by a complete separate Comprehensive Annual Financial Report on the part of Turnpike, well, then, maybe that's where the resources are better expended as opposed to monthly financial statements or the -- well, the Annual Report posted with the market is required. They can't not do that. But, again, all of these financial statements have to be put together for the Statewide Comprehensive Annual Financial Statements, the statewide CAFR. But that's just my opinion, right? You may have a different opinion on the usefulness of a separate Turnpike CAFR or a separate Liquor CAFR.

SEN. PRESIDENT MORSE: Thank you.

CHAIRWOMAN WALLNER: Thank you. Further questions? Comment? Representative Weyler.

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

REP. EATON: Second.

CHAIRWOMAN WALLNER: Representative Weyler moved and Representative Eaton seconds that we place the audit on file. All in favor? Any opposed? The motion passes.

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*** {MOTION ADOPTED}

** REP. EATON: Move to adjourn.

(14) Date of Next Meeting and Adjournment

SEN. SANBORN: Next meeting.

CHAIRWOMAN WALLNER: Next meeting.

REP. EATON: Oh.

CHAIRWOMAN WALLNER: Okay. April 25th, I think, is four Fridays from now and May 2nd is two -- is five Fridays from now. Do either of those dates work? Yes, Mr. Pattison.

MR. PATTISON: April 25th will be five.

CHAIRWOMAN WALLNER: Oh, five. So May 2nd will be six weeks. So do you have a preference or do you have a different date?

SEN. PRESIDENT MORSE: The May week is the school vacation week but I'm not sure that matters.

SEN. ODELL: April 25th.

CHAIRWOMAN WALLNER: Okay. Go with April 25th. That work for everybody? Okay, put it in your calendar. 10 o'clock, April 25th. And Representative Eaton moved that we adjourn. Meeting is adjourned.

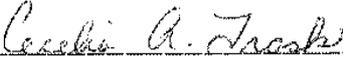
(Adjourned at 11:36 a.m.)

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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.



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

