

**JOINT LEGISLATIVE FISCAL COMMITTEE**

Zoom Webinar

Friday, October 9, 2020

**MEMBERS PRESENT:**

Rep. Mary Jane Wallner, Chair

Rep. Susan Ford

Rep. Ken Weyler

Rep. Lynne Ober

Rep. Peter Leishman

Rep. Erin Hennessy (Alt.)

Rep. Patricia Lovejoy (Alt.)

Sen. President Donna Soucy

Sen. Lou D'Allesandro

Sen. Jay Kahn

Sen. Cindy Rosenwald

Sen. Chuck Morse

(The meeting convened at 10 o'clock a.m.)

**(1) Call In Instructions:**

MARY JANE WALLNER, State Representative, Merrimack County, District #10: Good morning. I'm Mary Jane Wallner. I'm the Chair of the Fiscal Committee of the General Court. I find that due to the state of emergency declared by the Governor, as a result of COVID-19 Pandemic, and in accordance with the Governor's Emergency Order No. 12, pursuant to Executive Order 2020-04, as extended, this public body is authorized to meet electronically. Please note that there is no physical location to observe and listen contemporaneously to this meeting, which was authorized pursuant to the Governor's Emergency Order.

However, in accordance with the Emergency Order, I am confirming that we are, one, providing public access to the meeting by telephone, with additional access possibly by video or other electronic means. We are utilizing Zoom Video Webinar for this remote meeting. All Members of the Committee and the selected legislative -- and selected legislative staff and other guests present have the ability to communicate contemporaneously

during this meeting through this platform, and the public has access to contemporaneously watch and to listen to this meeting following directions and link provided on the General Court website at [gencourt.state.nh.us/LBA/budget/fiscalcommittee.aspx](http://gencourt.state.nh.us/LBA/budget/fiscalcommittee.aspx).

Two: By providing public notice of the necessary information for accessing the meeting. We previously gave notice to the public of the necessary information for accessing the meeting telephonically. Instructions have also been provided in the House and Senate Calendars, the Fiscal Committee Agenda, and the website of the Legislative Budget Assistant.

Providing a mechanism for the public to alert -- for the public to alert the public body during the meeting if there are problems with access. If anyone has a problem, please e-mail [LBA\\_Fiscal@leg.state.nh.us](mailto:LBA_Fiscal@leg.state.nh.us).

Adjourning the meeting if the public is unable to access the meeting. In the event the public is unable to access the meeting, the meeting will be adjourned and rescheduled. Please note that all votes that are taken during this meeting shall be done by a roll call vote.

Let's start by taking the meeting -- by asking the Clerk to take the roll call attendance. When each Member states their presence, please also state whether there is anyone in the room with you during this meeting, which is required under the Right-To-Know Law. I'll ask Representative Weyler if he could call the roll.

KENNETH WEYLER, State Representative, Rockingham County, District #13: Thank you, Madam Chair. Representative Wallner.

CHAIRWOMAN WALLNER: Representative Wallner is here, and I am at my home in Concord, New Hampshire, and I am alone.

REP. WEYLER: Representative Leishman.

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

PETER LEISHMAN, State Representative, Hillsborough County, District #24: Yes, good morning. Representative Leishman here. I am at my home in Peterborough, and I am alone.

REP. WEYLER: Representative Ford.

SUSAN FORD, State Representative, Grafton County, District #03: Representative Ford is in Easton alone. Thank you.

REP. WEYLER: Representative Weyler. I am in Kingston. I'm alone in this room at home in Kingston. Representative Ober. I thought I saw her on there. Is Representative Ober there?

(No response.)

REP WEYLER: Okay. Representative Hennessey.

ERIN HENNESSEY, State Representative, Grafton County, District #01: Good morning. This is Erin Hennessey. I am home in Littleton. My two minor children are home schooling with me today.

LYNNE OBER, State Representative, Hillsborough County, District #37: Ken.

REP. WEYLER: Lynne.

REP. OBER: Ken, I'm home and I'm alone. I don't know why you can't hear me. I am on the Internet, but it seems to be having problems. Maybe because the guys are cutting down trees and they're close to the wires in front of my house.

REP. WEYLER: Okay. Representative Lovejoy. I saw her on there.

PATRICIA LOVEJOY, State Representative, Rockingham County, District #36: I am here and my husband is in the house, yep, in Stratham.

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

REP. WEYLER: Representative Huot. I didn't see him.  
Senator D'Allesandro.

(No response.)

REP. WEYLER: He's muted but wave to me, Lou. Okay. He's home.

LOU D'ALLESANDRO, State Senator, Senate District #20: I'm in my home -- Senator D'Allesandro. I'm in my home in Manchester, and I am alone. My wife has left me. What am I going to do?

REP. WEYLER: What an announcement. Senator Soucy.

DONNA SOUCY, State Senator and Senate President, Senate District #18: Good morning. This is Donna Soucy. Despite my virtual background, I am home in Manchester in my office and I am alone.

REP. WEYLER: Senator Kahn.

JAY KAHN, State Senator, Senate District #10: Present in Keene. My wife is elsewhere in the house.

REP. WEYLER: Senator Rosenwald.

CINDY ROSENWALD, State Senator, Senate District #13: Hi, Cindy Rosenwald. I know it looks like I'm with Donna Soucy, but I am in my home and I am alone.

REP. WEYLER: Senator Morse.

(No response.)

MICHAEL KANE, Legislative Budget Assistant, Office of Legislative Budget Assistant: Senator Morse may be later, Representative Weyler.

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

REP. WEYLER: All right. We have all the Members of the House, including -- we have six members of the House including an alternate -- two alternates. Seven members of the House and four members of the Senate.

CHAIRWOMAN WALLNER: Thank you, Representative Weyler. Hum -- today we're going to go through the audits. For the last several meetings we have not been -- we have not been doing the audits, but we have taken votes to accept them and release them. So all of these audits will have been released. We do not need -- today we have no votes that we need to take on them. This is purely getting information and an opportunity for us to ask questions about the audit. And first audit today I think is the Single Audit of Federal Financial Assistance Programs. Is that right, Mr. Kane?

MR. KANE: Yes.

CHAIRWOMAN WALLNER: Okay. Great. Is Mr. Smith here?

STEPHEN SMITH, Director, Audit Division, Office of Legislative Budget Assistant: Yes, I am.

CHAIRWOMAN WALLNER: Great.

MR. SMITH: Good morning, Madam Chair, Members of the Committee. Good to be with you this morning. Yes, the first -- first two audit reports will be presented by KPMG who is under contract with our office. And as the Chairman said, the first one will be the single audit.

Joining us from KPMG is Brock Romano. He is the partner, and also presenting the single audit will be Heather Kuney. And also joining us, I believe, by phone from Department of Administrative Services is Commissioner Arlinghaus.

SEN. ROSENWALD: (Inaudible).

MR. SMITH: Dana Call --

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

SEN. ROSENWALD: I'm good. How are you?

SEN. PRESIDENT SOUCY: Cindy.

MR. SMITH: I'll turn it over to Brock and he can present the single audit.

BROCK ROMANO, Partner, KPMG: Good morning, everybody. Just a sound check. Folks can hear me?

REP. OBER: Yes.

CHAIRWOMAN WALLNER: I can hear you. Yes.

MR. ROMANO: Good morning, Madam Chair, Members of the Committee. For the record, my name is Brock Romano. I'm the Audit Partner responsible for all of the services, audit services that KPMG provides to the State of New Hampshire, including uniform guidance, as well as the financial statement audit.

As Steve mentioned, with me today is Heather Kuney who is the Audit Manager responsible for the single audit with uniform guides on it. I'm just going to make a few opening remarks, and then I will hand it over to Heather. I believe the Committee has a copy of the uniform guidance. We affectionately refer to it as the telephone book given -- given its size, but I do want to highlight some of the contents because there's a lot of information in there, some of which we have already presented to the Committee.

So in terms of the contents of the report, there is the financial statements or the CAFR is contained in the report, reproduced into this report, even though it was previously issued. The same holds true for our report on internal control related to the financial statement audit or CAFR. Again, that was previously issued and is reproduced here. Both the CAFR and the report on internal controls related to financial statements

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

was presented to the Committee at an earlier meeting. I believe it was in January. So we won't be touching upon those documents, unless the Committee has questions they'd like us to address.

The remainder of the document focuses on the State of New Hampshire's federal awards, over \$2.3 billion of federal assistance received during 2019, and the contents of this report related to uniform guidance includes two things. One is an opinion on compliance for those large major federal programs that we audited. And then there's also a report, and I'll just stress it's a report, not an opinion, on internal controls related to those federal awards. So just at a high level that's the contents that we're going to be focusing on again, the federal compliance piece.

At this time, I'll turn it over to Heather to walk us through some of the highlights.

HEATHER KUNEY, Senior Audit Manager, KPMG: Thank you, Brock. Good morning, everyone. Can everyone hear me okay?

SEN. D'ALLESANDRO: Yes.

CHAIRWOMAN WALLNER: Yes.

MS. KUNEY: Thank you. Again, as Brock indicated, my name is Heather Kuney. I am a Senior Manager with KPMG, and I oversaw the 2019 Single Audit or Uniform Guidance Audit performed for the State of New Hampshire.

To give an overview, for the year ending June 30<sup>th</sup>, 2019, the total federal expenditures reported on the Scheduled Expenditures of Federal Awards, which is also referred to as the SEFA, was \$2.3 billion and was approximately \$5.5 billion more than what was reported in the prior year.

For reference, the SEFA is contained in Section E of the guide report and begins on Page E-1. It's also on .pdf page

number 106 for those of you who would like to look it up and have it electronically.

The SEFA reports five programs or by CFDA number the total amount expended for each program during the year. It also contains a column to represent amounts of federal funding for each program that may have been passed through to a third party or a subrecipient by the State.

The SEFA is prepared by the State and as part of our audit we do review the SEFA and perform a variety of procedures to determine the completeness and accuracy of the SEFA that has been prepared.

As part our audit opinion, which is contained in Section D of the report or .pdf Page 103, we concluded that the SEFA is fairly stated in all material respects and it is in relation to the basic financial statements as a whole or those financial statements that were contained in the CAFR.

As outlined by the Uniform Guidance requirements, so these are the federal requirements, we are not required to audit every single program that's on the SEFA. Instead, auditors are directed to focus our audit on certain large dollar programs which are defined by the Uniform Guidance as Type A and Type B Programs. This categorization does not encompass all programs. They're just primarily focused on large dollar programs that are determined through a calculation that's prescribed.

For the year ending June 30, 2019, your Type A major program threshold was \$7,043,000 and that is contained in our Summary of Auditor's Results which does begin on Page F-1 of the report.

So in addition to having the auditors determine Type A and Type B programs, we are then required to perform a risk assessment over each of these programs to determine which programs we will be auditing during the current year. As a result of the required risk assessment process, we identified a

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

total of 16 programs that were required to be audited during 2019, and each of these programs are also identified individually within the Summary of Auditor's Results beginning on .pdf Page 144. And just to give an overview, of those 16 programs, 11 programs were Type A programs or your largest dollar programs, and there were five programs that were Type B programs.

In addition, of the 16 programs that were audited as part of the June 30, 2019, audit, I wanted to highlight that six of those programs had also been audited as part of the prior year, the 2018 audit, and those programs had been required to be audited again due to the results of the audit results and certain findings that had been identified in 2018. We refer to these programs as being re-audited in the following year.

One thing to highlight relating to that is one of those programs is the Medicaid Program. The Medicaid Program is by far the largest program with federal expenditures as reported on the SEFA. Given the size of the program and the complexity surrounding that, the federal government has indicated that the Medicaid Program is automatically considered a high-risk program. So regardless of what our audit results are, if we were to find no instances of non-compliance or controlled deficiencies, the Medicaid Program would be required to be audited annually anyway. I just wanted to highlight that for you.

As a result of our audit procedures that were performed, we did identify 22 reportable findings that were included in the Uniform Guidance Report. Of the 22 findings that were reported, they are outlined within our opinion. Those were composed of 12 findings that were considered to be material weaknesses in internal control, and ten were considered to be significant deficiencies in internal control. Thirteen of those findings were considered to be material instances of non-compliance and seven findings were considered to be other reportable instances of non-compliance. They didn't rise to the level of a material

instance of non-compliance but were still considered significant enough to be included.

Of the 22 findings reported, I wanted to let you know that seven of those findings were repeated comments that were included in our 2018 reports. So these were areas of non-compliance or control deficiencies that were identified in a prior year. And as a result of the current year procedures, we identified the items had not been corrected during the 2019 audit.

Based on the results of our audit procedures we performed, we are required to provide an opinion related to the compliance for each of the programs audited. Based on the findings that we identified, and as outlined in the Auditor's Summary of Results, we noted that we issued a qualified or a modified opinion on eight of the 16 programs. Each of these programs had findings that were considered to be material instances of non-compliance and in some cases material weaknesses as well. What the modification of the opinion states is that we are opining that the State did comply in material respects, except as identified in the report, for the instances of non-compliance that we had identified. And then for the remaining eight programs we issued a clean or an unmodified opinion.

One thing I wanted to further note relating to the eight programs that received a modified opinion, if we were to go back to look at the priority report, three of those programs also received a modified opinion in the prior year.

The findings themselves you can locate within the report beginning on Page F-8 or Page 151 of the .pdf. And then just to highlight for you that within each of the findings included in the report Management is required to provide a response which is included at the bottom of each finding. And in addition to that response, Management also has prepared Corrective Action Plan which can be found on Page 340 of the report.

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

As outlined in our opinion, the State is responsible for preparing the Corrective Action Plan and the State's responses. However, they are not subjected to auditing procedures and as a result we do not express an opinion on the Corrective Action Plan themselves.

And that -- that ends my prepared remarks for today. Brock, do you have anything else you would like to add?

MR. ROMANO: No, Heather. That was very comprehensive. Thank you.

CHAIRWOMAN WALLNER: Thank you so much. Are you open to some questions?

MR. ROMANO: Yes.

CHAIRWOMAN WALLNER: Great! Okay. Do we have -- do we have -- do Committee Members have questions that they would like to ask about this audit?

MR. KANE: Representative Wallner, Representative Weyler has his hand up.

CHAIRWOMAN WALLNER: Okay. Representative Weyler.

MR. KANE: It's going to ask you to unmute, Representative Weyler.

REP. WEYLER: All right. Hear me now?

MR. KANE: Yes.

CHAIRWOMAN WALLNER: We can hear you.

REP. WEYLER: All right. What I found repetitious was subrecipient monitoring, eight different remarks on three different agencies so that it's not just one single agency. And I'm wondering if LBA or Administrative Services can find some

procedure to improve that when that thing happens so frequently? Subrecipient monitoring, eight findings of that out of there were 22, and it seems to be a real problematic area so I'm hoping that it will be addressed in some formal way by a process. Thank you very much.

CHAIRWOMAN WALLNER: Thank you, Representative Weyler.

MR. ROMANO: I'm sorry. Was there someone from the LBA -- this is Brock Romano from KPMG. We can certainly respond to that question; but if it was directed to management or the LBA, we'll allow them to respond first.

MR. KANE: Yes. Steve, if you could maybe comment or Dana or Charlie could comment on what happens at the Executive Branch to follow-up on these, especially with these subrecipients.

CHARLES ARLINGHAUS, Commissioner, Department of Administrative Services: Hi. Can you hear me? This is Charlie.

MR. KANE: Yes.

CHAIRWOMAN WALLNER: Yes, we can hear you, Commissioner. Thank you.

MR. ARLINGHAUS: Oh, yea, I didn't know that would work. This is Charlie Arlinghaus from the Department of Administrative Services. One of the things we do is Steve Giovinelli who manages the Single Audit for us on Dana's team does the Single Audit meeting and that's part of his training is to work on subrecipient monitoring. I think part of the issue is probably just that a lot of financial managers have not been used to it in the past to having to pay attention to that and are starting to pay attention to that. But we feel like we're starting to make progress in that sense. And, you know, Steve's -- Steve has a fairly aggressive Corrective Action Plan follow-up process. I mean, aggressive enough that people are sometimes annoyed by it, which probably means it's going okay. But I think we're making

progress, Representative Weyler; but we noticed that that's something that keeps coming up again as well.

CHAIRWOMAN WALLNER: Further questions. Representative Ober, I believe, has her hand up.

REP. OBER: Thank you, Madam Chairman. On Page D-4 the report talks about a task management issue with the Crime Victim Assistance. And then on Page F-16, it goes into detail about that saying that the agency used NHFirst, which is what we use for our budgeting and accounting system; but they were unable to reconcile the amount drawn back from the underlying expenditures. Can somebody talk about how that happened? Is this frequent? I have concerns about the data we receive from the system.

MS. KUNEY: Hi! This is Heather Kuney. I can give you some additional information relating to that. For this particular program, the Department relies heavily on internal spreadsheets that they use to manage each of their federal grants, and initially that information would come from NHFirst. And as different edits and changes are made to the spreadsheets, it's the spreadsheet that is used to support the cash draw. And because the -- the spreadsheets that they utilize are a living document for us to then go in to reconcile back to the date of the draw to what was a NHFirst resulted in a difference we were not able to reconcile. So this is more of an internal issue, I would say, with the Department and not necessarily NHFirst.

REP. OBER: Thank you. Follow-up, Madam Chair.

CHAIRWOMAN WALLNER: Yes.

REP. OBER: Perhaps the Department could talk about how they're going to change their policy so that we don't have this.

CHAIRWOMAN WALLNER: Is that directed to Commissioner?

MR. ARLINGHAUS: Is it --

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

REP. OBER: Madam Chair, thank you. It's not clear to me which Department uses internal spreadsheets. Is it Safety or DAS?

MR. ARLINGHAUS: It's -- it's Justice. Can you hear me?

CHAIRWOMAN WALLNER: Yes, we can hear you.

MR. ARLINGHAUS: Oh, good. I'm sorry. I'm never sure. I'm horrible at this. I never know if people can hear me.

CHAIRWOMAN WALLNER: You're doing fine.

MR. ARLINGHAUS: So NHFirst is working -- is working fine. And there are no issues with it whatsoever. I shouldn't say that. There's no issues in this realm whatsoever with NHFirst.

We're working with -- I think, it's -- I think it's useful to say -- accurate to say that their system is less than ideal at Justice and perhaps archaic. And we found it so and I believe the Federal Government has -- has weighed in as well about the need to change it. We think that they are changing it. It's probably slower than all of us would like, but I would say that probably over the last four or five months there's been -- the focus has not been as strong on it as it was prior to that and that's for reasons that I'm sure obvious to all of us. Nonetheless, for example, they just submitted a response to the federal government -- Dana, what was it, yesterday?

MS. CALL: Yes.

MR. ARLINGHAUS: So yesterday. So we're -- this is something that is ongoing in the improvement. You know, one of our -- one of our tasks is to weed out any place where spreadsheets are used that they shouldn't be and the system should be used instead. This is a major -- a major one of those and we're -- we're excited about crushing it like a bug.

CHAIRWOMAN WALLNER: Further questions.

MR. KANE: I see none.

CHAIRWOMAN WALLNER: Okay. I actually have a question.

SEN. KAHN: Madam Chair.

CHAIRWOMAN WALLNER: I think it's more for Commissioner Arlinghaus. What effect will and what impact are all the additional CARES funds going to have on the Single Audit? And I'm particularly thinking about the cost, additional cost, staff resources, any other kinds of impact that you see that all the CARES fund will have on this audit.

MR. ARLINGHAUS: It's a complicated question. And I would love to say not much at all but probably a lot. For example, Steve Giovinelli who's our -- who's our coordinator of this -- I don't know what Steve's actual title is, but he's our Single Audit guy -- is currently at GOFFER doing GOFFER'ing things and it's wonderful for them and it's a little stressful on the Single Audit folks. There is audit set aside money though. The CARES Act money is all part of that process. I'll let KPMG talk about that, because that's part of the ongoing.

Remember that the single audit we're talking about today is for the Fiscal Year that ended a year and a half ago. And so we're currently doing a Single Audit for the Fiscal Year that ended more recently than that and that's the CARES Act money is a piece of that. It makes things more complicated, significantly more complicated, I think, but not ridiculously so that we can't get a handle on it. I mean, you know, there are a lot of people doing a lot of work to make sure that none of the accounting blows up and gets really weird. That's a technical term. And they're doing a really good job and that's both at the agency level and at the statewide level and, frankly, at the audit level. But I don't know if Brock or Heather want to add anything to that.

CHAIRWOMAN WALLNER: Thank you.

MR. ROMANO: Thanks, Commissioner. This is Brock Romano. I'll make a few comments and maybe invite Heather to also comment. Whereas the Commissioner rightly pointed out, you know, we're kind of really fairly well along with the Fiscal Year 20 Single Audit. I would say we're probably near the 40% mark completion, which is typical for this time of year. There -- the CARES Act is certainly going to be impactful to the Single Audit for Fiscal 20. The amount of funds is large. Heather, how many new programs are there because of the CARES Act? Do you recall?

MS. KUNEY: At this point in time I'm only aware of one program that will be impacted as a new program for New Hampshire and that would be the Coronavirus Relief Fund.

MR. ROMANO: So one new program. The challenge with that one new program to Members of the Committee is that we do our audit based upon something that we call the Compliance Supplement that the Office of Management and Budget puts out. It's basically an audit program guide or set of instructions to auditors as to what is important in the eyes of the Federal Government and what they want us to test. We are still waiting for the Federal Government to publish that set of guidance. So right now I would say that we have done very little on that particular program because we are awaiting guidance. It was supposed to come out a while ago. A couple of weeks ago we got an update from our national office that it is delayed and the new target date is November.

I don't think that's a large level of concern for us given that we typically would wind up the 2020 Single Audit in February/March of Calendar Year '21. So there's still plenty of time for us to conduct the audit; but it is a little frustrating that that guidance isn't available just yet.

So long story short, CARES Act will have an impact on the '20 audit, one new program, and once that guidance comes out, you know, we'll start executing on that audit.

CHAIRWOMAN WALLNER: Thank you. Thank you very much for that.

SEN. KAHN: Madam Chair.

CHAIRWOMAN WALLNER: Further questions. Senator Kahn, yes.

SEN. KAHN: Thank you. I want to follow-up on both your question and Representative Weyler's question.

First off, Mr. Romano, it's probably you've got a lot of clients, similar clients you've got to give them the same advice over these CARES dollars. Do you anticipate -- how are you advising your clients about the future costs to audit that and, in part, I'm wondering did we -- we can't set aside dollars for that, I don't think, beyond the December 30<sup>th</sup> date. So there's -- there are a couple of questions to that. But, one, how are you advising your clients? And, two, what -- what source of funds, if there are any, extra costs to that do you expect states are going to tap?

MR. ROMANO: Thank you. So, again, this is Brock Romano. So we have a variety of clients in a variety of industries. Some are more impacted by the CARES Act than others. So, for example, our higher education clients, you know, have different awards in the CARES Act than, say, the State of New Hampshire. And so different clients are impacted with different funding sources and different compliance requirements. All of those entities are still awaiting guidance. And a lot of our clients, especially in the higher education space, typically issue their -- complete their reports prior to Christmas. So it is causing a -- a delay in that deliverable.

In terms of the cost, you know, we -- we at KPMG kind of understand that there's a cost to every incremental program. The

mechanism to fund it, I probably would let the LBA respond to and/or DAS, because I'm not quite sure what levels of stress that puts on Management or an organization to have to pay for additional compliance costs.

MR. SMITH: I would defer to the Commissioner on that one.

MR. ARLINGHAUS: I think it's going to be fine. You know, the money -- the money is being set aside and that's permissible, and I guess I don't foresee any issues, unless I'm misunderstanding the question.

SEN. KAHN: No. Within the CARES Act and the December 30<sup>th</sup> deadline in the relief that's the single 1.25 billion, there is an ability in administrative carry forward that will cover any audit requirements associated with the expenditure of those funds?

MR. ARLINGHAUS: Yes. I'm sorry, I probably wasn't clear on that before. My apologies. But yes. There's a Class 41 audit set aside and we've set aside 1.25 million. Well, that's not right. Yeah, no, that's right.

MS. CALL: Yeah (Inaudible).

MR. ARLINGHAUS: Exactly. I'm getting my billions and millions mixed up lately with this. But the money has been set aside. I think that would mean, I'm not a lawyer, but that it wouldn't expire because it's been set aside, so to speak. That's my understanding currently.

SEN. KAHN: Thanks for sharing that understanding. Madam Chair, if I could continue with a follow-up --

CHAIRWOMAN WALLNER: Yes, please.

SEN. KAHN: -- on that. The subcontracting concern, and this may be a question to Administrative Services, but maybe KPMG has an observation from other state clients. It seems that we've

got a number of agencies that have subrecipients but not to the extent that the Department of Education or Health and Human Services do. And it -- it just seems is there -- have we given some thought to subrecipient follow-up being sent more centralized, create an entity like Administrative Services to make sure that the subrecipient reporting was both accurate in the course of the grant relative to maintenance of effort and then end of year reporting?

MR. ARLINGHAUS: Well, let me -- I'll start with that and somebody else can jump on it if they want. It's a -- it's a -- it's a situation we face all the time, the question about centralizing or decentralizing, and it strikes me that the goal of -- the primary consideration of decisions of that nature, the centralized versus decentralized decision, is related to accountability fundamentally. The key question is how do you ensure -- how do you ensure compliance control and accountability based on who does the work, who's responsible for the work and who has to own the work.

On subrecipient grants I'm open to the, you know, there've been times in the past where we had things like coordinators of federal funds. Joe Bouchard reminded me of that. He probably knew one of them but, you know, Joe knows everything, but the rest of us don't.

Generally speaking, if you were administering a grant and you're granting money to subrecipients, it seems to me that I want you to own that. I want you to take control of it. I want you to be in charge of it. And I don't want to create problems in the middle where -- where you're like I can't control what they do, and we're just going to kick that downtown. And then we don't have -- we don't know what you did, but we have to enforce what you did. Generally speaking, the person doing the -- doing the interaction directly is probably the best person to be in charge.

I know there was a -- there's a program recently, I don't remember exactly what the program is, but the Secretary of State

did something and they're administering it and they're granting money, I presume to towns, and it's probably related to the election. And built into it was an accounting -- accounting mechanism and sort of an auditing enforcement that they're controlling because they know what they're doing. They know -- they know what they did and they know what they said to the people. And so it's the -- it's the age old conundrum about centralization. But I think with subrecipients, in particular, if you're making the subgrant, you need to own it. And if we remove that ownership, we're going to remove accountability, knowledge, and we're going to create a giant -- a giant time delay and a knowledge gap in the middle.

SEN. KAHN: Understood. Thank you. And one last one, Madam Chair.

CHAIRWOMAN WALLNER: Yes.

SEN. KAHN: Heather, you've identified -- I mean, the number of findings you followed up on was extensive, and thanks for doing that. I'm wondering, has the State of New Hampshire had to remit dollars back to federal granting agencies for not having followed up on some of these audit findings? I ask this because some of these audit findings go back to 2014, '15, and it just, you know, there's some aging to these that -- and it's not always the responsibility of our State Agency that they're still hung up. It's sometimes the federal agency that just hasn't followed up with them about issues of conflict. So I'm -- I'm -- that's why I wondered have these resulted in any actual return of funds that has cost the State back to Federal Government?

MR. ROMANO: Heather, maybe before you respond to that, maybe I'll just make some general comments because I think that's a very insightful question. And maybe I'll try to translate -- try to translate it for -- I suspect that the Committee is concerned or is curious about their relative performance. You know, in a vacuum you look at qualified opinions, material weakness, and you wonder are we an outlier

relative to other -- other states' single audits, and are we an outlier with subrecipient monitoring in particular. That seems to be a focus here. And what I could say is that you're not.

So the other State audits that we do, Single Audit, have results that are somewhat consistent to New Hampshire and in some cases much more severe in terms of compliance issues relative to New Hampshire. And, you know, we use terms like qualifications, material weakness, question costs. But if I were a member of the Fiscal Committee or a member of Management, I think I would be most concerned with having to refund dollars. And what's interesting with the Federal Government, especially for the largest programs, Medicaid in particular, you know, they'll -- they'll defer costs sometimes that are claimed and then later adjudicate them and allow them. Sometimes they'll disallow costs. We call these deferrals and disallowances. And oftentimes, especially in the large Health and Human Services programs, it's -- it's common to have costs deferred. It's common to have costs disallowed. But what happens is it's kind of rolled over into the next claims cycle and claims payments. So it isn't quite obvious that checks are being cut back.

So from our perspective, you know, we do go through an exercise with Management to talk about are there large deferrals, which are things that are -- the Federal Government is questioning but hasn't adjudicated yet. And then are there a large amount of disallowed. Those are the things where they've adjudicated and said, you know -- you know, we're not going to allow reimbursement for this. And we kind of go through that exercise as part of the normal audit. I don't recall particulars from last year's audit, but what I do recall is there -- is there not being a lot of activity in that area that caused us concern.

So, again, I wanted to just try and maybe put some of the discussion in context. Headline news, you're not an outlier. You're not even an outlier when it comes to subrecipient monitoring, even though it's frustrating to see those comments

repeat. Heather, I don't know if you have any more particulars about disallowed costs or refunded costs or even --

MS. KUNEY: No, I don't have any additional information to add, Brock.

CHAIRWOMAN WALLNER: Thank you. Any further -- any further questions?

REP. WEYLER: Just a comment.

CHAIRWOMAN WALLNER: Yes, Representative Weyler.

REP. WEYLER: Even I remember, I don't remember the details, but probably maybe eight years ago there was an audit that showed that there was a misinterpretation at HHS. I don't remember if it was for Medicaid or what; but yes, in answer to Senator Kahn's question, it was a considerable claw back of tens of millions that we had to repay because we had misinterpreted something and we didn't find it out until -- until an audit. But we owed the Federal Government tens of millions because of that. So, yes, it is important that we pay attention in these audits and that the -- all the departments are going along. But it was a questionable thing. I think it might have even been held up in Court for a while as to whether or not we really were wrong or whether or not who was right. So, yes, there are -- there are occasions when that happens. Thank you.

CHAIRWOMAN WALLNER: Thank you, Representative Weyler. Further questions. I will note that Senator Morse has joined us by phone so we should mark him present. Any further questions from the Committee?

If you do have a question, if you put in \*9 then the -- then we can see who has their hands up, who has a question. That's if you're calling in. I'm sorry. That's for telephone. Otherwise, you do the hands up.

Seeing no further -- seeing no further questions from the Committee. I want to thank the auditors. It was very -- very thorough, and congratulations on your good work. And thank you, Commissioner Arlinghaus, for being on the call today with us.

MR. ARLINGHAUS: Thanks for having me.

CHAIRWOMAN WALLNER: It's nice to see -- well, nice to hear you. We can't see you. We now -- we do not have to take any votes today, so we can move on. And I think the next thing we're doing is the Management Letter; is that correct?

MR. KANE: Yes. Senator Kahn raised his hand, Representative. I'm sorry, I just noticed it.

CHAIRWOMAN WALLNER: Okay. Senator Kahn has a question.

SEN. KAHN: As you were wrapping up with KPMG, I just did want to make sure we were going on to their 2019 report, the Management Letter. You just moved on. Thank you.

CHAIRWOMAN WALLNER: Yes. We're going on to the Management Letter.

SEN. KAHN: Yes. I'll let them begin their presentation. I do have a question along the way.

CHAIRWOMAN WALLNER: Okay. Let's have KPMG do their presentation of the Management Letter for us, and then we'll have questions.

MR. ROMANO: Thank you. Thank you, Madam Chair. Again, this is Brock Romano. I'll just make a few opening remarks and then ask Karen Farrell to make some comments, again, general comments, because there isn't a lot of content to the Management Letter. But the one thing I want to maybe walk the Committee through, because there's a lot of reports that get presented to you and a lot of discussion about internal control comments, and we seem to have a lot of deliverables on those topics, and I

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

wanted to maybe just clarify the types of deliverables we have. So it's really based on level of severity.

So we talked earlier about there being a report on internal controls related to the CAFR that we delivered back in January or so. And we just talked about a report on internal controls as it relates to federal programs, and Heather just went through those. And now we have another report called a Management Letter that also related to internal controls. And what I wanted to just clarify for the Committee is -- is that professional standards that govern what we do and the type of deliverables require us to put in -- put in certain documents, comments based upon level of severity.

So things that are material weakness -- weaknesses and things that are deemed to be significant deficiencies. In other words, comments that have higher level of severity are produced in the documents that we went through in January and the one we just went through today. And then there are comments that are not so severe. And you might call them performance improvements. They don't have to be in writing under professional standards but they can be. And -- and we have a long history here at New Hampshire of putting those less severe comments or least severe comments in a document we call the Management Letter. And so that's -- that's really what we're going to or what Karen's going to speak to are these least severe of our internal control comments. And I'd ask Karen to maybe say a few comments on those and then entertain any questions the Committee might have.

CHAIRWOMAN WALLNER: Thank you.

KAREN FARRELL, Manager, KPMG: Thanks, Brock. For the record, my name is Karen Farrell. I'm a Manager with KPMG. What I'd like to do, as Brock mentioned, is go through the Management Letter which I believe you all have a copy of and it's labeled as such. He did kind of stress that these are other comments, and they are comments that really aren't significant enough for us to bring to your attention in particular, but I did want to mention that there are really two themes throughout this

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

Management Letter. And the first theme kind of covers comments one through four and that's really related to internal control deficiencies that we identified because of weaknesses in financial reconciliation and reporting, really more so at the departmental level, and then some of those weaknesses in the reviews resulted in incorrect recording of certain accounts, such as receivables and payables. None really too significant, but there is opportunity to take a look at these manual processes and ensure that maybe a more robust review is completed over them to ensure that the financial statement amounts are recorded properly.

The second theme is over comments five through seven and these really relate to our IT work over the General Information Technology Controls related to certain applications that we rely on for our financial statement audit or for our uniform guidance audit that Heather had talked about, as well as us performing GITC controls over the data center. And the findings that we found really are pretty typical, and they relate primarily to untimely deprovisioning access of terminated employees, as well as contractors whose work with the State had ended. So, essentially, the access in the applications or the data center wasn't terminated timely.

It is important to note, though, that we do perform procedures over these exceptions to ensure that subsequent to termination no access was provided and it was not. Had it been, this may have been a different discussion or even, you know, the comment would have been reported in a different medium.

So, here, we do recommend though that Management reinforce their policies and procedures related to deprovisioning controls to ensure that access for terminated employees, as well as contractors who have finished their work at the State, terminated in a more timely manner.

So, really, those are the themes throughout, even though there are seven comments, is kind of what I think the letter

boils down to. We'd be happy to take any questions, if you have any.

CHAIRWOMAN WALLNER: Thank you. Does the Committee have any? Do we have any questions from the Committee Members?

MR. KANE: Representative Weyler.

CHAIRWOMAN WALLNER: Representative Weyler. Thank you.

REP. WEYLER: Thank you, Madam Chair. Thank you, Karen. And, Charlie, as I was listening I wondered with all these things where passwords, I think I read at one point it was 900 days from the time the person was terminated. Is there a possibility, and I know other agencies have been involved with this frequent password changes, sometimes as little as every 90 days you have to change your password or at least maybe annually. Is that thought of as a possibility because it would eliminate a lot of these things or the exit interview might make sure that this was put down. But if that was overlooked. If everybody changed the password at some interval of time, then a lot of these problems might go away. Anyway, thank you. That's just a thought. Charlie.

MR. ARLINGHAUS: Hum -- thanks for the question. In fact, we do change passwords all the time. I know that every device I have has like eight passwords to log into stuff and I'm having trouble remembering them. So we're not supposed to write them down on an index card and carry it around with you, but let's just say there are people who do. But I think it is 90 days. It might actually be less than 90 days given my own internal frequency.

So like the 900-day issue, that person would not have been able to access because their password would no longer work. They still need to be taken out of the system. It's something we're working on and, frankly, I do believe we are getting better at it. A lot of it has involved HR education. Typically, nobody leaves State employment without HR knowing about it

because they typically are the ones who make sure you don't know about it, and I think we're doing a better job. But it's -- but, you know, it should be easier. It feels like a really easy fix, and that was my first conversation with somebody and all I can say it's getting better. But we are -- we do do the password issue and, you know, there's no way Denis Goulet would let us get away with not continually changing our passwords and adding, you know, upper case, lower case number, and a funky character, whatever they call those. There's a name for that; but you know what I mean. So we're doing a good job, I think. Sort of.

CHAIRWOMAN WALLNER: Thank you, Commissioner. Further questions.

MR. KANE: See Senator Kahn has his hand up.

CHAIRWOMAN WALLNER: Senator Kahn, yes.

SEN. KAHN: Thank you. I just wanted to check in on the Department of Revenue Administration, the estimating of receivables, and I know we've had concerns about refunds on -- that might be due and future audits. We had allocated some additional dollars to the DRA for additional auditing, and I wonder how, if those positions had been filled and how that might relate to the observation in this finding and relative to the refund processes that the Department estimates?

CAROLLYNN J. LEAR, Assistant Commissioner, Department of Revenue Administration: Sure. Hi. My name is Carollynn Lear. I'm Assistant Commissioner at the New Hampshire Department of Revenue. Thank you, Senator, for the question.

SEN. KAHN: Thank you.

MS. LEAR: So before I throw it over to Senior Financial Analyst, Melissa Rollins, just -- I'll hopefully answer your question about what we're doing with respect to this item. The -- the additional auditors that we received in the budget, those positions weren't filled prior to the State hiring freeze.

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

So they remain unfilled at this point. But those additional auditors would not have had anything to do with this finding. This finding relates more to how we calculate a particular item on our books internally at the Department of Revenue. It doesn't really relate to the interactions that our auditors have with taxpayers. But if you would still like to have a brief run-down of what we'll be doing in response, I can have our Financial Analyst, Melissa Rollins, speak to that.

SEN. KAHN: Sure.

CHAIRWOMAN WALLNER: Thank you. I think Melissa is with us; is that correct?

MS. LEAR: She is.

CHAIRWOMAN WALLNER: Great! Is she unmuted? There you are.

MELISSA ROLLINS, Department of Revenue Administration: Yep. I just want to confirm that you're talking -- are you talking about 2019-2?

SEN. KAHN: Yes.

MS. ROLLINS: Okay. So we have been working with DAS on some of these items. We put some controls in place to have them review our items before they are fully submitted to LBA which has been helpful this year. One of the larger items which was in A of the finding of 2019-2 was concerning our uncollectible estimates for tax notice and hearing. Typically, that's been a hundred percent -- book it a hundred percent which means they put it on the books and then remove it as we're not 100% sure of what the collectability of those items would be. And last year going back and forth we thought 50% may have been closer to what the actual number would be. However, we weren't able to substantiate that just because of the volatility of these items that are going out with Hearings Bureau and out to LBA. I mean, excuse me, out to the tax and -- Tax and Land and Board Appeal.

So we have gone back to 100% with that item, which I think we're all comfortable with and is supportable.

And for the other items that are noted, some of those just had to do with timing of the Continuing Resolution. Some of our accounts receivable reports are due based on plan. So based on Fiscal Year 21 plan. As you know, when these reports were submitted last year, we didn't have -- we didn't have an official budget. So we used the -- the Committee of Conference numbers and those did end up changing with the final budget which then threw our numbers off a fair amount. So we will work with LBA and DAS to come up with a plan if that happens again in the future. Just sort of have some backup that they are comfortable with on those options. Happy to answer any other questions.

CHAIRWOMAN WALLNER: Thank you very much. Further questions? I don't see any. Sometimes there's a little -- a little gap in time. No, we don't see any further questions and thank you very much for joining us.

Any further questions concerning the Management Letter? Seeing none.

I think that we will move on to our next audit. And our next audit is the Liquor Commission. Does everyone have that? I think all of these audits were mailed to us. We received them. So we do have the hard copies. And I would ask the auditors and the Liquor Commission to come up and present the audit.

MR. SMITH: Thank you, Madam Chair. The last two audit reports the LBA did perform these audits. So the first one here with the State Liquor Commission. Jim LaRiviere from our office, he was the Manager on this audit. He will be presenting. And also joining us from the State Liquor Commission I see is Chairman Mollica, Tina Demers, the CFO, and I also believe Rosemary Wiant, COO, will be available for questions after Jim presents. So, Jim, you can take it from here.

MR. LARIVIERE: Okay. Thank you. Good morning, Madam Chair, and Members of the Committee. For the record, my name is Jim LaRiviere, and I'm presenting the Management Letter report from the Fiscal Year 2019 Liquor Commission Financial Audit. Liquor Commission's Fiscal Year 2019 Financial Statements, including our Auditor's Report, were presented to the Committee at its January meeting.

If you turn to the Table of Contents, you'll note that this report contains ten Internal Control Observation Comments and two State Compliance Comments. None of the comments this year are identified as a material weakness. The Commission concurred with 11 of the Observations and concurred, in part, with one. None of the comments suggest that legislative action is required. The Observations begin over on Page 3.

Observation No. 1 continues to address a controlled deficiency initially identified in the Fiscal Year 2013 Management Letter, discussing the need to adequately staff a financial accounting and reporting structure appropriate for the Commission's size and complexity. While we noted improvements during Fiscal Year 2019, the Commission still has work to do in this area. We continue to recommend the Commission enhance its operations by employing additional staff that have financial accounting and reporting expertise appropriate for the Commission's operations, and establish comprehensive policies and procedures for all its critical financial accounting and reporting activities.

Turning to Page 5, Observation No. 2 address concerns noted in the delay of implementing the Commission's new information technology system NextGen. The Commission terminated its contract in August 2019 with the software vendor responsible for the development and implementation of the system.

We recommend the Commission implement independent, timely monitoring of project deliverables and preventative controls and hire appropriate business expertise in contract management to help ensure the successful completion of its NextGen IT Project.

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

In Observation No. 3, Page 6, we recommend the Commission develop its internal audit function. The Commission's internal auditors should have appropriate training, education, and professional background. The internal audit function should include a formalized process, including the reporting of issues and challenges and recommendations to address problems identified.

Observation No. 4 speaks to addressing the risk the Commission is exposed to in their issuance of its promotional cards that in Fiscal Year 2019 totaled \$9½ million. The Commission uses a point-of-sale system to process purchases and redemptions of its promotional cards. The point-of-sale system does not prompt or limit the number of promotional cards a cashier can issue. The absence of preventative automated controls, combined with ineffective protection controls over improper issuance of promotional cards, presents a significant risk that errors or frauds could occur and not be detected in a timely manner.

Observation No. 5 on Page 8 notes the Commission has not developed robust reconciliation procedures for key general ledger accounts and recommends the Commission develop all season procedures over its reconciliation processes to include performing periodic and timely reconciliations that are reviewed and approved by Management.

Moving to Observation No. 6 located on Page 9, recommends the Commission account for all its financial accounting activity in the State's accounting system, NHFirst. As noted in the Observation, the accounting and reporting for certain large balances and activities are being accounted for in spreadsheets outside of NHFirst.

Observation No. 7 begins on Page 10. Issues in the implementation of the Commission's NextGen IT System resulted in the termination of the Liquor Commission's contract with its software vendor. This led to the impairment of certain capitalized software costs. We recommend once the Commission

obtained a new vendor to continue its NextGen IT Project, it should have that vendor help provide a formal evaluation and determination of what assets continue to have utility in accordance with the guidelines provided in governmental accounting standards.

Observation No. 8 recommends the Commission discontinue making non-generally accepted accounting principle adjustments to its liquor inventory and implement policies and procedures to ensure its inventory is valued in accordance with generally accepted accounting principles.

Observation No. 9 on Page 12 recommends the Commission centralize its cash receipt process to eliminate cash -- excuse me -- to eliminate handling of cash, checks and credit card payments at multiple locations within the Commission's headquarters.

The last Internal Control Comment, Observation No. 10, recommends the Commission continue in its effort to develop and implement an electronic beer tax filing system as part of its NextGen IT Project.

The Compliance Comments begin on Page 14 with Observation No. 11 recommending the Commission adopt administrative rules required by statute, and Observation No. 12 recommending the Commission impose late and nonpayment requirements identified in its administrative rule or, if not practical, seek appropriate revision to the rule.

The Appendix, beginning on Page 18, summarizes the status of comments from the 2018 and 2017 Management Letters. Of the six comments contained in the 2018 report, two are fully resolved, remediation is in process for three, and one remains unresolved. Of the three comments contained in the 2017 report, two are fully resolved, and remediation is in process for one.

This concludes my presentation. I would like to thank you, the Committee, for your time. I'd like to thank Commissioner

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

Mollica and Chief Financial Officer Tina Demers, along with the Liquor Commission staff for their assistance during the audit.

CHAIRWOMAN WALLNER: Thank you. Would someone from the Liquor Commission like to make any comments?

JOSEPH MOLLICA, Chairman, New Hampshire Liquor Commission: Good morning, Madam Chair. Joseph Mollica, Chairman of Liquor Commission.

CHAIRWOMAN WALLNER: Good morning.

MR. MOLLICA: The Committee, happy Columbus Day weekend. With me is our CFO, Tina Demers, and our COO, Rose Wiant, as Steve has already mentioned. We'd like to thank the LBA for their very conscientious work, and we'd be happy to answer any questions that you may have. Thank you.

CHAIRWOMAN WALLNER: Thank you. Thank you very much. I do see that Representative Ober has her hand up. Representative Ober, do you have a question?

REP. OBER: Thank you, Madam Chairman. Actually, I have two questions, if I might?

CHAIRWOMAN WALLNER: Okay. Sure.

REP. OBER: Commissioner, good to see you this morning. As you know, when you're getting an audit, they track what's recommended, whether you resolved it, not resolved it, started it. When I read through this, I saw a number of things related to NextGen, and I know you've had some issues with the vendor. And I'm wondering, although you've concurred with those, how many of these findings is it realistic to think you'll be able to implement in a year even if we didn't have COVID but especially with COVID?

MR. MOLLICA: Thank you for that question, Representative Ober. I'll ask our COO, Rose Wiant, who is the head of the NextGen Project to answer that question for us.

REP. OBER: Thank you.

MS. WIANT: Good morning. Good morning, everyone. Representative Ober, thank you for the question. Hum -- certainly COVID makes things difficult because everything we're doing here, everything is being done remotely. The good news for the NextGen Project is that it's, in large part, all the development work and testing happens anyway. So in terms of actually being able to incorporate these items into the new system according to plan, I feel very confident we'll be able to do that.

As an example, one, if you recall when we ended our relationship with our first vendor, we separated the project into two tracks. One being e-Commerce and one being the point-of-sale and back office system. The e-Commerce Project just went live with a new website last week, which was on schedule and on budget. So we are -- a lot of work, a lot of people -- very dedicated people put a lot of time into it, but we are making it happen.

MR. MOLLICA: And I'd like to also add, Representative Ober, the Committee hasn't gone on to see the new website, it's light years ahead of what we've had. It has bottle shots of all the bottles. We implemented our in-store pickup, as well as our curb side delivery, and you can order on-line, you can pay on-line, and have no contact with any individuals at the store or other people in the outlets. So it's contactless pickup, and it's working very well.

REP. OBER: Might I follow-up, Madam Chairman?

CHAIRWOMAN WALLNER: Yes.

REP. OBER: Before I ask my second question. Commissioner, I appreciate that. And I know you and your staff have worked hard on this. And I have actually seen your new e-Commerce website. So my concern was not whether you would do it, but can you do all this within the scope of a year, because sometimes it takes longer than a year to implement a system, and we're already in October so we don't even have 12 full months. As you know, June 30<sup>th</sup> will be the end of the year, and then you'll be responsible again, and we're talking GASB issues, beer tax, performance cards, et cetera. I was just concerned.

I appreciate you concurring. I appreciate you having it on the system. I'm concerned whether it's realistic to get all that done in nine months. Do you think it is or do you think it will stretch a little beyond that? I was really looking for a timeline for where you're going with this so we have reasonable expectations.

MS. WIANT: Representative Ober, the timeline from this point -- actually, from October where we are now, the timeline is about a year to start to go live with the point-of-sale system. Development is happening right now. So far everything is on schedule. Hum -- unfortunately, I can't give you a definitive answer to your -- to the detail of your question, but we are -- everything still is happening on schedule to incorporate these components, and we anticipate starting to go live in a year with the point-of-sale and the other components, like the beer tax and so forth.

REP. OBER: Okay. Thank you. Can I ask my second question, Madam Chairman? As you know, you come before Division I. Representative Leishman and I sit on Division I. So he and I have both had many discussions with you about not only staffing but about administrative rules. So we have yet another adopt administrative rules here and yet we still have at least one open Observation from a previous audit concerning administrative rules that hasn't been adopted. It's really not clear to me, Commissioner, whether this is a lack of staffing and, if so, in which specific area, or whether it's just you had so much new

going on, you put in new routers to be compliant so you could take credit cards. Now you're putting in a new system. If you could help us with that, I'd appreciate it. Thank you.

MS. WIANT: If I may, I'll respond to that question as well, Representative. We just finished the process of enacting administrative rules for the 700 series which is the entire licensing process. It's probably the largest section of rules and the most complicated because it incorporates all of the licensing application forms and the licensing process. Those just completed the adopt development and adoption process last month.

Our legal unit is now actively working on the 900 rules, which I believe addresses -- which is one of the Observations here as well, which the 900 rules have to do with licensing credit and human processing. So those are being written as we speak. There's a legal unit is focusing on that separate from the project.

REP. OBER: Thank you.

CHAIRWOMAN WALLNER: Yes, I do see that Representative Weyler has a question.

REP. WEYLER: Thank you, Madam Chair. My compliments to the LBA staff, and particularly Jim LaRiviere, for the fine work in the audit. I appreciate having the acronyms in there. I mentioned whether or not we need legislative oversight on anything which this one doesn't. But going to the Observation No. 4, and address specifically to the Commissioner where you give out promotion cards, and I see that they have increased year over year in some cases. I didn't see a comment as to whether or not these in actuality had increased sales by giving out promotion cards which would be the reasons for that. Have you found this has increased your sales enough to justify so that you're getting more than the 9 million that you're discounting? Thank you.

MR. MOLLICA: Well, Representative, what I can say for this year the Liquor Commission has not done any promotional card. And we found that the growth in revenue and the growth in gross profit, more importantly, has been robust. In the past, the discounting of product in the State of New Hampshire has been part of our mantra way to do business. But at least for this year we found that not doing these cards has led to additional sales and additional GP and that's something that we're looking at right now as to how we will move into the future. And if I had to be the soothsayer in the room, I would say that we are probably going to move away from this type of marketing and move into more percentage marketing that we have a better control over in the future.

REP. WEYLER: Thank you, Commissioner. My compliments to your quick reaction to the COVID situation. I think it was some very good ideas you came up with. And, obviously, that's increased your sales. So thank you for all your good work.

MR. MOLLICA: Thank you very much, Representative. I appreciate that. And thank you for the team as well.

CHAIRWOMAN WALLNER: Thank you. Senator Kahn also has his hand up. He has a question.

SEN. KAHN: Thank you, Madam Chair. Commissioner, good to see you, and it's good to see the initial reports for Fiscal 21 from the Liquor Commission.

My question is going to be around Observation No. 1, and the statement in that Observation is the Commission's continued reliance on the performance in the single individual's and organizational design weakness in financial operations. And the response is that a position reclassification and filling that position would help alleviate that single point and the overtime related to it. Got to be thankful to Ms. Demers for all that she's been doing; but I am curious, have you been able to fill the position that would alleviate this single point of control concern?

MR. MOLLICA: Senator, I'll let the CFO answer that question as to where we are in the process.

TINA DEMERS, Chief Financial Officer, New Hampshire Liquor Commission: Good morning. We are currently recruiting for two positions. We have a Comptroller of Financial Reporting, and a Comptroller of Operations. We -- it's taken us awhile to get two qualified candidates. We currently have two individuals that we are in the process of negotiating with for these positions and hoping to be able to fill them very soon.

MR. MOLLICA: And they're both CPAs, Senator.

SEN. KAHN: That's good to hear. Thank you for the reply.

MR. MOLLICA: Thank you, Senator.

CHAIRWOMAN WALLNER: Thank you. And I don't see any -- I don't see any other hands raised at this time. So I want to thank the auditors and the Liquor Commission for presenting the audit to us today, and I think we can move on to our next audit.

MR. MOLLICA: Thank you.

MS. DEMERS: Thank you.

CHAIRWOMAN WALLNER: One should have it. It's Department of Safety, Division of State Police, and I will ask the auditor and someone from the Department of Safety to come up to talk to us about the audit.

MR. SMITH: Thank you, Madam Chair. This last audit the Division of State Police, the Manager that will be presenting our work is Christine Young. And also joining us from the Department of Safety I believe Commissioner Quinn has joined us and Steve Lavoie, Director of Administration, will be available to respond to any questions you may have after our presentation. So, Christine, would you please present the work.

CHRISTINE YOUNG, Manager, Audit Division, Office of Legislative Budget Assistant: Good morning, Madam Chair, and Members of the Committee. For the record, my name is Christine Young. And I will be presenting the report on our financial audit of the Department of Safety's Division of State Police for the nine months ended March 31<sup>st</sup>, 2019.

This report is presented in two sections. The first section is the Management Letter section prepared by the auditors, and it contains our report on internal control and compliance along with 20 Audit Observations. The second section, the financial section, contains our independent Auditor's report, followed by the Department prepared financial statement and notes. This report does not include a current status of prior audit findings, as there has been no prior financial audit of the Division itself.

The focus of my presentation will be on the Observations and Recommendations. However, we'd be happy to answer any questions you may have regarding any part of this report.

If you turn to the Table of Contents, this report includes 14 internal control comments, two of which are material weaknesses, and there are also six State Compliance Comments. The Department fully concurs with all the findings. There's one finding on this page, Observation No. 15, with an asterisks, suggesting that legislative action may be required. The discussion of the Observations and Recommendations begins on Page 3.

Observation No. 1 is a material weakness, and it discusses risk assessment, which is one of the five recognized components of internal control. We recommended the Department document its current informal process for assessing risks and review for indicators of risk exposure.

Observation No. 2 on Page 4 is also a material weakness, and it reports that the Criminal Records Unit does not retain source documentation for its transactions or have alternative

procedures in place to track or periodically review the types and quantities of requests being performed, which increases the risk of fraud related to the processing of criminal record requests.

Observation No. 3 and No. 4 starting on Page 6 also deal with internal control deficiencies in the Criminal Records Units. We recommend in Observation No. 3 that the Division monitor the no fee and reduced fee criminal record request transactions processed by the clerks in the unit to ensure there are no anomalies in processing these transactions.

In Observation No. 4, we recommend retaining documentation and establishing a proper segregation of duties over the processing of annulments of criminal records to ensure that no single employee can complete the process without the involvement of another employee.

Observation No. 5 through No. 8 starting on Page 8 reported on issues relating to extra duty details performed by State Troopers. These law enforcement services are billed to contractors requesting the services using an hourly detailed rate. We recommended performing a review of the rate in Observation No. 5 to ensure the rate continues to adequately recoup the costs of the services provided.

In Observation No. 6, we recommended performing and documenting reconciliations of all revenue streams, including extra duty detail revenue.

Observation No. 7 reports instances where the Division did not comply with its extra duty details policy. And Observation No. 8 recommends improvements in the contractor application and invoicing practices for extra duty details.

Observation No. 9 on Page 13 discusses inconsistencies in the processing of federal grant revenues within the Division. We recommended the Department consider centralizing the

responsibility for preparing federal grant reimbursement requests within the Department's Grants Management Unit.

Observations No. 10 and 11 deal with the processing of the Division's invoices. In Observation No. 10, we noted that 66 out of 100 payments tested were not paid to vendors in a timely manner. And in Observation No. 11 we noted FBI invoices were not reviewed for accuracy prior to making payment.

Starting on Page 16, Observations 12 through 14 discuss areas for improving information technology, including system access permissions, disaster recovery, and business continuity plans, and establishing a written policy for IT program changes.

Page 20 is the start of State Compliance Comments. Observation No. 15 includes a recommendation to adopt and keep current all statutorily required administrative rules.

In Observation No. 16 on Page 21 we note that 15 of 17 individuals assigned to the Division's related boards and committees did not file statements of financial interests required by statute.

The next four observations, Observations No. 17 through 20 starting on Page 22, report on compliance issues noted during our testing of payroll expenditures.

Observations 18 through 20 were also sent to the Department of Administrative Services for a response, and DAS fully concurs with the findings and recommendations. The most significant of the four payroll issues is Observation No. 18 on Page 23 where we noted the Department was not calculating the employer share of retirement contributions in accordance with statute. Extra duty detail pay was not excluded from earnable compensation when determining the employer's share of the retirement contributions, contrary to State statute.

The financial section of the report follows with our Auditor's opinion which was modified as a complete set of

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

financial statements was not presented. The Statement of Revenues and Expenditures is on Page 7, followed by the notes to the financial statement. We also included a one-page letter with the report. This is a required communication to inform you that two material adjustments to the accounting records were proposed and recorded as a result of our audit.

That concludes my presentation. I'd like to thank Commissioner Quinn and his staff for their cooperation during the audit, and also give special thanks to Steve Lavoie, the Director of Administration, who we worked with extensively during the audit. He was professional, very responsive, and a pleasure to work with. Thank you.

CHAIRWOMAN WALLNER: Thank you. And do we have someone from Department of Safety who would like to speak to the audit?

COLONEL ROBERT QUINN, Commissioner, Department of Safety: Good morning, Chairwoman Wallner. Can you hear me okay?

CHAIRWOMAN WALLNER: We can hear you fine.

COLONEL QUINN: Okay. Well, good morning to you and the Fiscal Committee. Commissioner Robert Quinn from the Department of Safety. As stated, I'm joined by Director Lavoie who's in his office and I'd also like to note that Colonel Noyes and Major Shapiro are also present and able to participate.

I just want to briefly begin by recognizing and thanking Miss Young and her team for the -- for the really, I would say, important work that was done here to assist the Department of Safety to enhance and improve our internal controls for financial reporting. There's a lot of material in here and I do want to also recognize and thank Director Steve Lavoie and the State Police team for working together to fully understand this. And I just want to ensure the Fiscal Committee that we -- we have concurred with all of the recommendations and the deficiencies that they have identified, and we will do our very best to ensure that our time lines and deadlines are met to

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

implement the change that's needed to ensure the financial reporting is adequate.

So thank you, Chairwoman Wallner, and I would like to just turn to Director Lavoie and let him make a brief comment as well because he's worked very hard on this. Good morning, Steve.

STEVEN LAVOIE, Director of Administration, Division of Administration, Department of Safety: Thank you, Commissioner. Good morning, Madam Chair, Members of the Committee. Steve Lavoie of Administration. So as the Commissioner said, was really a team effort on this and I do want to thank the LBA for -- for their patience and support. This was a long process with a lot of challenges throughout. So we're happy to take any -- any questions that you may have.

CHAIRWOMAN WALLNER: Great. Thank you, Commissioner Quinn and Mr. Lavoie. And let me see if we have any questions. I don't see anyone with their hand up at this point. Oh, I'm sorry.

REP. WEYLER: I have a question.

CHAIRWOMAN WALLNER: Okay. Representative Weyler and then Senator Kahn have questions.

REP. WEYLER: Thank you, Madam Chair. And thank you, Christine, for the fine job you did on this audit. I appreciate having the acronyms and the mention of where the legislative involvement is needed. But my biggest concern is the treatment of those that were hired after 2011. It's like ten years ago that we realized -- that we finally decided to do something about the Retirement System, which was in serious debt. It was well out of balance. And a Committee got together and went into a long-term fix that would take 30 years. We're now almost ten years into that term and now I see that even though we've got people that have been hired since 2011, nine years ago, that were not supposed to have that extra duty included in their overall compensation that went to Retirement System it has been done. If this has been done for the past nine years, this

seriously jeopardizes this whole retirement, and we're going to have to have another gathering again to decide what we can do. Because I'm still not satisfied we are coming anywhere near balancing the debt of the Retirement System and those that are most in peril are the police officers that are relying on this. And now we give them a short-term gain for a long-term danger that, you know, at some point we might have to declare bankruptcy for this. So I'm very upset about that. And I have to talk to the Retirement System about how serious the damage that was done to this.

I also want to offer to the Commissioner if you need any legislative changes because of the comments about the rules that might be a problem, contact me. I'll be able to file by November 5<sup>th</sup> say, so -- and I'll get people on that proper Committee to work with me on that. Thank you very much.

COLONEL QUINN: Thank you.

CHAIRWOMAN WALLNER: And Senator Kahn has a question.

SEN. KAHN: Yeah. Thank you, Madam Chair. Good morning, Commissioner. Be glad to join with Representative Weyler on your requests here. But I did want to follow-up on the discounts of fees, and I'd like to follow-up with a question after that. But the amount of discount is \$667,000. The total amount of fees is 3 million plus. It, you know, just division is -- it's about 25% of the total revenue being collected for criminal history background checks. Seems like a large discount rate. Then I read finding 15 and observed that some of that is related to an agreement that is in place, though maybe not finally approved with the Department of Health and Human Services. So can you categorize how much of that total discount, \$667,000 of discount, is attributable to that agreement and, you know, what else then contributes to the amount of discounting of the CHRI's.

COLONEL QUINN: Yes. I can't -- I can't speak to the exact number, Senator, but I can say that I'm sure it's significant.

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

But what I will say to you is this. And I know you've been engaged with the criminal records project that we received funding for in the 20-21 budget. Prior to this call today, I did speak to in-house counsel, Attorney Modigliani, to ensure that our conversations are still ongoing with the HHS team. We have been meeting and speaking with them over the past year, year plus, to ensure that the fees are codified in rule, that they align with what -- what -- what the rules require. So those conversations are still taking place, and that is done on a parallel track with the Criminal Records Portal Project that is in place. And there are, just to bring you up to speed, there are three phases to that. The on-line scheduling and the fingerprints which is user -- it's in the user acceptance phase, and then there's the portal to the agencies that can request and acquire these records on-line. That is in the user acceptance testing phase as well. And the last part is the portal for the New Hampshire convictions which would become public and that we expect to go in approximately June. So the reason I bring that up is this project is moving forward, but we have to ensure that -- that the fees are all -- are all accurate and align with what the rules are.

So I'm going to turn back to Director Lavoie, if he can get you a number of what the exact shortage is and how it is attributed to the fee. Steve.

MR. LAVOIE: I think the question was how much of the reductions are attributed to HHS and I don't have that breakdown; but it's not just HHS. It's all non-profit, volunteers, other individuals. And I know the history behind this was those positions typically don't pay as much as other positions and as part of encouraging recruitment we wanted to the different -- the different companies, the different organizations wanted to make that barrier to entry a little less for individuals. So that's the history behind the fee or the fee reduction.

SEN. KAHN: Madam Chair, I think there's --

CHAIRWOMAN WALLNER: Yes.

SEN. KAHN: -- a follow-up item there. And I don't want to follow-up today. I think, you know, there are other ways to follow-up with us about how that's going to be codified, because, clearly, your collection of fees is a matter of your budget requests and operations of the Department. So it's -- I think that that's -- further information will be valuable, Mr. Lavoie.

I guess the other observation I wanted to make, Madam Chair, is that this is a first time audit and we know how much the Legislature has talked about criminal history records checks over the last, at least, my four years in the Legislature that I'm curious how soon after this first audit LBA would follow-up to see where the findings have been acted upon and any other support that the Department could use through the audit process.

MR. SMITH: As far as how soon the LBA would go back to Division of State Police, we will certainly -- no definite plan at this point; but, obviously, as we get a couple years down the road probably we would -- we could consider and put it in our queue for going back and following up on some of these.

SEN. KAHN: As we're the body that would approve the recommendations coming forward from the Performance Review Committee, I just think it would be valuable not just in seeing what was implemented, but I think the Department receives value from this kind of testing of processes and we should move ahead with more accelerated scheduling. And I realize that that interferes with some of the other, but it ought to get it on the list so it doesn't get lost.

CHAIRWOMAN WALLNER: Thank you. I don't see any further -- any further questions. I'll give people a minute to get their hands up if they have any. Still I see no further questions. So I want to thank the auditors for their fine work and for the Department of Safety for being here with us today

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

and being willing to answer all our questions. And at this point, I think --

MR. KANE: Representative, if I could -- sorry. Representative Ober has her hand up.

CHAIRWOMAN WALLNER: Oh, I'm sorry. I'm sorry, Representative Ober.

REP. OBER: That's okay, Madam Chairman. This is a question maybe for Commissioner Arlinghaus that he could get back to all of Fiscal Committee. But Representative Weyler raised a very interesting point about nine years since the change and how much impact has this had.

The auditors looked at a small subset and found pension not being reported accurately in a small case. But can't -- is there some way to go back over nine years and get that corrected so that it would be accurate and that the people who misreported could have the adjustments made on their pension as well as in our pension system?

CHAIRWOMAN WALLNER: Are you directing that to Commissioner Arlinghaus?

REP. OBER: Well, I thought Commissioner Arlinghaus might have to respond because that goes through NHFirst with the payroll, I believe, and initially the current Safety Commissioner was not Safety Commissioner all through all those nine years. So I'm not sure he would be in a position to respond, and we certainly taxed Steve Lavoie with a lot of interesting questions and he's always been amenable to coming up with tough answers to tough questions; but I wasn't sure who would answer that specifically.

CHAIRWOMAN WALLNER: I don't think Commissioner Arlinghaus is still on the call. I don't -- I don't see him. I'm scrolling through here to see if he's still -- I don't see him, but we can

certainly -- we can certainly have the LBA follow-up with him about that --

REP. OBER: Thank you.

CHAIRWOMAN WALLNER: -- question. Thank you very much. Any further questions? Okay. Seeing none. The -- I'm going to adjourn the Committee for today and we meet again next Friday, the 16<sup>th</sup>, and that will be our regular monthly Fiscal Committee meeting on the 16<sup>th</sup>. And we do that one not on Zoom, we do that one on VAST. So that's the one where we are just -- just on the telephone and not -- not -- we don't have a visual screen with pictures. So unless there's something else that needs to come before us today, I will adjourn the meeting.

REP. WEYLER: Madam Chair.

CHAIRWOMAN WALLNER: Yes, Representative Weyler.

REP. WEYLER: LBA has sent me a roll call for the adjournment. I don't know whether that's so we can find out whether people are going to make the 16<sup>th</sup> or not; but any way, I have a roll call for the adjourn motion.

MR. KANE: Sure. You don't have to roll call the adjournment. We do have that sheet, but you've adjourned other meetings just with the Chair.

REP. WEYLER: Okay. Thank you.

MR. KANE: But thank you, Representative Weyler.

CHAIRWOMAN WALLNER: So I hope I see everybody back on next Friday and have a wonderful -- have a wonderful fall weekend and see you -- see you next week and thank you all for being here.

(The meeting adjourned at 11:43 a.m.)

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**

C E R T I F I C A T I O N

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

Cecelia A. Trask, LSR, RMR, CRR  
State of New Hampshire-LSR #47

**JOINT LEGISLATIVE FISCAL COMMITTEE**

**October 9, 2020**