

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CULTURAL RESOURCES
REVENUES COLLECTED AND EXPENDITURES PAID**

**FINANCIAL AND COMPLIANCE
AUDIT REPORT
FOR THE NINE MONTHS ENDED MARCH 31, 2007**

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CULTURAL RESOURCES
REVENUES COLLECTED AND EXPENDITURES PAID**

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**STATE OF NEW HAMPSHIRE
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Reporting Entity And Scope

The reporting entity and scope of this audit and audit report are the revenues collected and the expenditures paid of the New Hampshire Department of Cultural Resources for the nine months ended March 31, 2007.

The following report describes the financial activity of the Department of Cultural Resources, as it existed during the period under audit. The Department of Cultural Resources prepared auditee responses, unless otherwise indicated.

Organization

The Department of Cultural Resources (Department) was established in 1985 by RSA 21-K by combining the previously separate State Library, Commission on the Arts, and Historic Preservation Office.

The Department operates under the direction of an unclassified Commissioner and is organized in three divisions: the Division of Libraries, the Division of the Arts, and the Division of Historical Resources. At March 31, 2007, the Department employed 70 full-time and four part-time employees.

Responsibilities

In accordance with RSA 21-K:2, the Department is responsible for the following general functions:

- Providing information services to State government,
- Developing and coordinating a statewide library service network,
- Stimulating and encouraging public interest and participation in the study and presentation of the performing and fine arts, and
- Sponsoring State historic preservation activities.

The Department of Cultural Resources, through its three divisions, administers a variety of programs, which support local libraries, artists and art organizations, and historic preservation efforts throughout the State.

The Division of Libraries, pursuant to RSA 21-K:5, is responsible for the following functions:

- Operating a State library in order to provide general and specific reference services, including, but not limited to, services designed to assist the general court and the judicial branch.

- Operating the New Hampshire automated information system as provided for by RSA 201-A:22, I.
- Promoting and coordinating a statewide library system.
- Providing for library services for persons with disabilities.
- Otherwise administering the provisions of RSA Title XVI.

The Division of the Arts is responsible for administering the provisions of RSA 19-A, Council on the Arts, with the primary goal of supporting and promoting the arts in all of their manifestations.

The Division of Historical Resources is responsible for administering the State historic preservation program in accordance with RSA 227-C.

Funding

The financial activity of the Department of Cultural Resources is accounted for in the General Fund of the State of New Hampshire.

A summary of the Department's General Fund revenues collected and expenditures paid for the nine months ended March 31, 2007 is shown in the schedule below.

Department Of Cultural Resources	
Summary Of Revenues Collected And Expenditures Paid	
For The Nine Months Ended March 31, 2007	
	General Fund
Total Revenues Collected	\$ 2,001,025
Total Expenditures Paid	<u>5,457,027</u>
Excess (Deficiency) Of Revenues Collected Over (Under) Expenditures Paid	<u>\$ (3,456,002)</u>

Prior Audit

The most recent prior financial and compliance audit of the Department of Cultural Resources was for the eighteen months ended December 31, 1992. The appendix to this report on page 47 contains a summary of the current status of the observations contained in that report. Copies of the prior audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

Audit Objectives And Scope

The primary objective of our audit is to express an opinion on the fairness of the presentation of the Statement of Revenues Collected and Expenditures Paid of the Department of Cultural Resources for the nine months ended March 31, 2007. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we considered the effectiveness of the internal controls in place at the Department of Cultural Resources and tested

the Department's compliance with certain provisions of applicable State and federal laws, rules, and contracts. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues collected and
- Expenditures paid.

Our reports on internal control over financial reporting and on compliance and other matters and on management issues, the related observations and recommendations, our independent auditor's report, and the financial statement of the Department of Cultural Resources are contained in the report that follows.

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

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues Collected and Expenditures Paid – General Fund of the New Hampshire Department of Cultural Resources for the nine months ended March 31, 2007, and have issued our report thereon dated November 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of Cultural Resources' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Department of Cultural Resources' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Observations No. 1 through No. 14 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Department of Cultural Resources' financial statement is free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which are described in Observations No. 15 through No. 19.

The Department of Cultural Resources' response is included with each observation in this report. We did not audit the Department of Cultural Resources' responses and, accordingly, we express no opinion on them.

We noted certain other management issues, which are described in Observations No. 20 through No. 22 that we reported to the management of the Department of Cultural Resources in a separate letter dated November 27, 2007.

This report is intended solely for the information and use of the management of the Department of Cultural Resources, others within the Department, and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

November 27, 2007

Internal Control Comments
Significant Deficiencies

Observation No. 1: Controls Over Recording And Collecting Accounts Receivable Should Be Improved

Observation:

Department policies and procedures in place during the nine months ended March 31, 2007 did not reasonably ensure the accuracy, completeness, and timely collection of accounts receivable.

At June 30, 2006, the Department had recorded \$916,213 of accounts receivable. In our audit of revenues collected by the Department on that June 30, 2006 accounts receivable balance, we noted the following:

- The Department did not collect \$9,380 of a June 30, 2006 federal accounts receivable balance until February 2007, eight months after year-end.
- The Department at March 31, 2007 had not collected a \$53,000 June 30, 2005 accounts receivable due from the New Hampshire Department of Transportation. This accounts receivable has remained uncollected for over eighteen months.
- The Division of Historical Resources posted \$343,935 of federal revenue received during the nine months ended March 31, 2007 in a revenue source account that was different than the revenue source where the corresponding June 30, 2006 accounts receivable was recorded.

Testing of Department expenditures eligible for federal reimbursement during the nine months ended March 31, 2007 revealed the following:

- The Division of Historical Resources did not perform any federal draws during the period under audit, even though it incurred \$348,748 of federally reimbursable expenditures.
- The Division of the Arts did not perform timely federal draws on any of the seven expenditures selected for testing. Federal reimbursements for the tested expenditures were drawn from two to seven months after the expenditures were made.
- The Division of Libraries did not consistently perform timely federal draws during the period under audit. Federal reimbursements for two of the three (67%) tested expenditures were drawn more than two months after the expenditures were incurred. Federal reimbursement for the other tested expenditure was drawn more than three months after the expenditure was incurred.

Unnecessary delays in collecting accounts receivable, including drawing available federal funds, negatively impact the State's cash flow.

A similar comment was issued during the 1992 audit of the Department.

Recommendation:

The Department should strengthen its policies and procedures for recording and collecting accounts receivable. The Department should ensure all amounts owed the Department are collected timely and recorded accurately.

Auditee Response:

We Concur.

The Department has undergone personnel changes in the months prior to the audit and during the audit period. As part of their training the Department is working with staff to strengthen these controls.

The Department is working with the Divisions of the Arts and Historical Resources to establish a system of monthly draw downs, as well as ensuring the Library stays on a monthly schedule.

Observation No. 2: Federal Draw Down Procedures Should Be Adequately Segregated

Observation:

The Department did not properly segregate the duties of preparing and approving requests for federal reimbursement of the Division of Historical Resources' (Division) program expenditures during the nine months ended March 31, 2007.

One Department employee is responsible for tracking the Division's National Park Service grant expenditures, compiling the federal draw down request, and performing the draw down request online. No other Department employee reviews the reimbursement request for accuracy and completeness prior to the funds being drawn.

The lack of proper segregation of duties over the federal draw down process, including an effective review and approval function, increases the risk that fraud or errors could occur and not be detected and corrected by the Department in a timely manner.

According to the Department, the lack of segregation of duties over the Division's federal draw process resulted when the Grants Coordinator position became vacant in December 2006. Although a new Grants Coordinator was hired in March 2007, the Division has not provided this individual with the technical training needed to become a part of the federal draw down process.

Recommendation:

The Department should establish an effective review and approval control over the Division's federal draw process. The duties of reviewing and approving the draw requests should be assigned to an individual with sufficient experience and training to provide the Department with reasonable assurance that fraud or errors in the Division's federal reimbursement draw process would be detected and corrected in a timely manner.

Auditee Response:

We Concur.

The position of Grants Coordinator was vacant for most of the audit period. With the hiring of a Grants Coordinator in March the business office has begun the process of training her so that she may take over some of these duties.

Observation No. 3: Allowable Costs Under Federal Awards Should Be Adequately Tracked And Documented

Observation:

The Department's Division of the Arts (Division) does not consistently maintain readily accessible support of its federal reimbursement requests.

The Division administers a National Endowment for the Arts (NEA) grant and draws federal reimbursements for allowable grant expenditures. While the Division primarily bases its requests for reimbursement on grant expenditures recorded in a specific organization code in the State's accounting system (NHIFS), the Division does not consistently maintain documentation to support any adjustments from the NHIFS amounts that may be included in the reimbursement requested.

The Department's Business Office has developed and implemented a more formalized federal expenditure tracking method for the Department's Divisions of Libraries and Historical Resources, however the Division of the Arts does not currently use that method.

A similar comment was issued during the 1992 audit of the Department.

Recommendation:

The Department's Division of the Arts should continue in its efforts with the Department's Business Office to develop and implement an effective method of tracking and documenting allowable federal program costs reported by the Division on the federal reimbursement requests.

Auditee Response:

We Concur.

The Division of the Arts has undergone personnel changes within the past few years. The position that was responsible for this has been vacant throughout most of the audit period. With the hiring of a Chief Grants Program Coordinator in March the Business Office has been working with the Arts to develop a spreadsheet to track expenditures and began using it as of July 1, 2007.

Observation No. 4: Reimbursement Of Family Resource Connection Expenditures Should Be Requested Timely

Observation:

The Department does not consistently request timely reimbursements of Family Resource Connection program expenditures.

The Family Resource Connection is a statewide library service whose primary mission is to provide information, resources, and support for New Hampshire families, caregivers, educators, and other professionals concerning aspects of caring for, educating, and raising children. The Family Resource Connection program is administered by the Department and is funded in part through sub-grants from the New Hampshire Department of Education and the New Hampshire Department of Health and Human Services.

According to a memorandum of agreement (MOA) between the Department and the Departments of Education and Health and Human Services, the Department is entitled to quarterly reimbursements of its Family Resource Connection expenditures. During the nine months ended March 31, 2007, the Department incurred \$68,406 of reimbursable Family Resource Connection expenditures, however, the Department did not submit any requests for reimbursement for program expenditures during the nine-month period.

The Department has historically requested reimbursements on an annual basis in prior years and reported it was unaware of their ability to seek quarterly reimbursements of Family Resource Connection expenditures.

Recommendation:

The Department should review the provisions of its MOA to ensure its familiarity with all the terms of the agreement and establish procedures to ensure compliance with the MOA is monitored on an ongoing basis. The Department should seek reimbursement of its Family Resource Connection expenditures on a quarterly basis as stated in the MOA.

Auditee Response:

We Concur.

The Department is now seeking reimbursement according to the MOA.

Observation No. 5: Controls Over Donation And Gift Receipt Process Should Be Improved

Observation:

During the nine months ended March 31, 2007, the Department did not have appropriate controls in place over the Department's donation and gift receipt process. During this period, the Department recorded \$11,808 in donation and gift revenue.

We noted a lack of segregation of duties over the Department's donation and gift receipt process as one Department employee was singly responsible for the incompatible functions of: 1) collecting cash donations and gift revenue from various locations within the Department, 2) preparing bank deposits and delivering the deposit to the State Treasury, and 3) preparing and posting the Cash Receipt document (form A-17). No other Department employee was responsible for review and approval or other control activities over the donation and gift receipt process.

The lack of proper segregation of duties relating to the Department's donation and gift receipt process increased the risk that errors or frauds could occur in the process and not be detected and corrected in a timely manner.

Recommendation:

The Department should improve controls over its donation and gift receipt process. The Department should segregate the incompatible job responsibilities of collecting cash donations and gift revenues, preparing the deposit, and posting the revenue in the State accounting system.

Auditee Response:

We Concur.

The Department has implemented procedures to rectify this.

Observation No. 6: Controls Over Payroll Should Be Strengthened

Observation:

Controls over the Department's payroll process are weakened by the lack of effective control procedures and monitoring.

- Primarily, one Department employee is responsible for the accumulation and entry of all leave time into the State's payroll system (GHRS), including the employee's own, and a related employee's, leave time. There is no independent review or monitoring of the employee's input to verify its accuracy.
- During our review of part-time employees' timesheets, we noted the Department did not consistently comply with its policy requiring part-time employee timesheets to be reviewed and approved by the employees' supervisors.
- The Department did not have procedures in place to ensure an accurate tracking of part-time employees' hours for the purpose of granting salary increments during the nine months ended March 31, 2007. Our review of a sample of part-time employee personnel records revealed that one employee was not granted a salary increment in December 2005, when eligible. This oversight was not identified and rectified by the Department until the auditors brought this issue to the Department's attention in March 2007.

By strengthening its payroll control procedures and monitoring, the Department can lessen its risk that errors or frauds may occur in the payroll process and not be detected and corrected in a timely manner.

Recommendation:

The Department should strengthen its payroll control procedures and monitoring efforts.

Auditee Response:

We Concur in Part.

The Department has now established a system of spot-auditing employees' leave records and also ensuring that all employees' time slips are signed by their supervisor.

The Department does have a system of tracking part time employees' increments and annual pay. The error noted in this instance resulted when a spreadsheet was not kept current. The responsible employee has been again directed to maintain the spreadsheet.

Observation No. 7: Account Balances Should Only Be Brought Forward If Properly Authorized

Observation:

The Department did not use care in completing its fiscal year 2006 closing generator document which initiates the closing process and either lapses balances or allows available account balances to be brought forward into the subsequent fiscal year.

If authorized by statute or other authority, an agency can bring available account balances that remain at the end of a fiscal year into the subsequent fiscal year. The process for bringing available balances forward is outlined in the Department of Administrative Services' (DAS) *Annual Closing Review*. During our review of the Department's account balances brought forward into fiscal year 2007, we noted that authorities cited to allow some of the Department's account balances to be brought forward were not accurate. In some of these instances the Department cited an incorrect authority and in other instances the Department did not appear to have the authority to bring some of the balances forward.

The Department brought forward 63 account balances totaling \$1.1 million from fiscal year 2006 into fiscal year 2007. We noted issues with the statutory or other authority listed in the Department's fiscal year 2006 *Fiscal Closing Generator* for 22 of the 63 account balances brought forward (35%).

- The Department did not have the authority to bring forward nine of the 63 account balances (14%) totaling \$73,555.
- The Department cited an incorrect authority for 13 of the 63 (21%) account balances brought forward. After further research, the auditors confirmed these 13 balances brought forward

were in fact properly authorized, but under a different authority than was cited by the Department.

Recommendation:

The Department should review the requirements outlined in the DAS *Annual Closing Review* and establish procedures to ensure that only available account balances with proper and current authorizations are brought forward into the next fiscal year. The Department should use care in completing the *Fiscal Closing Generator* to ensure that only authorized accounts are brought forward and that the proper statutes and other authorities for that action are cited on the document.

The Department should consult with the DAS Budget Office to determine whether any actions are required relative to the account balances inappropriately brought forward.

Auditee Response:

We Concur.

The Department will work with the DAS Budget Office to determine when accounts can be brought forward and properly closed.

Observation No. 8: Written Agreements With Services Vendors Should Be Established

Observation:

The Department's Division of Libraries (Division) does not document its agreements with electronic subscription services vendors.

During the nine months ended March 31, 2007, the Division paid more than \$300,000 for electronic subscription services from several vendors. The Division does not have formal agreements or memorandums of understanding with these vendors of electronic subscription services. Although some of the vendor invoices contain sufficient information to determine the type, duration, and other information on the subscription services purchased, the invoices generally do not provide information on the Division's and vendor's rights and obligations in case of disruption of service or other issues.

According to the Department, a vendor contract is not required for these purchases as RSA 21-I:18, (f), exempts the Department from State purchasing rules for the purchase of books, periodicals, or related items, such as electronic subscription services. Although RSA 21-I:18, (f), does appear to exempt the Department from following New Hampshire purchasing rules for the purchase of subscription services, including the need to seek competitive bids for these services, the statute does not relieve the Department from following reasonable purchasing practices including documenting service agreements with vendors.

The lack of a formal agreement or other documentation of vendor services limits the Department's ability to effectively manage and control vendor performance of services purchased.

Recommendation:

The Department should establish written contracts or memorandums of agreement with significant service vendors including vendors of electronic subscription services. The documentation should define the rights and obligations of the parties involved.

Auditee Response:

We Concur.

The Department has consulted with other State Libraries to determine if this is practiced in other states. We have found that some do require memorandums. We are investigating developing a "boilerplate" memorandum of agreement to submit for approval from the Attorney General's Office.

Observation No. 9: Formal Fraud Risk Mitigation Efforts Should Be Developed And Implemented

Observation:

The Department has not established a formal fraud assessment, prevention, deterrence, and detection program and has not established a fraud reporting policy.

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

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

- Assessment is critical since risks can only be effectively managed if risks are identified.
- Prevention reduces opportunities. Preventative methods are typically part of the organization's internal control – tone at the top and control procedures.
- Deterrence consists of those actions taken to discourage the perpetration of fraud and limit the exposure if fraud does occur. The principal mechanism for deterring fraud is the establishment of effective controls that persuade employees that frauds will be detected and perpetrators punished. Management has the primary responsibility for establishing and maintaining these controls.

- Detection consists of identifying indicators of fraud sufficient to warrant recommending an investigation. These indicators may arise as a result of controls established by management, tests conducted by internal auditors, and other sources both within and outside the entity.

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

The attributes of an effective fraud reporting policy include:

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

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

Recommendation:

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

The Department should establish a formal fraud assessment, prevention, deterrence, and detection policy to help limit the Department's exposure to fraud and to promote early detection of fraud that might occur. The Department should take measures to foster a high degree of control consciousness among its employees and ensure that its employees understand that adhering to controls is a primary concern of management.

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

Auditee Response:

We Concur.

The Department will develop and implement a Fraud Risk Policy.

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

Observation:

The Department does not have formal policies and procedures in place for recognizing and responding to risks potentially affecting its operations.

The Department does not have formal policies and procedures in place for periodically reviewing its operations for risks that could jeopardize its ability to continue to function as management intends. Currently, when risks are identified such as the risk of disruption of operations caused by computer or other failure, the Department takes steps to respond to those risks, yet there are no formal policies and procedures to continuously review operations for risks. A lack of understanding of risks generally pushes an entity toward a reactive mode when significant risks are realized/occur. A reactive mode may compromise the efficiency and effectiveness of a response due to the lack of prior identification and understanding of the risks and ramifications.

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

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

External Risks - threats from broad factors external to the entity including changes in the political arena, statutes and rules, competition from other sources, and illegal activity external to but affecting the organization.

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

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

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

Recommendation:

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

Auditee Response:

We Concur.

The Department will work with the Divisions to establish and implement risk assessment policies.

Observation No. 11: Responsibility For Cultural Assets Should Be Clarified

Observation:

Conflicting State statutes regarding the accounting for and maintenance of cultural assets render the responsibility for these assets unclear. Although these conflicts in State statute were noted in our prior audit of the Department and have existed since at least the early 1990's, the Department has yet to seek legislative clarification for its responsibility for cultural assets in the State of New Hampshire.

The Department has possession of and maintains numerous cultural assets, such as valuable paintings, books, clocks, furniture, statues, and other items of historic nature at various locations around the State, including artifacts on display at other State agencies and items stored in-house at each of its three Divisions. The Department reported that, due to apparently conflicting State statutes, the Department was unclear of its responsibility for the State's cultural assets.

For example:

- RSA 17-I:2, I, effective July 19, 1991, provides the Joint Legislative Historical Committee with the responsibility for purchasing and restoring "historical items, including paintings and memorial plaques, for the state house, the legislative office building, and other buildings or facilities under the jurisdiction of the general court".
- RSA 4:9, effective July 1, 1988, makes the Department's Division of Historical Resources responsible for the location and care of "portraits, busts, statues, or other memorial objects...placed in or on the state house, state house annex, state library...".

Similarly,

- RSA 227-C:4, XVIII, effective July 1, 2004, assigns the responsibility for "accepting gifts of objects of historic significance, either directly or pursuant to RSA 4:8-a, cataloguing such gifts, and including such gifts in the descriptive inventory and photographic reproduction collections required by RSA 5:30, X" to the Department's Division of Historical Resources.
- RSA 4:8-a, I, effective August 25, 1998, provides the Governor and Council with the ability to "authorize the Department of Resources and Economic Development to accept, for the state, gifts of personal property and money which are donated for use in connection with historic sites and the buildings or structures thereon, which are under the management of that department" and requires the Department to "keep a permanent inventory or record of such gifts and the disposition of such gifts."

In addition,

- RSA 5:30, X, effective June 15, 2006, requires the Department of State's Director of Archives and Records Management to "maintain a descriptive inventory and photographic reproduction collection of all portraits and artifacts that belong to the state".
- RSA 227-C:4, I, effective July 1, 2004, requires the Department's Division of Historical Resources to undertake "a statewide survey to identify and document historic properties, including all those owned by the state, its agencies and political subdivisions."

Although RSA 227-C:8, I, effective July 1, 1988, makes the commissioner of the Department of Cultural Resources the "technical custodian of all state historic resources", due to the conflicts noted above, the Department's responsibility for all State cultural assets is unclear.

The Department reported that the only cultural assets it is certain it is responsible for are the assets within the three buildings over which it has physical control. The Department also reported it was aware of its responsibility for artwork purchased by the Department with funds set aside in the State Art Fund that have been placed at other State agencies.

Recommendation:

To eliminate confusion and enhance accountability over the State's cultural assets, the Department should seek legislative clarification of its responsibility for the development and maintenance of a descriptive inventory of works of art and historical treasures located throughout the State.

In the interim, the Department should work with the Joint Legislative Historical Committee, the Department of State, and the Department of Resources and Economic Development to ensure that all of the State's cultural assets are properly accounted for and safeguarded.

A similar comment was issued during the 1992 audit of the Department.

Auditee Response:

We Concur.

In Fall 2005 in cooperation with the Joint Legislative Fiscal Committee the Department of Cultural Resources met with curators from the Currier Museum, NH Historical Society, and the Manchester Historical Association as well as members of the Legislature, Executive and Judicial branches, Secretary of State Office and Adjutant General to explore ways we can better preserve, protect and promote our state's cultural and historical assets. From that meeting came the concept of the Office of Curatorial Service. The Department established the office during the fiscal years 2008 and 2009 budget process by transferring a Historian position from Historical Resources to its own PAU placed under the Commissioner's Office effective July 1, 2007. A second position (Program Specialist IV/ Curator) was also requested and turned down during the budget process. One of the responsibilities of this position would be to work with the legislature to address this problem and to clarify these issues.

Observation No. 12: Cultural Assets Should Be Properly Safeguarded

Observation:

The Department has not established policies and procedures for safeguarding the State's cultural assets for which it has physical custody.

We noted the following deficiencies related to the Department's safeguarding of cultural assets:

- The Department loans artwork to State agencies for display in State offices. Physical access to these displayed assets is generally not highly restricted. The Department attempts to secure all two-dimensional pieces located at other State agencies with safety locks and instructions provided to State agencies on how to care and account for loaned assets. These efforts appear less than effective as, according to the Department, some agencies have compromised the locks in order to move the art to a different location. The Department considers the lack of care/preservation and physical safety of loaned historical artifacts to be a significant risk.
- The Department has not established a risk assessment plan for the State's assets under its custody including policies and procedures for the regular and periodic review of risks to individual items and the collection and for the reasonable responses to those risks. While RSA 19-A:10, III provides the Commissioner with the authority to insure works of art, the State and Department generally have not purchased insurance to protect against losses of these assets.

The lack of a comprehensive listing and other records of the assets in the Department's possession as discussed in Observation No. 13 compounds the difficulties faced by the Department in being able to properly safeguard, maintain, and preserve its cultural assets as the Department may not be aware of all the assets for which it is responsible.

Recommendation:

The Department should establish policies and procedures for safeguarding the cultural assets entrusted to it. A significant component of those controls should be a periodic risk assessment including a reasonable response to the results of that assessment. The Department should establish memorandums of agreement with the agencies to which it loans assets to require appropriate safeguarding of the assets. Agencies should be required to perform according to the agreement.

The Department should also review its listing of assets and determine whether insurance should be purchased.

Auditee Response:

We Concur.

The Department is developing policies to ensure that all of its assets are protected and that the receiving agency understands its responsibility. The Department does require insurance before an item is loaned to another organization. The Department must first determine the value of its assets and is currently working to establish a list of all of the cultural assets owned by the State

(see Observations No. 11 and No. 13). Once this has been determined, we will request funding to purchase insurance.

Observation No. 13: Accounting For Cultural Assets Should Be Improved

Observation:

The Department has not established policies and procedures to account for and report the State's cultural assets including artifacts, historical, and other cultural assets for which it has established physical custody.

Although New Hampshire's works of art and historical treasures are not capitalized for financial reporting purposes, the Department of Administrative Services, in accordance with the State of New Hampshire's *Long-Term Assets Policy and Procedures Manual*, requires State agencies to systematically and accurately record and document museum and art collections in the agency's asset inventory system. The State's policy further requires agencies to take a complete physical inventory of long-term assets greater than \$100 at the end of each fiscal year and reconcile the inventory annually with the records maintained by the agency.

The Department was unable to provide a complete listing of cultural assets in the custody of the Department as of March 31, 2007. Although the Department had partial listings, these listings were not complete and did not contain full descriptions and value of the cultural assets in the custody of the Department.

We also noted the following deficiencies related to the Department's accounting for cultural assets:

- The Department's artifacts and historic assets are not properly labeled, identified, or included in the Department's long-term asset inventory system. The Division of the Arts' project of labeling and re-labeling artwork was reportedly only about 15% complete at March 31, 2007. This project does not include artwork located in the State Library and the Division of Historical Resources. Artwork located at the State Library is identified by paper labels that apparently could become detached, easily removed, or lost, as some pieces do not currently have a label.
- The Department does not maintain complete records of its cultural assets and does not perform a periodic inventory or assessment of the physical condition or value of those assets.
- The Department loaned the New Hampshire Historical Society, a non-profit organization, numerous historical artifacts in 1915. Handwritten and typed records of the items on loan, dating back to 1915, were maintained on file at the Department, however, no recent documentation regarding the care and preservation responsibilities for these assets exists between the State Library and the Historical Society. An inventory of items on loan to the New Hampshire Historical Society has never been performed, and the items at the Historical Society are not insured. The Department appears to have no internal controls in place to ensure that the items on loan have been properly safeguarded. Other items have been loaned to the Historical Society over the years and have been documented with loan agreements for specified periods.

- The Department does not submit a statement containing a description of museum and art collections in its possession to the Department of Administrative Services (DAS) at year-end as required by the State of New Hampshire's *Long-Term Assets Policy and Procedures Manual*. This statement is required by DAS for purposes of preparing the footnotes to the State of New Hampshire's *Comprehensive Annual Financial Report*.

The lack of effective controls increases the risk that the loss of significant cultural assets could occur without detection by the Department and the State. Paintings and other historical assets for which the Department is responsible could be moved, stolen, or lost without detection by the Department. The lack of proper identification, documentation, and labeling of assets in the Department's custody compounded by the lack of complete periodic physical inventory efforts contributes to the Department not being able to assess and report the existence, condition, and location of assets for which it is responsible. This lack of expressed control over the assets contributes to the perceived lack of ownership and responsibility for the assets which may result in the assets being more susceptible to theft or other loss.

A similar comment was issued during the 1992 audit of the Department.

Recommendation:

Policies and procedures over the accounting for cultural assets must be established and followed to strengthen internal controls over these assets.

The Department should:

- Continue to take the steps necessary to identify the State's cultural assets by properly labeling the items located within the three buildings over which it has physical control, as well as the items on display at the various locations around the State.
- Comply with the State of New Hampshire's *Long-Term Assets Policy and Procedures Manual* and maintain adequate records of its cultural assets including a comprehensive inventory listing of all cultural assets in its possession.
- Perform a complete periodic count and valuation of its cultural assets to help reduce the risk of loss of these assets and to otherwise protect the assets.
- Submit a statement containing a description of museum and art collections in its possession to the Department of Administrative Services as required by the State's *Long-Term Assets Policy and Procedures Manual*.
- Take other steps as appropriate to express responsibility over these assets and ensure that other organizations that may have temporary possession of the assets recognize that the ultimate responsibility for these assets remains with the Department.

Auditee Response:

We Concur.

As stated in Observation No. 11, the Department has established the Office of Curatorial Services. The Historian has been working to compile a list of assets, a monumental task. PastPerfect (a Museum Collection Software) was purchased and employees were trained in the

fall. The Program Specialist at the Division of the Arts has also compiled a list of all artwork purchased using Percent for Art funds. The Department has also been working with the Legislature, the Executive and Judicial branches of State government, the Secretary of State, and the Adjutant General to explore ways we can better preserve and protect our State's cultural and historical assets. During the fiscal years 2008 and 2009 budget process, we had requested a true State Curator (Program Specialist IV) who would work in conjunction with the Historian who functions as a registrar to interpret and exhibit for students, visitors, and residents alike these invaluable state assets. This funding request was turned down.

The Department was unaware of the requirement to submit a statement containing a description of the collection to the Department of Administrative Services and is working with DAS to determine what should be included in the CAFR.

Observation No. 14: State Equipment Policies And Procedures Should Be Followed

Observation:

The Department did not establish controls over its long-term assets that provide reasonable assurance of effective and efficient operations, reliable financial reporting, and compliance with State laws, policies, and procedures during the nine months ended March 31, 2007. The Department also has not fully instituted the State's equipment controls.

The Department reported that it had 834 equipment items with an aggregate historical cost of \$819,354 as of March 31, 2007. The following deficiencies were noted during the audit period:

- During the last several years, the Department has not performed an annual physical inventory of equipment as required by the Department of Administrative Services (DAS) *Long –Term Assets Policy and Procedures Manual*.
- The Department did not report the inventory of its equipment as required by RSA 21-I:11, VII (b), and did not complete and submit the required Monthly Equipment Adjustment Reports (Forms P-21) to the DAS, Division of Plant and Property Management.
- The Department reported it had not consistently affixed identification tags to newly acquired equipment resulting in some equipment not being identified as State-owned.

The Department cited limited resources and staff turnover as contributing factors for not preparing the equipment records as required by the DAS, Division of Plant and Property Management.

Proper internal controls over equipment transactions help to ensure the accuracy, completeness, and integrity of the Department's equipment records. Regular inspection and accounting for equipment items provides an accurate presentation of the value, nature, and condition of the organization's equipment. Proper identification and tagging of equipment items discourages theft and misappropriation of those assets.

A similar comment was issued during the 1992 audit of the Department.

Recommendation:

The Department should implement appropriate internal controls over equipment. In addition to implementing an appropriate control environment over equipment specific to the Department's needs, the Department should implement the standard State equipment control activities including identifying and tagging equipment, performing an annual physical inventory, and reporting equipment.

Auditee Response:

We Concur.

The Department has an internal control structure over its long-term assets and equipment controls. Due to vacancies that occurred in fiscal year 2006, they were not being followed. We had begun training an individual in these policies prior to the commencement of the audit and attacking the backlog of items.

Federal Compliance Comments

Observation No. 15: The Department Should Comply With Federal Reporting Requirements

Observation:

The Department did not comply with certain federal program reporting requirements during the nine months ended March 31, 2007. The Department did not file several of the required reports and did not retain the necessary supporting documentation for the reports that were filed during that period.

The Department administers several federal programs. In accordance with the post-assistance requirements for receiving federal financial assistance under those programs, the Department must periodically submit financial and/or performance reports to the federal grantor agencies. In addition, the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement dated March 2007 requires these reports to be adequately supported by applicable accounting or performance records.

Testing of the Department's filing of federal reports revealed the following:

- The Division of the Arts did not retain adequate documentation to support its final federal financial report filed with the National Endowment for the Arts (NEA) on January 2, 2007. The process of extracting and summarizing data from the Department's and State's accounting systems was not sufficiently documented to allow the Division to replicate the calculation of several of the amounts reported on the federal financial report.
- The Division of Historical Resources had not, as of March 31, 2007, submitted the end-of-year report required under its federal grant from the National Park Service (NPS), which was due on December 31, 2006. According to the NPS, the Division of Historical Resources is currently on reporting probation with the NPS, which requires more frequent reporting by the Division. Continued noncompliance with the NPS reporting requirements may result in further, more severe action taken by the NPS.
- The State Library submitted three reports due to the Institute of Museum and Library Services by December 30, 2006 ten days late.

A similar comment was issued during the 1992 audit of the Department.

Recommendation:

The Department should develop and implement policies and procedures to ensure that required federal reports are submitted timely. The Department should ensure that the accounting records support all calculations and reported amounts and that the documentation of those reported amounts is retained as required by program guidelines.

Auditee Response:

We Concur.

As stated in Observation No. 1, the Department has undergone personnel changes in the months prior to the audit and during the audit period. As part of their training the Department is working with staff to strengthen these controls. The Department will work with the grants administrators within the divisions to ensure that they are submitting reports in a timely manner and documenting appropriately.

Observation No. 16: The Division Of Historical Resources Should Comply With Federal Program Requirements

Observation:

The Department's Division of Historical Resources (Division) was not in compliance with several federal requirements during the nine months ended March 31, 2007.

The Division receives federal funds from the National Park Service (NPS) to further historic preservation efforts in the State. The Division was awarded \$507,180 for the federal fiscal year 2005 grant period and \$509,332 for the federal fiscal year 2006 grant period. Federal program funds must be expended in the current or subsequent grant period year. The Division sub-grants a portion of its federal award to certified local government subrecipients (CLGs). The Division uses a standard grant agreement document when sub-granting funds to the CLGs. The agreement requires CLGs to submit itemized invoices and progress reports to the Division quarterly.

Additional federal requirements require the Division to monitor its subrecipients of federal awards through the use of reporting requirements, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. The Division reports it monitors subrecipients by reviewing reimbursement requests and quarterly status reports submitted by the CLGs.

During our testing of the Division's compliance with these and other federal program requirements, we noted the following:

- The Division did not effectively monitor the activities of the CLGs during the audit period. We noted none of the four CLGs reimbursed by the Division submitted the required quarterly status reports. One of the four CLGs did not submit the final project report. We also noted the Division did not require CLGs to provide proof of payment prior to issuing reimbursements. Three of four payments totaling \$21,361 made by the Division to CLGs during the audit period were not supported by invoices or other proof of payment. When requested, the Division sought and obtained proof of payment from the CLGs.
- The Division's grant agreement with NPS requires 10% of the amount awarded to the State be transferred to CLGs. The Division did not meet the 10% pass-through requirement for the 2006 federal grant award. Of the \$50,933 of federal grant monies required to be passed through to CLGs only \$2,922 was paid to CLGs as of the September 30, 2007 grant period

end date. The remaining \$48,011 of unused funds not passed through may no longer be available to the Division unless an extension of the grant period is approved by the NPS.

- The Division's fiscal year 2005 grant agreement with NPS requires that all costs charged against the grant be incurred by the September 30, 2006 grant period end date, and payment requested from NPS by December 31, 2006. We noted the Division charged four payments to CLGs totaling \$27,530 to the fiscal year 2005 grant even though the costs were incurred after the September 30, 2006 grant period end date. One of the four payments was made in December 2006, one was made in February 2007, and the remaining two payments were made in March 2007. The Division reportedly did not request an extension of the grant period in order to spend the funds during the time frame specified by the grant agreement.

It is unclear whether the Division has failed to recognize their noncompliance with the grant agreements or whether the Division has recognized the noncompliance and has failed to respond to it. It is clear, however, that the Division performs no assessment of the CLGs compliance status prior to sub-granting federal funds as CLGs continue to receive awards despite their noncompliance with the previous grant agreement.

The issues noted in this observation are especially concerning given the fact that, as noted in Observation No. 15, the Division is currently on reporting probation with the NPS and may be at risk of losing anticipated federal funds. The Division reported that turnover in the Grant Coordinator position has contributed to the lack of sufficient monitoring procedures noted in this observation.

Questioned Costs: \$27,530

Recommendation:

The Division should:

- Review the provisions of its grant agreements with NPS and CLGs to ensure a familiarity and proper understanding of the requirements. Provisions that are unclear or impossible to comply with should be discussed with the federal program representative.
- Develop policies and procedures to ensure compliance with the federal requirements. The procedures should provide for periodic monitoring of CLGs including requiring CLGs to submit required invoices and progress reports to the Division. The Division should respond and take corrective action if required reports and itemized invoices are not submitted timely.
- Contact the federal program representative to determine how to resolve the issues identified in this observation.

Auditee Response:

We Concur.

As stated in previous observations, the Grants manager's position was vacant throughout most of the audit period. The Division of Historical Resources did not have the personnel to perform these functions on a full time basis. This position has now been filled and they are working with National Park Service to rectify these problems.

Observation No. 17: The Division Of Libraries Should Comply With Federal Requirements

Observation:

The Department's Division of Libraries (Division) did not maintain sufficient documentation to support the State match and maintenance of effort costs reported to the federal grantor agency during the nine months ended March 31, 2007. The Division also did not obtain the required federal approval prior to purchasing an equipment item over the federal program's \$5,000 pre-approval threshold.

The Division administers an Institute of Museum and Library Services (IMLS) federal grant. The requirements for the grant include periodic financial and program status reporting, including reporting of state match and maintenance of effort expenditures incurred by the Division, as well as obtaining prior written approval for significant equipment purchases.

We noted the following issues in the Department's administration of the grant:

- Matching and maintenance of effort expenditures reported by the Division to IMLS on the Financial Status Report dated January 10, 2007 were not sufficiently supported or explained to demonstrate compliance with program requirements. It appears the Department reported the federally-required match amount to IMLS rather than reporting actual expenditure activity occurring during the reporting period. The lack of available records to support the matching and maintenance of effort expenditures on the Financial Status Report tested required alternative audit procedures to determine the Division's compliance with the federal requirements. The Department reportedly was not aware of the federal requirement to maintain detailed cost records for expenditures reported on federal financial reports.
- The financial activity for one project on the fiscal year 2005 State Program Report Summary submitted to IMLS on January 10, 2007 was listed in the same report twice under two separate project titles. Although Department management reviews and certifies the accuracy of the federal financial reports, this duplication of project financial activity was not detected. The Department was not aware of the error until the auditors brought it to the Division's attention.
- The Division did not obtain prior written approval from the IMLS for the purchase of a \$14,980 delivery van even though the purchase exceeded the grant's \$5,000 pre-approval threshold.

The lack of relevant controls including formal policies and procedures contributed to the issues noted in this observation.

A similar comment was issued during the 1992 audit of the Department.

Questioned Costs: \$14,980

Recommendation:

The Department should establish suitable controls to reasonably ensure compliance with federal requirements. The Department should:

1. Establish policies and procedures over the proper accounting and reporting requirements for federal grants,
2. Ensure employees are aware of the federal compliance requirements and receive proper training on an on-going basis to keep abreast of any changes to the requirements,
3. Ensure that the financial activity reported on federal reports is adequately documented and supported by the accounting records,
4. Review its internal monitoring procedures to ensure that the procedures are sufficient to detect and correct federal financial reporting errors in a timely manner and prior to submission to the federal grantor agency, and
5. Contact IMLS to determine if they will require any other course of action to be taken with respect to the noncompliance issues noted in this observation.

Auditee Response:

We Concur.

The Institute of Museum and Library Services (IMLS) grants the Library approval for their 5-year plan. The purchase of a vehicle is part of that plan. The Department and the IMLS was unaware that additional approval was required. The library will request this approval on all equipment purchases in the future.

The Library will work with IMLS to determine what is needed for reporting to ensure compliance with federal requirements.

State Compliance Comments

Observation No. 18: Required Administrative Rules Should Be Adopted

Observation:

The Department has allowed the following statutorily required administrative rules to expire:

RSA Cite	Description Of Rule
RSA 19-A:10, I	Selection And Placement Of Art Purchased Through The State Art Fund
RSA 21-K:8	I. The Use And Control Of The State Library And Its Holdings II. The New Hampshire Automated Information System III. The Statewide Library Development System IV. Historic Preservation Activities V. Requirements For Selecting Art To Be Funded By The State Art Fund VI. Standards For City And Town Libraries VII. New Hampshire State Government Information Access Libraries And Retention Schedules For State Publications VIII. The Administration Of The Museum Property Act
RSA 201-A:25, II	Functioning And Maintenance Of The New Hampshire Automated Information System And The Definition And Accreditation Of Each Regional System
RSA 201-D:10	Statewide Library Development System
RSA 201-E:7	Museum Property Act
RSA 227-C:5	Historic Preservation

The administrative rules, which had a six-year life, were last revised in 1985 and expired in 1991. Although the Department's management was aware of the expired rules, the Department stated that updating and readopting the rules had not been a priority for the Department due to a lack of staffing and available funds.

The Division of Historical Resources has developed draft administrative rules for submission to the Joint Legislative Committee on Administrative Rules (JLCAR). As of March 31, 2007, the JLCAR had not yet accepted the draft rules of the Division of Historical Resources.

A similar comment was issued during the 1992 audit of the Department.

Recommendation:

The Department should adopt, and keep current, administrative rules required by statute. If the Department determines that rules are not necessary, it should pursue a timely change in statute to eliminate the requirement for the rules.

Auditee Response:

We Concur.

The Department had previously requested help from the Department of Administrative Services regarding adoption of the rules. Preliminary work was begun and soon stopped. The Department has neither the knowledge nor resources to develop rules. Therefore we will request a new position in the next biennium to address this issue full time.

Observation No. 19: The Department Should Comply With Or Seek Amendment To Applicable Statutes

Observation:

The Department did not comply with, or seek amendment to, the following statutes related to the Department during the nine months ended March 31, 2007:

1. RSAs 15-A:3 and A:6 require every person appointed to any board, commission, committee, board of directors, authority, or equivalent State entity and other public officials to file a statement of financial interests annually no later than the third Friday in January. Of the 58 individuals on eight councils/committees/advisory boards that were required to file a statement of financial interests with the Secretary of State by January 19, 2007, we noted that 40 individuals (69%) did not file the required statement.
2. RSA 15-A:4 requires each agency head to file an organizational chart identifying the names, titles, and position numbers of persons in his or her department that are required to file a statement of financial interests. The Department did not file its organizational chart with the Secretary of State as required by the statute.
3. RSA 19-A:4 related to the New Hampshire State Council on the Arts states that no member of the Council shall receive any compensation for his services. During the nine months ended March 31, 2007, the Department reimbursed New Hampshire State Council on the Arts members for mileage, travel, and hotel expenditures totaling \$2,628.
4. RSA 201-A:9, III, requires the State Librarian to publish and submit a biennial report to the commissioner. We noted that biennial reports have not been submitted to the commissioner timely. The most recent biennial report was submitted to the commissioner in 2003.
5. RSA's 201-A:8-a and 201-A:24-a require the State Library Advisory Council (Council) and the New Hampshire Automated Information Systems Board (Board), respectively, to meet at least quarterly. Although, according to statute, it would be expected that three meetings should have been held during the nine months ended March 31, 2007, we noted that the Council held only two meetings and the Board held only one meeting during the audit period.
6. RSA 201-A:27, I, established the "Webster" Advisory Board (Board) and requires the Board to advise the State Librarian and Chief Information Officer and to study the future direction of "Webster," the State of New Hampshire's automated information system Internet site. The Board did not meet during the nine months ended March 31, 2007 and has not issued an annual report, which is required by RSA 201-A:27, VI, in recent years. Webster was restructured to be under the control of the Office of Information Technology (OIT). Currently, all of the responsibilities for the design and maintenance of the State's website rest with the OIT.

7. RSA 201-D:3 requires an annual allocation of State funds to supplement the local appropriation and other income of each member library in the State. We noted the Department does not provide any State funds to member libraries; instead the funds are used to support inter-library technology (New Hampshire Automated Information System) which, according to the Department, is more beneficial to the member libraries.

Recommendation:

The Department should comply with State statutes. If certain statutes or requirements appear no longer relevant, the Department should seek legislative action to amend or repeal the affected statutes.

Auditee Response:

We Concur.

1. RSA 15-A:3 - The Department continuously reminds it's board members of the requirement to file, but we are not informed by the Secretary of State if board members have not filed. We will work with the Secretary of State to determine who has not filed a disclosure and continue to remind them.
2. RSA 15-A:4 - The Department will file organizational charts with the Secretary of State.
3. RSA 19-A:4 - The Division of the Arts will work with the legislature to amend this RSA to allow for the reimbursement of travel expenses as the other Divisions allow.
4. RSA 201-A:9 - The State Librarian will submit a biennial report to the Commissioner.
5. RSA 201-A:8-a and 201-A:24-a - The State Librarian will conduct meetings on a quarterly basis.
6. RSA 201-A:27 - The State Librarian will work with the Chief Information Officer to rectify this oversight.
7. RSA 201-D:3 - The State has not funded this line item in a number of years. The State Librarian will work with the Legislature to amend this RSA.

Office Of Information Technology Response:

We Concur.

RSA 201-A:27 - The Webster Advisory Board has not met since 2001 and its last report was for the calendar year 2000. The Office of Information Technology will work with the State Librarian relative to the status of this Board.

Auditor's Report On Management Issues

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues Collected and Expenditures Paid – General Fund of the New Hampshire Department of Cultural Resources for the nine months ended March 31, 2007, and have issued our report thereon dated November 27, 2007.

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

In planning and performing our audit of the Statement of Revenues Collected and Expenditures Paid of the Department of Cultural Resources for the nine months ended March 31, 2007, we noted issues related to the operation of the Department of Cultural Resources that merit management consideration but do not meet the definition of a significant deficiency as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules, regulations, and contracts.

Those issues that we believe are worthy of management consideration but do not meet the criteria of significant deficiencies or noncompliance or other matters are included in Observations No. 20 through No. 22 of this report.

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

Office Of Legislative Budget Assistant

November 27, 2007

Management Issues Comments

Observation No. 20: Relationship Between The State Library And The Park Street Foundation Should Be Reviewed And Clarified

Observation:

Lack of clear distinction in the operations of the State Library and the Park Street Foundation has resulted in blurred responsibility and accountability for certain State Library and Foundation finances and activities.

According to documentation provided by the State Library, the initial concept and organization of the Park Street Foundation of Concord, New Hampshire (Foundation) dates back more than 15 years. The Foundation was intended as an organization to encourage and accept donations and other funding and ease the administration of some State Library programs, in accordance with its mission statement, to:

- 1) Enhance the State Library's collections, technological capacities, continuing education programs, and preservation activities,
- 2) Enhance the collections of the Library and Archives of New Hampshire Political Traditions,
- 3) Enhance the activities and operations of the regional Library for the Blind and Physically Handicapped, a section of the State Library,
- 4) Fund statewide literacy projects and activities,
- 5) Support the State Library's Children's Historical Collection, and the work of the Family Resource Connection, and
- 6) Provide for the betterment of the State Library Building and its grounds in concert with the Department of Administrative Services.

The management of the Department decided upon the composition of the Foundation's Board of Directors and it was recognized the mission of the Foundation would directly support that of the State Library.

The activities of the Foundation were reinvigorated in 2003, when the State Librarian, as the then president of the Foundation, requested and received federal tax-exempt status for the Foundation as an Internal Revenue Code Section 501 (c) (3) organization.

The official address of the Foundation is 20 Park Street, Concord, which is also the address of the State Library. During the nine months ended March 31, 2007, the Department Commissioner was the Vice President of the Foundation, the State Librarian was the Treasurer, and the remaining Board members included a former State Librarian as well as current and former members of various councils and commissions of the Department. The Foundation does not have any regular employees. The State Librarian and other Department employees perform essentially all Foundation activities, including selling promotional items on behalf of the Foundation as well as other fundraising efforts and ordering content for the Digital Audio Book Program administered by the Foundation. These State employees perform most of this activity during regular business hours along with their other State Library responsibilities. The Foundation, on occasion, does engage project managers for certain projects not performed by State Library

employees. The Foundation has established a bank checking account to process its financial activity and engages a public accounting firm to prepare an annual financial statement. The State Librarian and the Department Commissioner are the only authorized signers for checks drawn from the Foundation checking account.

During the nine months ended March 31, 2007, the Department entered into several financial transactions with the Foundation, paying \$74,545 to the Foundation. Although the described transactions appear to support the State Library's mission, it is unclear why these projects funded through the Foundation could not be performed directly by the State Library or were considered by the State Library to be more efficiently and effectively performed by the Foundation. The State Library indicated the Foundation was used as a "fiscal agent" to facilitate the completion of these projects. For example, the State Library subgranted \$69,640 of federal funds to the Foundation to administer the State Library's Digital Audio Books program. The program, as operated by the Foundation, accepted contributions of \$500 to \$1,000 from local public libraries and used the contributions to match the federal funds provided by the State Library to purchase digital content for the program. Although the funds were deposited in the Foundation's bank account, State Library employees processed the collections from the local libraries and purchased the digital content, paying for the content using a check drawn on the Foundation's account. Reportedly, the State Library processed these transactions through the Foundation, as the State Library deemed the Foundation's process to be easier and more efficient than the normal State cash receipt and disbursement control processes. It is unclear whether the State Library in its performance as a fiscal agent for the Foundation established and operated under an appropriate control structure in lieu of the State's controls.

Similar avoidance of normal State controls was noted in the Department's use of the Foundation's credit card. According to the Department, it was denied the authority to obtain a Department credit card by the Department of Administrative Services. Reportedly, in order to take advantage of discount pricing available on credit card purchases, the State Library used the Foundation's credit card, primarily for the online purchases of postage for the State Library's Family Resource Connection program. The State Library reimbursed the Foundation's checking account for the amount of the State Library's credit card purchases.

In addition to the control avoidance concerns noted above, key Department personnel act as principals for both organizations. As a result, it can be unclear on behalf of which organization the employee is acting. As noted above, during the audit period, the State Librarian was also the Foundation's Treasurer and primary check signer. Although the Foundation employs a private CPA firm to compile an annual financial statement, essentially all of the Foundation's financial activity was performed by, or under the direction of, the State Librarian. The State Librarian solicited and accepted donations and other funds on behalf of the Foundation, processed the deposits of funds into the Foundation account, and made payments from the Foundation account.

In addition, the State Librarian approved Library expenditures, including the granting of federal funds from the Library's accounts to the Foundation and the payment of other monies to the Foundation.

Subsequent to our inquiry about the State Library's relationship with the Foundation, the State Librarian stepped down from the position of the Foundation's Treasurer. Also, the Foundation's

Board of Directors expressed an intention to establish a new, physical location for the Foundation and discontinue the use of the State Library's address for the Foundation's business.

Recommendation:

The relationship between the State Library and the Park Street Foundation should be reviewed and clarified to ensure the relationship is appropriate under State statute. The Department should consult with the Department of Justice when reviewing this relationship.

The State Library should not use the Foundation to avoid appropriate State control processes. The State Library should ensure that its involvement in the Foundation's activities is subject to a control structure that provides for reasonable assurance of a controlled operation that meets the goals and objectives of the Foundation and does not create an inappropriate commingling of State and Foundation activities.

Auditee Response:

We Concur.

The State Library is reviewing its relationship with the Park Street Foundation and will consult with the Department of Justice as part of this review.

The work employees perform for the Foundation (collecting money from the sale of calendars, delivering mail, etc) is minimal, averaging less than one hour per week.

The Department will on occasion use the Foundation's credit card. The State of New Hampshire does not allow the Department to have a business credit card. In this age, it is virtually impossible to purchase some items without the use of a credit card and some employees do not have a credit card or do not wish to use their personnel card. Many times this is the most cost effective way.

Observation No. 21: The Department's Telecommuting Policies Should Be Strengthened

Observation:

The Department's Telecommuting Program Policy and Procedures do not clearly address the need for employees to consider and adhere to the Office of Information Technology's (OIT) Statewide computer-use policies while telecommuting.

Article 28 of the 2005-2007 Collective Bargaining Agreement permits the Department's employees to telecommute, subject to the approval of the Commissioner. As of March 31, 2007, the Department reported there are 16 employees out of a total of 74 employees with telecommuting agreements on file at the Department.

The OIT's *Personally Owned Device Policy* prohibits the connection of personally owned devices, including laptops, printers, storage devices, etc., to State owned equipment and networks. The Department's internal policy does not explicitly prohibit the use of personally

owned devices in this manner and only disclaims the Department's responsibility for any employee-owned equipment that may be used incidental to the employees' telecommuting work. The disclaimer in the Department's internal policy implies that personally owned devices are acceptable for use in telecommuting work and some Department employees use personal equipment for the purpose of telecommuting. Department management reported they were not aware of the Statewide policy issued by the OIT.

Recommendation:

The Department should review its current Telecommuting Program Policy and Procedures and ensure the provisions of the Policy and Procedures incorporate OIT statewide computer-use policies. The Department should ensure its employees are aware of the policies against the connection of personally owned equipment to State equipment and networks. If the Department determines the use of personally owned equipment connected to State equipment and networks is necessary, the Department should seek an exception from OIT to the statewide policy.

Auditee Response:

We Concur.

The Department of Cultural Resources has had a Telecommuting Agreement approved by the Division of Personnel and SEA since July 1, 1997 (Article L 1997-1999 Collective Bargaining Agreement). We have determined that the only people who connect to the State's network by use of a VPN are doing so on a State-owned laptop.

We will amend the Department's Telecommuting Program Policy and Procedures to ensure it complies with OIT Statewide policies.

Office Of Information Technology (OIT) Response:

OIT concurs that the lack of explicit reference in the Statewide Policy on Personally Owned Device may imply that the Department's telecommuting policy allows said devices to be used when staff are connected to statewide networks.

OIT recommends adding language to the Department's policies to explicitly cite the Statewide policy relative to Personally Owned Devices.

Observation No. 22: Disaster Recovery And Continuity Of Operations Plan Should Be Implemented

Observation:

The Department has not prepared a disaster recovery and continuity of operations plan to minimize disruption of operations should physical disaster or other foreseen or unforeseen disturbance impact the Department's ability to fulfill its mission statement. The purpose of a disaster recovery and continuity of operations plan is to document the recovery strategies, plans, and policies and procedures necessary to implement a recovery process for State resources.

The Department maintains and supports the online cataloging system for numerous satellite libraries. The Department also houses and maintains many State resources of historical, cultural, artistic, and monetary value within the State Library, the Division of Historical Resources, the Division of the Arts, and other rented/leased spaces. In order to continue to fulfill its mission, the Department should be prepared to minimize the impact of foreseen and unforeseen circumstances on the Department's daily functions. A disaster recovery and continuity of operations plan is intended to provide employees with documented and tested policies and procedures to follow in the event of a disruption or disaster to minimize the effects on operations and ensure the well-being of the employees involved. A well-designed plan includes tested recovery strategies and plans and policies and procedures intended to implement an efficient and effective system recovery.

Once established, it is important to keep the plan current and relevant by performing regular tests of the plan, including determining the effects on agency operations of a disaster or systems failure and the expected recovery times from such situations, and employee training on the operation of the plan.

Recommendation:

The Department should implement and maintain a formal disaster recovery and continuity of operations plan for all critical Department functions. In developing a suitable plan, the Department should perform an appropriate risk and cost-and-benefits analysis. The plan should consider the risk of system failure, natural disaster, etc. and the cost of implementing certain aspects of the plan against the benefits of minimizing the effects of these events.

A program of regular testing of key provisions of the plan should be encompassed in the plan, including the testing of any other back-up systems used by the Department. The testing program should include employee training in the operation of the plan and a critique of the plan's effectiveness. It should address any need for revisions including any systems and technology changes, or physical location changes. All employees should be trained in their roles and responsibilities relative to the plan.

Auditee Response:

We Concur.

The Department will implement and maintain a formal disaster recovery plan.

Office Of Information Technology Response:

We Concur.

The Office of Information Technology will work in partnership with the Department of Cultural Resources to provide the information technology (IT) components of business continuity planning (such as IT service continuity plans, backups and recovery procedures, technical security procedures and tool utilization, network setup, and other technically specific activity), which will complement and meet the requirements, as outlined by the agency's overall business continuity plan.

Business continuity plans touch all functions of the business, which include such areas as personnel, facilities, and information technology. It encompasses all aspects of an organization's operations that could be impacted by a situation such as human resources, power supply maintenance and/or backup, transportation, food, health, facility preparation and safety, which are based on the prioritized business needs.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement Of Revenues Collected And Expenditures Paid – General Fund of the New Hampshire Department of Cultural Resources for the nine months ended March 31, 2007. This financial statement is the responsibility of the Department of Cultural Resources' management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department of Cultural Resources' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statement only presents the revenues collected and expenditures paid by the Department of Cultural Resources. Accordingly, this financial statement does not purport to, and does not, constitute a complete financial presentation of either the Department of Cultural Resources or the State of New Hampshire in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, this financial statement is prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues collected and expenditures paid in the General Fund by the Department of Cultural Resources for the nine months ended March 31, 2007 on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the Statement Of Revenues Collected And Expenditure Paid – General Fund of the New Hampshire Department of Cultural Resources. The supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 27, 2007 on our consideration of the Department of Cultural Resources' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

November 27, 2007

Office Of Legislative Budget Assistant

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CULTURAL RESOURCES**

**STATEMENT OF REVENUES COLLECTED AND EXPENDITURES PAID
GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2007**

Revenues Collected

Federal Operating Grants	\$ 1,768,421
Allocation Of Conservation Plate Revenues	212,449
Other	20,155
Total Revenues Collected	<u>2,001,025</u>

Expenditures Paid

Salaries And Benefits	3,215,162
Program Expenditures:	
Grants To Subrecipients (Note 2)	890,974
Publications	528,608
Other	<u>137,946</u>
Subtotal	1,557,528
Current Expense	240,406
Transfers To Other Agencies	233,996
Rents And Leases	92,224
Equipment	48,580
Travel	32,623
Organizational Dues	19,589
Miscellaneous	<u>16,919</u>
Total Expenditures Paid	<u>\$ 5,457,027</u>

Excess (Deficiency) Of Revenues

Collected Over (Under)	
Expenditures Paid	<u>\$ (3,456,002)</u>

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

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CULTURAL RESOURCES
REVENUES COLLECTED AND EXPENDITURES PAID**

**NOTES TO THE FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Department of Cultural Resources is an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports the revenues collected and expenditures paid by the Department of Cultural Resources.

The revenues collected and expenditures paid by the Department of Cultural Resources are accounted for and reported in the General Fund in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR).

B. Basis Of Presentation - Fund Accounting

The State of New Hampshire and the Department of Cultural Resources use funds to report on their financial position and the results of their operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Governmental Fund Types

General Fund

The General Fund accounts for all financial transactions not specifically accounted for in any other fund. By law, and with certain exceptions, all revenues of governmental funds are paid daily into the State Treasury. All such revenues, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

C. Measurement Focus And Basis Of Accounting

The Statement Of Revenues Collected And Expenditures Paid – General Fund for the nine months ended March 31, 2007 was prepared using the cash basis of accounting.

Financial statements prepared on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, may differ from presentation under accounting principles generally accepted in the United States of America since certain revenues are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligations are incurred. Accordingly, the accompanying financial statement is not intended to present the Department of

Cultural Resources' results of operations in conformity with accounting principles generally accepted in the United States of America.

NOTE 2 - RELATED PARTY TRANSACTIONS

The Department of Cultural Resources entered into financial transactions with the Park Street Foundation (Foundation), an Internal Revenue Code Section 501(c)(3) tax-exempt organization. The Foundation was established by the Department more than 15 years ago to ease the administration of State Library programs and to support the State Library's mission to enhance library collections in New Hampshire and to fund statewide literacy projects and activities. Department employees are also Foundation officers.

The Department paid \$74,545 to the Foundation during the nine months ended March 31, 2007. Approximately \$70,000 of that amount was a pass-through of federal program funds. The Foundation acts as a fiscal agent to the Department to facilitate the administration of the State Library's Digital Audio Books Program (Program). State Library employees who were responsible for processing collections from local libraries and purchasing digital content administered the Program.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF CULTURAL RESOURCES
REVENUES COLLECTED AND EXPENDITURES PAID**

**BUDGET TO ACTUAL SCHEDULE - CASH BASIS - GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2007**

	Original Operating <u>Budget</u>	Actual <u>Amounts</u>	Favorable/ (Unfavorable) <u>Variance</u>
<u>Revenues Collected</u>			
Federal Operating Grants	\$ 2,494,482	\$ 1,768,421	\$ (726,061)
Allocation Of Conservation Plate Revenues	190,000	212,449	22,449
Other	326,970	20,155	(306,815)
Total Revenues Collected	<u>3,011,452</u>	<u>2,001,025</u>	<u>(1,010,427)</u>
<u>Expenditures Paid</u>			
Salaries And Benefits	4,191,758	3,215,162	976,596
Program Expenditures (Grants, Publications, And Other)	1,906,562	1,557,528	349,034
Current Expense	311,783	240,406	71,377
Transfers To Other Agencies	467,292	233,996	233,296
Rents And Leases	104,400	92,224	12,176
Equipment	87,820	48,580	39,240
Travel	87,819	32,623	55,196
Organizational Dues	28,175	19,589	8,586
Miscellaneous	31,166	16,919	14,247
Consultants	10,000	-0-	10,000
Total Expenditures Paid	<u>\$ 7,226,775</u>	<u>\$ 5,457,027</u>	<u>\$ 1,769,748</u>
Excess (Deficiency) Of Revenues			
Collected Over (Under)			
Expenditures Paid	<u>\$ (4,215,323)</u>	<u>\$ (3,456,002)</u>	<u>\$ 759,321</u>

The accompanying note is an integral part of this schedule.

**Note To The Budget To Actual Schedule - Cash Basis - General Fund
For The Nine Months Ended March 31, 2007**

Note 1 – General Budget Policies

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

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund.

The New Hampshire biennial budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances.

The budget as reported in the Budget To Actual Schedule reports the initial operating budget for fiscal year 2007 as passed by the legislature in Chapter 176, Laws of 2005, consisting of the operating budgets for the fiscal years ending June 30, 2006 and June 30, 2007.

Budgetary control is at the department level. All departments are authorized to transfer appropriations within their departments with the prior approval of the Joint Legislative Fiscal Committee and the Governor and Council. Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year-end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts.

Variances - Favorable/(Unfavorable)

The variance column on the Budget to Actual Schedule - Cash Basis highlights differences between the original operating budget for fiscal year 2007 and actual revenues collected and expenditures paid through the nine months ended March 31, 2007. Actual revenues exceeding budget or actual expenditures being less than budget generate a favorable variance. Actual revenues being less than budget or actual expenditures exceeding budget cause an unfavorable variance. Unfavorable variances are expected for revenues and favorable variances are expected

for expenditures when comparing nine months of actual revenues collected and expenditures paid to an annual budget.

**STATE OF NEW HAMSHIRE
DEPARTMENT OF CULTURAL RESOURCES
REVENUES COLLECTED AND EXPENDITURES PAID**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FOR THE NINE MONTHS ENDED MARCH 31, 2007**

Federal Catalog Number	<i>Federal Grantor /Federal Program</i>	Expenditures	Pass Thru Percent
<i><u>Department Of Housing And Urban Development</u></i>			
14.246	Community Development Block Grants/Brownfields Economic Development Initiative	\$ 19,560	0%
<i><u>Department Of The Interior</u></i>			
15.904	Historic Preservation Fund Grants-In-Aid	335,478	4%
<i><u>National Foundation On The Arts And The Humanities</u></i>			
45.025	Promotion Of The Arts - Partnership Agreements	522,457	56%
45.149	Promotion Of The Humanities - Division Of Preservation And Access	4,746	0%
45.310	Grants To States	<u>982,359</u>	0%
Total Federal Assistance		<u>\$ 1,864,600</u>	

APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of March 31, 2007, of the current status of the observations and other issues and concerns contained in the audit report of the Department of Cultural Resources for the eighteen months ended December 31, 1992. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

	<u>Status</u>		
<i>Internal Control Comments</i>			
<i>Material Weakness</i>			
1. Christa McAuliffe Planetarium (CMP) Sales Operations			N/A
2. Fixed Asset Accounting (<i>See Current Observation No. 11 And No. 13</i>)	●	○	○
3. Under (Over) Statement Of Accounts Receivable (<i>See Current Observation No. 1</i>)	○	○	○
<i>Other Reportable Conditions</i>			
4. Consolidation Of Business Offices	●	●	○
5. Cash Management – Federal Programs (<i>See Current Observation No. 1</i>)	○	○	○
6. Equipment Inventory Process (<i>See Current Observation No. 14</i>)	○	○	○
7. Christa McAuliffe Planetarium Inventory			N/A
8. Holding Subrecipient Checks	●	●	●
<i>Federal Compliance Comments</i>			
9. Federal Funds – Cash Management	●	●	●
10. Federal Ledgers (<i>See Current Observation No. 3 And No. 17</i>)	●	○	○
11. Federal Financial Reporting (<i>See Current Observation No. 15</i>)	○	○	○
12. Audit Fund Set-Aside	●	●	○
13. Equipment Record Keeping	●	●	○
<i>State Compliance Comments</i>			
14. Estimated Federal Funds – RSA 124:14	●	●	○
15. Administrative Rules (<i>See Current Observation No. 18</i>)	●	○	○
16. Untimely Deposits	●	●	●

Status Key	●	●	○	Count
Fully Resolved	●	●	●	3
Substantially Resolved	●	●	○	4
Partially Resolved	●	○	○	3
Unresolved	○	○	○	4

N/A - Not Applicable. The responsibility for the Planetarium was transferred out of the Department of Cultural Resources subsequent to the prior audit. As such, the Planetarium was not a subject of this audit and the current status of the prior audit comments related to the Planetarium was not determined.

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