

**STATE OF NEW HAMPSHIRE  
FISH AND GAME FUND**

**FINANCIAL AND COMPLIANCE  
AUDIT REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2003**



**STATE OF NEW HAMPSHIRE  
FISH AND GAME FUND**

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# **STATE OF NEW HAMPSHIRE FISH AND GAME FUND**

## **Reporting Entity And Scope**

The reporting entity and scope of this audit and audit report is the New Hampshire Fish and Game Fund as of and for the fiscal year ended June 30, 2003. During this period, the Fish and Game Fund primarily reported the operations of the New Hampshire Fish and Game Department.

The following report describes the financial activity reported in the Fish and Game Fund as it existed during the period under audit. Unless otherwise indicated, reference to the Department refers to the Fish and Game Department. Auditee responses, comments on observations, and action to be taken statements were provided by the Department.

## **Organization**

The Fish and Game Department was created in 1935 pursuant to RSA 206 under a commission known as the Fish and Game Commission to manage the fish and wildlife resources of the State. The eleven-member Commission is comprised of one commissioner from each of the state's 10 counties plus one commissioner representing the seacoast area. All Commissioners are appointed to the Commission by the Governor and Council. The financial activities of the Department are primarily accounted for in the Fish and Game Fund, a special revenue fund of the State of New Hampshire.

The Department operates out of its headquarters in Concord and four regional offices located in Durham, Keene, Lancaster, and New Hampton. In addition, the Department operates six fish hatcheries located in Berlin, Milford, New Hampton, New Durham, Twin Mountain, and Warren.

At June 30, 2003, the Department employed one unclassified, 165 full-time classified, and 33 full-time temporary employees accounted for in the Fish and Game Fund.

## **Responsibilities**

The Department defines its mission "As the guardian of the state's fish, wildlife and marine resources, the New Hampshire Fish and Game Department works in partnership with the public to:

- Conserve, manage and protect these resources and their habitats;
- Inform and educate the public about these resources; and
- Provide the public with opportunities to use and appreciate these resources."

## **Funding**

The Fish and Game Department is funded primarily by appropriations from the Fish and Game Fund. Per RSA 206:34-a, "All revenues accruing from sales of licenses and permits, and any other revenue received by the department, and any money reimbursed or granted to the department by the state or federal government for fish, game, and wildlife conservation or related programs shall be used solely for conservation, restoration, management, educational benefit, recreational use, and scientific study of the fish, game, and wildlife resources of the state, including acquisition of

property and general administration of RSA title XVIII. Such funds shall be used for no other purpose.” The Department received \$50,000 from the State’s General Fund as matching appropriations for donations received by the Department’s Nongame Program in accordance with RSA 212-B:6 and also received \$6,000 of other General Fund appropriations pursuant to RSA 207:23-a during fiscal year 2003. As noted above, the scope of this audit is the financial activities reported in the Fish and Game Fund. A summary of the Fish and Game Fund revenues and expenditures for the fiscal year ended June 30, 2003, is shown in the following table.

**Fish And Game Fund**  
**Summary Of Revenues, Expenditures, And Changes In Fund Balance**  
**Fiscal Year Ended June 30, 2003**  
(expressed in thousands)

<b>Revenues</b>	
Unrestricted Revenues	\$ 8,688
Restricted Revenues	10,429
<b>Total Revenues</b>	<b><u>\$ 19,117</u></b>
<b>Total Expenditures</b>	<b><u>\$ 19,342</u></b>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<b><u>\$ (225)</u></b>
<b>Other Financing Sources (Uses)</b>	<b><u>\$ 824</u></b>
<b>Excess Of Revenues And Other Sources Over Expenditures</b>	<b><u>\$ 599</u></b>
Fund Balance July 1, 2002	\$ 8,241
Change In Reserve For Inventory	116
<b>Fund Balance June 30, 2003</b>	<b><u>\$ 8,956</u></b>

**Prior Audit**

The most recent prior financial and compliance audit of the Fish and Game Fund was an audit of the Fish and Game Department for the fiscal year ended June 30, 1997. The appendix to this report on page 97, 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 financial statements of the Fish and Game Fund as of and for the fiscal year ended June 30, 2003. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place affecting the Fish and Game Fund and tested the Fish and Game Department's compliance with certain provisions of applicable State and Federal laws, rules, and contracts related to the Fish and Game Fund. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues and receivables,
- Expenditures and payables, and
- Cash and investments.

Our reports on compliance and on internal control over financial reporting, and on management issues, the related observations and recommendations, our independent auditor's report, and the financial statements of the Fish and Game Fund are contained in the report that follows.

## **Auditor's Report On Compliance And On Internal Control Over Financial Reporting**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the Fish and Game Fund of the State of New Hampshire as of and for the fiscal year ended June 30, 2003, as listed in the table of contents, and have issued our report thereon dated April 15, 2004. 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.

### Compliance

As part of obtaining reasonable assurance about whether the Fish and Game Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, and contracts, 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 that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance which are described in Observations No. 46 and No. 47 of this report.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control over financial reporting of the Fish and Game Fund in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Fish and Game Fund's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Observations No. 1 through No. 45 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions noted above, we consider the matters described in Observations No. 1 and No. 2 to be material weaknesses as described above.

This auditor's report on compliance and on internal control over financial reporting is intended solely for the information and use of the management of the Fish and Game Fund and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

***Office of Legislative Budget Assistant***  
Office Of Legislative Budget Assistant

April 15, 2004

**Internal Control Comments**  
**Material Weaknesses**

**Observation No. 1: Control Environment Must Be Strengthened**

*Observation:*

During fiscal year 2003, a weak control environment negatively affected Department operations. While steps were being taken to improve the control environment during this time, the effects of years of inattention continued to hamper aspects of the Department's operations into fiscal year 2003.

Management is responsible for establishing and maintaining effective internal controls. In doing so, management determines the control environment and sets the "tone at the top." The control environment includes such factors as management's philosophy, operating style, organization structure, and assignment of authority and responsibility. It defines the overall attitude, awareness, and actions of management concerning the importance of control and its emphasis within the entity. When there is an inattention to or a lack of consistent policy direction from management, controls tend to become less effective.

In our last audit of the Department in fiscal year 1997, we noted the Department's weak management control structure as a reportable condition in the first observation of the report. Included in that observation was discussion of the Department's inability to resolve comments from the 1991 audit of the Department, as well as concerns regarding weaknesses in the Department's control structure that allowed the decentralization of administrative control functions. As noted in the detail of the observations that follow, many of the concerns expressed in those earlier audits continued to plague the Department during fiscal year 2003. While in some circumstances a decentralized control system may provide a level of efficiency for an organization, in the case of the Department, decentralization promoted inconsistent and sometime ineffective application of controls. While the responsibilities of the various functions of the Department may seem disparate, making separate control systems appropriate, the fact is that the various functions of the Department, in a control sense, are quite similar making centralization efficient as well as effective.

*Recommendation:*

The Department must continue in its efforts to improve its control structure. Management of the Department must accept its responsibility for establishing and maintaining effective controls and for communicating the importance of controls to employees. Department employees should understand that controls will provide for increased effectiveness of the Department's operations and should not be regarded as "red tape" unduly impeding efficiency.

*Auditee Response:* We concur

*Comments On Observation:*

The lack of an effective control environment has been a continuing issue of concern in the past. As stated in the observation, the responsibility of such is set at the top through proper management practices. In response to the 1997 LBA Audit Observation regarding the Department's weak management control environment, the Executive Director at the time took action to hire an IT

Manager in 1999 who has thorough knowledge in IT management. The IT Manager assessed the Department's IT structure, developed long range plans for improving the Department's IT infrastructure and implemented those plans in a cost effective manner. As a result of the 1997 LBA Audit Observation, the Executive Director hired an Assistant Director in 1999 who has strong knowledge in budgeting and financial accounting. The Assistant Director assessed the Department's budget structure and implemented changes to improve the structure of the Department's budget to provide management with more useful financial information. These actions resulted in improvements to the internal control structure of the Department, however, due to weakness in the direct daily oversight of business and accounting functions and the lack of sufficient well-developed written policies and procedures, the importance of internal controls within the Department was not effectively and efficiently communicated to all employees and this allowed for inconsistent practices to be applied to business functions of the agency.

*Action To Be Taken:*

The Department's senior management takes this issue seriously. Management has already instituted revised well-developed policies and procedures with regard to purchasing, travel authorizations, payroll processing, contract approvals, budgeting and inventory. These improvements in internal control policies and procedures have been made as a result of the combination of a new Executive Director, a new Business Administrator and observations presented in this audit. The Executive Director's philosophy is that the control structure comes from the top down and he is working with the senior management staff to ensure that these new policies are adhered to on a daily basis. The Department will continue in its efforts to strengthen and maintain a sound internal control structure.

**Observation No. 2: Federal Ledger System Needs To Be Enhanced**

*Observation:*

The automated federal accounting ledger system utilized by the Department during fiscal year 2003 was not sufficient for efficient and accurate financial reporting. The system instituted for fiscal year 2004, while considered more effective by the Department, also does not meet the needs of the Department.

Prior to and during fiscal year 2003, the Department used a basic commercial accounting software package to account for most aspects of its federal programs. This software was primarily designed for small business applications and had only limited functionality as a federal ledger system. This limited functionality required the accounting technician to create numerous spreadsheets, perform manual calculations, and develop other workarounds to accumulate and calculate additional information necessary for federal accounting and reporting. This reliance on ancillary information made accounting for the Department's federal programs problematic and prone to errors.

The limitations of this software package combined with lack of operator training have caused inefficiencies in the recording of federal grants, caused duplication of effort, and have forced the employees to manipulate the software to allow them to enter more detailed information into the system. For example, established accounting codes are not always used, some accounts are used for purposes other than those they were intended, accounts are never closed, and some reports (e.g. Trial Balance) cannot be reconciled. In addition, all expenditures are recorded in the system using the State payroll date as an entry date regardless of the actual transaction date entered in the State's accounting system (NHIFS). While this practice has been longstanding in the Department and has

made it easier for the account technician to query expenditures for federal reporting purposes, dating transactions in this manner provides inaccurate information for federal reporting, as the recorded date does not reflect the actual date the expenditure was incurred, makes the reconciliation of the federal ledgers to NHIFS problematic, and potentially affects the integrity of the federal reporting, especially at fiscal year end or the end of a grant period. In fact the Department has not been able to reconcile its federal ledger to NHIFS since at least 1991, when the comment was first made in a Legislative Budget Assistant audit. Since many spreadsheets and other manual processes were developed to accumulate and organize the required information, federal aid accounting has become a very cumbersome, error prone process.

In July 2003, the Department upgraded its federal accounting system to another off-the-shelf commercial accounting system. While this program is more robust than the prior package, the Department agrees that this new system is not sufficient for the Department's federal reporting purposes and is only intended to support the Department's needs until the new State accounting system comes on line and replaces NHIFS.

*Recommendation:*

The Department should provide additional assistance to the operation of its federal accounting system. The Department's federal accounting and reporting responsibilities are very significant to the operation of the Department and the Department should ensure that the employees performing those functions are adequately supported with appropriate training, accounting resources, and a computerized ledger system able to efficiently and effectively account for and report federal financial information. While, in the short term, spreadsheets and workarounds may be required to support an inadequate accounting and reporting system, these stopgap measures should not be seen as permanent fixes for an inadequate system. The Department faces continued risks of inadequate financial reporting if it does not become proactive in finding an appropriate federal ledger system. To assume that a system to replace NHIFS will provide the support that the Department needs for federal reporting and will be operational for the Department in a reasonable timeframe may not be prudent. The Department needs to take responsibility for its own financial reporting needs. If the Department cannot be assured that the new State system will meet its needs and be available in a reasonable time, the Department should take steps to immediately obtain a system that will do so.

*Auditee Response:* We concur

*Comments On Observation:*

The Department has worked to improve the accounting for federal revenues, moving from a manual system to a commercial accounting software package. The Department does understand that a commercial accounting software package may not be able to perform and provide all the necessary functionality required for a federal accounting ledger system. Certain limitations encountered with the federal accounting ledger system were due to regular turnover in the federal aid accounting position and lack of training for the accountant position on federal grant accounting.

*Action To Be Taken:*

The Department has benefited from the consistency in the Senior Accounting Technician position for the past three years, insuring annual training on grant accounting is provided. The hiring of a new Business Administrator with a background in accounting and having already partaken of federal grant accounting training will provide for consistent direct daily oversight of federal accounting.

The Department has recently met with officials from the US Fish and Wildlife Services to discuss manners in which the Department's federal accounting ledger can be improved and reconciled to NHIFS. Based on the results of these discussions the Department is assessing the ability to implement these recommendations. The Department has met with representatives of the state who are working on the Enterprise Resource Planning (ERP) system that is planned to replace NHIFS. The Department has described in full the functionality necessary in ERP for effective and efficient federal aid accounting to occur.

The Department is also reviewing its grants to see if the scopes of grants can be adjusted to simplify the accounting for federally reimbursable projects. Any noted improvements that can be made would be implemented in grant agreements for the start of fiscal year 2005.

**Internal Control Comments**  
**Other Reportable Conditions**

FINANCIAL ADMINISTRATION

**Observation No. 3: Policies And Procedures Should Be Established Requiring Formal Reviews Of Division Accounting Reports**

*Observation:*

The Department does not have sufficient policies and procedures requiring the division chiefs to review and approve the financial transactions charged to their divisions.

The Department relies upon its division chiefs to properly code expenditures for recording and reporting purposes. Division chiefs are responsible for determining which accounts to charge expenditures to and also for determining whether expenditures are chargeable to federal programs. Division chiefs prepare or approve all purchase requests originating in their divisions and code each of the requested expenditures to applicable appropriation lines. After the expenditure transactions occur, a copy of the payment voucher is given to the division chief to identify federally funded expenditures. The Business Office uses the coding provided by the division chiefs to post the transactions to the Department's federal ledger. After the transactions are recorded in the State's accounting system (NHIFS), the division chiefs are responsible for reviewing their NHIFS accounts to ensure that their coding, and the input of their coding by the Business Office, was performed accurately. The accuracy of the Department's financial records is dependent upon this review, as the distributed nature of the Department's activities prevents the Business Office from being sufficiently informed to independently determine the accuracy of the recording and reporting of financial transactions originating in the divisions.

While the division chiefs report that they generally review NHIFS and federal ledger summary reports monthly, there is no requirement in the Department's policies and procedures that they do so and no requirement that a record of the review or the results of that review be maintained.

*Recommendation:*

The Department should establish policies and procedures requiring periodic documented reviews by division chiefs of the accuracy of transactions recorded and reported by NHIFS and the federal ledgers. All errors detected in this review should be referred to the Business Office for correction.

*Auditee Response:* We concur

*Comments On Observation:*

The Department relies upon Division Chiefs to properly code expenditures for the program areas they supervise. The Department does ensure that each Division Chief has access to copies of monthly NHIFS reports and federal ledger summary reports. Division Chiefs are responsible for the budgets they supervise.

*Action To Be Taken:*

The Executive Director has given a clear directive to Division Chiefs and program managers that they are responsible for insuring that spending complies with approved appropriations within the



budgets they supervise. The Department will continue to ensure each Division Chief is able to obtain copies of monthly NHIFS reports and federal ledger summary reports to ensure that divisions are complying with approved budgets. The Department, in conjunction with implementing improvements to internal controls as noted in other audit observations, plans to streamline the processing of invoices so that Division Chiefs approve all invoices and code all the necessary information on invoices at one time and then submits invoices to the Business Division for payment and accounting for federal reimbursement as appropriate. The Department's Federal Aid Coordinator has implemented an audit function that allows him to review all invoices processed by the Department to ensure all eligible expenditures are being applied for federal reimbursement to proper grants.

#### **Observation No. 4: Accountability Controls For Revenues And Receipts Collected In The Sales Office Should Be Improved**

*Observation:*

Controls intended to establish and maintain accountability over revenue and other receipt transactions at the Department's sales office are weak. Properly designed and utilized accountability controls safeguard assets and also provide management information essential for monitoring employee performance and training needs.

- The cash register system and Department procedures used to record sales at the Department's sales office provides only limited accountability controls over processed transactions. While each transaction processed through the register has a referenced user ID, because of apparent system limitations and other procedures used, the referenced ID may not with certainty identify the clerk who processed the transaction. In addition, transactions initially processed in the system can be voided without supervisory approval and are not specifically reviewed in the reconciliation process.
- Close out procedures for sales office clerks do not require the clerks to tally and record credit card receipts and checks received in sales transactions. While accountability for cash received from sales transactions is established by the clerks counting and recording the cash prior to transferring the accumulated receipts for deposit, a similar accounting is not made for credit card receipts and checks received by the clerks.
- The Department's revenue reconciliation responsibilities for sales office transactions are not properly segregated.

Weak controls over revenue and other receipt transactions increase the risk that errors or frauds that may occur will remain undetected.

*Recommendation:*

The Department must establish a control system that includes accountability controls over all transactions originating in the sales office. Clerks should be provided with adequate resources and procedures to ensure that any errors or frauds that may occur can be traced to the responsible party.

Responsibilities should be properly segregated to promote the timely detection and correction of errors or frauds that may occur.

*Auditee Response:* We concur

*Comments On Observation:*

The cash register currently used is outdated. It does not allow for proper segregation of duties by personnel or proper segregation of transaction types.

The present cash register system does not allow for the totaling of checks and credit card receipts, therefore it is only cash that is counted by the front office clerks.

*Action To Be Taken:*

The Department is currently in the process of purchasing three state of the art cash registers. Each clerk will have the ability to reconcile all transactions that occurred in their drawer separated by cash, checks, and credit card charges by running a report each day. This reconciliation will be forwarded to the accounting section to aid in the processing of the daily deposit. This will be implemented no later than July 1, 2004.

The purchase of the new cash registers will allow for the day's transactions to be broken down by type. The clerks will tally the checks and credit card transactions as they currently do for cash and record the amount on the sealed envelope. *The Reconciliation of Income Received Statement* will be updated to reflect a sign off indicating that the Accountant IV has reconciled the bank deposit receipt to the cash register tape and to the *Daily Register Report*. This will be implemented no later than July 1, 2004.

## **Observation No. 5: Revenue Reconciliation Procedures Should Be Improved**

*Observation:*

The Department does not perform a reconciliation of license revenue recorded in its licensing database to revenue for hunting and fishing licenses recorded in the State's accounting system (NHIFS).

During fiscal year 2003, the Department collected over \$8.5 million of revenue from the sale of hunting and fishing licenses. The majority of hunting and fishing licenses are sold through a network of 268 licensing agents located throughout the State. These licensing agents remit to the Department monthly copies of all licenses sold during the reporting period, a check representing the total fees collected on behalf of the Department, and a sales remittance report summarizing sales activity. The checks remitted to the Department are processed through the front office cash register, with the receipt stamped on the sales remittance report, and deposited and recorded in NHIFS on a *Cash Receipt* (form A-17). Department computer data-entry clerks key license and licensee information into the licensing database. The data-entry clerks reconcile the total amount of the licenses keyed for each agent to the amount recorded per the sales remittance report.

Effective February 2002, hunting and fishing licenses can be purchased online through a vendor contracted through the Department of Administrative Services (DAS). All online license purchases are made with a credit card. Nightly, the Department's licensing database interfaces with the online

licensing system and uploads the day's sales information. Weekly, payments reflecting licenses sold are deposited to a State Treasury account. The amount of the deposit is calculated using the number of licenses sold for the week per the vendor multiplied by license price data stored in a database maintained by DAS. Treasury processes a form A-17 and posts the revenues to the correct NHIFS accounts.

During audit inquiry it was noted that the Department had not implemented procedures to reconcile online licensing revenue collected per the vendor records to the amounts deposited in NHIFS. During August 2003, the Department worked with the vendor to reconcile the online license revenue. It was determined that the hunting and fishing license prices in the database maintained by DAS had not been updated to reflect calendar year 2003 license fee increases. As a result, the Department had not collected the proper amounts from the vendor since December 2002. The license fee data in the DAS database was updated in August 2003 to properly reflect current license prices. During August 2003, the Department, working with the vendor determined that the vendor owed the Department \$43,606 (\$32,615 related to fiscal year 2003 license sales and \$10,991 related to fiscal year 2004 sales.) This amount was collected on October 3, 2003.

As of October 2003, the Department has instituted a weekly reconciliation of licenses sold form to reconcile the amounts remitted by the online vendor per the electronic *Cash Receipt* (form A-17) to the online license sales data recorded in the licensing database and the NHIFS deposit amounts.

The Department stated that the online vendor contract was setup by DAS as a pilot program to make e-government a reality. Since DAS set up the contract, the Department did not feel it had ownership of the program and therefore did not implement reconciliation procedures.

*Recommendation:*

The Department should clarify responsibilities over its online licensing system with DAS to ensure that fee changes are properly reflected in both the vendor and DAS systems, appropriate reconciliations are performed, and the vendor is performing as required by the contract.

The Department should continue its recent policy of reconciling on-line licensing revenue to NHIFS and implement policies and procedures to reconcile total agent hunting and fishing licensing revenue recorded per the licensing database to NHIFS. This will help ensure that the amounts collected are properly recorded and deposited.

*Auditee Response:* We concur

*Comments On Observation:*

The recommendations have been implemented

*Action To Be Taken:*

Action has been taken on both areas. The weekly reconciliation between on-line license revenue to NHIFS is now a standard procedure. The written procedure documents that the Licensing Supervisor obtains on-line license sale information from the Administrative website on a weekly basis. She then reconciles the information contained in the sold licenses report to the deposits recorded in NHIFS. The Department has been in contact with DAS and it has been determined that annually at the end of the calendar year communication will occur establishing the correct values to

associated license types. DAS is responsible for the input of this data update to ensure that fee changes are properly recorded.

**Observation No. 6: Policies And Procedures Should Be Documented For Monitoring License Agent Accounts**

*Observation:*

The Department has not documented its policies and procedures intended to assist data entry clerks in processing and monitoring licensing agent overages and shortages.

The computer data entry/audit clerks are responsible for contacting licensing agents with balance discrepancies via a letter and following up with the agents to ensure the discrepancies are resolved in a reasonable period of time. However, the procedures for handling discrepancies are not formally documented. When the year is over, as part of the closeout process, the License Supervisor reviews outstanding agent balances and works to resolve them. This review process is not formally documented and no reports are maintained on file.

While the Department reports that agent overages and shortages are generally minor and resolved in a timely manner without formal management involvement, the lack of formal review policies and procedures leads to the risk that accounts that get out of balance may not be detected and resolved timely. The lack of policies and procedures also increases the potential that control processes may be intentionally or unintentionally bypassed contrary to management's intentions.

*Recommendation:*

The Department should document its policies and procedures for handling licensing agent balance discrepancies. Department management should review monthly discrepancy reports to ensure that discrepancies in agent balances are resolved in a timely manner.

*Auditee Response:* We concur

*Comments On Observation:*

We do have official Departmental policies and procedures in place for the monitoring of license agent accounts. The supervisor of the licensing section is made aware of any agent discrepancies that cannot be corrected by the data entry clerk and resolves those discrepancies in the timeliest manner possible. The Supervisor of the Licensing Section informs the Business Administrator, the Assistant Director and the Executive Director regarding delinquent agents, which may require closing and possible further legal action.

*Action To Be Taken:*

Follow processes and procedures currently in practice. The Department will produce a written document outlining the processes and procedures currently in place.

## **Observation No. 7: Significant Memorandums Of Agreement Should Be Subject To Governor And Council Approval**

### *Observation:*

The Department currently has four memorandums of agreement contracts that have not been submitted to Governor and Council for approval even though the agreements are long-term and could be valued at amounts greater than the general limits requiring Governor and Council approval.

The memorandums of agreement are with:

- Great Bay Stewards - dated June 7, 1998, to assist the Fish and Game Department with the operation of the Great Bay National Estuarine Research Reserve and the Sandy Point Discovery Center.
- University of New Hampshire, Cooperative Extension - dated November 7, 2000, five-year agreement for the purpose of jointly conducting a summer conservation camp for youth.
- Public Service of New Hampshire, Audubon Society of New Hampshire, US Fish and Wildlife Services - dated July 18, 1995, to provide high-quality science and environmental education opportunities.
- Department of Resources and Economic Development - dated July 18, 2001, to operate and maintain an archery range at Bear Brook State Park.

State policy requires all personal services contracts in excess of \$2,500 to be submitted to Governor and Council for their approval. In general, any service that does not result in a tangible asset is considered a 'personal service'. While there is no stated cost component to the above noted agreements due to the nature of the agreements and the other parties involved, if valued, these agreements would in all likelihood be valued at greater than the \$2,500 criteria.

### *Recommendation:*

The Department should bring significant memorandum of agreement contracts to Governor and Council for approval. Significant contracts should include all contracts that contain a cost component that exceeds the criteria established by State policy and all agreements that would be valued in excess of the criteria if the agreements were arms-length transactions.

*Auditee Response:* We concur

### *Comment of Observation:*

Memorandums of Agreement (MOAs) are important tools utilized by the Department in fulfilling its mission. The Department relies on partnerships with other state agencies and conservation organizations to complete projects of mutual interest and value to the citizens of New Hampshire. Given the importance of these items the Department fully understands the significance of having these agreements properly approved.

*Action To Be Taken:*

The Department's management will initiate a policy prescribing the procedures and protocols to be followed for initiating and renewing MOAs. This policy will include a provision that all MOAs are to be reviewed by the Department's Business Office. The Department is currently communicating with the Attorney General's Office to document provisions in state law that need to be complied with when entering into MOAs. The Department is seeking assistance from their representatives at the Attorney General's Office in developing the policy and protocols for MOAs.

**Observation No. 8: Transfers Of Expenditures Should Be Based Upon The Underlying Accounting Records**

*Observation:*

The Department's process for determining the amount of expenditures to transfer from the Law Enforcement Division to the Search and Rescue Account is not consistently well documented and includes estimates that tend to overstate payroll costs to be transferred.

Quarterly, the Department transfers salaries and benefits and in-state mileage expenditures from the Law Enforcement accounts to the Search and Rescue accounts to appropriately charge search and rescue activities performed by Law Enforcement Division personnel. These transfers appear in the accounting record as negative expenditures in the transferring class line and as positive expenditures in the receiving class line accounts. During a review of negative expenditures for the quarter ended March 31, 2003, selected as a sample negative expenditure, we noted \$18,171 of personnel service and \$3,368 of in-state travel transferred out of Law Enforcement and into the Search and Rescue/Special Activities account. This transfer represented the transfer to the Search and Rescue account for that quarter. Reportedly, the amounts transferred were based upon the number of hours that conservation officers worked on search and rescue operations, training, etc., and the vehicle mileage incurred to perform those duties. Per review of calculations to support the transfer we noted the following:

- The Department's accounting records did not support the amounts transferred. Per the Department, the amounts to be transferred are based on the number of search and rescue related hours reported by the Law Enforcement Division. For the quarter ended March 31, 2003, payroll costs for 1,010 hours of search and rescue and training time were transferred. The Department was not able to provide records to support the hours used in the calculation of the above transfer. It appears, from a review of Law Enforcement's *District Summary Reports* (time activity reports) for the period of December 27, 2002 through March 20, 2003, that a total of 2,774 hours were committed to search and rescue and related activities. The *District Summary Reports* include 938 hours for search and rescue, 1,186 hours for Department-wide training, and 650 hours for Department-wide maintenance. There was no information provided by the Department that reconciled these reported hours to the 1,010 hours used in the transfer calculation.
- The hourly rate used in the transfer calculation is based on an average hourly rate of all of the Department's conservation officers, including the Colonel and Major. Using an average and including Division management causes the average hourly rate to be high, as these individuals only occasionally participate in search and rescue operations. The calculation would be more accurate if the amount of the transfer was based on the actual hours worked and the actual hourly pay rates of the officers that performed the search and rescue duties.

- The \$18,171 transferred out of the Law Enforcement payroll accounts included both the employee's salaries and benefits. The transfer would be more accurate if the benefit portion of the expenditures totaling \$4,675 was transferred out of the benefit class line account. The Department's transfer method allows for more funds to be available to spend for personnel services than were approved by the budget.

*Recommendation:*

Transfers of expenditures should be based upon the underlying accounting records. Payroll expenditures should be recorded in the accounting system based on the actual hours worked and the actual hourly pay rate earned. This ensures that the transaction reflects the appropriate amount paid. When expenditures are transferred from one organization and class code in the State's accounting system (NHIFS) to another, the class line account the funds are transferred from should reflect the class line account to which the expenditure was originally charged.

*Auditee Response:* We concur

*Comments On Observation:*

Upon the Department being informed of this observation, management met with Business and Law Enforcement Division staff to assess what inconsistencies occurred with the report for the quarter ended March 31, 2003. This meeting resulted in an observation that *District Summary Reports* appear to be accurate and that there was a timing difference between the information reported to the Business Division. This timing difference is a result of search and rescue missions that occur towards the end of a quarter and are reported on the *District Summary Reports*, however the actual incident report is provided after the end of the quarter and after Law Enforcement Division has provided their information to the Business Division for said quarter from the search and rescue mission log report.

*Action To Be Taken:*

The Business Division and Law Enforcement Division will meet with the Assistant Director to further assess the reporting requirements necessary for Business to properly report search and rescue costs. Presently any costs for search and rescue incurred by Deputy Conservation Officers are transferred from the Deputy Conservation Officer organization code 1185 class 050 and class 060 to the search and rescue dedicated account. These transfers are done at the request of the Law Enforcement Division providing information to the Human Resources Coordinator and approved by the Assistant Director. These transfers are supported by actual source documents (timesheets) and are done based on actual rates of pays for the Deputy Conservation Officers. This same process will be implemented for regular full-time Conservation Officers. The Department will also look to budget appropriate class lines in the search and rescue dedicated account organization code in the biennial budget for 2006/2007.

**Observation No. 9: Expenditures Should Be Charged To Appropriate Account Class Lines**

*Observation:*

The Department charged a \$13,000 heating system to inappropriate expenditure class lines reportedly due to insufficient balances remaining in the more appropriate class lines.

In a test of 25 expenditures we noted one item (4% of the sample items tested), a new heating system for the Access and Engineering Headquarters Building which cost \$13,000, was installed by a vendor yet was charged \$9,841 to class 020 (current expense), \$3,000 to class 047 (Own Forces Maintenance - Buildings and Grounds), and \$159 to class 091 (Hatchery Initiative). It appears class 048 (Contractual Maint. - Build&Grnds) would be a more appropriate class line to charge the expenditure. The purchase order was approved to charge \$10,000 to class 020 and \$3,000 to class 047.

Per RSA 9:16-a, transfers of funds within and among all PAUs (Program Appropriation Units) require the prior approval of the Fiscal Committee and of the Governor and Council. PAUs are organized into organization and class codes within the State's accounting system (NHIFS). According to the statute, because the Department did not have sufficient funds in the appropriate class line, the Department should have requested approval to transfer sufficient other appropriations into class 048 prior to paying for the expenditure out of the proper class. By directly charging the expenditure to inappropriate class lines, the Department bypassed the budgetary control process over expenditures.

*Recommendation:*

The Department needs to implement policies and procedures to ensure that purchases are charged in accordance with budgeted appropriations. If sufficient appropriations are not available in a class line to fund an expenditure, the Department should either request the transfer of other available amounts or forgo the expenditure. Budgetary controls should not be intentionally bypassed.

*Auditee Response:* We concur

*Comments On Observation:*

The heating system was purchased at the end of fiscal year 2002 so this observation is correct in the assumption that the correct class (048 Contractual Maint. – Build&Grnds) had insufficient funds for the expenditure. It should be noted that this requisition was not approved at the Business Office level for the approval of the appropriateness of the expended funds.

*Action To Be Taken:*

Management has instituted a written policy and procedure process effective March 1, 2004. All major expenditures for the Department are now approved at the Division Head level in the Business Division. This will allow the Business Administrator the ability to approve all major expenditures assuring the correct class codes are used. In the event insufficient appropriations in the expenditure class are noted, management will be apprised as to what action to take. In the event the purchase is to move forward, additional appropriation requests will be generated.

**Observation No. 10: State And Department Control Policies Must Be Adhered To**

*Observation:*

The Department intentionally circumvented State and Department policies in an effort to avoid the need to prepare and process service contracts with two vendors.



Invoices pertaining to photographs used for a Department calendar were intentionally held by the Department for over sixty days and not processed for payment in order to delay payment on the invoices until the subsequent fiscal year. A note on one of the invoices indicated the invoices were intentionally held over for payment in fiscal year 2004. An inquiry of the Department revealed that this was done to avoid establishing contracts for these vendors, as the invoices would bring the total fiscal year 2003 payments for each vendor over the \$1,000 amount requiring encumbrance and contract documentation.

According to the Department of Administrative Services, Bureau of Purchase and Property, *General Information Package For Purchase of Equipment Supplies and Materials*, dated November 2002, "Contracts for services for one agency are the responsibility of the individual agency or department .... Services that total between \$1000 and \$2499 require encumbrance on an A-10 document submitted to the Bureau of Accounts. A short form contract (P-37) may be required."

Per the Department, the Department requires the use of form P-37 for all service contracts of \$1,000 or more.

Per discussion with the Department, it appears that the two employees involved with processing payment on these invoices were aware of the contract requirements provided by the Bureau of Purchase and Property, and the Department, and chose to intentionally delay the payment of the invoices in order to circumvent these controls.

*Recommendation:*

The Department must emphasize the need for employees to adhere to State and Department control procedures. Management must set the tone that controls are important and are not to be bypassed or intentionally avoided. Employees should understand that sanctions can result when State and Department controls are intentionally circumvented.

*Auditee Response:* We concur

*Comments On Observation:*

There is no reason for this intentional delay of payments.

*Action To Be Taken:*

Management has finalized a purchasing policy complete with flowcharts for ease of following rules set forth by Administrative Services. This became effective March 1, 2004. The Department does not condone this type of action.

**Observation No. 11: Insurance Proceeds Should Be Recorded As Revenue And Not As A Refund Of Expenditures**

*Observation:*

The Department recorded \$15,644 of insurance proceeds received resultant to the accidental loss of a Department motor vehicle as a refund of expenditures.

The Department received \$15,644 in insurance proceeds in March 2003 for the accidental total loss of a Department automobile in March of 2003. The Department recorded the proceeds as a refund or reduction of period expenditures. Insurance proceeds should be recorded as revenue when received to properly reflect the nature of the transaction and to avoid increasing spending ability without proper authority. When insurance proceeds are recorded as a refund of expenditures, it in essence, increases the ability of the Department to expend funds without requiring supplemental appropriation authority.

The Department stated that it seemed appropriate at the time to post the receipts as a refund of expenditure as this method of recording would allow the Department to purchase another vehicle without necessitating the request for supplemental or a transfer of appropriations.

*Recommendation:*

The Department should establish procedures to ensure that receipts are properly classified when recorded. While there are situations where posting receipts as refunds of expenditures may be appropriate, insurance proceeds received should be recorded as revenue upon receipt to properly reflect the nature of the transaction and not to overstate spending authority.

*Auditee Response:* We concur

*Comments On Observation:*

As stated in the observation, the Department felt that it was appropriate at the time but has since been instructed by Department of Administrative Services that all revenues must be treated as such and cannot be added to an expense class resulting in an increase to the approved appropriation without going through the proper approval process.

*Action To Be Taken:*

The Department's Business Office is fully aware of the rules regarding the proper reflection of revenues when received and will follow the rules set forth by Department of Administrative Services.

**Observation No. 12: Communication And Coordination Of Efforts With The Department Of Administrative Services, Bureau Of Financial Reporting Should Be Improved**

*Observation:*

The communication and coordination of efforts between the Department's business office and the Department of Administrative Services, Bureau of Financial Reporting needs improvement. Lack of communications and coordination of efforts has resulted in inefficiencies in reporting Department financial activity in the State's comprehensive annual financial reports (CAFR).

The Department of Administrative Services, Bureau of Financial Reporting is the State's primary resource for financial reporting expertise. The Department has not coordinated its efforts and called upon the expertise of the Bureau in determining the proper accounting and financial reporting treatment for Department financial transactions.

The Fish and Game Fund, as a governmental fund, is reported in the governmental activities of the State's CAFR. The Bureau of Financial Reporting is responsible for preparing the CAFR, which includes the activity of all the departments of the State, including Fish and Game. Examples where the Department could have benefited from Bureau of Financial Reporting assistance included:

- As noted in Observation No. 39, the Department purchased a piece of land known as the Connecticut River Headwaters Conservation Trust in December 2002 for \$6.5 million. Not included in that cost was an additional \$150,000 paid by the Department to survey the property. The Department's purchase of this land was not reported on the Department's original *Exhibit E* submitted to the Department of Administrative Services in July 2003. The \$150,000 of survey costs were also mistakenly not reported in the cost-value of the property on the revised *Exhibit E*, which was intended to report the cost of the land purchased. The Bureau of Financial Reporting posted an adjusting entry to the State CAFR for the \$6.5 million acquisition cost, but was unaware of the \$150,000 of survey costs.
- As noted in Observation No. 18, approximately \$2.0 million of the funds remaining in the Off Highway Recreational Vehicle (OHRV) Clearing Account at year-end did not represent revenue to the Department since these funds will be distributed to the Department of Resources and Economic Development (DRED). As such, the Department financial statements should reflect a Due to DRED for the amount of excess OHRV revenue. Although, the Department has utilized this process for OHRV distribution for several years, the State CAFR was not adjusted to reflect the amount owed DRED until the auditors brought the account to the attention of the Bureau of Financial Reporting during the current audit.
- As noted in Observation No. 23, the Department charges its dedicated accounts an administrative fee as a reimbursement for activities performed by the business office in administering the dedicated accounts. Historically, the administrative charge has been processed through payment voucher transactions. This procedure results in overstatement of the Department's revenues and expenditures on the Department's Fish and Game Fund financial statements when an eliminating entry is not performed during the closing process to remove the overstatement effect on Department revenues and expenditures. Total expenditures/revenues for fiscal year 2003 for administrative charges to the dedicated accounts processed in this manner amounted to approximately \$141,000. The resulting overstatements were not communicated to the Bureau of Financial Reporting, and an eliminating entry was not made.
- As noted in Observation No. 17, OHRV revenue is collected by New Hampshire Department of Correctional Industries (NHDCI) and deposited into an NHDCI unrestricted revenue account. The revenue is transferred monthly to a Department OHRV Clearing Account, at which point it is recognized as revenue to the Department. The business office calculates the amounts to be distributed to DRED and to the Department's Law Enforcement and Education & Training Accounts and disburses appropriate amounts out of the clearing account and into those accounts using a payment voucher transaction. The processing of this transaction recognizes the revenue a second time in the Department's Law Enforcement and Education & Training Accounts and the distribution from the Clearing Account is recognized as a Department expenditure. While the Bureau of Financial Reporting completed an eliminating entry, the entry was not accurate because prior period information was not considered in determining the adjustment amounts.

*Recommendation:*

The Department should increase its communication and coordination of efforts with the Department of Administrative Services, Bureau of Financial Reporting. The Department should understand and consider the implications of the Department's financial transactions on the fair presentation of the State's financial reports. Policies and procedures should be developed to ensure that all transactions are accurately reflected in the State financial reports and effectively communicated to the Bureau of Financial Reporting. For those transactions that may require year-end adjustment for fair presentation purposes, the Department should ensure that policies and procedures will promote the timely notification of the Bureau of Financial Reporting.

*Auditee Response:* We concur

*Comments On Observation:*

The Department understands and fully recognizes the importance of providing an accurate representation of financial transactions in the State's financial reports.

*Action To Be Taken:*

The Department met on May 28, 2004 with the Department of Administrative Services, Bureau of Financial Reporting to discuss and address areas where the Department can benefit from the assistance of the Bureau of Financial Reporting and insure necessary financial information is provided to the Bureau in a timely manner for completion of the State's CAFR.

## INFORMATION TECHNOLOGY ADMINISTRATION

### **Observation No. 13: Documentation Of Department Information Technology Resources Should Be Improved**

*Observation:*

The Department's information technology (IT) resources are not completely documented, raising the possibility of disruption of service from system problems and from employee turnover and the potential that users of the IT resources will not become aware of and fully utilize the IT resources capabilities.

- Aside from end-user documentation provided with the "off-the-shelf" programs utilized by the Department, the Department does not maintain detailed system and user documentation for the IT resources it utilizes (e.g. equipment database, licensing database, timekeeping systems, federal ledgers). While Department IT employees report documentation in many instances is contained within the programs themselves and/or in other various forms and places in the office, there is no coordinated system of IT documentation supporting the Department's IT resources.
- The Department's IT employees report that they are currently working on a disaster recovery plan for the Department's IT resources. The IT employees could not provide an expected completion date.

*Recommendation:*

The Department should increase its efforts in fully documenting its IT resources. Comprehensive system and user documentation should support all Department IT resources. Documentation should support the needs of both the IT employees of the Department and the users of the IT resources, and should serve not only as a problem solving tool but also as a useful training tool for current and future users of the systems.

The Department should continue to work on a responsive disaster recovery plan for the Department.

*Auditee Response:* We concur

*Comments On Observation:*

The Department fully recognizes the importance of documenting the IT resources maintained to support the functionality of the Department. Commercial-off-the-shelf applications are used for the equipment database (Microsoft Access) and the federal ledger (QuickBooks Pro). Documentation is included within both these programs and various venues are available for end-user training. The Department consistently prepares an IT plan in accordance with state regulations and contained within this IT plan is documentation on the Department's IT resources along with planned additions and/or improvements to those resources.

*Action To Be Taken:*

The Department's IT staff will assist the "owners" of these applications in the development of desktop procedures to support the business rules relative to these programs. This documentation will ensure that current and future users of Department applications will have their IT resource capabilities maximized. The Department will continue to work on completing a responsive disaster recovery plan and expects to have the plan completed in conjunction with completing the Department's next IT plan.

**Observation No. 14: Limited Segregation Of Information Technology Responsibilities Should Be Recognized As A Potential Risk To Department Operations**

*Observation:*

The Department has a two-person information technology (IT) section dedicated to oversight of the Department's financial systems which makes an effective segregation of IT responsibilities problematic.

The Department's two IT employees have complete programming responsibility for and access to the equipment and licensing databases, are system administrators (responsible for changing user passwords etc.) and also have access to data. Generally in a well-controlled IT system, the responsibility for programming changes is segregated from access to systems and data. Limited IT resources at the Department make this segregation of responsibility control impossible.

The Department's lack of effective segregation of IT responsibilities increases the risk that errors or frauds could occur in the operations of the IT systems and not be detected in a timely manner.

*Recommendation:*

The Department should take appropriate steps to mitigate risks ensuing from the limited segregation of IT responsibilities resulting from its limited number of IT employees.

Policies and procedures should be established to ensure that the “owners” of the Department’s IT systems and data understand the risks resulting from the lack of segregation of IT responsibilities and act accordingly. Data should be regularly reviewed and reconciled and system problems should be documented and reported with all possible causes considered.

All programming changes made by IT employees must be coordinated with the “owners” and documented. Changes to data must be coordinated, documented, and extremely limited.

*Auditee Response:* We concur

*Comments On Observation:*

The Department acknowledges that there are constraints inherent within a 2-person IT staff dedicated to oversight of financial systems and there is a potential risk resulting from this.

*Action To Be Taken:*

The Department will establish a policy and procedure on programming changes made by IT personnel. The procedure will be that “owners” of the data will ensure that any requested programming changes/modifications regarding any aspect of the relevant application are necessary. Coordination will be effected by the “owners” of the data with IT personnel and will result in written change/modification orders being generated by the “owners”. The action taken to service the request will be documented and retained in a log by IT personnel. The Department will mitigate the risks involved by segregating, as much as possible, IT system responsibilities from IT data responsibilities. Only during exigent conditions, such as non-availability of an IT staff member due to sickness or vacation, would the functional responsibilities be commingled and the duration of this overlap would be for the minimum amount of time necessary.

## OHRV PROGRAM

### **Observation No. 15: Accounting For And Reporting Of OHRV Financial Activity Should Be Improved**

*Observation:*

During fiscal year 2003, the Department’s accounting for off-highway recreational vehicle (OHRV) financial activity did not clearly differentiate the various uses of the revenues.

All OHRV registration fees are initially accumulated in the OHRV Clearing Account (Organization Code 1182) of the Fish and Game Fund and then distributed out among different accounts within the Department and the Department of Resources and Economic Development (DRED). The general distribution allocation is described by RSA 215-A:23. The amounts distributed to Department accounts are accounted for in the following State accounting system (NHIFS) expenditure classes within the OHRV Clearing Account:

- Class 090 – Transfer to Law Enforcement
- Class 093 – Transfer to Education and Training
- Class 098 – Transfer for Police Contracts

Amounts are periodically transferred out of the Clearing Account and deposited into Department and DRED revenue accounts.

Procedures used by the Department during fiscal year 2003 commingled all terrain vehicle (ATV) contract law enforcement revenues with other (OHRV) revenues in the Education and Training account even though, effective July 1, 2002, RSA 215-A:23, VIII (f) required, “Ten dollars of each resident trail bike and other OHRV registration fee appropriated to the department of fish and game under RSA 215-A:23, I(b), and \$19 of each nonresident trail bike and other OHRV registration fee appropriated to the department of fish and game under RSA 215-A:23, III(b) shall be used exclusively for such contracting [with state, county, and local law enforcement agencies to enforce the provisions of statutes related to ATV use] and shall not be transferred or diverted to any other purpose.” During fiscal year 2003 the Department collected approximately \$298,000 for ATV contract law enforcement purposes and spent \$20,000. At June 30, 2003, the Department had an additional \$103,000 encumbered with local law enforcement organizations.

The lack of specific accounting for the ATV contract law enforcement revenues, in conjunction with other issues related to budgeting OHRV revenues, prevented the Department from clearly identifying the funds designated for law enforcement contracting purposes and from properly accounting for ATV contract law enforcement funds remaining available at year-end. In addition, significant amounts were expended from equipment and overtime classes in the Education and Training Organization for law enforcement activities of the Law Enforcement Division making the information provided from the NHIFS accounts confusing and potentially misleading.

*Recommendation:*

The Department should review and revise as appropriate its accounting policies and procedures for OHRV and ATV financial activity to ensure revenues are used as provided for in statute and management information available through NHIFS properly and clearly categorizes and reports the financial activity in the OHRV and ATV accounts.

*Auditee’s Response:* We concur

*Comments On Observation:*

The Department does recognize the past revenue recognition practices of OHRV revenues have been cumbersome. The Department did clearly identify OHRV funds for ATV Enforcement contracts during 2003 and reconciled those funds at the end of fiscal year 2003 to ensure that proper funds were carried-forward into fiscal year 2004.

*Action To Be Taken:*

Beginning with fiscal year 2004, the budget reflects a separate line item for revenues received for law enforcement contracts with an offsetting expense line. This eliminates the commingling of funds referenced in this observation. This biennial budget also reflects an increase in anticipated OHRV registrations sold, which should allow for sufficient funding in the OHRV clearing account eliminating the need to prepare a Fiscal Committee item authorizing additional funding.

In addition to the above-mentioned changes, which have already occurred, beginning with the next biennial budget, fiscal year 2006 and 2007, the class line 049 (Transfers to other Agencies) will be added to the organization code 1183 for payments made to DRED. The description for organizational code 1183 will be changed from Education and Training to OHRV Education, Training and Enforcement. This will provide a more accurate description of the organization code and should eliminate any confusion.

### **Observation No. 16: Contract Monitoring System Should Be Established For OHRV Registrations**

#### *Observation:*

The Department has not established any effective system to monitor the OHRV registration processing activities performed by Correctional Industries of the Department of Corrections. Without a monitoring system, the Department cannot ensure Correctional Industries is processing registrations and collecting registration revenue on its behalf accurately and in compliance with the terms and conditions of the agreement, and that the funds collected are recorded and deposited as required.

Pursuant to RSA 215-A:21, II-a, the Department contracts to have Correctional Industries act as its agent in registering off-highway recreational vehicles (OHRV) including snowmachines, all-terrain vehicles, etc. Functions performed by Correctional Industries include providing a statewide network of private OHRV registration agents, collecting and processing all registration data from private agents, collecting and depositing all registration fees, assessing and collecting agent fines, acquiring and maintaining registration materials, and reporting monthly OHRV registration activity, etc. During fiscal year 2003, the OHRV registration related revenue totaled approximately \$5 million. As noted below, the Department's efforts to monitor that Correctional Industries operates the OHRV registration process as intended and all appropriate fees are collected and deposited as required by statute are weak.

- Correctional Industries provides the Department with OHRV registration data that includes registration number, issue date, issuing agent number, registrant's personal data, OHRV information, etc. The Department's Law Enforcement Division uses the data in the form of an electronic database for enforcement activities. Neither the Division nor the Business Office uses the registration data provided by Correctional Industries to determine whether the number of registrations detailed in the database reasonably supports the fees collected and deposited on its behalf by Correctional Industries. During fiscal year 2001, the Department reportedly attempted to reconcile the registrations reported by Correctional Industries to the OHRV database, however the Department could not get the data to agree and the Department has not attempted a similar reconciliation since that time.
- The Memorandum of Agreement (MOA) states that Correctional Industries "will furnish the New Hampshire Fish and Game Department reports in an agreed format of the previous months activities...." It is apparent that the reports submitted by Correctional Industries are not in an agreed-to format, as the Department does not have a clear understanding of the type of activity reported to them on Correctional Industries' monthly activity reports. When questioned, the Department did not know whether the monthly activity report represented the number of registrations issued by the agents in any given month or cash collected from agents in that month. The Department's phone call to Correctional Industries confirmed that this report



includes funds collected from agents rather than registrations issued in the prior month. In addition, the Department was unclear whether the reported month was the month of the registration sale or the month the transaction was reported to Correctional Industries. This lack of understanding of the reporting format, in all likelihood, contributed to the Department's inability in 2001 to reconcile registration data.

- During fiscal year 2003, no Department employee had sufficient knowledge of the activities performed by Correctional Industries on the Department's behalf to oversee and monitor Correctional Industries activities and ensure its compliance with the contract.

Contract monitoring is an integral part of an adequate system of controls. An effective monitoring system helps ensure accuracy and compliance with the terms and conditions of the agreement and ensures that the Department collects all it is due.

*Recommendation:*

The Department needs to conduct a thorough review of the OHRV registration process. This review should include gaining an understanding of the processes performed on its behalf and the reporting currently provided and also available from Correctional Industries. Once the Department becomes more familiar with the process, it should establish and maintain an effective monitoring system, supported by effective management reporting, that would enable the Department to make the most use out of the available information for program control, forecasting, and other purposes.

*Auditee Response:* We do not concur

*Comments On Observation:*

The Department does recognize that there was no specific system in place to effectively monitor the OHRV processing activities performed by Correctional Industries of the Department of Corrections (CIDOC). However, the Department takes the processing of OHRV registrations and the handling of such revenues seriously. The Department's Supervisor of the Licensing Section, CO Major (OHRV Program Coordinator) and Assistant Director regularly worked on monitoring the processing activities by CIDOC to include a sight visit to Correctional Industries. The Supervisor of the Licensing Section has performed a spot audit of CIDOC processing activities. These staff as well as the Department's Business Administrator met with CIDOC staff on a regular basis to address matters of concerns the Department had and continue to have with the OHRV processing activities. The Department's IT staff also attended meetings with CIDOC to address data transfers of registration information. These actions and the Department's involvement with addressing areas of concern relative to internal controls over the OHRV processing is what led to the decision to take action and directly oversee the day to day processing functions. The Department looked to address this decision in the renewal of an MOA for OHRV registration processing with CIDOC.

*Action To Be Taken:*

The Department has terminated the MOA with CIDOC and will assume the day-to-day oversight of the OHRV registration processing. The Department, in accordance with the MOA renewed in December 2003, notified CIDOC of the decision to terminate the MOA and that effective June 1, 2004 the Department would now handle the daily OHRV registration functions. The Department's Business Office staff and IT staff have been meeting, coordinating efforts in anticipation of this transition and a database has been established to handle the input of OHRV registration data. In conjunction with audit observations regarding internal controls over receipt processing, the handling

of OHRV revenues was identified and incorporated into the Department's improvements of internal controls for receipt processing.

### **Observation No. 17: Accounting For OHRV Transactions Should Be Simplified**

#### *Observation:*

The method used by the Department to process off-highway recreational vehicle (OHRV) revenues in the State's accounting system (NHIFS) overstates both revenues and expenditures in offsetting amounts.

OHRV registration revenue collected by Correctional Industries is deposited into a Correctional Industries unrestricted revenue account. The revenue is transferred monthly and recognized as Department revenue in a Department OHRV Clearing Account. The Department distributes amounts from the Clearing Account to its Law Enforcement and Education and Training Accounts and to the Department of Resources and Economic Development (DRED) revenue accounts. The distributions from the Clearing Account are recorded as expenditures out of the Clearing Account and as revenue for a second time to the Department's revenue accounts. While the overstatements of revenues and expenditures are offsetting and don't affect the Department's "bottom line," the transactions do overstate financial activity in the individual revenue and expenditure accounts and do require adjustments to be made during the preparation of the annual financial statements.

#### *Recommendation:*

The Department should review the current OHRV revenue process and develop policies and procedures to eliminate the overstatement of revenues and expenditures. While there is an offsetting effect of the overstatement of revenues and expenditures, the Department should be able to process the OHRV registration revenue in a manner that does not overstate revenues and expenditures. Eliminating the overstatements will simplify the preparation of the Department's financial statements and make interim financial information more accurate and meaningful.

*Auditee Response:* We concur

#### *Comments On Observation:*

The Department agrees that the process for accounting for OHRV revenues is cumbersome. In 2002 the Department acknowledged that in many areas the accounting for OHRV registrations generated an overstatement of revenues and expenditures within the state budget. Discussion took place in preparation for the fiscal year 2004-2005 budget in an effort to remedy this situation. The conclusion of these discussions, which involved other state agencies associated with OHRV revenues, resulted in the budgeting and accounting of OHRV revenues functioning in the same manner for fiscal year 2004 and 2005. The decision to continue to budget the OHRV Clearing Account (ORG 1182) was to provide one location where the state legislature and the public would be able to see the total OHRV revenues collected by the state in a given fiscal year.

#### *Action To Be Taken:*

The Department has initiated action to improve part of this process by assuming the daily processing of OHRV registrations. The Department has had preliminary discussions regarding fiscal year 2006-2007 budget development and how to address the budget of the OHRV Clearing

Account. Management currently believes that with some modification to existing PAUs/ORGs for OHRV funds that this matter of double budgeting and accounting can be resolved. The Department will propose to budget the OHRV revenues to be transferred to DRED, in accordance with RSA 215-A:23, to be budgeted as a class 049 (Transfer to Other State Agencies) within the Department's existing OHRV operational account. This approach appears to be a manner in which to eliminate the double budgeting and accounting of these revenues.

### **Observation No. 18: Procedures For Distributing Excess OHRV Revenue Should Be Reviewed**

#### *Observation:*

The Department's policies and procedures for distributing excess off-highway recreational vehicle (OHRV) revenue unnecessarily delays the availability of the revenues to the programs that use them.

Historically, the distribution of OHRV revenue to program accounts has not been timely. In fiscal year 2003, the distribution was delayed up to 11 months (there were no distributions between October 16, 2002 and September 22, 2003.) The delay was caused in part by the appropriations in the OHRV Clearing Account being significantly insufficient to account for the OHRV revenues collected, compounded by the Department's delay in seeking authority to distribute the excess accumulated OHRV revenue.

The New Hampshire Department of Corrections, Correctional Industries, working as an agent of the Department, collects and deposits revenues from the sale of OHRV registrations into a Department OHRV Clearing Account. The Department distributes the revenues out of the Clearing Account, generally quarterly, to the Department's program accounts and to program accounts in the Department of Resources and Economic Development (DRED). The allocations of the revenue into the program accounts are made in accordance with provisions of RSA 215-A:23. The Department makes the distributions in this manner until the limits of the appropriations are reached. Funds in excess of the appropriations remain in the OHRV Clearing Account until the Department requests Fiscal Committee and Governor and Council approval to distribute the amounts in excess of the original appropriation amounts. Two accounts reached their appropriation limits during the first fiscal year 2003 distribution on October 16, 2002. This distribution represented amounts collected during the period July through September, 2002. The remaining accounts reached their appropriation limits during the second distribution performed on February 20, 2003 representing OHRV revenues collected during October through January. At June 30, 2003, \$2.65 million of excess OHRV revenue remained undistributed in the OHRV Clearing Account. The Department requested Fiscal Committee approval on August 13, 2003 and Governor and Council approval on September 3, 2003 and distributed the amounts on September 22, 2003.

Other problems noted with the Department's distributions included a keying error made while processing the fiscal year 2004 OHRV revenue, and the Department's distribution of fiscal year 2002 excess OHRV revenue in a manner inconsistent with the Department's normal procedures. Also, the method used by the Department to record the OHRV revenue distribution transactions tends to overstate both Department revenues and expenditures requiring year-end adjusting entries to correct the overstatement.

*Recommendation:*

The Department should review its current policies and procedures for budgeting and distributing OHRV revenue. The Department should request a budget that more closely represents expected amounts to lessen the need for additional appropriation authority. If amounts in excess of the budget are collected, the Department should request a timely increase to the appropriations to ensure that accumulated revenue is distributed in a manner to allow the funds to be utilized timely for the purposes identified in RSA 215-A:23. In addition, the Department should review the current method of recording the distribution transaction in order to establish a procedure that will not overstate Department revenues and expenditures, and therefore will not require adjusting entries to be prepared for the year-end financial statements. Alternative ways of distributing OHRV revenue could include using *Cash Receipt* (form A-17), recording an off-setting decrease and increase of revenue. Whatever method is used, the process should be consistently employed.

*Auditee Response:* We concur

*Comments On Observation:*

The Department identified in 2002 that the budget request for the OHRV Clearing Account should reflect a more accurate amount of appropriations based on historic sales of OHRV registrations. That action was taken for the biennial budget of 2004/2005. The Department does acknowledge that past practice was to wait until the start of the next fiscal year to distribute excess OHRV registration fees from the prior fiscal year. This action was taken to facilitate one request for the Fiscal Committee and Governor and Executive Council based on OHRV year end figures.

*Action To Be Taken:*

The Department's budget for 2004 and 2005 reflects an OHRV Clearing Account budgeted based on 100,000 registrations. This should allow for sufficient appropriations to adequately process and distribute OHRV revenues for each fiscal year given the historic level of OHRV registrations has stayed below the 100,000 level. The Department met with the Bureau of Financial Reporting on May 28, 2004 to discuss and implement steps to address the recording of the distribution of OHRV revenues in order to avoid the overstating of revenues and expenditures. The Department will further look to address this issue of overstating revenues and expenditures when preparing the 2006/2007 biennial budgets. The Department has already implemented corrective action to insure that keying entries for recording the distribution of OHRV revenue are reviewed prior to finalization

**Observation No. 19: Critical Agreements Should Be Monitored And Provided For Prior To Expiration To Ensure Continued Operation**

*Observation:*

The memorandum of agreement with Correctional Industries providing for off-highway recreational vehicle (OHRV) registration services expired on June 30, 2003. While the memorandum contained an option for extending the period of the agreement through June 30, 2005, the Department operated for approximately six months without a formal agreement in place, prior to enacting the option for extension in December 2003. Correctional Industries continued to perform OHRV registration functions without the benefit of a formal agreement during this interim period.

The Department allowed the memorandum of agreement with Corrections Industries to expire without providing for alternative processing, potentially jeopardizing the administration of the OHRV registration process during this period. According to the Department, the memorandum was not renewed timely because of an oversight that occurred subsequent to the retirement of a Department employee previously responsible for this function.

*Recommendation:*

The Department should monitor its critical agreements to ensure that there is opportunity to review agreement performance and propose appropriate revisions to agreements prior to the expiration of the agreements. The Department should not allow critical agreements to expire without providing for alternatives that protect the interests of the Department if agreement negotiations don't progress as intended.

*Auditee Response:* We concur

*Comments On Observation:*

The Department does recognize that the memorandum of agreement (MOA) had expired and there was a period of time that Correctional Industries was operating under a status quo manner. This observation is closely tied to Observation No. 16. Management did take appropriate action to renew the MOA prior to expiration, however, as noted the retirement of a Department employee resulted in this situation. The Department discovered and realized that deficiencies existed and time was required to renegotiate and schedule a transition from Correctional Industries to the Department.

*Action To Be Taken:*

The Department's management plans to implement a policy prescribing the procedures and protocols to be enacted for initiating and renewing MOAs between the Department and any other party.

## DEDICATED ACCOUNTS

### **Observation No. 20: Restricted Revenue Accounts Should Be Periodically Reconciled**

*Observation:*

While the Department regularly reconciles its unrestricted revenue and off highway recreational vehicle revenue accounts to the State's accounting system (NHIFS), it does not have policies and procedures in place to reconcile its other restricted revenue accounts.

During the fiscal year ended June 30, 2003, the Department collected approximately \$9 million in restricted revenue that was not subject to a reconciliation process that would review account activity to help ensure revenues were deposited into the proper accounts.

According to a Business Office employee responsible for other revenue reconciliation processes, the restricted revenues reconciliations were discontinued approximately eight years ago when the Department decided the process was not worth the effort required, considering other workloads. Federal restricted revenue, totaling approximately seven of the nine million noted above for fiscal year 2003, has never been reconciled. Given the Department's relatively large number of restricted

revenue accounts, unless well designed, a reconciliation process for these accounts could prove burdensome.

Many of the restricted revenue source accounts that are not currently subject to reconciliations are revenues supporting dedicated funds/accounts such as the Moose Fund, etc., which by statute, restrict the uses of the posted revenues. An effective revenue reconciliation process would lessen the risk that revenues intended by statute for a certain purpose could be diverted, either intentionally or unintentionally, to another purpose and help detect other mispostings or indications of system problems. The fact that the Department currently makes little to no efforts to reconcile these accounts raises concerns that any errors or frauds that may occur in the accounts would not be detected in a timely manner.

*Recommendation:*

The Department, as part of a review of its revenue processing and recording procedures, should establish an efficient and effective reconciliation process that will test to determine that restricted revenue collected by the Department is accurately recorded and reported. While the Department's relatively large number of restricted revenue accounts could make a poorly designed reconciliation process burdensome, the Department should be able to establish a reconciliation process that could provide management with relative assurance that its restricted revenue recording and reporting process is operating as intended by Department policy and state statute.

*Auditee Response:* We concur

*Comments On Observation:*

Management's understanding was that in theory the reconciliation was taking place due to the fact that the reports provided by the licensing section are used to determine the amounts input into the restricted revenue accounts.

*Action To Be Taken:*

The Business Administrator will create a spreadsheet that will document each day's deposit broken down by respective dedicated accounts as reported on the Department's *Cash Receipt* form (A-17). This spreadsheet will serve as a perpetual accounting of daily deposits and will be reconciled at the end of each month by the Business Administrator to the State's accounting system, NHIFS.

**Observation No. 21: Policies And Procedures Addressing Required Approvals For The Expenditure Of Dedicated Accounts Should Be Established**

*Observation:*

During fiscal year 2003, the Department did not have policies and procedures addressing whether and how expenditures from its dedicated accounts should receive approval from the Fish and Game Commission.

The Fish and Game Department administers 21 dedicated accounts, the balances in which are committed by statute for specific purposes. Statutes require the expenditures from 10 of these 21 dedicated accounts to be submitted by the Department to the Fish and Game Commission for its approval. Historically, the Department has not had policies and procedures in place to ensure that

the expenditures from these dedicated accounts were presented to the Commission for their consideration. Documentation supporting the approval of expenditures that were brought before the Commission was not consistently prepared or consistent in content, raising potential questions as to what exactly was approved.

According to the Department, the lack of Commission review and approval for some expenditures was due to the employees responsible for initiating and approving the expenditures not being familiar with the statutory requirements for some of the dedicated accounts. In addition, the Commission also apparently did not have a full understanding of its responsibility for approving these expenditures.

*Recommendation:*

The Department should establish policies and procedures directing dedicated account expenditures requiring Commission approval to be submitted for that approval prior to charging the dedicated accounts. The policies and procedures should include provisions describing the documentation to be presented to the Commission to support the planned expenditures and provisions for documenting the Commission's approval or rejection of the expenditures. Expenditures should not be charged to the dedicated accounts without documentation supporting that all necessary approvals have been received.

The Department should discuss with the Commission the level of expenditure detail required by the Commission to make informed dedicated account expenditure decisions. Based on the Commission's needs, the Department should design appropriate reporting policies and procedures that promote the provision of the needed information and also promote the documentation of the Commission expenditure approval decision.

*Auditee Response:* We concur. The Department brought this matter to the attention of the LBA auditors.

*Comments On Observation:*

This observation does identify a weakness with internal approvals for expenditure of funds from certain dedicated accounts by the Commission. The Department takes compliance with statutory provisions very seriously. This situation is not as widespread as it may seem by the observation and is specific to four (4) dedicated accounts and in some cases specific expenditure from those dedicated accounts. To management's knowledge this situation started to occur in 2002 for these specific dedicated accounts.

*Action To Be Taken:*

The Executive Director has issued a directive that any expenditure from a dedicated account that requires Commission approval needs to be done prior to obligation of the funds and the date and agenda reference of Commission approval needs to be documented on all invoices charged to those dedicated accounts.

The Department presented to the Commission those expenditures that were incurred in fiscal year 2002 and fiscal year 2003 from those specific dedicated accounts that required Commission approval. The Commission retroactively approved the expenditures at the February 18, 2004 Commission meeting.

Each division chief will be provided with a listing of the dedicated accounts administered by the Department and those that require Commission approval for expending funds. Included with this listing will be procedures to follow to obtain the necessary Commission approvals and documentation to be provided with Commission agenda items requesting approval to expend funds.

**Observation No. 22: Expenditures From Dedicated Accounts Should Reflect Purpose Of The Accounts**

*Observation:*

During and prior to fiscal year 2003, the Department funded certain Public Affairs Division projects, including the Wildlife Journal television series, through expenditures from Department dedicated accounts.

A Department review of dedicated account expenditures conducted during January 2004 determined that when the funds were paid out of the dedicated accounts to the Public Affairs Division in fiscal years 2002 and 2003 to partially fund the television series, there was no plan in place to ensure that the dedicated account funds were used for eligible uses as provided in the related dedicated account statutes. In addition, the statutes for some of the dedicated accounts used to fund the series included conditions that precluded the use of the accounts for this activity. Other dedicated accounts that appeared to be a better fit for the content of the stories produced by the series were not utilized as a source of funding for the television program. None of the dedicated account expenditures for the series were brought before the Fish and Game Commission for approval even though some of the accounts specifically require Commission approval for all expenditures.

The review performed by the Department concluded that \$25,000 of the \$50,000 contributed in fiscal year 2002 and \$31,250 of the \$43,750 contributed in fiscal year 2003 should be refunded to the dedicated accounts as there was no clear connection between the dedicated accounts and the stories produced.

*Recommendation:*

The Department should establish policies and procedures to ensure that expenditures of dedicated accounts align with the statutory provisions and requirements for the accounts.

*Auditee Response:* We concur. The Department brought this matter to the attention of the LBA auditors.

*Comments On Observation:*

The Department takes compliance with statutory provisions very seriously. The use of funds from certain dedicated accounts to partially fund the Wildlife Journal television series was done in an effort to provide the public with information on management programs that are being performed and funded by these dedicated accounts.

*Action To Be Taken:*

The Executive Director has issued a directive that any expenditure from a dedicated account needs to be done in accordance with statutory provisions for the dedicated account, including Commission approval for those dedicated accounts that require Commission approval prior to the obligation of



funds. Each division chief will be provided with a listing of the dedicated accounts administered by the Department and those that require Commission approval for expending funds. Included with this listing will be the statutory reference of the dedicated account so that program administrators can insure that expenditure of dedicated account funds are in accordance with the purpose of the account. The amounts improperly charged against the dedicated accounts involved have been credited back into the appropriate dedicated accounts.

### **Observation No. 23: Administrative Cost Plan Should Be Reviewed And Revised**

#### *Observation:*

The administrative cost plan used by the Department to charge administrative costs to its dedicated accounts has numerous inconsistencies in its application and methodology. In addition, the administrative charges to the Department's dedicated accounts have not been made in a consistent and equitable manner.

In our fiscal year 1997 Fish and Game Department audit report, we commented that the Department could not provide documentation supporting the administrative cost rate charged to its dedicated accounts. Subsequently, the Department submitted an administrative cost plan to the legislature during each of the succeeding budget sessions. The Department modeled its administrative cost plan after its federal indirect cost rate plan; however, the federal plan is not necessarily reflective of the Department's actual incurred administrative costs. It appears that the Department's plan has evolved without the benefit of a well thought out concept of what a plan should include.

During our detail testing of expenditures, we noted the following issues regarding the application of the administrative expenditure charged to the dedicated accounts.

- The Department has charged the Waterfowl Conservation (RSA 214:1-d), Wildlife Habitat (RSA 214:1-f), and Fisheries Habitat (RSA 214:1-g) dedicated accounts an administrative fee and deposited the fee charged in a Department Unrestricted Revenue Account. However, expenditures from these accounts appear to be restricted by statute to certain purposes that do not specifically include administrative services provided by other areas within the Department.
- The administrative costs charged to the Department's OHRV Law Enforcement, OHRV Education and Training, Public Boat Access, and Search and Rescue Accounts include a component for license data-entry salaries even though Department license data-entry is unrelated to the Department's OHRV, Public Boat Access, or Search and Rescue operations. OHRV data-entry is performed by the New Hampshire Department of Corrections, Correctional Industries. Correctional Industries receives and processes all OHRV registration fees from the various registration sales agents and records all entries in the OHRV database. Boat registration data-entry is performed by the Department of Safety. It is not apparent why the Department's license data-entry salaries are considered an appropriate administrative expense to be charged against the OHRV, Public Boat Access, and Search and Rescue Accounts.
- The Department's process for establishing a reimbursement to the Unrestricted Fish and Game Fund Account for administrative charges utilizes a payment voucher process, which has the effect of overstating revenues and expenditures on the Department's financial statements. Because an eliminating entry is not prepared during the closing process to adjust revenues and expenditures, total expenditures and revenues for fiscal year 2003 were overstated in offsetting

amounts of approximately \$141,000. Because the Department uses a *Cash Receipt* (form A-17) to transfer administrative costs charged to the OHRV accounts, these administrative charges do not result in an overstatement.

- The Department uses revenue as the base to determine the administrative cost charged to each of the applicable dedicated accounts. Revenue amounts may or may not be a fair indicator of the amount of services provided to the dedicated accounts by the administrative offices and therefore may not be an appropriate base. Generally, expenditures are used for this type of calculation. The Department could not support the appropriateness of the decision to use revenue as a base.
- During and prior to fiscal year 2003, the Department incorporated building and equipment usage rates into its administrative cost rate. The building use rate of 2% was also the rate used by the State for building use related to General Fund agencies. When the Department prepared its fiscal year 2004–2005 administrative cost plan, the building and equipment usage rates were removed from the plan reportedly to eliminate any concerns with admissibility of the amounts in the federal indirect cost plan.

*Recommendation:*

The Department needs to establish a methodology for charging an administrative fee to the dedicated and other accounts that is fair, equitable, and reflective of the administrative cost incurred. The methodology must be documented and supported by appropriate analysis.

The Department should seek clarification as to whether it is appropriate to charge all dedicated accounts an administrative fee or whether there are some accounts that are exempted by statute.

If the administrative charge continues to be recorded via the payment voucher process, an adjusting or eliminating entry should be prepared to adjust revenues and expenditures and prevent their overstatement in the Department's financial statements.

*Auditee Response:* We concur

*Comments On Observation:*

The Department calculated an internal administrative cost rate to be applied to the dedicated accounts administered by the Department. The basis of the calculation is consistent with the methodology used in calculating the Department's Federal Indirect Cost Rate, which is applied to federal reimbursements. The Department presented this calculation to the legislature during each budget session and specifically noted in each dedicated account the amount budgeted for internal administrative charge. The Department does acknowledge that the rate was applied consistently to all dedicated accounts, including Public Boat Access, Search and Rescue and Fish and Game's portion of OHRV revenues (OHRV Education and Training). This rate was not applied to the total OHRV revenues (OHRV Law Enforcement) accounted for in the OHRV Clearing Account since there is no statutory provision for such action and the allocation of OHRV revenues to Fish and Game and Department of Resource and Economic Development (DRED) are very specific in statutory language. The Department has given much consideration and thought to the calculation of the administrative rate and the applicability of the rate to revenues (not including federal revenues) in each dedicated account.

*Action To Be Taken:*

The Department has obtained an opinion from the Office of Attorney General confirming that the application of an internal administrative cost rate to the dedicated accounts administered by the Department is acceptable practice given that the existence of the state and the Department is essential to carrying out the statutory purposes of these dedicated accounts.

The Department will review the methodology used to calculate an internal administrative cost rate and the basis on which the rate will be applied to dedicated accounts. The Department will discuss with Bureau of Financial Reporting the most efficient action to take to try and eliminate the overstatement of revenue and expenditures.

**Observation No. 24: The Department Should More Actively Monitor Statewide Public Boat Access Revenue**

*Observation:*

The Department does not actively monitor the revenue deposited in the Department's Statewide Public Boat Access Account, which is collected on its behalf by the Department of Safety.

RSA 233-A:13 requires \$5 from each boat registration fee to be deposited in the Statewide Public Boat Access Account in the Fish and Game Fund. The Department is not actively involved in the processing and recording of boat registration revenue and the resulting amounts deposited in the Statewide Public Boat Access Account. The registrations and associated revenues are processed by the Department of Safety. The Department receives a copy of each *Cash Receipt* (form A-17) document recording the deposit of the Department's \$5 portion of the boat registration fee; however, the Department does not ask for, and the Department of Safety does not provide, any documentation to support the number of boat registrations processed or otherwise verify the accuracy of the amount of revenue deposited in the account. The Department does not take any other action to scrutinize amounts that should be deposited into the Statewide Public Boat Access Account.

Without appropriate review, possibly including reconciliations, the Department might not become aware of errors or frauds that occur in the collection of revenue due to the Statewide Public Boat Access Account.

*Recommendation:*

The Department should develop procedures for the review of revenues deposited into its Statewide Public Boat Access Account to ensure that the amounts reported are supported by adequate documentation to provide the Department with reasonable assurance that the amounts are free of error and fraud.

*Auditee Response:* We concur

*Comments On Observation:*

The Department acknowledges that it is important to monitor the revenue received into the Statewide Public Boat Access Account, which is deposited by the Department of Safety.

*Action To Be Taken:*

The Department will be making contact with the Department of Safety to discuss and determine what type information is available to support the Cash Receipt (Form A-17). This supporting documentation will be used by the Department to provide a reasonable assurance that the proper amounts of revenue are deposited into the Statewide Public Boat Access Account.

**Observation No. 25: Problems Surrounding The Failure To Post Interest To Account Should Be Resolved**

*Observation:*

The Waterfowl Conservation Account was last credited with interest in fiscal year 1999. The interest that should have been credited to the Waterfowl Conservation Account was instead deposited into the unrestricted revenue account of the Fish and Game Fund.

RSA 214:1-d, II, directs the State Treasurer to establish “a separate nonlapsing account within the fish and game fund, to be known as the waterfowl conservation account....” The account is credited with all proceeds from the sale and issuance of the state migratory waterfowl stamps. In addition, RSA 214:1-d, III-a requires the State Treasurer to invest the account’s funds to obtain the highest possible return. The funds in the account should only be used for protection, conservation, and propagation of migratory waterfowl and other purposes specifically identified in the statute.

According to the Department’s Business Office, a manual accounting is maintained for the balances in the three dedicated fish and game accounts that require the posting of investment earnings. Account balances are periodically provided to the Treasury in order for the appropriate amount of interest due to the account to be calculated and posted. According to the Department’s Business Office, in fiscal year 1999 the employee responsible for the account listing determined that the calculations for the Waterfowl Conservation Account had been incorrectly performed since 1988 and incorrect amounts of interest had been credited to the account since that time. Reportedly the employee notified management in the Business Office of the problem, however there is no documentation of this notification or of a response by management. The Department has not provided the account balance to Treasury, and in turn, Treasury has not credited interest earnings to the Waterfowl Conservation interest account since the determination of problems made in 1999 until auditors brought this issue to the attention of the Department during the audit.

In November 2003, the Department calculated that approximately \$269,000 of additional interest should have been credited to the Waterfowl Conservation Account during the period fiscal years 1987 through 2003. This determination was made using the available balance in the Waterfowl Conservation Account per the State’s accounting system (NHIFS) and the average annual interest rate on 90-day T-Bills provided by the State Treasurer.

*Recommendation:*

The Department should establish policies and procedures to ensure that investment earnings are properly credited to the Waterfowl Conservation Account as required by RSA 214:1-d.

Policies and procedures should also be established to ensure that management is formally notified of errors in operations, including accounting errors, and that management takes appropriate action.

The fact that the Department did not respond properly to the detection of an error in 1999 should be regarded as a significant control failure.

*Auditee Response:* We concur and had identified this problem prior to the audit.

*Comments On Observation:*

The Department does acknowledge that the interest posted to the Waterfowl Account was incorrect for the period fiscal years 1987 through 1999 and that since fiscal year 1999 there was no interest posted to the account. In 2000 the Department's Accountant identified that there was a discrepancy between the manual report being used to communicate account balance information to Treasury and NHIFS balance for the Waterfowl Account. This information was provided to the Business Administrator. This resulted in a meeting with Bureau of Accounts to address the matter of a discrepancy between internal Department records and NHIFS reported balance of the Waterfowl Account. The apparent discrepancy was identified and the matter was to be corrected. Upon the retirement of a Department employee it was identified that corrective action had not taken place.

*Action To Be Taken:*

The Department has calculated the necessary correcting adjustment to be made to the Waterfowl Account. The Department has sent a memo to Bureau of Accounts with the all the pertinent information required to make the necessary correction between the Undesignated Fish and Game Fund and the Waterfowl Conservation Dedicated Account. The Department has been informed to seek approval of Fiscal Committee and Governor and Council in accordance with RSA 206:33-b. The Department processed the appropriate request for the May 2004 Fiscal Committee meeting, received Fiscal Committee approval, and the item was approved at the June 2, 2004 Governor and Council meeting. The Department will continue to communicate balance information to Treasury in the same consistent manner it has on those accounts that accrue investment earnings. This communication is done on a quarterly basis and is based on NHIFS balances for appropriate accounts, including the Waterfowl Conservation Account.

## FEDERAL FUNDS ADMINISTRATION

### **Observation No. 26: Controls Over The Utilization Of Volunteer Efforts As A Match To Federal Programs Should Be Improved**

*Observation:*

Several problems were noted with the Department's use of volunteer time to match federal participation in Department programs that raise concerns as to whether controls are adequate to ensure the Department is properly accounting for and reporting volunteer time.

According to Department policies and procedures, the time worked by volunteers should be reported on timesheets and submitted to the Department each month.

- The Department reported that it had ongoing problems with the timeliness of Sandy Point volunteer timesheets. During fiscal year 2003, volunteer timesheets for activities performed at the Department's Sandy Point facility were submitted only two times, at the end of December for the period of July through December, and at the end of April for the period of January through April. The delay in receiving Sandy Point volunteer timesheets prevented the Fish and

Game Department from drawing federal funds timely, requiring the Department to use internal funds as a match for federal drawdowns before all available volunteer match is used up. In addition, resolving any problems noted by Department reviews of submitted timesheets becomes more problematic as time passes.

- The Department does not have documentation to support the Department's determination that 35% of the volunteer time charged to the Wonders of Wildlife Program was eligible for federal participation. In addition, other activities noted on the volunteer timesheets, for example time worked by volunteers during a 5K Race, may not represent an allowable match for federal participation under the program where the match was claimed. The lack of documentation and review of volunteer activities may result in the Department's using inappropriate and unallowable volunteer time as a match for federal draw down. For example, volunteer timesheets for the Wonders of Wildlife programs claims 35% of the time worked on "Habits & Habitats" and "Endangered Species" programs to be federally reimbursable. The Department reports that this reflects the percentage of the programs' content that related to federally reimbursable activities, however there is no documentation to support the allowability of this allocation percentage.

*Recommendation:*

The Department should increase its controls over its use of volunteer efforts to match federal participation in Department programs to ensure that claims for federal participation are accurate and fully supported.

- The Department should increase its efforts to gain compliance with its policies and procedures requiring monthly reporting of volunteer time.
- The allowability of volunteer efforts for federal participation should be documented prior to the claiming of the efforts. Volunteer activities reported to the Department on timesheets should be reviewed to ensure the activities are allowable under the applicable federal programs.

*Auditee Response:* We concur

*Comments On Observation:*

The Department acknowledges that volunteer timesheets from Sandy Point were submitted only two times prior to April 2003. This concern was identified prior to the start of the audit and steps were being taken to implement corrective action. The Department's employees at Sandy Point are responsible for the timely submission of such timesheets.

The determination that 35% of the time for certain Wonders of Wildlife presentations is eligible as in-kind match under grant F-53-E has been an understanding of project staff for many years. This determination has also been an understanding by the US Fish and Wildlife Service (USFWS) program officer. The description of this source of in-kind match is included as part of grant F-53-E, which was approved as part of the grant renewal in 2001. However, there is no other documentation that explicitly describes the basis for the 35% determination or shows USFWS concurrence.

*Action To Be Taken:*

The Department's Federal Aid Coordinator will continue to identify eligible in-kind activity and document the intended use in grants, specifying volunteer rates and ensure that rates are consistent with the type of service donated. The Federal Aid Coordinator will reiterate to project staff the existing procedures for documenting volunteer time, emphasizing that it be recorded on timesheets, reviewed by project leaders and/or volunteer coordinators for accuracy and submitted in a timely manner. Project leaders and/or volunteer coordinators will provide an initial determination of eligibility. The Federal Aid Coordinator will continue to perform periodic reviews of volunteer timesheets submitted for match to federal grants. The Department's Senior Accounting Technician will continue to review eligibility of volunteer time as this source of in-kind match is applied to grant reimbursement drawdowns.

**Observation No. 27: Segregation Of Duties Over The Federal Accounting System Should Be Improved**

*Observation:*

Management has not become sufficiently involved in the operation of the federal accounting system. There is a significant lack of segregation of duties in the Department's federal accounting and reporting system with essentially all responsibility for operating the system resting with one employee. Duties should be adequately segregated to ensure that errors or irregularities that occur are detected and corrected timely.

One employee within the Fish and Game Department has complete access to and responsibility for the operation of the federal accounting system. This employee collects and accumulates all expenditure information, enters the information into the federal ledger system, reconciles her own work, performs draw downs of federal funds, and prepares federal aid reports. No other employee has been trained to use the system. All federal accounting functions within the Department are held in abeyance when this employee is absent from work.

There is only minimal supervision or oversight over the federal accounting function. No one formally reviews and approves the primary employee's work. While the Federal Aid Coordinator provides limited review of the monthly reports and required financial status reports prepared from the system by reviewing the report for material errors, occasionally recalculating the reimbursement and indirect rates, and comparing the total drawn to the grant agreements to ensure the grants are not overdrawn, the federal revenue recorded in the system is not reviewed, and as noted in Observation No. 20, it is not reconciled to the reporting of federal revenue in the State's accounting system (NHIFS).

*Recommendation:*

The Department should establish a control structure over its federal accounting system that includes appropriate segregation of duties. The Department's federal accounting should not continue to rely upon the performance of one employee. The Department should ensure that employees are sufficiently cross trained to enable the Department to perform its federal accounting functions in the event of unforeseen personnel changes or emergencies. Critical Department functions cannot be allowed to cease due to an employee's absence.

Department management should gain a greater understanding of the federal accounting system and become involved in the controls over the system. Procedures should be implemented to reconcile the federal ledgers to NHIFS.

*Auditee Response:* We concur

*Comments On Observation:*

Management acknowledges that because of the lack of staffing in the Business Office, this has been a recurring problem and one that is not easily addressed. Management, in the past, had identified that there was not sufficient oversight of the Federal Aid Accounting System and has been working to improve supervision.

*Action To Be Taken:*

The Business Administrator has taken a keen interest in the processes and procedures followed by the Federal Accountant and will continue to gain a greater understanding for the federal accounting system. The Business Administrator has already availed herself of training provided by the Fish and Wildlife Service. The Federal Accountant is currently in the process of compiling a procedure manual that will assist others in the Department during her absence. Management is looking at the lack of staffing in the Business Office to determine what viable options exist to cross train existing staff on the Federal Aid accounting system. The Federal Aid Coordinator performs a pre-audit function of all Department invoices. He also performs sample testing on grant expenditures to document reconciliation of a particular grant to NHIFS. Management will meet with the office of Financial Data Management to determine if there is a mechanism to facilitate using a job cost system that would allow for a reconciliation process to be implemented.

**Observation No. 28: Coordination Of Federal Reporting Efforts Should Be Increased**

*Observation:*

Information sharing between the Department's coordinator of federal funds and the employee responsible for accounting and reporting federal fund activity is not consistent.

The Department has reported certain federal grant expenditures on the *Schedule of Expenditures of Federal Awards* under the wrong *Catalog of Federal Domestic Assistance* (CFDA) numbers. Information on the schedule is included in the State's *Single Audit Report* submitted annually to the federal government to report on the use of federal funds. Upon being notified of the error, the Department prepared a revised fiscal year 2003 *Schedule of Expenditures of Federal Awards* for inclusion in the State's 2003 *Single Audit Report*.

Information including CFDA numbers is filed with the Department's Federal Aid Coordinator but is not always made available to the Department employee responsible for accounting for and reporting federal grant activity.

*Recommendation:*

The Department should increase the coordination of efforts between the Federal Aid Coordinator and the employee responsible for accounting for and reporting federal grant activity. Appropriate



information should be shared to ensure efficient and effective accounting and reporting activities. Appropriate reviews and approvals of reporting should occur to ensure that reports are accurate.

*Auditee Response:* We concur

*Comments On Observation:*

The Department did have certain grants identified under incorrect CFDA numbers on our Schedule of Expenditures of Federal Awards. The Department acknowledges that this error could have been prevented. All grant documents (applications, amendments, grant approvals, extensions), which include CFDA numbers, are always forwarded to the Business Office. Apparently it was not clearly and consistently communicated to appropriate accounting staff as to where to look for CFDA numbers on grant documents.

*Action To Be Taken:*

The Federal Aid Coordinator will continue the practice of forwarding copies of all grant applications, agreements, amendments, and related information to the Business Office. The Department's Business Administrator and Senior Accounting Technician have been made aware of the situation and the importance of identifying accurate CFDA numbers. Immediate action was taken to correct the fiscal year 2003 Schedule of Expenditures of Federal Awards. The process that was implemented as a result of the fiscal year 2003 corrective action will be utilized every fiscal year. The Schedule of Expenditures of Federal Awards will be completed by the Senior Accounting Technician and reviewed by the Federal Aid Coordinator to insure that all CFDA numbers being reported for awards are accurate.

**Observation No. 29: Methods For Establishing Year-End Federal Accounts Receivable Should Be Improved**

*Observation:*

The Department's methods for establishing year-end federal accounts receivable are not efficient, effective, or adequately documented and are not coordinated with the Bureau of Financial Reporting.

Lack of coordinated and accurate efforts at determining both fiscal years 2002 and 2003 year-end federal accounts receivables contributed to \$400,000 overstatements of accounts receivable and unreserved Fish and Game fund balance at June 30, 2003 and a net \$81,000 overstatement of fiscal year 2003 revenue.

The federal accounts receivable recorded by the Department's employee responsible for accounting for federal funds are not reviewed or approved by anyone at the Department. The receivables are based on the paid invoices and timesheets that have been coded as having federal participation that have not to date been reported for reimbursement. However, since payment vouchers are used by the Department to code federal participation, there generally are additional paid payment vouchers and invoices that are in the coding process that are not forwarded to the accountant until after the receivable has been recorded. In addition to problems with the coding process, procedures used in the recording of the expenditures do not identify which invoices and timesheets were included in the recorded receivable. Invoices received after the receivable was reported are posted in the federal

ledger with the same date as the invoices included in the receivable calculation making it impossible to recreate the set of documents that supported the original establishment of the accrual.

Other specific problems with the establishment of the federal accounts receivable include the following.

- The available balance on the Fishermen Relief grant was erroneously recorded as a June 30, 2003 accounts receivable.
- During the year-end closing process, the Department of Administrative Services' Bureau of Financial Reporting records an accounts receivable based on the federal reimbursement that will be received on June 30, 2003 accounts payable recorded by State agencies and expected federal participation rates. The Department was not aware that this transaction occurred and therefore did not take this into account when calculating its year-end accounts receivable.

*Recommendation:*

The Department should improve its methods for establishing year-end federal accounts receivable. The employee responsible for federal accounting functions should be provided with the necessary information and other resources needed to determine accounts receivable. Accounts receivable amounts should be sufficiently documented and provide an audit trail to allow the accruals to be reviewed and tested. An appropriate supervisory review and approval function should be incorporated into the process to provide for a reasonable segregation of duties over the process. Coordination with the Bureau of Financial Reporting should be established to ensure that transactions that are posted by the Bureau on the Department's behalf are coordinated, accurate, and agreed to by the Department.

*Auditee Response:* We concur

*Comments On Observation:*

In the past there has been a misunderstanding of the closing process in regards to carry forward funds tied to federal revenue. The old Federal Aid Accounting software did not allow for the proper distinction of grants to be separated by fiscal year because of having a two-digit field in which to input grant numbers. This led to the necessity of using ending dates of the fiscal year with which to separate out expenses. The Federal Aid Accounting software has been updated to the Quick Books system. This new system allows for the input of grants to have no limit in length, which lends itself to a more efficient tracking of grant expenses because each expense can be posted separately by grant regardless of the fiscal year.

*Action To Be Taken:*

The Business Administrator, the Assistant Director and the Senior Accounting Technician will meet with Accounting Services to determine that we are capturing only those funds that are actual receivables. The Business Administrator approves in concert with the Federal Aid Coordinator, the recording of federal accounts receivable.

## **Observation No. 30: All Federal Grants Should Be Properly Documented**

### *Observation:*

The Department did not adhere to its internal policy of disbursing federal funds based on approved applications or a written agreement. The Department did not have a written agreement detailing the Portsmouth Fishermen's Co-op participation in the Federal Fishermen's Relief grant operated by the Department prior to the disbursement of federal funds.

The Department awarded approximately \$300,000 to the Portsmouth Fishermen's Co-op Inc. from the Fishermen's Relief federal grant. According to the Department's Federal Aid Coordinator, the Department should have had a written agreement in place between the Department and the Portsmouth Fishermen's Co-op outlining the grant award conditions and approved expenditures. The auditor's inquiry about the agreement revealed that a formal agreement document was never developed. The amounts of federal funds disbursed by the Department were based on invoices and memos written by the Co-op's president.

The oversight apparently was undetected due to the Fishermen's Relief grant being primarily administered by the Department's Marine Division with limited involvement by the Director's Office. It appears the requirement for a written agreement was overlooked and the expenditures approved based primarily on written and oral communication between the Marine Division and the Co-op.

### *Recommendation:*

The Department's Federal Aid Coordinator should be involved in all federal grants and programs administered by the Department. Involving the coordinator will help ensure that the administration of the grants and programs will comply with Department and federal guidelines.

*Auditee Response:* We concur

### *Comments On Observation:*

The NOAA (National Oceanic and Atmospheric Administration) grant to the Department was approved and properly documented prior to any distribution of grant funds to commercial fishermen and the Portsmouth Fishermen's Co-op. Although there was an application process in place to award grant funds to individual fishermen, which was developed through a public hearing process, there was no specific process developed for the fishermen cooperatives. The overall distribution of the grant funds amongst the group of recipients (commercial fishermen, Portsmouth Fishermen Co-op, and Yankee Fishermen Co-op) was established through the public hearing process. Although there was no formal agreement in place the amount of grant funds provided to the Portsmouth Fishermen's Co-op was equal to the amount established through the public hearing process.

### *Action To Be Taken:*

The Department will develop and have a signed agreement in place prior to any distribution of grant funds to the Yankee Fishermen Co-op. The agreement will provide for the terms and conditions of reimbursement to the Yankee Fishermen Co-op. The Department's Federal Aid Coordinator and Marine Division Chief will insure that an agreement is in place.

Department management will reiterate to Division Chiefs and project leaders that the Federal Aid Coordinator is to be involved in all federal grants administered by the Department.

**Observation No. 31: All Expenditures Eligible For Federal Participation Should Be Properly Identified And Coded**

*Observation:*

An oversight resulted in \$1,474 of expenditures allowable for federal participation not being coded as such in the Department's federal ledger.

A payment voucher along with associated documentation (invoices, travel request, etc.) supporting \$1,474 of travel expenditures was provided to a Division Director for federal coding purposes according to the Department's usual procedures. The Director neglected to code the payment voucher, reportedly due to time constraints and the assumption that additional federal expenditures would be available in the future.

As a result, the amount of expenditures incurred by the Department as part of the W-89-R federal grant was understated by \$ 1,474 in the Department's Federal Ledger and federal reporting. While the Department did completely expend its federal grant and this oversight did not result in forgone federal funds, failure to submit this expenditure for posting to the federal ledger did result in funds under the grant not being recovered timely.

The *Request for Travel Authorization* indicated that the funding for the travel would be a mix of federal and Fish and Game funds. Because the payment voucher was not coded as a federal program expenditure, the actual funding mix was dedicated agency and unrestricted Fish and Game funds.

*Recommendation:*

The Department should implement policies and procedures to ensure that all expenditures eligible for federal participation are coded, recorded, and available for timely drawdown. All allowable federal expenditures should be recorded in the federal ledgers regardless of the status of available funding.

*Requests for Travel Authorizations* should reflect the actual funding mix for anticipated travel expenditures.

*Auditee Response:* We concur

*Comments On Observation:*

The mixing of funds for travel is filled in at the time of the preauthorization of the travel request. The information provided, noted as source of funds, is based on the mixing of funds for the entire organization code. Prior to coming to the Business Office for processing, the Federal Aid Coordinator has coded that invoice as to the eligibility of Federal reimbursement for that particular expense.

*Action To Be Taken:*

Management has identified that Division Chiefs are responsible for the complete sign off of all invoices. The Federal Aid Coordinator currently performs a pre-audit function of all invoices to ensure proper coding of federal grants and federally eligible expenditures.

**Observation No. 32: Changes In Department Structure, Including Changes In Employee Funding Sources, Should Be Accurately And Timely Reflected In The Federal Ledger**

*Observation:*

The Department does not have policies and procedures to provide for consistent and timely notification and update of its federal ledgers when changes occur in an employee's funding organization status.

The Department's Senior Accounting Technician is notified of each employee's funding organization through the receipt of each employee's payroll *Personnel Action Form* (PAF) upon hiring at the Department. While the PAFs do not contain a field that identifies the organization code used for payroll, the Department's payroll officer writes the funding organization code on the bottom of the form before she forwards it to the Senior Accounting Technician. While the Senior Accounting Technician regularly receives this information on an employee's PAF when the person is first hired, updated information is not consistently provided when an employee has a promotion or a change in funding organization that does not require the preparation of a PAF.

The Department's federal ledger records all expenditures on programs that include federal participation. The ledger is a source for determining federal reimbursement amounts and the State accounts into which the reimbursements are to be deposited. The majority of the expenditures recorded in the federal ledger (approximately 61%) are payroll related. The federal ledger contains reference information that is used in allocating the expenditure to proper accounts. This reference information includes funding organization codes for employees working on federal participation programs. When employee payroll hours are entered into the ledger, the ledger references the funding information to the hours entered. An hourly rate is also referenced to establish the charge to the program.

During our review of the federal ledger, we noted that nine out of the 212 employees entered in the ledger reflected incorrect or missing organization code information. Of the nine, seven occasionally worked on federal projects and the payroll amounts misposted in the ledger were relatively insignificant. However, for two employees, the misposted amounts were more significant. For one employee, \$10,500 of salary and benefits related to federal programs was paid out of organization code 1171, Office of Director, however the \$7,871 of federal funds received as the federal share of the payment was recorded as revenue in organization code 2116, Public Access/Land Acquisition. For another employee, a \$17,682 federal reimbursement went into organization code 2125, Non-game Species Management, a Department dedicated account, even though the majority of the employee's salary was paid out of organization code 2130, Inland Fisheries Administration. None of the employee's salary was paid out of organization code 2125.

According to the Department, these errors resulted from employee funding information in the federal ledger not being updated timely upon changes in employee funding organizations.

*Recommendation:*

The Department should establish policies and procedures to provide for timely updating of employee information in its federal ledger. Errors that occur should be corrected to ensure that the ledger reflects the proper funding organization codes from which the expenditures were disbursed and accurate crediting of federal revenues result.

*Auditee Response:* We concur

*Comments On Observation:*

The comment that PAFs are not required for funding changes is accurate so therefore the Senior Accounting Technician would have no knowledge of these funding changes. In the past a memo or an e-mail request for a change in funding was sent to the Human Resources Coordinator with no flow through the Business Office or the Director's Office leading to this breakdown in communication.

*Action To Be Taken:*

The Department will institute a policy, effective immediately, changing the flow of funding changes for personnel. All changes in funding for personnel shall be subject to the following: A change memo shall be initiated by the Division Chief, signed off by the Director and sent to Human Resources for the change to occur in the GHRIS system. The memo shall be copied to the Senior Accounting Technician and the Business Administrator in all cases of funding changes. In conjunction with Observation No. 40, the Department will look to develop an internal form for necessary sign-off and approval for changes to personnel data affecting financial and budget information contained within GHRIS.

**Observation No. 33: Federal Financial Reports Should Be Subject To A Review And Approval Function**

*Observation:*

Errors were noted in two of a sample of five *Financial Status Reports* submitted by the Department to the federal program agency.

The Department's federal accountant prepares the *Financial Status Reports* for the Department's federal grants. The reports are based on summaries of revenues and expenditures generated from the Department's federal ledger. While the Business Administrator signs the reports prior to the reports being submitted to the federal agencies, the reports are not reviewed for accurate content, clerical accuracy, or other problems prior to submission.

According to the federal Office of Management and Budget, *Circular A-133 Compliance Supplement*, Part 3, Section L. "Reporting", reports submitted to the Federal agency should "include all activity of the reporting period," should be, "supported by applicable accounting or performance records," and be "fairly presented in accordance with program requirements."

The following problems were noted in two of a sample of five Financial Status Reports reviewed.

- The *Financial Status Reports* covering grant No. NA465 do not recalculate. The federal/State allocation of \$1,682 of grant expenditure reported on October 1, 2003 for the period January through March 2003 did not agree to the 75/25% expenditure allocation provision in the grant document. Similarly, the report for the period April through September 2003 reported \$8,483 of grant expenditures, and again the allocation of expenditures did not agree to the 75/25% federal/State shares. The Department could not support that the reported allocations were anything other than errors.
- The *Financial Status Report* for the Fishermen Relief Grant due October 30, 2003 was filed late. The *Financial Status Report* for the period of April 1, 2003 through September 30, 2003 was prepared on November 20, 2003 after the auditors had inquired about its status. The Department had applied for an extension to the Grant and was under the mistaken impression that a report would not be due until after the end of the extension period. However, the Department learned upon inquiry with the federal agency that the extension was being delayed due to the missing *Financial Status Report*. In addition, the amounts that were reported on the *Financial Status Report* are not traceable to the underlying financial records. As noted in Observation No. 2, due to the manner in which the Department records federal expenditures, the Department was not able to provide documentation supporting the completeness and accuracy of the reported amounts.

*Recommendation:*

The Department should review and revise, as appropriate, its federal reporting processes to ensure there is an effective and efficient review and approval process performed by an employee with knowledge and experience with the federal program and reporting compliance issues. In addition, amounts reported in the periodic *Financial Status Reports* should be accurate and based on reproduceable calculations and supporting documentation.

*Auditee Response:* We concur

*Comments On Observation:*

Incomplete training and lack of oversight of the Senior Accounting Technician has been a recurring problem as well as the turnover in personnel for this position. The prior Business Administrator did not take an interest in or have sufficient oversight of the Federal Aid Accounting processes and procedures.

*Action To Be Taken:*

The current Business Administrator is developing a working knowledge of the Federal Grant system and is required to continue to do so. Since coming to the Department in August 2003, all Financial Status Reports (FSRs) submitted for her signature have been accompanied by the grant folder, which contains all information relative to that grant. She reviews the contents of the grant folder, including past FSRs, the income and expenditure reports generated by the Federal Ledger and the current report being submitted, checking for accuracy. Improved communication between the Federal Aid Coordinator and the Senior Accounting Technician should ensure that reports are submitted in a timely manner.

## **Observation No. 34: The Methodology Used To Prepare Indirect Cost Proposal Should Be Reviewed And Revised As Appropriate**

### *Observation:*

The Department's indirect cost proposal, intended to support the Department's claims for federal indirect cost participation, contains calculations based on obsolete and incomplete information. These calculations affect the accuracy of the indirect cost rate claimed by the Department during fiscal year 2003.

The Federal Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment E, Part D, 1 a, states, "all departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs."

The Fish and Game Department prepared and submitted an indirect cost proposal effective for fiscal year 2003 on November 1, 2001. During our review of the proposal we noted the following:

- A fringe/benefit rate of 31% was applied to all Fish and Game Department salaries based on the benefit rate established in the Budget Manual for the 2000-2001 Biennium. Although the 31% rate is appropriate to use for all permanent classified and unclassified positions, the budget manual established a separate benefit rate for temporary personnel of 7.65%. Although the Department included all of its temporary personnel in the calculation of total salaries, a distinction was not made between permanent and temporary employees and the lower rate was not utilized. In addition, the budget manual established an additional fringe benefit rate for group I and group II; however neither rate was utilized in the Department's indirect cost proposal.
- The direct cost base used in the calculation of the indirect rate includes both direct and indirect Department salaries. This error was first reported in the 2001 *Single Audit Report*. The Department corrected the direct cost base calculation in its 2005 indirect cost rate proposal submitted in January 2004.
- A 2% building use allowance and a 6.67% equipment use allowance were included by the Department in the calculation of its indirect cost rate, however the respective use allowance rates are not supported by the agency's calculations. The Department used the rates identified by the State in the statewide cost allocation plan without calculating the actual building use and equipment use rates related to the Fish and Game Department. In addition, the 2% building use allowance rate was applied to an estimated value of buildings based on a 1993 real property summary.

It appears that the above are a result of the Department's lack of review and update of the methodology used for determining the indirect cost rate. It appears that the fiscal year 2003 indirect cost proposal has been prepared using the methodology historically used by the Department. The additional fringe benefits were not incorporated into the calculation of the indirect cost rate, as the Department believed these rates were not applicable. In addition, it appears that the schedule of real property was carried over from prior years. Although the fiscal year 2001 *Single Audit Report* (finding 2001-6) reported the incorrect direct cost base used by Fish and Game, the Department did not seek clarification of the issue until December 2003.



*Recommendation:*

Management should ensure that the methodology used by the Department to develop the indirect cost proposals is well understood and supported and allows the Department to adequately and timely recapture its indirect costs.

*Auditee Response:* We concur

*Comments On Observation:*

This observation is not the result of the Department's lack of review of the methodology used in determining the indirect cost rate, but is due to the confusion and difficulty in obtaining a clear set of directions from federal agencies to prepare a complete and accurate Indirect Cost Rate calculation. The Department has consistently worked to prepare an accurate and fully documented Indirect Cost Rate calculation.

*Action To Be Taken:*

The Department has addressed the points identified in the observation. The Department worked with representatives from the US Fish and Wildlife Service who were trained in Indirect Cost Rate proposals. The Department also sought input from the Department of Interior Office of Inspector General and the National Business Center Indirect Cost Section. Although it was presented to the Department that a 2% building use allowance and a 6.67% equipment use allowance were allowed, the Department chooses not to use any allowance since providing documentation to substantiate such allowances could not be easily obtained. However, based on these communications the Department was given clear direction on how to address the determination of the allocation base and applicability of the Statewide Cost Allocation Plan (SWCAP) in the calculation of the rate.

## EQUIPMENT AND PROPERTY ADMINISTRATION

### **Observation No. 35: Policies And Procedures For The Use Of Warden's Camp Should Be Established**

*Observation:*

The Department has not established policies and procedures related to the use of the Department's Warden Camp. Prior to fiscal year 2003, the Department did not report the Warden's Camp as a State asset.

The Warden's Camp is a building on leased property on the shore of the First Connecticut Lake in Pittsburg, New Hampshire. The property on which the Camp is sited is used subject to a long-term lease at a nominal cost. When the lease was originally granted, the property included a building to be used by the Department in its efforts in the area. Subsequently, the building burned down and was replaced, reportedly with materials donated by the community and labor provided by Department's conservation officers. The Department reports that conservation officers performing snowmobile enforcement activities use the Warden's Camp for overnight stays and the Camp is also used for training new conservation officers.

- The acceptance of the donated materials and the donated labor to build the Warden's Camp was not submitted to anyone outside the Department for authorization. Generally, RSA 4:8 directs

that gifts to the State must be placed before the Governor for acceptance. In addition, federal tax law generally does not allow employees to donate labor to an employer.

- The camp was furnished with Department-purchased furniture and equipment. Prior to fiscal year 2003, the Warden's Camp was not included on the Department's real property listing however the equipment in the Camp was listed on the Department's equipment listings. The Warden's Camp was inventoried and included on the June 30, 2003 real property records of the Department, valued at \$58,000.
- The Department does not keep activity logs or other documentation of the care and use of the Camp. The Department has no policies and procedures requiring prior authorization for the use of the Camp and the responsibility for the care of the Camp has not been given to the Division of Access and Engineering which is generally responsible for the upkeep of other Department buildings.

*Recommendation:*

The Department should establish policies and procedures for the care and use of the Warden's Camp, similar to policies and procedures in place for the care and use of other Department buildings.

The Department should monitor the use of the Camp to ensure that it is used to best meet the Department's goals and objectives, and is properly maintained according to Department standards.

The Department should review its real property holdings to determine whether there are other properties or structures that are not properly classified and reported.

*Auditee Response:* We concur

*Comments On Observation:*

The Department under RSA 206:33-a is authorized to accept small gifts not exceeding \$500 in cash or value with the consent of the Commission. The Warden's Camp was reconstructed in 1992 and a small bunkhouse was donated. In review of Commission meeting minutes for that time period there is no specific reference to the acceptance of a bunkhouse donation or donations related to the reconstruction of the camp. The bunkhouse was a donation coordinated by a Fish and Game Commissioner at the time.

The Department does have procedures in place for the care and maintenance of the facility. District 1 Law Enforcement personnel are responsible for the general maintenance of the camp since they reside in the area. On those occasions that Access and Engineering Division staff and equipment are needed for upkeep of the camp their services are utilized. This process is cost effective because the Law Enforcement staff resides in the area and this eliminates the need for excessive travel by Access and Engineering staff from Concord to Pittsburg.

The Department has the understanding that employees are allowed to volunteer services if those services are done on a function that is not within an employees' regular job functions and is performed outside their normal work schedule.

In the past a log has been used by the District 1 Lieutenant to record the use of the camp. The Chief of Law Enforcement authorizes the use of the camp for OHRV enforcement details, which are every weekend during the winter. The Department also uses the camp to lodge Conservation Officer trainees while they are stationed on patrol during their training period in the Pittsburg area. The Department's Access and Engineering Division staff have lodged at the camp while they are in Pittsburg doing dam reconstruction projects as well as access site refurbishments. The Department's Inland Fisheries Division uses the camp to provide lodging to biologists doing annual surveys of the lakes and ponds in the Pittsburg area.

*Action To Be Taken:*

In May 2003 the Department's Acting Executive Director William Bartlett and Assistant Director Daniel Lynch went to the Warden Camp and performed a physical inventory of the equipment reported on the Department's equipment inventory. Photos of the camp and bunkhouse were taken and the camp was included on the June 30, 2003 real property records.

The Department will reinstitute a log to record the use of the camp and document the care of the facility. The Law Enforcement Division will compile a revised policy on the use of the camp.

**Observation No. 36: Discrepancies In Equipment Records Noted During The Annual Equipment Inventory Should Be Reported Timely**

*Observation:*

The Department's informal policy is to submit discrepancy reports for items missing during the annual physical inventory only after the equipment item has not been located and has been determined to be missing for two consecutive annual physical inventories.

Per Department of Administrative Services' (DAS) *State of New Hampshire Annual Closing Review Fiscal Year 2003* (page 19) as part of the procedures for the annual inventory, any discrepancies in a department's annual equipment inventory shall be investigated by an independent person delegated by the department's business office and reported on a *Discrepancy Report* (form P-18). Also, per policy K of the DAS *Long-Term Assets Policy and Procedures Manual*, the annual physical inventory shall be reconciled annually to the records maintained by the agency.

Per a review of the listing of equipment items not located or counted during the fiscal year 2002 inventory, 86 items totaling approximately \$51,000 were listed as not having been observed by the inventory takers. As of June 20, 2003 only three of the 86 items had been found, seven discrepancy reports were written, and three items were surplus. Per a review of the results of the fiscal year 2003 inventory, 74 items totaling \$51,000 appear on the list of items not located or counted.

*Recommendation:*

The Department should perform and report the results of its annual equipment inventory as required by State procedures. As part of each annual inventory, any discrepancies noted during the taking of the inventory should be investigated and reported as part of the results of that inventory. In order to ensure that appropriate action can be taken in a timely manner, discrepancies should be investigated and reported as soon as detected. Waiting up to a year to investigate and report missing equipment or other discrepancies increases the likelihood that employees will be unable to remember

circumstances regarding the missing equipment and will not be able to provide appropriate assistance when the missing items are eventually investigated and reported.

*Auditee Response:* We concur

*Comments On Observation:*

The Department's Senior Accounting Technician was not aware of the State's procedures and it was the Department's policy, although wrong, to leave some unaccounted items on the inventory list for two years with the intent of being able to locate the item.

*Action To Be Taken:*

The Department has drafted a policy with regard to the annual physical inventory counts instituting a timeline to be followed to allow for sufficient time for discrepancy items to be addressed prior to the final report being submitted to Administrative Services on an annual basis.

The Department will reconcile the physical inventory annually to the physical inventory database currently used by the Department.

Action has already occurred and will continue to occur with regard to better communication between the Business Division, Access and Engineering Division, and Wildlife Division including oversight by the Assistant Director on inventory records for real property. Periodic meetings will take place throughout the year between the Divisions to ensure all property is properly documented. Prior to the *Exhibit E* being submitted to Administrative Services at year-end, a comprehensive meeting of all parties will occur to ensure the accuracy of Department reporting. The Senior Accounting Technician is currently in the process of developing a procedure manual for the *Exhibit E* and *Schedule of Real Property* reporting requirements for future reference.

### **Observation No. 37: Policies And Procedures For Equipment Control Should Be Consistently Applied For All Divisions Of The Department**

*Observation:*

The Department does not have consistent Department-wide policies and procedures for controlling Department equipment. The Department's Law Enforcement Division has separate policies and procedures for controlling equipment that are different than the policies and procedures for all of the other Divisions of the Department.

For example, all equipment surplused by the Department must be reported on a State *Declaration of Surplus Property* (P-11) form. Department policy requires all P-11 forms, except P-11's from the Law Enforcement Division, to be reviewed and approved by the Department's Business Office. Law Enforcement Division P-11's are processed and equipment is surplused without Business Office review and approval required unless the surplused item is a motor vehicle. The lack of Business Office involvement in the Division's surplusing of equipment raises the potential that required processes will not be properly adhered to and property records will not be properly adjusted to reflect surplused equipment.

*Recommendation:*

The Department should, where appropriate, establish policies and procedures that can be consistently applied across the entire Department. Consistent policies enhance compliance by promoting control awareness, communication, and efficient monitoring.

*Auditee Response:* We concur

*Comments On Observation:*

The Law Enforcement Division does not have separate policies and procedures for controlling Department equipment. They must follow the guidelines set forth by the Department as all other Divisions. They also go one step further and choose to keep a manual listing of their inventory. The exception is the authorization of the P-11 form. This has been the case in the past due to the large volume of inventory kept by the Law Enforcement Division as well as the Division having their own staff member assigned to the control of inventory for the Division. The P-11 form, after the item has been delivered to Division of Surplus Property, is given to the Business Division for inventory control purposes.

*Action To Be Taken:*

The Department will assess the processing of P-11 Forms by the Law Enforcement Division to determine if pre-review and approval of P-11 Forms by the Business Office will function more effectively and efficiently than the current process.

**Observation No. 38: Error Corrections Should Not Distort Accounting Record**

*Observation:*

The procedures used by the Department to correct errors in the equipment records misrepresent accounting transactions.

The Department processes offsetting equipment-surplus and equipment-purchase transactions to correct errors detected in its equipment inventory records. For example, to correct an item's barcode control number in the inventory system, an equipment item was listed as surplused on a *Monthly Equipment Adjustment Report* (P-21 form) and then recorded as purchased on the same P-21 with a corrected barcode number. While recording these transactions does correct the control number, the transactions do not properly reflect the true activity in the equipment account. In addition, correcting errors through recording "phantom" transactions in this manner negatively impacts the control effectiveness over equipment as controls that should be in place to secure the surplus and purchase of equipment cannot be applied and can lead to employee and management complacency with control avoidance and unapplied controls.

*Recommendation:*

The Department should establish a method that permits the correction of errors in the equipment inventory database in a manner that does not distort the information reported from the database. This established methodology should allow the correction of entries without requiring the mock surplusing and purchasing of items, which lead to the overstatement of purchases and disposals and control avoidance.

*Auditee Response:* We concur

*Comments On Observation:*

The Senior Accounting Technician was unaware as to any other way to address this issue other than to surplus and acquire an item on the same P-21. This was due to the issue of having the same beginning balance of inventory as the ending balance of the prior reporting period.

*Action To Be Taken:*

Effectively immediately, the Senior Accounting Technician will alert the Information Technology staff when this type of transaction occurs. IT will update the inventory database with the corrected barcode number in the needed tables allowing for the change to occur within the inventory database. When submitting the required monthly inventory report to the Business Administrator, if a discrepancy such as this has occurred where the beginning balance does not match the ending balance of the prior period, a memo of explanation will accompany the report.

**Observation No. 39: Controls To Ensure Complete And Accurate Asset Reports Should Be Established**

*Observation:*

Several significant errors in the Department's original and revised fiscal year 2003 year-end real property and equipment reports (*Exhibit E*) indicate proper emphasis was not placed on ensuring that the reports were accurate and complete.

- The original fiscal year 2003 *Exhibit E* submitted to the Department of Administrative Services in July 2003 did not reflect the Department's December 2002 purchase of the Connecticut River Headwaters Conservation Trust, valued at \$6,650,000. While the \$6.5 million purchase price for the land was included in the Department's revised *Exhibit E*, the \$150,000 of survey costs required for the purchase of the property was not.
- The Department did not remove the accumulated depreciation related to equipment surplused during fiscal year 2003 from its reported accumulated depreciation balance on its *Exhibit E*. The Department surplused \$308,000 of fully depreciated equipment during fiscal year 2003 and properly removed the surplused items from its *Exhibit E*. However the Department did not remove the \$308,000 of accumulated depreciation related to this equipment from the original *Exhibit E* filed by the Department. This error was corrected on the revised fiscal year 2003 *Exhibit E* submitted in December 2003.
- During fiscal year 2003, the Department corrected certain clerical errors that had previously misreported the cost for four equipment items on its equipment listing (P-16). The correction of the cost value of these items raised the cost of each of the four items to greater than the \$10,000 threshold for capital asset reporting on an *Exhibit E*. However, the Department neglected to report these items on either its original or revised *Exhibit E*.

In addition, the Department's real property records do not consistently contain information on federal participation in the acquisition of Department real property. Federal Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement*, Part 3, Section F, requires the "real

property [purchased with federal participation] shall be used for the originally authorized purpose as long as needed for that purpose.” When the property is no longer needed for the federally supported program or projects, if sold or retained, the non-federal entity “shall normally compensate the awarding agency for the federal portion of the current fair market value of the property.” While the Department has historically not sold any of its real property, the Department has transferred land to other State agencies, raising the potential for payback considerations for property originally purchased with Federal assistance.

*Recommendation:*

The Department needs to improve its controls over recording and reporting its real property and major equipment assets.

The cause for the apparent clerical and oversight-type errors noted in the Department’s *Exhibit E* reporting should be determined and corrected. Procedures should be revised to provide a system that promotes consistent and accurate recording and reporting of assets. Department real property and equipment records should be reviewed to ensure that adequate and appropriate information is being captured to promote accurate and efficient reporting and control of the assets. If necessary, additional training and other support should be made available to Department employees to promote accuracy in the Department’s records.

Periodic Department reporting of real property and significant equipment including *Exhibit E* reports should be subject to sufficient review by the Department prior to submission to lessen the likelihood of error and the need for corrections.

*Auditee Response:* We concur

*Comments On Observation:*

The lack of proper communication between Divisions and the lack of proper training of the Senior Accounting Technician has led to this observation. The Department has stated in other Audit Observations that actions will be taken to strengthen recording of inventory and the reporting of equipment inventory and real property holdings.

In addition, the Department’s real property records do not consistently contain information on federal participation in the acquisition of Department real property because of the fire that occurred in 1984 at the old headquarters building. However, the Department through the Federal Aid Coordinator and the Lands Team review all requests for use of Department lands to insure that said uses meet the purpose for which the land was acquired. This review includes assessing any federal participation in the acquisition of the parcel of land. To the Department’s knowledge there has only been one land transfer to another state agency in the past five years that has dealt with federal participation. This land transfer dealt with land abutting the Department’s boat access site at Chapmans Landing in the Town of Stratham. NH Department Of Transportation (DOT) needed some of the land for the re-alignment of a bridge over the Squamscott River. In consideration of the land NH DOT needed, land of equal value was provided to Fish and Game and annexed to the Chapmans Landing parcel to allow for expanded parking at this boat access site. The US Fish and Wildlife Service was informed of this action and approved the land swap through a no cost grant agreement.

*Action To Be Taken:*

Action has already occurred and will continue to occur with regard to better communication between the Business Division, Access and Engineering Division, and Wildlife Division including oversight by the Assistant Director. Periodic meetings will take place throughout the year between the Divisions to ensure all property is properly documented. Prior to the *Exhibit E* being submitted to Administrative Services at year-end, a comprehensive meeting of all parties will occur to ensure the accuracy of Department reporting. The Senior Accounting Technician is currently in the process of developing a procedure manual for the *Exhibit E* and Schedule of Real Property (SORP) reporting requirements for future reference.

In addition, the Department started in 2000 to develop a lands database. The template has been developed and currently the database is approximately 60% populated with information on all Department lands (owned or under easement). Contained within this database are fields to document funding sources for the acquisitions. The Department's Lands Team, which the Federal Aid Coordinator is a member, continues to review all requests for use of Department lands to insure that said uses meet the purpose for which the land was acquired. This review includes assessing any federal participation in the acquisition of the parcel of land. The Department will work with the regional Federal Aid Office of the US Fish and Wildlife Service to obtain any documentation and records they may possess that will provide the Department with information on federal participation in Department land holdings.

## PERSONNEL AND PAYROLL ADMINISTRATION

### **Observation No. 40: Personnel Positions Should Not Be Filled Prior To Receipt Of Authorization And Funding**

*Observation:*

The Department's filling of six full-time temporary employee positions prior to receiving full approval and funding led to the Department being out of compliance with statute and to a number of financial errors and other misstatements resulting from the Department charging these employee costs to other appropriations and later attempting to correct for the mispostings. Filling the positions prior to receiving appropriate funding prompted the Department to charge these employees' salaries and benefits to other available appropriations until the funding for these positions was made available, which occurred approximately nine months after the employees filled these positions.

The Division of Personnel approved six full-time temporary positions in the Wildlife Division on April 29, 2002. The funding of the positions was to be secured through a new federal program, the Wildlife Conservation Restoration Act, State Wildlife Grants, as well as other grants and fund raising initiatives. Since four of the full-time positions were not in the original operating budget, RSA 124:15 required four of the positions to be approved by the Fiscal Committee. Five of the six positions were filled during the Spring 2002; however, due to a delay in the writing of the federal fund grant proposal, the funding was not available to pay the individuals until the federal funds were approved by the Governor and Council on January 15, 2003. The Department charged the salaries and benefits for these employees during the period May 2002 – December 2002 to available funds in the Non-game Species Management Account.



RSA 124:15 states in part, “In addition to the positions authorized by law, no new personnel positions ... may be created by the acceptance of federal moneys or moneys from any other source unless such positions, ...are approved by the fiscal committee of the general court.” Appropriate budget control procedures require that personnel positions should not be filled until the funding for the position is properly approved and available to be spent.

- The Department is not in compliance with RSA 124:15 as one of the new positions was never approved by the fiscal committee, and the other three positions were only approved for the period 4/29/03 – 6/30/03, rather than retroactive from the date the positions were filled.
- Since the Department filled the positions without the funding sources available they erroneously charged salaries and benefits for these individuals to available funds within the Non-game Species Management Account. This resulted in funding not being available to pay the monthly health insurances bills. The October – December 2002 health insurance payments, that average \$144,000 per month, were not paid until January 7, 2003.
- The Department processed a transfer of expenditures to transfer some of these payroll related expenditures within the Non-game Species Management Account. Approximately \$33,307 of expenditures was transferred from class 59 (full-time temporary), posting \$12,334 to class 96 (N.H. Army National Guard) and posting \$20,973 to class 97 (Conservation License Plate Inventory). The documentation intended to support the transfer included a listing of employees, their hourly pay rate, and time charged to specific projects and jobs. However, the agency was unable to provide documentation that actually supported the amount transferred. After several attempts to provide explanation and support for the transactions, the Department stated that sufficient documentation to support the accuracy of the transferred amount was not available.
- A similar transfer of \$55,882 of expenditures was recorded within the Non-game Species Management Account that could not be supported with documentation by the Department.

*Recommendation:*

The Department must implement controls to ensure compliance with statutes, including the operating budget. Positions should not be filled in anticipation of the receipt of approvals and expenditures that are not provided for in the original budget or in supplemental appropriations must not be made.

Transfers and other transactions posted by the Department must be based on valid transactions that are properly authorized and valued, sufficiently documented, and accurately reported.

*Auditee Response:* We concur

*Comments On Observation:*

The Department’s management is fully aware of the provisions of RSA 124:15 (Positions Restricted) and takes compliance with state law very seriously. Due to some significant changes in personnel it is unclear as to why such action took place without proper protocols being followed that would have prevented such a breakdown in internal controls and compliance with the provisions of RSA 124:15.

*Action To Be Taken:*

The Department's new Business Administrator and Human Resources Coordinator have been informed of the provisions of RSA 124:15 and the requirements and process for creating positions outside the budget process. The Human Resources Coordinator prepares and/or reviews all requests for new positions with the Assistant Director or Business Administrator to insure positions are properly reflected in the budget and funding sources properly exist. All requests for new positions are approved by the Executive Director and must document funding sources. All Personnel Action Forms (PAFs) are completed by the Human Resources Coordinator based upon receipt of an approved memorandum from the Executive Director that denotes position number being filled and funding source in the budget for said position. As a check and balance all PAFs are approved by the Business Administrator to insure proper funding exists in the budget for positions being filled and that positions are reflected in the budget or have been established in accordance with RSA 124:15. The Department will look to develop an internal form to provide for a set format for approving creating positions, hiring personnel, and making changes to information contained within GHRIS.

In any situation where a transfer of expenditure is necessary for personnel costs, these transfers will be prepared by the Human Resources Coordinator and will be supported by proper payroll information that is documented by source documents such as timesheets. The Assistant Director or the Business Administrator will first approve any transfer request submitted to the Human Resources Coordinator by Division Chiefs.

**Observation No. 41: Controls Over Payroll Process Should Be Improved To Ensure Adherence To Department Policies And Procedures**

*Observation:*

The Department's payroll review process, intended to ensure that payroll policies and procedures remain effective, was undocumented and apparently ineffective during fiscal year 2003.

General Department policy requires that all timesheets, leave slips, overtime authorizations, and comp time pre-approvals should be submitted to and reviewed by the payroll officer prior to processing the bi-weekly payroll.

A Department's payroll clerk processes all employee timesheets (with the exception of the Law Enforcement Division), reconciles the timesheets to the leave time and compensatory time slips, and keys the timesheet data into the State's automated payroll system (GHRIS).

According to a senior accounting technician, missing timesheets constitute a recurring problem in the payroll process. Per the Business Office, employees and their supervisors are notified about missing timesheets and other supporting documentation for payroll, however deficiencies continue.

The Department's senior accounting technician periodically performs a review and reconciliation of a sample of timesheets and leave slips to GHRIS and prepares a memo noting any deficiencies/errors found. Missing leave slips and incomplete and missing timesheets were noted during the two reviews performed during fiscal year 2003. After each review, the discrepancies noted were discussed with the Department's Business Administrator IV. While memos summarizing the deficiencies noted in the review process were prepared, there is no documentation to determine if the errors noted required correction/follow-up and if the follow-up occurred.

Continued problems with missing timesheets and the disregard for Department payroll documentation policies indicate a weak control environment over payroll. Without a completed timesheet, an employee's hours worked default to his/her regular hours (37.5 or 40 hrs) regardless of the actual hours worked. Missing and delinquent timesheets cannot be reviewed during the payroll process, undermining the accuracy of payroll data. If payroll errors/deficiencies are not investigated and corrected timely, the possibility exists for individuals to get paid the incorrect amount and for leave time to be recorded incorrectly. Insufficient follow up represents inadequate control over the process and fails to protect the integrity of payroll data.

*Recommendation:*

The Department should review the effectiveness of its policies and procedures intended to control Department financial activity, including payroll. The results of control procedures should be documented especially when violations of policies and procedures are detected suggesting the need for greater management attention.

The Department should require adherence to existing payroll policies and procedures and ensure that all timesheets and all other required supporting documentation are submitted to the payroll officer in a timely manner to protect the accuracy of payroll data. The Department should implement procedures to document in writing the resolution to errors/deficiencies noted in the payroll review process. This documentation should include, if appropriate, evidence that the errors/deficiencies noted have been resolved.

*Auditee Response:* We concur

*Comments On Observation:*

We agree with the observation that there should be more control over payroll. However, the issues addressed vary across many areas. The payroll officer verifies collected timesheets to a manual list to verify all timesheets have been collected per pay period. If timesheets are not handed in at that time, an e-mail is sent to various members of management requesting the delinquent timesheets. The payroll officer then verifies leave slips submitted against the collected timesheets, if they are not in agreement an e-mail is sent to both the employee and management and the pertinent timesheet and leave slips are returned to the appropriate Division Chief for disposition. This brings up the observation point that timesheets are missing, they are not, they are handed in late or are with a supervisor to discuss discrepancy issues. The observation states that there exists a weak control environment over payroll with regard to hours worked. The payroll officer can only enter that information which she has received.

*Action To Be Taken:*

Management has instituted a policy with regard to tardy timesheets and will hold employees, supervisors and Division Chiefs responsible. The payroll officer will document, on a copy of the original e-mail sent, the disposition of the tardy timesheet and/or leave slip discrepancies.

## **Observation No. 42: Compliance With Timesheet Approval Policy Should Be Monitored**

### *Observation:*

Department law enforcement employee timesheets are not consistently subjected to a review and approval process required by Department policy.

A review of payroll expenditures noted that three out of five (60%) law enforcement timesheets reviewed did not contain documentation that appropriate supervisors had approved the timesheets.

A Department policy requires that a supervisor review and approve all employee timesheets to verify the appropriateness of the tasks performed and the hours claimed as worked by each employee.

Inquiry of the Chief of Law Enforcement revealed that all three timesheets were for employees from the same district. The District Lieutenant should have signed two of the timesheets documenting review and approval and the Chief of Law Enforcement should have signed the other. While the Chief indicated that the processing of Law Enforcement payroll requires supervisor reviews of timesheets, the timesheets should still be signed by the supervisors to evidence the supervisory review of the appropriateness of the activities worked.

### *Recommendation:*

The Department should remind employees of the importance of complying with policies and procedures intended to provide controls over operations. Employees involved in control processes should notify appropriate management levels when control processes are not complied with. The Department should stress the importance of proper and adequate review of employees' timesheets to ensure that all employees follow Departmental payroll procedures.

*Auditee Response:* We concur

### *Comments On Observation:*

None

### *Action To Be Taken:*

The Department's management reinforced the importance of supervisors complying with procedures that require the timely submittal and processing of timesheets. All Department employees have been instructed as to the proper manner for completing timesheets. The Payroll Officer will provide updates on a monthly basis to the Assistant Director on areas where control processes have not been complied with for timesheets. The Assistant Director will insure that corrective action is taken to resolve noted deficiencies and implement steps to ensure deficiencies do not regularly recur.

The Department's Law Enforcement Division supervisory staff (Colonel, Major, Captain and Lieutenants) met on March 25, 2004 for a monthly supervisors meeting. The importance of properly processing and reviewing conservation officers' timesheets was addressed. The Captain is responsible for insuring that district lieutenants are signing off on timesheets to confirm their review and the appropriateness of the work completed by officers.

### **Observation No. 43: Timekeeping System Should Be Made More Efficient And Effective**

#### *Observation:*

The Department's timekeeping functions are inefficient. Timekeeping efforts are decentralized lacking consistency among the divisions, require redundant entry of data, and provide only minimal management information.

The Department employs approximately 170 full-time and 90 temporary and seasonal employees. As in other areas, with regards to employee timekeeping, the divisions function autonomously without apparent collaboration with the needs of the Business Office and other divisions. Law Enforcement and Wildlife Divisions independently developed divisional timekeeping systems using limited automation that integrate the functions desired by the division chiefs but are not integrated with the needs of the Business Office. Other divisions require employees to prepare paper-based timesheets. All systems used by the Department require redundant posting and entry of data. None of the systems fully incorporate the efficiency that can be realized through a reasonably automated system.

Law enforcement staff either input their time information into a spreadsheet and submit a printed copy to their supervisor or submit a paper timesheet. Supervisors reenter all time information into a district summary spreadsheet and forward the summary and paper copies of the timesheets to headquarters where the data is input again into a division-wide spreadsheet. Additionally, a secretary in the Law Enforcement Division prepares manual reports of compensatory time balances for all exempt law enforcement officers.

The Wildlife Division has implemented a database timekeeping system for Division employees. Time information is uploaded to a central database and used by management. Employees submit a printed version of their timesheets to the Business Office for payroll processing.

Paper timesheets for all employees (except law enforcement) are submitted to the payroll clerk who processes payroll for all divisions and inputs timesheet data into the State's payroll system (GHRS). In addition to inputting data from the timesheets into GHRS, the Business Office also inputs data from the timesheets into the federal accounting system and into additional spreadsheets, applications, and reports, making the entry of time data extremely redundant and inefficient.

#### *Recommendation:*

The Department should conduct a review of its payroll system to assess the feasibility of implementing a department-wide automated timekeeping system that would be efficient and effective in recording, accumulating, and reporting payroll information. Any system selected by the Department should consider the needs of all relevant divisions, including the Business Office's payroll and federal reporting responsibilities. An appropriate system would minimize or eliminate the redundant keying of data and provide the Department with the ability to produce management reports that are meaningful and useful in reviewing and planning Department activities.

*Auditee Response:* We concur

*Comments On Observation:*

The Department does acknowledge that there is limited consistency among divisions for the completion of timesheets. The Department recognizes that the majority of expenditures are related to personnel costs and that it is important to ensure that the reporting of hours worked by employees is consistently reported in a timely and accurate manner.

*Action To Be Taken:*

The Department will conduct a review of current time recording practices and assess the feasibility of implementing a Department wide automated timekeeping system. The Department has had discussions with individuals working on the ERP system to identify the needs the Department has for timekeeping and integrating this information into appropriate federal ledger accounts. The Department has also met with representatives of the US Fish and Wildlife Service to discuss manners in which NHIFS/GHRS can be utilized to reduce duplicative data entry of hours worked by employees into the federal ledger system and provide for reconciliation of labor costs.

**Observation No. 44: Caretaker Agreement For Sandy Point Facility Must Be Subject To Proper Authorization, Recording, And Reporting Procedures**

*Observation:*

The Department has entered into separate, signed agreements with employees to provide caretaker services valued at \$300 per month at its Sandy Point Discovery Center and agreements with those same employees allowing them residence at the Center for a monthly rent of \$300. While some of these arrangements were subject to prior approval by the executive director, none of the arrangements were properly reported for state and federal wage reporting purposes.

The Department's Sandy Point Discovery Center in Stratham provides opportunities for visitors to learn about the Great Bay Estuary and its environment. Reportedly due to the relatively remote location of the Center, the Department utilizes caretaker services to monitor the grounds, perform minor maintenance duties, and clean the Center weekly. In conjunction with the caretaker agreements, the Department establishes corresponding rental agreements with the same employees, which allows the employees to live at the Depot Station at Sandy Point while performing caretaker duties. In the Department's view the living quarters, comprised of one bedroom and a shared living area, supported a monthly rent payment of \$300. According to a memo dated June 10, 2003 from the former Business Administrator, the Department has utilized this arrangement for the past two years. The memo stated that the financial activity related to the agreements would not need to be recorded and reported, as the agreements result in a "wash" transaction. By treating the transactions as a wash, the Department does not recognize the income from the rental of the Depot Station, understating the Department's revenue. Since funds are not disbursed to pay the employees for caretaker services, the Department's expenditures are also understated. In addition, as the compensation for caretaker services is never reported as income to the employee, the Department and employee inappropriately avoid tax liability on the compensation.

When contracts are not properly executed and approved, the validity and extent of the agreements can be questioned exposing the Department to avoidable legal risks if a tenant or visitor suffers a loss on the property. Retroactive or untimely approval of contracts does not provide appropriate documentation of both parties' contemporaneous agreement with and understanding of the provisions of the contract. In addition, the failure to record all transactions is a significant violation

of controls raising concerns regarding management's assertion for complete and accurate financial reporting.

*Recommendation:*

The Department should implement policies and procedures to ensure that all contracts and agreements are authorized and approved prior to the start of the contract period.

All Department transactions should be recorded and reported in the Department's financial system. The Department should not regard offsetting transactions as a "wash" which do not require reporting.

*Auditee Response:* We concur

*Comments On Observation:*

The Department takes compliance with purchasing regulations seriously. This observation raised concerns with management because it appears there were inconsistent approaches applied by the Business Office on this issue of furnishing housing to department employees. In the opinion of the Department state laws and rules relating to this matter are unclear and do not provide a specific solution to the circumstances surrounding the Sandy Point situation. The Department is fully aware of the IRS guidelines for Lodging Furnished for the Convenience of the Employer.

*Action To Be Taken:*

The Department has implemented written purchasing policies and procedures. This document has been provided to Division Chiefs and program coordinators with an effective implementation date of March 1, 2004. These supervisors are expected to follow these policies and comply with purchasing regulations. The Department's new Business Administrator is fully apprised of these matters and therefore, did not allow such an agreement to be authorized in late September 2003.

The Department has identified the need for security and caretaker functions at the Sandy Point facility. The Department is assessing the ability to establish a full-time position thereby allowing the Department to comply with state and federal regulations.

**Observation No. 45: Residential Agreements With Hatchery Employees Should Be Established**

*Observation:*

The Department provides housing to eleven Department employees working at its fish hatcheries. There are no contracts or other written agreements specifying the terms and conditions regarding the provision of the housing or the responsibilities of employees and the Department relative to that arrangement. The housing is provided at no cost to the employees even though RSA 99:2-a would appear to require charging the employees a rental fee. There is also no clear documentation that the federal income tax implications of these arrangements have been properly considered and addressed.

During fiscal year 2003, there were two employees residing at the Milford hatchery, two in Warren, two in New Hampton, three in Berlin, one in Twin Mountain, and one in New Durham. All of the

employees residing at the hatcheries were fish culturists and according to the Department, their residency at the hatcheries was important to ensure the regular availability of employees to attend to periodic monitoring of conditions and emergencies that could jeopardize the fish stock.

The lack of written agreements with hatchery employees residing at the hatchery buildings exposes the Department to unnecessary risk and liability regarding tenant or visitor safety, property security, and allowed activities and tenant behavior on the property. Without a written agreement, there is no documentation establishing a clear understanding of each party's responsibilities, duties, and rights related to the occupied property.

*Recommendation:*

The Department should establish policies and procedures for the housing of Department employees at the fish hatcheries. Policies should address which employees are eligible, the responsibilities of the housed employees, insurance requirements, proper codes of conduct, durations of any housing agreements, etc. The Department should also work with the Department of Administrative Services, Division of Personnel to establish whether a rent for the housing must be charged in accordance with the statute. Housing agreements should be documented to ensure and evidence an understanding of the responsibilities of all parties. The Department should also properly document the necessity of having employees housed at the hatcheries, if that is appropriate, to promote the likelihood that the housing would be determined to be a non-taxable benefit if ever questioned by the Internal Revenue Service.

*Auditee Response:* We concur

*Comments On Observation:*

The Department is fully aware of the IRS guidelines for Lodging Furnished for the Convenience of the Employer. The housing is provided to these employees for the convenience of the Department, the lodging is on Department premises, and the employee is required to accept such lodging as a condition of employment.

*Action To Be Taken:*

The Department will review IRS guidelines to insure lodging provisions are being met. The Department has completed a draft of a Housing Use Agreement and has forwarded the draft agreement to the Office of Attorney General for review. The Department has asked the Office of Attorney General to review RSA 99:2-a and the applicability to the housing being furnished to hatchery employees.



## State Compliance Comment

### **Observation No. 46: Conflicting OHRV Statutes Should Be Clarified**

#### *Observation:*

Statutes providing for an OHRV registration agent fee conflict.

RSA 215-A:24 authorizes OHRV agents to collect and retain a \$2 agent fee for each OHRV registration sold. RSA 215-A:24-a, I, requires that “the agent shall collect from the applicant a fee of \$1 for each OHRV registration issued....”

RSA 215-A:24 also requires the words “agent’s fee \$2” be printed on each application for registration.

An amendment to RSA 215-A:24, pursuant to Chapter 233:12, Laws 2002, increased the agent fee from \$1 to \$2, however the corresponding reference to agent fee in RSA 215-A:24-a, remained at \$1. The Department authorized its agents to charge a \$2 agent fee effective July 1, 2002.

In addition, per review of fiscal year 2003 and 2004 registrations, the agent fee is not disclosed on the registrations.

According to the Department, the inconsistent agent fee and the failure to disclose the agent fee on the registration document were oversights.

#### *Recommendation:*

The Department should review its process for reviewing and implementing legislative changes to ensure that the Department remains in compliance with statutes and suggests corrections when statutes are determined to be in conflict or become archaic.

The Department should seek to have RSA 215-A:24-a amended to bring it into agreement with RSA 215-A:24. The Department should comply with RSA 215-A:24 and print the words “agent’s fee \$2” on each registration application.

*Auditee Response:* We concur

#### *Comments On Observation:*

The Department has a process in place to review and implement legislative changes. The Department takes legislative direction and compliance with statutes seriously. This particular change that took place to RSA 215-A:24 was the result of HB 1273 (Laws of 2002), which the department monitored and testified on during the legislative process. There was an amendment to HB 1273 to increase the agent fee to \$2, based on the docket for HB 1273 it appears the initial amendment failed, but that during a committee of conference the amendment was passed. Since this provision passed and was effective for July 1, 2002 the department quickly acted to change the OHRV registration fees printed on application forms for the start of that OHRV year (July 1, 2002).

*Action To Be Taken:*

The Department initiated legislation to correct the conflicting statutes RSA 215-A:24-a and RSA 215-A:24. Presently SB 344 is working its way through the legislative process. The bill has passed in both the House and Senate. This bill would change RSA 215-A:24-a to be in agreement with the \$2 agent fee reflected in RSA 215-A:24. This corrective action should be implemented by July 1, 2004.

The Department will initiate discussions amongst the Licensing Section and Law Enforcement Division to determine the best approach to addressing the provision in RSA 215-A:24, which requires the words “agent’s fee \$2” to be printed on each application for registration. Upon management’s decision action will be taken to either modify the language in RSA 215-A:24 or modify the registration application form. Corrective action should be implemented by July 1, 2005.

## Federal Compliance Comment

### **Observation No. 47: Federal Cash On Hand Should Be Limited To What Is Allowed**

The Department overdrew its expected short-term needs of federal cash for its fishermen relief program during the last quarter of fiscal year 2003.

On March 24, 2003, the Department drew down \$303,000 of federal funds for the fishermen relief grant based on the Department's expectation that the amount would be needed for expenditures in the following two weeks. However, expenditures did not occur as expected and on June 26, 2003, the Department returned unspent funds in the amount of \$53,741 to the federal granting agency.

According to *OMB Circular A-133, Compliance Supplement*, (Part 3, Section C. "Cash Management"), recipients should minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement when drawing down federal funds in advance. Interest earned on advances is required to be submitted at least quarterly to the federal agency, however up to \$100 per year may be kept for administrative expenses. The Department's agreement with the federal granting agency allowed for funds to be drawn up to 30 days prior to use.

The Department earned approximately \$296 of interest on the federal funds held longer than 30 days from the draw on March 24, 2003. The Department did not forward any of this earned interest to the federal granting agency, contrary to the federal requirements.

#### *Recommendation:*

The Department should review its procedures for forecasting program expenditures to ensure that federal funds are drawn according to federal regulations, rules and grant requirements. The Department procedures should promote compliance with all rules and regulations.

Interest earned in excess of \$100 on federal advances should be refunded to the respective federal agency.

*Auditee Response:* We concur

#### *Comments On Observation:*

The Department is fully aware of the provisions in OMB Circular A-133. This grant is from the National Oceanic and Atmospheric Administration (NOAA) and the Department had the understanding that funds can only be drawn from NOAA once a month. Based on this understanding the Department did draw down \$303,000 of federal funds expecting to utilize these funds within the following 30 days. However, the processing of related invoices by the Marine Division did not take place within the 30 day period, so not all of the \$303,000 was utilized within the 30 day period.

#### *Action To Be Taken:*

The Department's Federal Aid Coordinator is contacting NOAA's Grant Office and proper action will be taken to remedy the interest income upon NOAA's response. The Department has since learned that draw-downs on NOAA grants can occur on a two week basis. Since all other grants with NOAA function on a reimbursement basis, the balance of the Commercial Fishermen Relief

Program grant will operate in that fashion. All grants with the US Fish and Wildlife Service function on a reimbursement basis. Draw-downs on grants are done every two weeks.

## **Auditor's Report On Management Issues**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the Fish and Game Fund as of and for the fiscal year ended June 30, 2003, as listed in the table of contents, and have issued our report thereon dated April 15, 2004.

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

In planning and performing our audit of the financial statements of the Fish and Game Fund as of and for the fiscal year ended June 30, 2003, we noted one issue related to the operation of the Fish and Game Fund that merits management consideration but does not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and was not an issue of noncompliance with laws or rules.

The issue that we believe is worthy of management consideration but does not meet the criteria of reportable condition or noncompliance is included in Observation No. 48 of this report.

This auditor's report on management issues is intended solely for the information of the management of the Fish and Game Fund and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

*Office of Legislative Budget Assistant*  
Office Of Legislative Budget Assistant

April 15, 2004

## Management Issues Comment

### **Observation No. 48: Information On Employee Cards Appears Redundant And Efforts Required To Prepare And Maintain Cards Could Be Eliminated**

#### *Observation:*

A Department payroll clerk creates and maintains a manual employee payroll information card for each of the Department's 199 full time employees. The cards contain employee salary history, employee deductions, hire date, etc. This same information is also available on-line through the State's automated payroll system (GHRIS).

The Business Office implemented the manual card system a number of years ago and the current payroll clerk reportedly was trained by her predecessor to maintain these cards. The payroll clerk reports that it is easier to reference the employee cards than query GHRIS for certain employee information however there has been no management review of the continued need for these cards.

Maintaining employee cards is a time consuming task that takes the payroll clerk away from other essential functions of the Business Office. As the information contained on the employee cards should be available in GHRIS, maintaining the cards constitutes a duplication of efforts that also increases the risk of creating errors.

#### *Recommendation:*

The Department should ensure its operations are as efficient as practicable by reviewing processes in order to eliminate duplication of efforts and make the best use of its limited available resources. The Department should review the need for the continued use of the manual employee payroll information cards. As part of this review, the Department should determine whether additional GHRIS training, including the ad-hoc reporting available in the GHRIS e-info warehouse, could lessen the Department's perceived inefficiencies with utilizing GHRIS information.

*Auditee Response:* We concur

#### *Comments On Observation:*

While the observation comments on the redundancy and time consuming maintenance of the employee cards, they serve a valued purpose to the payroll officer as well as other Human Resource personnel.

- In the GHRIS system there is no one screen that offers all of the information maintained on the employee cards. It is often less time consuming to pull the employee card to obtain needed information than to navigate through several screens in the GHRIS system to obtain the same information.
- In the GHRIS system there is no area that allows for notes or comments regarding any changes to an employee therefore any changes are seen in the system but there is no explanation existing for that change except on the employee cards.
- The GHRIS system is not always accessible; it is taken down for routine maintenance and if the system fails it can be off-line for hours.
- NHFG human resource personnel cannot access information on former employees from GHRIS after they have transferred away or retired from NHFG. This being the case, if questions are

posed to NHFG we would not be able to answer them if not for the employee cards. An example that has occurred is questions from the New Hampshire Retirement System.

- Part of the recommendation mentions the GHRIS e-info warehouse as being available to furnish reporting to lessen the need for the employee cards. The reporting that is available are standard reports of salary, benefits and leave. The reports are the same standard reports that were formally received on paper and offer no assistance to the payroll officer that would take the place of the information contained on the employee cards.

*Action To Be Taken:*

The payroll officer and other Human Resource personnel, depend greatly on the information contained in the employee cards. This is not a top priority in her day-to-day activities that take her away from other more pressing matters. Therefore it is management's recommendation that she maintains the existence of the cards but not allow the time needed to update the cards take precedence over other more pressing duties.

## **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying financial statements of the New Hampshire Fish and Game Fund as of and for the fiscal year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Fish and Game Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements are intended to present the financial position and the changes in financial position of only the Fish and Game Fund and do not purport to, and do not, present fairly the financial position of the State of New Hampshire as of June 30, 2003 and the changes in its financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fish and Game Fund as of June 30, 2003, and the changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 76 through 81 and the Budget to Actual (Non-GAAP Budgetary Basis) Schedule on page 91 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The Schedule of Property and Equipment Activity and Schedule of Expenditures of Federal Awards on pages 94 and 95, respectively, are presented for the purpose of additional analysis and are not a required part of the financial statements of the Fish and Game Fund. Such information has been subjected to the auditing procedures applied in our audit of the financial statements referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 15, 2004 on our consideration of the Fish and Game Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

April 15, 2004

***Office of Legislative Budget Assistant***  
Office Of Legislative Budget Assistant

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the financial activities of the New Hampshire Fish and Game Department (the Department) for the fiscal year ended June 30, 2003. Readers should consider the information presented here in conjunction with information included in the Introductory Section and Constructive Service Comments Section, which are found at the front of this report and with the Department's financial statements, which follow this section. This discussion and analysis is intended to serve as an introduction to the Department's basic financial statements.

### **FINANCIAL HIGHLIGHTS:**

**Fund Highlights:** A fund is a grouping of related funds that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department operates through a Special Revenue Fund known as the Fish and Game Fund. The Fish and Game Fund is established in accordance with RSA 206:33. This Special Revenue Fund is a non-major governmental fund of the State of New Hampshire. The Fish and Game Fund is comprised of unrestricted and restricted sources of funds. There is an unreserved/undesignated portion of the fund; in addition, the Department administers twenty-one dedicated accounts within the fund, which are accounted for as restricted revenues. These twenty-one dedicated accounts are established by statute for specific purposes:

OHRV Education, Training and Enforcement Fund	RSA 215-A:23, VII
Black Bear Management Fund	RSA 208:24, IV
Search and Rescue Fund	RSA 206:42
Moose Management Fund	RSA 208:1-a, III
Prepaid Fish & Game License Fund	RSA 214:9-c, IV
Publications, Specialty Items, and Fundraising Account	RSA 206:22-a
Waterfowl Conservation Account	RSA 214:1-d, II
Pheasant Management Account	RSA 206:35-a
Wild Turkey Management Fund	RSA 206:35-b
Sale of Fish Food Account	RSA 206:35-c
Operation Game Thief Account	RSA 207:62
Wildlife Habitat Account	RSA 214:1-f, V
Fisheries Habitat Account	RSA 214:1-g, II
Super Sport – Wildlife	RSA 214:7-c, IV (a)
Super Sport – Fisheries	RSA 214:7-c, IV (b)
Small Gifts and Donations Account	RSA 206:33-a
Statewide Public Boat Access Account	RSA 233-A:13
Trapping Education Program	RSA 210:25
Restitution for Illegal Taking or Possessing	RSA 207:55, III
Atlantic Salmon Broodstock Account	RSA 214:9-e, IV
Nongame Species Management	RSA 212-B:6
Conservation Number Plate Trust Fund	RSA 261:97-b, I

**Fund Balance:** The Department's current assets exceed current liabilities at fiscal year ending June 30, 2003 by \$8.9 million. This amount is presented as "Total Fund Balance" on the Balance Sheet for June 30, 2003. The Total Fund Balance of \$8.9 million is reported as Unreserved/Undesignated Fund Balance of \$2.5 million, \$4.5 million is reported as Reserved for Unexpended Appropriations

and \$1.9 million is reported as Reserved for Inventories (\$700,000) and Reserved for Encumbrances (\$1.2 million). The Unreserved/Undesignated Fund Balance is available to the Department to meet general ongoing operational obligations.

In 2000 the Department established a management objective to maintain a balance in the Unreserved/Undesignated Fish and Game Fund that would stay above \$2.0 million. The Department determined that it was important to establish the Fund objective and manage expenditures in concert with revenues to insure the Fund's unrestricted balance stayed above \$2.0 million.

**TABLE OF UNDESIGNATED FUND BALANCE  
FISH AND GAME FUND  
FOR THE PAST SEVEN FISCAL YEARS  
(Expressed in Thousands)**

Fiscal Years ended June 30 <sup>th</sup>	2003	2002	2001	2000	1999	1998	1997
<b>Balance, July 1 (Budgetary Method)..</b>	\$3,324	\$3,599	\$4,277	\$5,464	\$5,006	\$4,310	\$4,068
<b>Additions:</b>							
Unrestricted Revenue.....	8,924	8,374	8,230	7,928	8,158	7,923	7,397
Other Credits.....	939	806	811	878	742	847	791
Total Additions.....	9,863	9,180	9,041	8,806	8,900	8,770	8,188
<b>Deductions:</b>							
Appropriations Net of Estimated Revenues...	10,593	10,545	10,238	10,419	8,809	8,350	8,311
Less: Lapses.....	(1,024)	(1,131)	(667)	(426)	(479)	(276)	(385)
Net Appropriations.....	9,569	9,414	9,571	9,993	8,330	8,074	7,926
Other Debits.....	2	41	148	0	112	0	20
Total Deductions.....	9,571	9,455	9,719	9,993	8,442	8,074	7,946
<b>Current Year Change.....</b>	292	(275)	(678)	(1,187)	458	696	242
<b>Balance, June 30 (Budgetary Method)</b>	3,616	3,324	3,599	4,277	5,464	5,006	4,310
<b>GAAP Adjustments:</b>							
Receivables.....	229	299	152	160	438	211	128
Accounts Payable and Accrued Liabilities....	(1,275)	(1,027)	(1,036)	(1,178)	(1,238)	(1,325)	(1,182)
Total GAAP Adjustments.....	(1,046)	(728)	(884)	(1,018)	(800)	(1,114)	(1,054)
<b>Balance, June 30 (GAAP).....</b>	\$2,570	\$2,596	\$2,715	\$3,259	\$4,664	\$3,892	\$3,256

**Capital Assets:** The Department's total net capital assets increased by \$3.7 million (11.8%) during the current fiscal year representing the net difference between new acquisitions, depreciation and retirement of capital assets. Capital assets are comprised of land, buildings and improvements valued at or over \$100,000 and equipment valued at or over \$10,000. Property and equipment valued under those thresholds are reported as Other Assets. The Department's total other assets increased by \$500,000 (3.8%) during the current fiscal year representing the difference between new acquisitions and retirements.

**Long-Term Debt:** The Department's long-term obligations decreased by \$252,000 (15.8%) during the current fiscal year representing the net difference between new issuances, payments and refundings of outstanding debt.

## **OVERVIEW OF THE FINANCIAL STATEMENTS:**

### **Fund Financial Statements:**

The fund financial statements provide an overview of the Department's current finances in the Fish and Game Fund. These Statements (Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance) provide information about the Department's current financial position in the Fish and Game Fund. They are prepared using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the fund's programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information here with similar information presented in the government-wide financial statements of the State of New Hampshire's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. This report may be obtained by writing the State of New Hampshire, Department of Administrative Services, 25 Capitol Street, Concord, NH 03301-6312 or from their website at <http://www.state.nh.us/accounting>.

The **Balance Sheet**, on page 82 presents the Fish and Game Fund's current assets and current liabilities. The difference between the assets and liabilities is reported as "total fund balance". Changes in assets and liabilities, increases and decreases over a period of time, may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

The **Statement of Revenues, Expenditures, and Changes in Fund Balance**, on page 83 presents information showing how the Department operated in the Fish and Game Fund during the most recent fiscal year. Revenues and expenditures are reported in this statement for some items that will not result in cash flows until a future fiscal period (such as uncollected license fees and uncollected federal reimbursements).

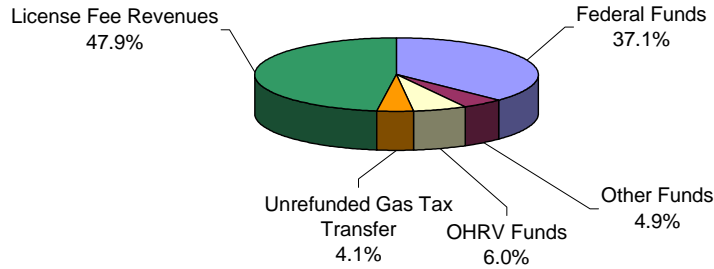
The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the Fish and Game Fund financial statements. The notes to the financial statements begin on page 84.

The basic financial statements and accompanying notes are followed by a section of **Required Supplementary Information**. This section includes a budgetary comparison schedule for the Department's Fish and Game Fund, and includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance as presented in the financial statements that are presented on a modified accrual basis.

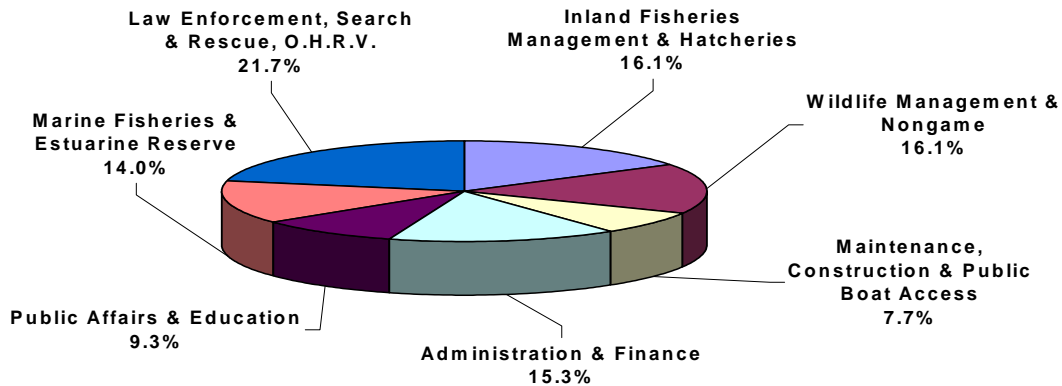
**DEPARTMENT FINANCIAL ANALYSIS:**

The Fish and Game Department is a self-supporting agency of the State of New Hampshire reported in the State’s Fish and Game Fund. The primary sources of revenues are license fees and grants from the federal government.

**FISH AND GAME DEPARTMENT FUNDING**  
Fiscal Year 2003



**TOTAL EXPENDITURES**  
Fiscal Year 2003



The Fish and Game Department is funded by three primary source of revenue. Based on the past three fiscal years revenue from license fees annually averages 56%, federal funds annually averages 30%, and other revenue (other agency funds, OHRV funds, and unrefunded gas tax transfer) annually averages 14%. In accordance with RSA 212-B:6 the Fish and Game Department only receives up to \$50,000 from the state’s General Fund as a matching appropriation to non-game program donations.

**BUDGETARY HIGHLIGHTS:**

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. The Budget to Actual Schedule for the Fish and Game Fund is in the Required Supplementary Information section on page 91. The difference between the original budget of \$25.9 million and the final budget of \$29.7 million is \$3.8 million composed of appropriations approved during FY 2003. A significant portion of the supplemental appropriations represent federal funds awarded to the Department from the US Fish and Wildlife Service (USFWS) and the National Oceanic and Atmospheric Administration (NOAA) after the approval of the original budget. In accordance with RSA 206:33-b, Transfers from the Fish and Game Fund can be made for expenditure of additional funds over budget estimates for the proper functioning of the Fish and Game Department, with the approval of the Fiscal Committee of the General Court and the Governor and Executive Council. The following list summarizes fiscal year 2003 supplemental appropriations.

Commercial Fishermen Relief Funds (NOAA)	\$2,000,000
Connecticut Headwaters Conservation Project (USFWS)	\$ 775,000
Salary, Personnel and Benefits Adjustments (Fish and Game Funds)	\$ 505,000
Comprehensive Wildlife Plan, State Wildlife Grants (USFWS)	\$ 240,000
Owl Brook Hunter Education Center (USFWS)	\$ 80,000
Great Bay National Estuarine Research Reserve (NOAA)	\$ 60,000
Barry Conservation Camp Renovations (USFWS)	\$ 45,000
Various Projects (Federal Funds)	<u>\$ 95,000</u>
Total	\$3,800,000

**CAPITAL ASSET AND DEBT ADMINISTRATION:**

**Capital Assets:**

The Department’s investment in capital assets for its operational activities as of June 30, 2003, amounts to \$45.5 million. Accumulated depreciation amounts to \$9.9 million, leaving a net book value of \$35.7 million, an increase of \$3.8 million from prior year. The investment in capital assets includes equipment, real property, computer software and construction in progress.

**Debt Administration:**

The State of New Hampshire may issue general obligation bonds authorized by the Legislature and Governor and Executive Council. Based on the Fish and Game Department’s utilization of capital budget authorizations, the Department may be responsible for a portion of a general obligation bond issuance. The Fish and Game Fund makes payments of principal and interest on those portions of general obligation bonds issued to finance expenditures of capital budget authorizations made by the Department. Since the Department’s debt is a component of the overall obligations of the State of New Hampshire, interest rates apportioned to the debt obligations of the Department are based on the interest rates in affect on the state’s overall bonded debt. The interest rates on these serial bonds are variable and the rates range from 3.0% to 5.0%. Outstanding principal as of June 30, 2003 amounts to \$1,343,000, amortized interest payments on the current principal amount is \$527,000. Principal and interest payments are amortized as shown on the top of the following page.

Fiscal Year 2004	\$316,237	Fiscal Year 2014	\$102,634
Fiscal Year 2005	\$157,378	Fiscal Year 2015	\$ 86,950
Fiscal Year 2006	\$154,756	Fiscal Year 2016	\$ 85,917
Fiscal Year 2007	\$136,664	Fiscal Year 2017	\$ 38,955
Fiscal Year 2008	\$131,150	Fiscal Year 2018	\$ 21,113
Fiscal Year 2009	\$127,249	Fiscal Year 2019	\$ 20,288
Fiscal Year 2010	\$115,783	Fiscal Year 2020	\$ 19,462
Fiscal Year 2011	\$112,406	Fiscal Year 2021	\$ 18,636
Fiscal Year 2012	\$111,300	Fiscal Year 2022	\$ 11,932
Fiscal Year 2013	\$101,596		

In 2000 the Department established a management objective to maintain annual debt service payments (principal and interest) at a level not to exceed \$350,000.

**STATE OF NEW HAMPSHIRE  
FISH AND GAME FUND**

**BALANCE SHEET  
JUNE 30, 2003**

**ASSETS**

Cash and Cash Equivalents	\$ 9,683,594
Accounts Receivable	1,107,108
Federal Grants Receivable	733,626
Inventories	<u>676,651</u>

**Total Assets** **\$ 12,200,979**

**LIABILITIES**

Accounts Payable	\$ 696,604
Accrued Payroll	523,161
Due to Other Funds (Note 3)	<u>2,025,000</u>

**Total Liabilities** **3,244,765**

**FUND BALANCE**

Reserved for Encumbrances	1,211,123
Reserved for Inventories	676,651
Reserved for Unexpended Appropriations	4,498,411
Unreserved, Undesignated	<u>2,570,029</u>

**Total Fund Balance** **8,956,214**

**Total Liabilities And Fund Balance** **\$ 12,200,979**

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



**STATE OF NEW HAMPSHIRE  
FISH AND GAME FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Unrestricted Revenues</u>	
Hunting and Fishing Licenses	\$ 7,704,235
Federal Indirect Cost Recovery	544,951
Other	438,741
<b>Total Unrestricted Revenues</b>	<b><u>8,687,927</u></b>
 <u>Restricted Revenues</u>	
Dedicated Accounts	1,507,470
OHRV	1,189,143
Federal Funds	6,855,749
Licenses	339,930
Other	537,013
<b>Total Restricted Revenues</b>	<b><u>10,429,305</u></b>
<b>Total Revenues</b>	<b><u>19,117,232</u></b>
 <u>Expenditures</u>	
Access & Engineering	1,480,465
Administration	2,808,473
Inland Fisheries	3,109,266
Law Enforcement	4,188,330
Marine	2,699,298
Public Affairs	1,796,232
Wildlife	3,106,045
Workers Compensation	153,483
<b>Total Expenditures</b>	<b><u>19,341,592</u></b>
 <b>Excess (Deficiency) Of Revenues</b>	
<b>Over (Under) Expenditures</b>	<b><u>(224,360)</u></b>
 <b>Other Financing Sources (Uses)</b>	
Operating Transfers In (Note 4)	<u>823,656</u>
<b>Total Other Financing Sources (Uses)</b>	<b><u>823,656</u></b>
 <b>Excess (Deficiency) Of Revenues</b>	
<b>And Other Sources Over (Under)</b>	
<b>Expenditures And Other Uses</b>	<b>599,296</b>
 Fund Balance - July 1	8,241,291
Change in Reserve For Inventory	<u>115,627</u>
<b>Fund Balance - June 30</b>	<b><u>\$ 8,956,214</u></b>

The accompanying notes are an integral part of this financial statement

**STATE OF NEW HAMPSHIRE  
FISH AND GAME FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Financial Reporting Entity**

The Fish and Game Fund, established by RSA 206:33, finances the operations of the Fish and Game Department, an organization of the primary government of the State of New Hampshire. The operations of the state Fish and Game Department, includes the operation of fish hatcheries, inland and marine fisheries, and wildlife areas, and functions related to law enforcement, land acquisition, and wildlife management and research. The accompanying financial statements report the financial activity of the Fish and Game Fund.

**B. Fund Financial Statements**

The Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance report information on the activities of the Fish and Game Fund. These activities are normally supported through fees from fish and game licenses, the marine gas tax, penalties, and recoveries, and federal grants-in-aid related to fish and game management.

The Balance Sheet presents the reporting entity's current assets and liabilities, with the difference reported as fund balance. Fund balance is reserved when constraints placed on it are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as reserved fund balance.

Statement of Revenues, Expenditures, and Changes in Fund Balance demonstrates the degree to which expenditures are offset by revenues. Revenues are classified by major revenue source and expenditures are classified by function.

**C. Measurement Focus and Basis of Accounting**

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

## **D. Financial Statement Presentation**

The financial activity of the Fish and Game Fund is accounted for and reported in the State's Governmental Funds in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR.

The activities of the Fish and Game Fund are recorded in a special revenue fund, which is a separate accounting entity with a set of self-balancing accounts. Fund accounting is designed to report financial position and the results of operations, to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain government functions or activities. Fixed assets and long-term liabilities are not recorded in the special revenue fund, but in the government-wide financial statements of the State of New Hampshire, and therefore are not reflected in these statements.

## **E. Receivables**

Receivables in the governmental fund financial statements represents amounts owed which are received by the state within 60-days after year-end, except for federal grants, which reimburse the state for expenditures incurred pursuant to federally funded programs.

## **F. Inventories**

Governmental fund inventories are stated at average cost and recorded under the purchase method. Reported inventory balances in the governmental funds are offset by a fund balance reserve that indicates they do not constitute "available expendable resources".

## **G. Encumbrances**

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. Unliquidated encumbrances are reported in the Reserved for Encumbrances as a component of fund equity for the governmental fund types.

## **H. Fund Balances**

Fund balances for all governmental funds are either reserved or unreserved. Reserved fund balances reflect either 1) assets, which, by their nature, are not available for appropriations (Reserve for Inventories); 2) funds legally segregated for a specific future use (Reserve for Encumbrances). The Reserve for Unexpended Appropriations is further described below:

**Reserved for Unexpended Appropriations:** This account represents amounts of unexpended appropriations legally carried forward and available for encumbrances and expenditures in the succeeding year.

## **I. Interfund Transactions**

In the fund financial statements, transfers represent flows of assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources.

## **J. Revenues And Expenditures**

In the Fish and Game Fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either “general purpose” or “restricted”. General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g. federal grants), available for only specified purposes. Unused restricted revenues at year end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the State’s policy to use restricted resources first. Expenditures are reported by division.

Other Financing Sources (Uses) – these additions to and reductions from governmental resources in fund financial statements normally result from transfers from/to other funds and include financing provided by bond proceeds. Legally required transfers are reported when incurred as “Operating Transfers In” by the receiving agency and as “Operating Transfers Out” by the disbursing fund.

## **K. Budget Control And Reporting**

### *General Budget Policies*

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

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the capital projects fund. The capital projects fund budget represents individual projects that extend over several fiscal years. Fiduciary fund are not budgeted.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the department level.

Both, the Executive and Legislative Branches of government maintain additional fiscal control procedures. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State’s financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget

Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as reservation of fund balance. The balance of unexpended encumbrances are brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

A Budget To Actual (Non-GAAP Budgetary Basis) Schedule – Fish and Game Fund is included as Required Supplementary Information.

## **NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

### *Deposits*

The following statutory requirements and New Hampshire Treasury Department policies have been adopted to minimize risk associated with deposits.

RSA 6:7 establishes the policy the State Treasurer must adhere to when depositing public monies. The statute restricts deposits to national banks, trust companies, and savings banks within the United States that have a branch in the state of New Hampshire. In addition, all depositories used by the State must be approved at least annually by the Governor and Executive Council.

RSA 6:11 establishes depositing procedures and procedures for making payments to State Treasury accounts. All accounts opened by departments require the State Treasurer's concurrence.

RSA 6-B:2 requires the State Treasurer to submit quarterly financial reports to the Governor and Executive Council, the Commissioner of Administrative Services, and the Legislative Fiscal Committee.

The Treasury Department examines the financial condition of its depositories quarterly. The State Treasurer is not required to collateralize bank deposits.

The Fish and Game Department's bank deposits are FDIC insured for up to \$100,000. The total bank balance represents amounts on deposit as reported by the banking institutions at June 30, 2003. The carrying amount represents the balance per the Fish and Game Department's records at June 30, 2003. The difference between the bank balance and the carrying amount consists of checks and deposits that have not cleared the bank as of June 30, 2003.

The balances of the Fish and Game Fund deposit accounts at June 30, 2003, listed by custody risk category, are shown in the following schedule.

- |            |  |
|------------|--|
| Category 1 | Insured or collateralized with securities held by the State, or by its agent in the State's name.                      |
| Category 2 | Collateralized with securities held by pledging financial institution's trust department or agent in the State's name. |
| Category 3 | Uncollateralized.  |

	<b>Bank Balance</b>			<b>Total Bank Balance</b>	<b>Total Carrying Amount</b>
	<b>Category</b>				
	<b>1</b>	<b>2</b>	<b>3</b>		
Demand Deposits	\$ 3,000	\$ -0-	\$ -0-	\$ 3,000	\$ 12,000
<b>Total Deposits</b>	<b>\$ 3,000</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 3,000</b>	<b>\$ 12,000</b>

### *Investments*

The following statutory requirements and Treasury policies have been adopted to support reasonable rates of return on investments while minimizing risk.

In accordance with GASB Statement No. 3, investments are classified as to risk by the three categories described below:

- Category 1 Insured or registered in the State's name, or securities held by the State or its agent in the State's name.
- Category 2 Uninsured and unregistered held by the counterparty's trust department or agent in the State's name.
- Category 3 Uninsured and unregistered held by the counterparty or by its trust department or agent but not in the State's name.

In accordance with GASB Statement No. 3, mutual fund investments should be disclosed but not categorized. The Department's investments at June 30, 2003, summarized by type and risk category, are shown in the following schedule.

	<b>Category</b>			<b>Uncategorized</b>	<b>Fair Vaue</b>
	<b>1</b>	<b>2</b>	<b>3</b>		
Open-ended Mutal Fund	\$ -0-	\$ -0-	\$ -0-	\$ 9,671,594	\$ 9,671,594
<b>Total Investments</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ 9,671,594</b>	<b>\$ 9,671,594</b>

The \$9,671,594 mutual fund investment above is included in the cash and cash equivalents reported on the Fish and Game Fund's balance sheet due to the investment's liquidity. For purposes of the notes to the financial statements, the mutual fund investment is defined as an investment in accordance with GASB Statement No. 3.

### **NOTE 3 - INTERFUND PAYABLES**

Due To Other Funds consist of \$2,025,000 due to the Department of Resources and Economic Development for Off-Highway Recreational Vehicle registration fees collected by Fish and Game on behalf of the Department of Resources and Economic Development.

### **NOTE 4 - INTERFUND TRANSFERS**

Interfund transfers during fiscal year 2003 amounted to \$823,656 and were transfers into the Fish and Game Fund from the Highway Fund. Pursuant to RSA 260:60, \$1.6 million of unrefunded gas tax was transferred out of the Highway Fund and, on a 50/50 basis, into the State's General and Fish and Game Funds.

## **NOTE 5 - EMPLOYEE BENEFIT PLANS**

### *New Hampshire Retirement System*

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

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

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

All covered Fish and Game Department employees are members of either Group I or Group II.

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

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the fiscal year ended June 30, 2003, Group I and II members were required to contribute 5% and 9.3%, respectively, of gross earnings. The State funds 100% of the employer cost for all of the Department's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Fish and Game Department's payments for normal contribution costs for the fiscal year ended June 30, 2003 amounted to 4.14% of the covered payroll for its Group I employees and to 8.2% of the covered payroll for its Group II employees. The Department's normal contributions for the fiscal year ended June 30, 2003 were \$408,000.

A special account was established by RSA 100-A:16, II (h) for additional benefits. The account is credited with all the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus ½ of 1%.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 4 Chenell Drive, Concord, NH 03301-8509 or from their web site at <http://www.state.nh.us/retirement>.

*Post-employment Health Care Benefits*

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2003, legislation was passed that requires state Group I employees hired after July 1, 2003 to have 20 years of state service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through an insurance company whose premiums are based on the benefits paid during the year. The Department recognizes the cost of providing these benefits by paying the entire annual insurance premium with a portion of the cost offset by the New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees retired from the Department.

During the fiscal year ended June 30, 2003, the Department paid for the cost of health insurance premiums for the Fish and Game Department's retired employees and eligible dependents on a pay-as-you-go basis. The cost of the health insurance for the Department's retired employees is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. The Department reimburses the New Hampshire Retirement System for the cost of health insurance for its retired employees. For fiscal year 2003, the Department paid \$487,440 for health insurance for its retired employees and eligible dependents.



**STATE OF NEW HAMPSHIRE  
FISH AND GAME FUND  
BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amount</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
<u>Unrestricted Revenues</u>				
Hunting and Fishing Licenses	\$ 9,075,000	\$ 9,075,000	\$ 7,793,885	\$ (1,281,115)
Federal Indirect Cost Recovery	857,000	857,000	544,951	(312,049)
Other	753,000	753,000	585,565	(167,435)
<b>Total Unrestricted Revenues</b>	<b><u>10,685,000</u></b>	<b><u>10,685,000</u></b>	<b><u>8,924,401</u></b>	<b><u>(1,760,599)</u></b>
<u>Restricted Revenues</u>				
Dedicated Accounts	1,933,957	1,937,707	1,653,204	(284,503)
OHRV	3,069,698	3,053,698	5,654,084	2,600,386
Federal Funds	3,682,977	7,319,703	6,775,115	(544,588)
Licenses	416,249	416,249	345,525	(70,724)
Other	118,482	229,877	220,129	(9,748)
<b>Total Restricted Revenues</b>	<b><u>9,221,363</u></b>	<b><u>12,957,234</u></b>	<b><u>14,648,057</u></b>	<b><u>1,690,823</u></b>
<b>Total Revenues</b>	<b><u>19,906,363</u></b>	<b><u>23,642,234</u></b>	<b><u>23,572,458</u></b>	<b><u>(69,776)</u></b>
<u>Expenditures</u>				
Access & Engineering	3,881,676	3,984,676	1,776,694	2,207,982
Administration	3,003,599	3,189,810	2,813,030	376,780
Inland Fisheries	3,612,112	3,734,441	3,288,898	445,543
Law Enforcement	8,819,657	8,661,360	8,068,527	592,833
Marine	952,206	3,195,097	2,651,683	543,414
Public Affairs	1,684,714	1,933,760	1,677,773	255,987
Wildlife	3,780,485	4,866,441	3,253,490	1,612,951
Workers Compensation	159,118	159,118	157,373	1,745
<b>Total Expenditures</b>	<b><u>25,893,567</u></b>	<b><u>29,724,703</u></b>	<b><u>23,687,468</u></b>	<b><u>6,037,235</u></b>
<b>Excess (Deficiency) Of Revenues</b>				
<b>Over (Under) Expenditures</b>	<b><u>(5,987,204)</u></b>	<b><u>(6,082,469)</u></b>	<b><u>(115,010)</u></b>	<b><u>5,967,459</u></b>
<b>Other Financing Sources (Uses)</b>				
Operating Transfers In	-0-	823,656	823,656	-0-
Operating Transfers Out	-0-	-0-	-0-	-0-
Miscellaneous	-0-	115,627	115,627	-0-
<b>Total Other Financing Sources (Uses)</b>	<b><u>-0-</u></b>	<b><u>939,283</u></b>	<b><u>939,283</u></b>	<b><u>-0-</u></b>
<b>Excess (Deficiency) Of Revenues</b>				
<b>And Other Sources Over (Under)</b>				
<b>Expenditures And Other Uses</b>	<b><u>(5,987,204)</u></b>	<b><u>(5,143,186)</u></b>	<b><u>824,273</u></b>	<b><u>5,967,459</u></b>
<b>Fund Balance - July 1</b>	<b><u>10,117,748</u></b>	<b><u>10,117,748</u></b>	<b><u>10,117,748</u></b>	<b><u>-0-</u></b>
<b>Fund Balance - June 30</b>	<b><u>\$ 4,130,544</u></b>	<b><u>\$ 4,974,562</u></b>	<b><u>\$ 10,942,021</u></b>	<b><u>\$ 5,967,459</u></b>

The accompanying note is an integral part of this schedule.

## **Note To The Required Supplementary Information – Budgetary Reporting**

The Fish and Game Department’s biennial budget is prepared principally on a modified cash basis. The “actual” results column of the Budget To Actual Schedule is presented on a “budgetary basis” to provide a meaningful comparison to budget.

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

The variance column on the Budget To Actual Schedule highlights differences between the final budget and actual revenue and expenditures. For revenue, these variances are caused by actual revenue exceeding budget, generating a favorable variance, or actual being less than budget, generating an unfavorable variance. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year, and unfavorable variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

### *Budgetary vs GAAP basis*

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

The major differences between the budgetary basis and the GAAP basis are:

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

The following schedule reconciles the Fish and Game Fund for differences between budgetary accounting methods and the GAAP basis accounting principles for the year ended June 30, 2003.



**STATE OF NEW HAMPSHIRE  
FISH AND GAME FUND**

**SCHEDULE OF PROPERTY AND EQUIPMENT ACTIVITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>July 1, 2002 Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>June 30, 2003 Balance</u>
<b>Capital Assets Not Being Depreciated:</b>				
Land And Land Improvements	\$ 26,524,301	\$ 6,992,200	\$ (4,387,653)	\$ 29,128,848
Construction In Progress	202,445	218,955	-0-	421,400
Total Assets Not Being Depreciated	<u>26,726,746</u>	<u>7,211,155</u>	<u>(4,387,653)</u>	<u>29,550,248</u>
<b>Other Capital Assets:</b>				
Equipment And Computer Software	4,679,970	163,895	(268,566)	4,575,299
Buildings And Building Improvements	7,106,235	107,502	-0-	7,213,737
Land Improvements	-0-	4,387,653	(170,547)	4,217,106
Total Other Capital Assets	<u>11,786,205</u>	<u>4,659,050</u>	<u>(439,113)</u>	<u>16,006,142</u>
<b>Less Accumulated Depreciation For:</b>				
Equipment And Computer Software	(3,541,668)	(506,608)	268,566	(3,779,710)
Buildings And Building Improvements	(3,066,553)	(277,550)	-0-	(3,344,103)
Land Improvements	-0-	(2,934,003)	170,547	(2,763,456)
Total Accumulated Depreciation	<u>(6,608,221)</u>	<u>(3,718,161)</u>	<u>439,113</u>	<u>(9,887,269)</u>
Other Capital Assets, Net	<u>5,177,984</u>	<u>940,889</u>	<u>-0-</u>	<u>6,118,873</u>
<b>Capital Assets, Net</b>	<b><u>31,904,730</u></b>	<b><u>8,152,044</u></b>	<b><u>(4,387,653)</u></b>	<b><u>35,669,121</u></b>
<b>Other Assets:</b>				
Equipment And Computer Software With Original Cost Between \$100 And \$10,000	4,927,251	396,187	(222,517)	5,100,921
Land & Land Improvements With Original Cost Under \$100,000	7,244,896	257,047	(16,080)	7,485,863
Buildings And Improvements With Original Cost Under \$100,000	885,223	82,603	-0-	967,826
Construction In Progress With Original Cost Under \$100,000	-0-	507	-0-	507
Total Other Assets	<u>13,057,370</u>	<u>736,344</u>	<u>(238,597)</u>	<u>13,555,117</u>
<b>Total Capital And Other Assets, Net</b>	<b><u>\$ 44,962,100</u></b>	<b><u>\$ 8,888,388</u></b>	<b><u>\$ (4,626,250)</u></b>	<b><u>\$ 49,224,238</u></b>

**STATE OF NEW HAMPSHIRE  
FISH AND GAME FUND**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

<u>Federal Catalog Number</u>	Federal Grantor Pass-Through Entity <u>Federal Program Title</u>	<u>Expenditures</u>
	Department of Commerce	
11.407	<i>Interjurisdictional Fisheries Act of 1986</i>	\$ 6,956
11.420	<i>Coastal Zone Management Estuarine Research Reserves</i>	456,127
11.454	<i>Unallied Management Projects</i>	1,632,540
11.463	<i>Habitat Conservation</i>	57,387
11.472	<i>Unallied Science Program</i>	38,191
11.474	<i>Atlantic Coastal Fisheries Cooperative Management Act</i>	162,389
	Department of The Interior	
15.605	<i>Sport Fish Restoration</i>	2,289,524
15.611	<i>Wildlife Restoration</i>	1,351,072
15.615	<i>Cooperative Endangered Species Conservation Fund</i>	49,511
15.625	<i>Wildlife Conservation and Restoration</i>	53,681
15.626	<i>Hunter Education and Safety Program</i>	92,658
15.634	<i>State Wildlife Grants</i>	734,961
	Department of Justice	
16.710	<i>Public Safety Partnership and Community Policing Grants</i>	15,862
		<u>\$ 6,940,859</u>

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## APPENDIX

### CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of April 15, 2004, of the current status of the observations contained in the audit report of the Fish and Game Department for the year ended June 30, 1997. 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>
<b><i>Internal Control Comments</i></b>	
<i>Reportable Conditions</i>	
1. Weak Management Control Environment <i>(See Current Observation No. 1)</i>	● ○ ○
2. Sandy Point Discovery Center <i>(See Current Observations No. 7 and 44)</i>	○ ○ ○
3. Equipment Inventory System Not Functional	● ● ●
4. Real Property Valuation Errors <i>(See Current Observations No. 35 and 39)</i>	● ● ○
5. Lack Of Inventory Controls Over The Partners In Flight Paintings	● ● ●
6. Inadequate Manual Federal Grant Ledger System <i>(See Current Observation No. 2)</i>	● ○ ○
7. Fish And Game Gift Certificates Are Not Adequately Accounted For	● ● ●
8. Errors In Consumable Inventory Accounting	● ○ ○
<b><i>State Compliance Comments</i></b>	
9. Charges To Dedicated Funds Without Supporting Documentation <i>(See Current Observations No. 22 and 40)</i>	● ● ○
10. Nongame Fund General Fund Match Was Overstated	● ● ●
11. Noncompliance With Certain Fish And Game Statutes	● ● ●
<b><i>Federal Compliance Comments</i></b>	
12. Undocumented Time Charges To Federal Programs <i>(See Current Observations No. 26 and 32)</i>	● ● ○
13. Late Filing Of Federal Financial Reports	● ● ●

#### **Status Key**

Fully Resolved	● ● ●
Substantially Resolved	● ● ○
Partially Resolved	● ○ ○
Unresolved	○ ○ ○

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