

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF ADMINISTRATIVE SERVICES  
OFFICE OF COST CONTAINMENT**

**INTERNAL CONTROL OVER REVENUE  
DECEMBER 2011**



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### *To The Fiscal Committee Of The General Court:*

This report presents the results of our assessment of the internal controls in place over the receipt, deposit, and recording of revenues at the Department of Administrative Services (Department), Office of Cost Containment (Office or OCC) during the ten months ended April 30, 2011.

We conducted our work in accordance with auditing standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings.

The work performed was for the purpose of meeting the audit objectives described on page 2 of the report and did not constitute an audit of financial statements in accordance with GAGAS. The work performed also was not designed for the purpose of expressing an opinion on the effectiveness of the Office's internal controls. Accordingly, we do not express an opinion on the effectiveness of the Office's internal controls.

The Office's response is included with each finding in this report. We did not audit the Office's responses.

This report is intended solely for the information and use of the management of the Department of Administrative Services, the Office of Cost Containment, 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

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This report can be accessed in its entirety on-line at [www.gencourt.state.nh.us/lba/audit.html](http://www.gencourt.state.nh.us/lba/audit.html)

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\* No comment suggests legislative action may be required.

**STATE OF NEW HAMPSHIRE  
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**EXECUTIVE SUMMARY**

Agency management is responsible for establishing and maintaining effective internal controls, including controls over financial reporting, and controls over compliance with the laws, administrative rules, regulations, contracts, and grant agreements applicable to the agency's activities. The Department of Administrative Services (Department) has developed an *Internal Control Guide* to help State agency personnel understand the concepts of internal control. It explains the purpose of internal control and also explains its five components: control environment, risk assessment, control activities, information and communication, and monitoring. In addition, the Department also maintains a *Manual of Procedures* (Manual), approved by the Governor and Council, for use by all State agencies. The Manual contains guidance in a number of areas, including the use of the State's central accounting system, known as NHFirst.

The objective of this audit was to evaluate whether the Office of Cost Containment (Office or OCC) has established and implemented adequate accountability and other internal controls over its receipt, recording, and deposit of revenues. The objective of this audit was not to render an opinion on the Department's or Office's financial statement, internal control, or compliance.

Our audit was performed using auditing standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS) and criteria in State statute, administrative rule, and policies and procedures including the *Internal Control Guide*, the Manual, and accepted State business practice. The audit methodology is described in the Objectives, Scope, and Methodology section that follows.

***SUMMARY OF RESULTS***

We found internal controls over the receipt, deposit, and recording of revenue are suitably designed to provide reasonable assurance that the specified internal control objectives would be achieved. However, the efficiency of and controls in the Office's revenue receipt and recording activities would benefit from improved documentation and support of its information system, and from the development and use of a front-end interface to the Office's information system. These improvements would allow early and efficient capture of receipt information.

The Office was in substantial compliance with statutes, rules, policies and procedures related to the audit objectives and had adequate segregation of duties, with one noted exception. The Office reasonably safeguarded cash and check receipts and made timely receipt, recording, and deposit of the cash and checks received.

## BACKGROUND

The Unit of Cost Containment, generally known as the Office of Cost Containment, is established within the Office of the Commissioner of the Department of Administrative Services by RSA 21-I:7-b. The Office of Cost Containment is responsible for all of the functions and duties regarding the payment, recoupment, and monitoring of indigent defense funds and all functions relative to recoupment of guardian ad litem funds. During the ten months ended April 30, 2011, the Office operated with ten classified employee positions.

The Office is located in the State House Annex on Capitol Street in Concord, New Hampshire.

During the ten months ended April, 30, 2011, the Office reported the following financial activity in the State's accounting system. Reported revenues are the recoupment of previous program expenditures.

### Revenues Collected During The Ten Months Ended April 30, 2011 (Unaudited)\*

Recoupment Of Costs For:	
Indigent Representation	\$ 2,364,592
Guardian ad Litem	342,966
Mediators	<u>23,753</u>
<b>Total</b>	<b><u>\$ 2,731,311</u></b>

\* Source: *Revenue Source Summary of Unrestricted Revenues Recognized vs Budgets, For Budget Fiscal Year 2011, as of 04/30/2011*, a NHFirst report

## OBJECTIVES, SCOPE, AND METHODOLOGY

### Audit Objectives

1. Assess the control environment, including management's policies and procedures for establishment and maintenance of an effective control system relating to the receipt, deposit, and recording of revenue amounts.
2. Assess the adequacy of the design of internal controls over the receipt, deposit, and recording of revenues amounts, including:
  - Adequacy of written policies and procedures.
3. Assess establishment of controls as designed.
4. Assess the operation of the controls, including:
  - Functional compliance with written policies and procedures,

- Adequacy of separation of duties and reporting, reconciliations, and reviews of cash handling activities,
- Safeguarding of cash and check receipts, and
- Timely recording and timely deposit of cash and check receipts.

### Audit Scope

The scope of our audit of the Office of Cost Containment examined the adequacy of internal controls relating to the Office's processing of cash and check revenue transactions and recording those transactions in its revenue systems, including NHFirst. The audit period was July 1, 2010 through April 30, 2011.

### Audit Methodology

1. Interview auditee personnel.
2. Observe revenue processes.
3. Review auditee documentation, including:
  - Agency policies and procedures, and
  - Agency documentation of receipt, deposit, and recording of revenues.
4. Review State laws, rules, policies and procedures, and records, including:
  - Revised Statutes Annotated,
  - Administrative rules,
  - State policies and procedures, and
  - State accounting system records.
5. Test transactions to determine whether controls over the receipt, deposit, and recording of revenues were in place and operating as intended.

### **PRIOR AUDIT**

The most recent prior audit that included in its scope the initial recording of revenue operations of the Office of Cost Containment was the financial audit of the Department of Administrative Services for the fiscal year ended June 30, 2003. There were no observations in that report related to the operations of the Office of Cost Containment.

## FINDINGS AND RECOMMENDATIONS

### Observation No 1: Information System Should Be Documented

#### *Observation:*

OCC's primary information system, which is critical to OCC's operations, is not supported by generally accepted information technology control policies and procedures intended to reasonably ensure the system remains available, reliable, and secure.

- OCC reports there is currently no comprehensive user manual or comprehensive system documentation for its information system.
- OCC's technical support base should be strengthened. The Financial Data Management (FDM) Unit of the Department of Administrative Services reports none of the employees involved in the development of the system remain employed by FDM and none of its current employees regularly work with OCC's information system or are familiar with the business logic in the system.
- OCC has not established a written password policy for OCC's information system. The system does not force users to periodically change passwords.
- OCC has not limited system access. As further discussed in Observation No. 3, two OCC employees have administrative access to the system beyond the needs of their current job responsibilities.

OCC has utilized its current information system since 2003 to track relevant cases, bill responsible parties, and collect amounts owed. While the system has been periodically updated since it was put into operation, OCC has not established and maintained complete and current policies and procedures critical to the operation of a secure system. Reportedly, neither a user manual nor system documentation was ever made available to OCC employees by FDM.

#### *Recommendation:*

OCC should work with FDM to establish a comprehensive user manual and comprehensive system documentation to support the operation of its primary information system. The system documentation should include a description of the intended operation of the system including a description of the logic-design, the availability of data for management review and audit purposes, and communication protocols for interacting with other systems. Comprehensive system documentation should assist FDM in its continued technical support of OCC's information system.

OCC should establish appropriate user access control policies and procedures for its information system. User access should be limited to system functions required for current job responsibilities. OCC should establish policies and procedures that direct employees to use suitably complex user passwords and to change passwords periodically. If OCC can not efficiently add system-based enforcement of appropriate password policies, OCC should

periodically remind its employees of their responsibility to maintain passwords in accordance with the policy.

*Auditee Response:*

We concur. OCC will develop a comprehensive user manual to support their primary information system Tracker. This will be completed by April 30, 2012.

FDM will update the existing system documentation to reflect current operations and changes resulting from programming necessary to meet these audit requirements. Through the process of completing this documentation, both FDM and OCC will have clearer understandings of OCC's Tracker business requirements and the technical architecture. Since FDM supports OCC's Tracker in addition to a number of other DAS applications on an as needed basis, adequate and up-to-date documentation is required for FDM to be effective. This will be completed by November 30, 2011.

FDM will program password capabilities into Tracker to meet the State password policy standard. FDM will work with OCC to program appropriate security user controls in Tracker to enforce OCC's user access control policies that will ensure employee access does not extend beyond the needs of their job responsibilities. This will be completed by December 31, 2011.

In the interim, OCC will require password change every 90 days starting immediately.

**Observation No. 2: Revenue Receipt Process Should Be More Efficient**

*Observation:*

OCC's cash receipt process, while controlled, is inefficient as it unnecessarily transfers cash and checks to multiple employees prior to deposits, and requires the performance of control activities necessary to mitigate the increased risks associated with that transfer activity.

Cash and check transactions initially received by OCC over-the-counter are receipted on a generic receipt pad. Cash is placed into a sealed envelope onto which transaction information, including amount enclosed and account to which the money is to be applied, is written. The cash and checks are then placed in a drawer to await further processing by a second OCC employee. The second employee takes the cash and checks from the drawer, logs the payments in OCC's information system, accounts for and separates the cash from the envelopes, and places the cash, checks, and envelopes back in the file drawer to await an additional reconciliation between accumulated cash and amounts recorded on the envelopes and the deposit slip, and then recording in the State's accounting system, NHFirst, by a third OCC employee. The envelopes are ultimately discarded after the deposit at the bank is verified by the third employee.

Allowing cash and checks to be transferred unnecessarily between employees is generally regarded as contrary to good financial control procedures. Using envelopes to record transaction

information is inefficient. Both of these procedures increase the risk that cash and checks will be lost, stolen, or misapplied.

*Recommendation:*

OCC should improve the efficiency of its revenue receipt and recording process. OCC should consider either directly entering the receipt of cash and checks into an automated system immediately upon receipt, or obtain and utilize a receipt-form input document that would allow OCC to capture all relevant information for later input, allowing the cash and checks to be isolated and secured for deposit.

*Auditee Response:*

We concur. To minimize the number of people handling the cash and checks from over the counter, OCC has recently changed its method of recording the payment.

The cash and checks received over the counter are put directly in the secured cabinet upon receipt and the payments are now recorded with a receipt-form input document instead of the envelope.

There is an average of five to ten transactions over the counter per day. The remaining payments are received through the mail.

**Observation No. 3: Access Authorities To Information System Should Be Limited**

*Observation:*

User access authority groupings in the OCC information system grant excess authorities to two employees resulting in increased segregation of duties risks. These two users can authorize pending revenue transactions, edit and assign the posting of revenue transactions, and perform prearranged revenue transactions and deposits (all required job duties) as well as view, add, edit, or delete users and manage user groups (not required job duties). These individuals also participate in preparing and recording deposits including, at times, having custody of cash and checks, including rejected receipts that are to be returned to the payer due to a nonconforming payment to OCC. The fact that these two employees have system edit access and also have access to cash and checks creates a risk that an error or fraud in the handling and recording of receipts would not be detected or corrected timely or if detected could not be attributed to a single user.

*Recommendation:*

OCC should review employee access authorities and current job functions to ensure that access in the system is limited to that necessary for the employees' current job responsibilities. OCC should review with Financial Data Management's support staff whether employee responsibility-

groupings can be revised, if necessary, to eliminate unnecessary and conflicting user access authorities.

*Auditee Response:*

We concur. FDM will work with OCC to revise the employee responsibility security groupings in Tracker to eliminate unnecessary and conflicting user access authorities. OCC will identify and enforce employee security access through revised security groupings. This will be completed by December 31, 2011.

**Observation No. 4: Reconciliations Of The Information System Should Include Transaction Counts**

*Observation:*

OCC does not periodically review and reconcile transaction count data in its information system to ensure the system accurately records and reports all transactions.

OCC provided auditors with a data file intended to represent all revenue transactions processed on its information system during the period July 1, 2010 through April 30, 2011. This data set included approximately 59,000 transactions. Each data record in the file included a unique, system-generated, transaction identification number. A review of the sequence of the transaction identification numbers noted 188 transaction numbers were unexpectedly not included in the data set. Upon its review, OCC determined the majority of the missing transactions resulted from the use of the date the payment was received as criteria to select the data. OCC reported some of the missing selections represented transfers of previously received overpayments as well as credit, deleted, and other transactions for which the original payments to OCC occurred prior to the inquiry period and therefore were not identified as transactions subject to selection. OCC was ultimately able to reasonably explain all but six missing transactions.

Inappropriately deleting a record could be a way for an inclined employee to attempt to perpetrate a fraud.

*Recommendation:*

OCC should periodically review and reconcile transaction count data in its information system. OCC should research unexplained missing transactions to reasonably ensure missing transactions do not represent unrecognized errors or fraud.

*Auditee Response:*

We concur. OCC will identify a status indicator(s) (e.g., voided transaction) and FDM will program this functional alternative to “deleting” a record to preserve all transactions within Tracker.

FDM will work with OCC to develop program reconciliation report capabilities in Tracker to enable the OCC administrator to more efficiently conduct periodic reviews of transaction data counts. This will be completed by December 31, 2011.

In the interim, deleting transactions will no longer be allowed. OCC will periodically review and reconcile transaction count data on Tracker to ensure the system accurately records and reports all transactions.

**Observation No. 5: Secure Facilities For Holding Accumulated Cash And Checks Should Be Obtained**

*Observation:*

OCC does not have secure facilities to hold accumulated cash and checks awaiting deposit.

During business hours, cash and checks received over-the-counter and through the mail are stored in an unlocked file cabinet in a non-public work area prior to the daily deposit. OCC's average daily deposit during the 10 months ended April 30, 2011 was approximately \$12,000. Cash and checks that remain unprocessed at the end of the day remain in the file cabinet overnight and are processed and deposited the following business day. While OCC reports it locks the cabinet at the end of business hours, the file cabinet used by OCC is not hardened against theft or fire.

*Recommendation:*

OCC should obtain more secure facilities to hold accumulated cash and checks awaiting deposit.

*Auditee Response:*

We concur. OCC has recently obtained a fireproof lockable cabinet to secure the cash and checks awaiting deposit. We now consider this observation resolved.