

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF SAFETY
DIVISION OF STATE POLICE**

**FINANCIAL AUDIT REPORT
FOR THE NINE MONTHS ENDED MARCH 31, 2019**

To The Fiscal Committee Of The General Court:

We have audited the financial statement of the New Hampshire Department of Safety (Department), Division of State Police (Division), for the nine months ended March 31, 2019 and have issued our report thereon dated July 29, 2020.

This financial audit report presents information related to our audit in two sections; a management letter section and a financial section. The management letter section, prepared by the auditors, is a byproduct of the audit of the Division's financial statement. This section contains an auditor's report on internal control over financial reporting and on compliance and other matters and related audit findings.

The financial section of this report, with the exception of the independent auditor's report on the Division's financial statement, was prepared by the financial management of the Department, with assistance from the Department of Administrative Services, Bureau of Financial Reporting. In addition to the auditor's report, the financial section of the report includes the financial statement and notes to the financial statement.

This report can be accessed in its entirety on-line at:

<http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

Office of Legislative Budget Assistant
Office Of Legislative Budget Assistant

July 29, 2020

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF SAFETY
DIVISION OF STATE POLICE**

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FOR THE NINE MONTHS ENDED MARCH 31, 2019**

MANAGEMENT LETTER SECTION

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Abbreviations Used

CBA	Collective Bargaining Agreement
CHRI	Criminal History Record Information System
CRU	Criminal Records Unit
DAS	Department of Administrative Services
Department	Department of Safety
DHHS	Department of Health and Human Services
Division	Division of State Police
FBI	Federal Bureau of Investigation
GMU	Grants Management Unit
IT	Information Technology
NHFirst	New Hampshire State Government Accounting and Financial Reporting System
NHTA	New Hampshire Troopers Association
PSTC	Police Standards and Training Council
VISION	Vehicle Information System in an On-Line Network

* Audit comment suggests legislative action may be required.

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Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To The Fiscal Committee Of The General Court:

We have audited, in accordance with the 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, the financial statement of the New Hampshire Department of Safety, Division of State Police (Division), which comprise the Statement of Revenues and Expenditures – Governmental Funds for the nine months ended March 31, 2019, and the related notes to the financial statement and have issued our report thereon dated July 29, 2020. Our report on the financial statement was modified as the Statement of Revenues and Expenditures – Governmental Funds does not purport to and does not constitute a complete financial presentation of the Division in the Governmental Funds in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Division's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the following observations, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a

material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in Observations No. 1 and No. 2 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Observations No. 3 through No. 14 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Division's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Observations No. 15 through No. 20.

Division of State Police's Responses To Findings

The Division's responses to the findings identified in our audit are included with each reported finding. The Division's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Division's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Office Of Legislative Budget Assistant

July 29, 2020

Internal Control Comments
Material Weaknesses

Observation No. 1: Establish A Formal Risk Assessment Process

Observation:

The Department of Safety (Department), Division of State Police (Division) reported it did not have a formal risk assessment process in place for its financial accounting and reporting functions, including no information technology (IT) security risk assessment for the Criminal History Record Information (CHRI) system used for processing criminal record checks, or the Vehicle Information System in an On-Line Network (VISION) system used for processing boat registrations. While there was no formal process in place, the Division reported that issues affecting its financial operations were considered during financial management team meetings where finances, purchasing, logistics, project management, and other topics were regularly discussed.

In addition to the Observations addressed in this report, we also noted the following areas where a formalized risk assessment process may have assisted the Division in addressing and responding to financial and operational risks:

- Employees, including Troopers, are responsible for recording hours worked and leave used on their timecards for payroll purposes. Timecards include over 100 unique pay codes to choose from, increasing the likelihood that an employee may inadvertently select an incorrect pay code and be compensated inappropriately. The Division does not provide employees with a listing of pay code descriptions to increase the accuracy of the payroll.
- The Division was unaware, until identified by the auditors, that two related Criminal Records Unit employees were in positions where one employee approved their family member's timecard. The approver of the timecard also directly supervised this family member, contrary to Division policy.

Management's assessment of, and response to risks facing the organization is an integral component of internal control. The purpose of an entity's risk assessment efforts is to identify, analyze, and respond to risks that could affect the entity's ability to achieve its objectives. An effective and documented risk assessment process should be a core element of management's planning activities and should be an ongoing process.

The absence of formal policies and procedures promoting the active review and consideration of risk places the Division in a largely reactive mode where risks are not recognized in time to allow for efficient and effective avoidance or mitigation.

Recommendation:

The Department and the Division should establish and document its risk assessment process for recognizing, evaluating, and responding to risks that could affect its ability to achieve its financial accounting and reporting objectives. The process should include an IT security risk assessment for

the CHRI and VISION systems to ensure the Division's information assets are adequately protected.

The Department and the Division should regularly review its financial and operational activities for indicators of risk exposure and establish and monitor controls to address those risks. Division employees with particular areas of expertise and knowledge of Division operations should participate in the review to ensure that details of operations that may not be obvious to management are appropriately considered. A periodic, documented review of the risk assessment by management should be incorporated into the process.

Auditee Response:

We concur. The Department and the Division regularly assess risk in all financial and operational activities on an ongoing basis. This assessment occurs during regular financial management, project management, and quarterly review meetings including representation from the Division of State Police, Division of Administration, and Department of Information Technology (DOIT). Actions to mitigate risk are identified, implemented, and reviewed as part of this process.

The Department and Division agree to develop and formally document an annual risk assessment considering financial, operational, and information technology security risks to further support these ongoing assessments. Formal procedures will be developed and fully implemented by June 30, 2021.

Observation No. 2: Establish Audit Trail For Criminal Record Fee Revenues

Observation:

The Criminal Records Unit (CRU) does not retain original Criminal History Record Information (CHRI) request applications and initial source documentation, or documentation supporting the approval of reduced or waived fee transactions, significantly increasing the risk of fraud related to the processing of CHRI requests.

The CRU obtains, stores, and disseminates CHRI on all criminal arrests and dispositions of individuals charged with a criminal offense in New Hampshire. Criminal record search fees are required by State statute and administrative rule and vary in amount according to the type of search being performed. These fees can be paid by cash, check, credit card, or money order and frequent requestors can establish accounts to either prepay for record checks or be billed routinely. Certain applicants, such as nonprofit organizations, are allowed to pay a reduced fee or are exempt from paying the criminal record search fees in accordance with administrative rules. Revenue processed by the Division through the CHRI system totaled \$2.7 million for the audit period, including waived fees valued at \$667,000.

Upon completion of the criminal records check, the CHRI application and search results are returned to the requestor. No source documentation is maintained to allow the Department to verify that the revenue collected and recorded in NHFirst is complete and accurate. Additionally, the

CRU does not utilize activity reports from its CHRI system, or have alternative procedures in place, to track the types and quantities of requests being performed. Further, the CRU does not require applicants to provide proof of eligibility for waived or reduced fee transactions, increasing the likelihood that ineligible requestors receive the waived or reduced fee and the Department does not collect all the revenue it is otherwise entitled to.

Department and Division management could not provide the auditors with assurance over the completeness of criminal record fee revenues recorded in NHFirst during our audit period.

Recommendation:

The Division should implement policies and procedures for criminal record fee transactions, and establish an audit trail, or perform alternative procedures to gain comfort over the completeness of revenues. If retention of source documentation is not deemed practical, the Division should implement mitigating controls, such as the review of CHRI system activity reports and comparison to actual revenues collected. Additionally, the Division should require and document the applicant's proof of eligibility for waived and reduced-fee transactions.

Auditee Response:

We concur. The Department requested and received capital funding for a new Criminal History Record Information (CHRI) system during the FY20/FY21 biennium. Increased reporting and audit trail controls will be included as part of this new customer facing Online Portal, enabling the Criminal Records Unit (CRU) to reconcile activity reports to actual revenues collected. The new CHRI system is expected to be fully operational by December 31, 2021.

The new system will include strengthened controls over waived fees that will require review and approval by appropriate CRU staff. All existing waived and reduced-fee transactions will be reviewed relative to statute and administrative rule and changes will be requested as needed. The review of waived and reduced-fee transactions will be completed by June 30, 2021.

Significant Deficiencies

Observation No. 3: Monitor No-Fee And Reduced-Fee Transaction Activity

Observation:

The Criminal Records Unit (CRU) does not have procedures in place to review no-fee or reduced-fee transaction activity processed by clerks receiving Criminal History Record Information (CHRI) requests. This weakness is exacerbated due to decentralized collection operations at various locations throughout the State and the absence of an audit trail for criminal record check transactions, as previously noted in Observation No. 2.

According to Administrative Rule Saf-C 5703.07, the \$25 criminal record check fee shall not be charged if a record is requested by certain entities for investigative purposes, or if the request is submitted for justice of the peace and notary public applicants. Reduced fees are charged to qualified public or private not-for-profit volunteers that provide services to the elderly, the disabled, or children. In addition, RSA 651:5, IX, allows the waiver of the \$100 annulment fee if the petitioner is indigent, has been found not guilty, or the case has been dismissed or not prosecuted.

As noted in Observation No. 2, initial source documents for CHRI release requests are not retained and applicants for these requests are not required to provide proof of eligibility for no-fee or reduced-fee requests, further necessitating the need for periodic review of clerk activity. The Division reported that walk-in reduced-fee requests are processed and mailed back to the beneficiary organization listed on the application. There are no procedures in place to independently verify the eligibility of the applicant or otherwise determine the appropriateness of no-fee or reduced-fee transactions.

Recommendation:

The Division should implement controls to monitor no-fee and reduced-fee transaction activity processed by clerks in the CRU to reduce the risk of errors or fraud. The Division should use management reports to periodically review and compare no-fee and reduced-fee transaction activity by clerk to ensure there are no anomalies in the processing of these transactions. This review should be performed by an employee independent of the revenue collection and recording process.

The Division should also establish procedures for monitoring compliance with statutes and administrative rules that provide for fee exemptions or reduced fees. These procedures may include the establishment of a memorandum of understanding with eligible organizations or retaining support for the fee exemptions for management's periodic review.

Auditee Response:

We concur. As noted in Observation No. 2, the Department requested and received capital funding for a new Criminal History Record Information (CHRI) system during the FY20/FY21 biennium.

Increased reporting and audit trail controls will be included as part of this new customer facing Online Portal, enabling the Criminal Records Unit (CRU) to reconcile activity reports to actual revenues collected. The new CHRI system is expected to be fully operational by December 31, 2021.

The new system will include strengthened controls over waived fees that will require review and approval by appropriate CRU staff. All existing waived and reduced-fee transactions will be reviewed relative to statute and administrative rule and changes will be requested as needed. The review of waived and reduced-fee transactions will be completed by June 30, 2021.

Observation No. 4: Management Review And Approval Controls Over Annulments Should Be Established

Observation:

The Division does not have procedures in place to ensure that annulments of criminal records are subjected to a management review and approval process prior to the criminal offenses being removed from a person's criminal record.

Criminal Records Unit (CRU) employees use court-authorized documents to annul a petitioner's criminal record provided the petitioner's request meets the requirements in RSA 651:5 and pays a \$100 annulment fee. The fee may be waived if the petitioner is indigent, has been found not guilty, or the case has been dismissed or not prosecuted. Once the court-authorized document is received by the CRU, the annulment clerk processes the request independently and sends a daily report of annulments to the Federal Bureau of Investigation (FBI).

Testing of 10 annulment fee waiver transactions processed during the audit period revealed the following:

- For two of 10 annulment fee waivers tested, the CRU was not able to provide documentation to support that the waiver of the \$100 annulment fee was processed in accordance with RSA 651:5, IX.
- For one of 10 annulment fee waivers tested, the \$100 annulment fee was improperly waived and did not comply with RSA 651:5, IX.

The absence of a management review and approval process increases the risk that errors could occur and not be detected by management prior to submission of annulled records to the FBI.

Recommendation:

The Division should retain documentation supporting the annulment of criminal records.

The Division should also properly segregate duties over the processing of annulments by instituting a documented management review and approval procedure so that no single employee can complete the process without the involvement of another employee. Annulments should not

be sent to the FBI until the review and approval process is complete. If management's review and approval cannot be performed prior to FBI notification, a post-processing review should be conducted and the FBI should be informed of any necessary changes to the records.

Auditee Response:

We concur. The Department has initiated a full review of the existing Annulment process. Documents supporting each annulled criminal record are now being retained. Existing segregation of duties requiring supervisor oversight will be formally documented in written procedures which will include a post-processing review by management and notification to the FBI if discrepancies are identified. Full review and process changes are expected to be completed and fully implemented by June 30, 2021.

Observation No. 5: Extra Duty Detail Rate Should Be Reviewed And Formally Documented

Observation:

The methodology used to determine the Division's extra duty detail rate is not established in either State statute or administrative rule, or otherwise formally documented; and the rate itself has not been reviewed or revised in several years.

In accordance with guidelines established by the New Hampshire Department of Transportation, the Division provides law enforcement services, also known as extra duty details, at construction sites, escorts oversize loads, and performs other designated voluntary commercial assignments that are not related to the regular duties of a sworn employee. To recoup the cost of the detail services provided, the Division bills the contractors requesting the services using an established hourly detail rate calculated by the Department's Business Office.

The methodology used in setting the detail rate is not described in either statute or administrative rule. While RSA 270:12-a, I-b allows the commissioner of safety to establish a detail rate for such assignments, and specifies that the "rate shall include compensation for the assigned officers plus reimbursement for the use of any boats or vehicles, employee benefits, and related overhead expenses," this guidance is only relative to marine patrol details. There is no such similar guidance for other detail services provided by State Troopers, such as for road construction projects, transportation of oversize equipment, or other commercial assignments.

The currently used \$74 hourly rate was established in June of 2016 and review of support for the calculated amount indicates that salaries, retirement contributions, vehicle costs, uniform cleaning, detail desk expenses, and various overhead costs were included in the calculation. Auditors noted the detail rate has not been reviewed or adjusted since 2016, despite the application of three cost of living adjustments since 2016.

During the audit period, the Division collected approximately \$2 million in extra duty detail revenues from contractors seeking law enforcement services in the State.

Recommendation:

The Department should perform a thorough review of the \$74 extra duty detail hourly rate charged to contractors to determine whether the rate continues to adequately recoup the costs of law enforcement services provided by State Troopers. If the Department determines a change in the rate is necessary, the Department should ensure the new rate receives the proper approvals from Department and Division management prior to implementation and communication of the new rate to others.

The Department should also take steps to fully document the process by which it develops, reviews, and revises the extra duty detail rate. Documentation should include, but not be limited to, the following:

- variables used in developing the rate, such as salaries and benefits, vehicle costs, uniform costs, and overhead costs;
- calculation methodology;
- management's review and approval of the rate;
- a periodic timeframe for review of the rate; and
- details on when and how often the rate should be adjusted.

Auditee Response:

We concur. The Department has developed a repeatable process and methodology used to determine the appropriate extra duty detail rate that considers salaries and benefits, vehicle cost, uniform cost and overhead costs, however, this methodology is not formally documented. The Department will formalize this existing process and require an annual review of the rate to determine whether a recalculation is necessary due to changes in the variables used to develop the rate. The detail rate was most recently updated in July 2020 and formal documentation will be completed by September 30, 2020.

Observation No. 6: Revenue Reconciliation Controls Should Be Established For Extra Duty Details And Boat Registrations

Observation:

The Department has not established reconciliation controls to ensure the completeness of extra duty detail revenue and has not established a management review and approval procedure for the boat registration revenue reconciliation.

We noted the following control weaknesses related to these revenues recorded by the Division:

- The Division uses an Access database to track the personal and billing information for each contractor that requests an extra duty detail for law enforcement purposes. The Department's Business Office does not have the access permissions needed to perform a

reconciliation of the contractor invoices recorded in the database to the revenues recorded in NHFirst.

- The Division uses VISION, the Vehicle Information System in an On-Line Network, for processing boat registration revenues. A reconciliation of revenue recorded in VISION to the corresponding revenue accounts in NHFirst is performed monthly by the Business Office, but it is not subject to an independent management review and approval.

Control activities, such as reconciliations, supervisory reviews, and verification controls, are one of the essential components of internal control that help management mitigate risks in order to ensure the achievement of objectives.

Recommendation:

The Department's Business Office should implement policies and procedures to ensure revenue reconciliations are performed over all significant revenue streams. The Business Office should request the necessary permissions to allow for monthly revenue reconciliations between NHFirst and the underlying records. Reconciliations should be formally documented and include evidence of management review and approval.

Auditee Response:

We concur. The Business Office now has access to the Extra Duty Detail database and is performing monthly reconciliations of contractor invoices to NHFIRST. The Department will migrate all Detail Desk invoicing from the Extra Duty Detail database into the NHFIRST Accounts Receivable module currently being used for all other Department invoicing. Transition to NHFIRST will be completed by December 31, 2020.

In FY20, the Division of Administration completed an organizational assessment project that resulted in a significant restructuring of Business Office roles and responsibilities. This included an assessment of all reconciliation procedures. Changes to reconciliation procedures were implemented and the VISION reconciliation is now being appropriately reviewed and approved by management effective June 30, 2020.

Observation No. 7: Comply With The Extra Duty Details Policy

Observation:

The Division does not consistently comply with its written policy for extra duty details.

As previously noted in Observation No. 5, the Division provides law enforcement services, known as extra duty details, that are not related to the regular duties of a sworn employee. Troopers who work extra duty details complete a Paid Detail Voucher that is submitted to a Troop or Unit Commander for approval and then further processed by the Department's Business Office.

The Division's Professional Standards of Conduct (PSC) Chapter 22-E, Extra Duty Details, Policy (Policy) states:

22-E.1.0 – The option to work extra duty details is a privilege extended by the Director. The Division recognizes sleep deprivation is a danger to its employees and the public. The purpose of this directive is to establish procedures to be followed whenever a State Police employee is working an Extra Duty Detail provided that such work shall **not** interfere, nor hinder, the safe and efficient operation of the Division. To that end, the Division's goal is to ensure that Troopers are given adequate rest time between their shift duty hours.

22-E.1.2, A.7 – Division members shall not schedule more than eight (8) hours of Extra Duty Detail, Court or Administrative Hearings between any two consecutive duty days. The only exception is multiple Court or Administrative Hearings scheduled on consecutive duty days. Extra Duty Details, Court and Hearings shall be calculated as hours paid.

22-E.1.2, A.11 – Employees shall not be permitted to travel to or from an Extra Duty Detail on scheduled duty time.

22-E.1.3, B.4 – The [Detail Desk] clerks shall ensure that each assignment form [Detail Voucher] is completed with as much information as possible.

22-E.1.6, E.5 – Completed vouchers shall be approved and signed by a Troop or Unit Commander, or his authorized designee.

A review of 127 Paid Detail Vouchers revealed the following instances of noncompliance with the Policy:

- Two vouchers in our sample and three additional vouchers indicated the Trooper traveled to or from an extra duty detail assignment on scheduled duty time contrary to provision PSC 22-E.1.2, A.11 of the Policy.
- One voucher in our sample and 18 additional vouchers were incomplete contrary to provision PSC 22-E.1.3, B.4 of the Policy.
- Three vouchers in our sample and 25 additional vouchers were not in compliance with PSC 22-E.1.6, E.5. These vouchers were either not signed by a Troop or Unit Commander, or were signed but contained errors and/or omissions that were undetected and uncorrected during the review and approval process contrary to the Policy.
- Eight additional vouchers indicated the Trooper scheduled more than eight hours of extra duty detail between two consecutive duty days contrary to provision PSC 22-E.1.2, A.7 of the Policy. According to the Division, the policy was changed from eight hours to 10 hours in 2013 and this change was communicated to Division members verbally. The Division was unable to provide auditors with support for the change.

The formal, written Extra Duty Details Policy was last updated on April 1, 2011.

Recommendation:

The Division should take steps to ensure compliance with the Extra Duty Details Policy for public safety purposes and the continued professional reputation of the State Police. If the Division determines certain provisions of the Policy no longer meet its needs, revisions should be made accordingly and effectively communicated to all Division members to ensure consistency in operations.

Auditee Response:

We concur. The Division has updated the Extra Duty Details policy to reflect previously implemented changes including the change in the number of hours worked between scheduled duty days. The new policy was effective and distributed to Division staff on August 1, 2019. The Division will be re-training existing Detail Duty staff and reinforcing with supervisors the importance of submitting complete and properly approved detail vouchers before processing.

Observation No. 8: Contractor Application And Invoicing Practices For Extra Duty Details Should Be Reviewed And Documented

Observation:

The Division has not established documented policies and procedures covering the application and invoicing process for contractors seeking extra duty details. As a result, the current contractor application process is not consistent for all applicants and the current invoicing practices do not align with standard State invoicing procedures.

During our review of the contractor application and invoice process, we noted the following weaknesses in internal control:

- New contractors are not consistently required to complete and submit a contractor application prior to receiving extra duty detail services. The Division uses a contractor application that requires new contractors to: 1) be authorized to conduct business in the State, 2) be in good standing with the NH Secretary of State, and 3) furnish an insurance certificate with a minimum of \$250,000 per claim. The Division does not check for compliance with these minimum requirements prior to scheduling Troopers to work extra duty details, increasing the risk that current contractors are not in good standing with the State.
- The 45-day payment terms noted on contractor invoices are not consistent with the 30-day payment terms noted on the contractor application and published on the Division's website. Additionally, setting repayment terms for 45 days inhibits the Division's ability to utilize the standard State aging report for receivables, which uses more traditional 30-day groupings, such as 0-30 days and 31-60 days. As a result, the Division is unable to maintain an accurate account of which contractor invoices are past due, as the 31-60 day grouping on the standard aging report includes a blend of both current and overdue invoices.

The contractor application was last updated by the Division approximately 10 years ago in December 2010.

Recommendation:

The Division should review the contractor application used in the extra duty details process to determine if the requirements continue to meet the Division's needs and make appropriate revisions, if deemed necessary. The Division should ensure its practices are aligned with the contractor application requirements and State accounting policies, and those changes should be properly communicated to those seeking services.

Auditee Response:

We concur. The Division will review the extra duty details process including the application process used by contractors requesting details to ensure consistency and compliance with existing practice and State accounting policies. Any changes will be communicated with contractors and Detail Desk staff will be trained to provide consistent application and oversight of both current and new contractors. The review, documentation, communication, and training will be completed by June 30, 2021.

Observation No. 9: Federal Drawdown Process Should Be Centralized And Subject To An Independent Review And Approval Procedure

Observation:

Requests for federal reimbursement of expenditures are not subject to a detailed, independent review and approval process, with the exception of the Division's Coast Guard grants administered by the Department's Grants Management Unit (GMU).

The Division recorded approximately \$1.7 million of federal grant revenues during the audit period. Of the \$1.7 million, approximately \$661,000 was received from the United States Coast Guard for recreational boat safety and the remaining \$1,034,000 was received from other federal grantors. The Department's GMU is responsible for administering the Coast Guard grants and the Division's Administrator III is responsible for all other grants received by the Division.

Reimbursement requests prepared by the Division's Administrator III are submitted to the Director of Administration in the Department's Business Office for a cursory review and approval. The Director's review includes tying out amounts on the federal Reimbursement Request Form and Federal Financial Report to supporting worksheets, however, this review is cursory and would not necessarily detect missing information or provide assurance that the request is complete.

Recommendation:

The Department should review its federal grant reimbursement request process and take steps to ensure that requests are completed consistently across all federal programs. The Department could

consider centralizing the responsibility for preparing federal grant reimbursement requests in the GMU to ensure that all grants are subjected to the same detailed, independent, and documented review and approval procedure as is performed for Coast Guard grants.

Auditee Response:

We concur. All federal grant reimbursements are not currently centralized within the Grants Management Unit (GMU). Reimbursements are prepared and requested at the Division level resulting in variations in procedures and supporting documentation. Each year the Department's federal grants are subject to the statewide Single Audit for federal compliance and many receive direct federal agency reviews. Although the Department has not received findings related to overpayments or improper federal reimbursements, the need for a consistent process is acknowledged. The Department will develop a single consistent federal reimbursement process that strengthens existing controls and consider consolidating these responsibilities within the GMU. Process review, development, and implementation will be completed by June 30, 2021.

Observation No. 10: Vendor Invoices Should Be Paid In A Timely Manner

Observation:

The Department did not make payments to the Division's vendors in a timely manner during our audit period.

The Accounts Payable Unit (Unit) within the Department's Business Office processes approximately 16,000 invoices for payment each year. During our testing of 100 payments made to vendors totaling approximately \$3.2 million, we noted that 66 payments (66%) were made late. The most untimely payment was made 287 days after the invoice due date. According to the Department, no late payment penalty fees were assessed for the untimely payments made.

The Department reported that the delay in processing vendor payments is due to a backlog caused by an inefficient invoice approval process. Historically, small dollar invoices have been subjected to the same scrutiny and time-consuming approval process as large dollar invoices, leading to the backlog.

Consistently making late payments to vendors could result in the assessment of late payment fees, potentially places the State in an adverse position for future contract negotiations, and increases the risk that vendors may stop using the State as a business partner.

Recommendation:

The Department and the Division should review the current invoice payment process to identify potential areas to gain efficiencies. Once the review has been completed, the Department should take steps to implement changes to the current accounts payable process to ensure that vendors are consistently paid in a timely manner and in accordance with the payment terms on the invoice.

Auditee Response:

We concur. In FY20, the Department conducted a review of the invoice payment process and identified several areas for improvement. The previous process was re-engineered to ensure timely and accurate payment of invoices. A risk based approach to invoice review was implemented and redundant reviews were eliminated where appropriate. The Department centralized the receipt of vendor invoices and implemented paperless invoice processing which reduced the time required to obtain Division level approvals. As a result of these significant changes, the invoice backlog was eliminated by June 30, 2020 and invoice payments are expected to remain current moving forward.

Observation No. 11: FBI Invoices Should Be Reviewed For Accuracy Prior To Payment

Observation:

The Division did not review Federal Bureau of Investigation (FBI) invoices for accuracy prior to making payment during the audit period. Instead, invoices were approved for payment by the Supervisor of the Criminal Records Unit (CRU) without a review to ensure the FBI rates charged to the Division were in accordance with established rates.

When an applicant requires a fingerprint scan in addition to a New Hampshire-only criminal background check, the Division performs Live Scan images and inked fingerprint impressions on behalf of the FBI as part of a nation-wide criminal record search. This service is performed for an additional fee of \$13.25 for non-volunteers and \$11.25 for volunteers and is collected by the CRU.

The Division is considered a centralized billing service provider and is therefore authorized to retain \$2 of every fingerprint scan fee to cover the Division's administrative expenses, while the remainder of the fee is paid to the FBI. The FBI bills the Division monthly to recoup the fees collected by the Division on its behalf. The FBI billing lists the number of scans received and processed by the FBI during the month, and details how much is owed, but does not identify how many transactions were charged at each rate. In addition, the FBI provides the Division with an encrypted file containing the transaction detail.

During the audit period, the Division paid approximately \$30,400 per month in fingerprint scan fees to the FBI. Auditors reviewed three monthly FBI invoices during the audit period and, with assistance from the Division, noted the following:

	CHRI Database	FBI Invoice	Calculation
Billing Month	Number of Fingerprint Transactions Submitted to FBI	Total Prints Received By FBI	Difference
July 2018	3,474	3,379	95
August 2018	3,805	3,641	164
October 2018	3,927	3,818	109
Totals	11,206	10,838	368

The Division reports that differences between the State's records and FBI records are not unusual and are due to timing of submission.

Recommendation:

The Division should establish procedures to ensure FBI invoices are reviewed for accuracy prior to payment. The review should include a recalculation of the invoice to determine the correct amount was charged, and the proper administrative fees were retained by the State.

Auditee Response:

We concur. The Division will strengthen its existing review of FBI invoices prior to payment. Timing differences between print taking, submission, and processing make a formal reconciliation challenging. The Division will review all available LiveScan system data and detail support from the FBI to develop a formal monthly reconciliation and recalculation of each invoice prior to processing payment. Discrepancies will be documented and shared with the FBI. This process will be developed and implemented by December 31, 2020.

Observation No. 12: System Access Permissions For Terminated Employees Should Be Documented And Removed Timely

Observation:

System access permissions of terminated employees were not fully documented or consistently removed in a timely manner during our audit period. Auditors reviewed access permissions granted to employees in the Division's Criminal History Record Information (CHRI) system, used for processing criminal record checks, and the Department's Vehicle Information System in an On-Line Network (VISION) system, used for processing boat registrations, and noted the following:

- Access permissions in the CHRI system for four terminated employees had not been removed timely. Permissions were revoked between 37 and 455 days after employment was terminated.
- The Division was unable to provide evidence to support the revocation date of access permissions in the VISION system for four employees who terminated employment during the audit period. The Department reported that the change log for tracking the granting and removal of access permissions was not currently activated, but could be enabled.

A critical step in an organization's termination process is removing access permissions and disabling accounts as soon as possible upon employee departures to reduce potential IT security threats.

Recommendation:

The Department and the Division should implement procedures to ensure the access permissions of terminated employees are promptly removed from the CHRI and VISION systems, and all other relevant systems, to avoid IT security threats. Sufficient documentation should be retained to support the revocation of access permissions.

Auditee Response:

We concur. The Department currently removes access to the Department network upon termination which significantly reduces the risk of improper access to the CHRI and VISION systems. The Department will work with the Department of Information Technology (DOIT) to formally document and strengthen existing procedures to ensure that access permissions of terminated employees are removed timely from all subsystems. Existing procedures will be strengthened, documented and implemented by December 31, 2020.

Observation No. 13: Establish Disaster Recovery And Business Continuity Plans

Observation:

The Department did not have a disaster recovery or business continuity plan in place during the audit period, increasing the risk that the Department and the Division will not react timely and efficiently to foreseeable disruptions to its operations. The Department reported it had started a business continuity plan but it was never completed.

The purpose of a disaster recovery plan is to document plans and procedures in the event of a disaster, including disaster recovery strategies, essential resources, and procedures necessary to implement a recovery process. The purpose of a business continuity plan is to document plans and procedures in the event of a significant change in the way a business conducts its daily business functions. Effective disaster recovery and business continuity planning is essential to minimize business interruptions in the event of an unforeseen occurrence and relies heavily upon an organization's risk assessment activities. Plans should be tested regularly to ensure continuity of operations in the event of a disaster.

Recommendation:

The Division, in conjunction with the Department, should establish a disaster recovery plan and work towards completing its business continuity plan. The plans should be formally documented and distributed to employees with plan roles and responsibilities, and those employees should be appropriately trained. The Department and the Division should regularly test the plans to ensure the plans remain relevant and effective, and employees are practiced in implementing the plans.

Auditee Response:

We concur. Each Division within the Department has completed a Continuity of Operations Plan (COOP) which is on file in the Office of the Commissioner. These plans detail how mission critical operations would continue during disruptions from loss of facility access, reduced workforce, or equipment and system failures.

A separate Business Continuity plan for IT systems has not been formally documented, however, the Department has taken specific action to reduce the risk of disruption to critical systems and services. The Department has developed a disaster recovery and business continuity strategy with DOIT that involves moving core applications to a vendor hosted environment (aka “the Cloud”). These contracted hosting arrangements include robust disaster recovery and continuity of operations requirements. Failover servers will be utilized for locally hosted systems. The Department will work with DOIT to formalize a disaster recovery plan and business continuity plan of IT systems that supports existing Division based COOP plans. Expected completion date is June 30, 2021.

Observation No. 14: Adopt A Written Policy For IT Program Changes

Observation:

The Department reported that information technology (IT) program changes occur regularly for the Division’s Criminal History Record Information (CHRI) system, used for processing criminal record checks, and the Vehicle Information System in an On-Line Network (VISION) system, used for processing boat registrations, but the program change procedures are not supported by a written policy.

The Department reports CHRI and VISION changes are tracked through a code management system and approval is required prior to implementation.

Program change control is the process of making changes to IT programs based upon requests from users, or due to general computer maintenance requirements. The change process involves authorization and approval procedures, audit trail of the requests, program testing, segregation of duties, and documentation of the process.

Recommendation:

The Department should adopt a formal, written policy for implementing IT program changes to standardize the methods, processes, and procedures in place for such changes.

Auditee Response:

We concur. The Department of Information Technology (DOIT) has an Infrastructure Change Request policy that addresses program change controls. The Department of Safety (DOS) will work with DOIT to expand on this existing statewide policy and formalize existing approval

procedures for IT program changes that impact DOS systems. A DOS specific policy will be developed and implemented by June 30, 2021.

Compliance Comments
State Compliance

Observation No. 15: Administrative Rules Should Be Adopted And Kept Current

Observation:

The Division has not adopted, or kept current, certain administrative rules required by statute as noted below:

Statute	Description of Required Rule	Administrative Rule Cite	Status
RSA 106-B:6	Training Facilities and Requirements	N/A	Rule not adopted – Division asserts it complies with statute via use of training facilities at the Police Standards and Training Council (PSTC) under the administrative rules of the PSTC. It is not clear this practice meets the legislative requirement of the Division to adopt rules as the rules have not been adopted under the Department’s administrative ruleset.
RSA 106-J:5	Missing Vulnerable Adult Alert Program	N/A	Rule not adopted
RSA 21-P:14, II (o)	Self-Dialing Alarm Systems	Saf-C 800	Rules expired on 7/22/13 and were not readopted until 5/2/19, almost six years later
RSA 270:11, I (c)	Regulation of Boats and Boaters	Saf-C 400 Saf-C 408 Saf-C 411	Rules not complete – no rules in place for the classification, examination, and certification of captains, masters, engineers, and pilots of all boats operated or used on any public waters of the state
RSA 270:39, II	Regulation of Boats and Boaters	Saf-C 400 Saf-C 408 Saf-C 411	Rules not complete – no rules in place for the certification of marine engines
RSA 541-A:16, I (a)	Description of Organization	Saf-C 102.09	Rule is outdated – the four operating Bureaus referenced in rule do not reflect the current organizational structure of the Division

In addition, the Division has not formalized its practice of providing reduced fees for criminal record searches to the New Hampshire Department of Health and Human Services (DHHS) in statute or administrative rule.

The Division performs criminal record searches for the DHHS which are subject to special reduced fees that vary in amount charged based on the job description of the applicant. DHHS is typically charged the reduced rate while the applicant is responsible for paying the remainder of the fee. The reduced fees, as outlined in a DHHS fee schedule, were agreed to by the DHHS and the Department but the fee schedule has not been formally adopted in statute or administrative rule. In general, DHHS pays between \$10 - \$15 less than the fees outlined in the administrative rules.

Recommendation:

The Division should adopt and keep current all statutorily-required administrative rules. If the Division determines certain rules are not necessary, the Division should request a statutory revision.

The Division should formalize the reduced fee schedule charged to the DHHS for criminal history record searches by adopting administrative rules or seeking a change in statute. If neither is feasible, the Division should charge DHHS the fees required by administrative rules.

Auditee Response:

We concur. The Division agrees that all statutorily-required administrative rules should be adopted and kept current. The Division will review each of the rules noted and move to adopt current rules or request a change in statute if rulemaking is determined to be unnecessary. Full resolution is expected to be completed by June 30, 2021.

The Department requested and received capital funding for a new Criminal History Record Information (CHRI) system during the FY20/FY21 biennium. The Division is reviewing the existing fee structure with DHHS and will request changes to administrative rule as necessary by December 31, 2020.

Observation No. 16: Statements Of Financial Interests Should Be Filed In Accordance With Statute

Observation:

Fifteen of 17 individuals assigned to the Division's related boards and committees did not file statements of financial interests required by statute.

The members of the Moorings Appeal Board; Private Investigative, Security Guard and Bail Recovery Advisory Board; and the Advisory Committee on Breath Analyzer Machines are required filers as they represent individuals assigned to the Division's related regulatory, advisory, or administrative boards and committees.

During our review of statement of financial interest filings, we noted the following:

- None of the three members on the Moorings Appeal Board filed.

- None of the six members on the Private Investigative, Security Guard, and Bail Recovery Advisory Board filed.
- Six of the eight members on the Advisory Committee on Breath Analyzer Machines did not file.

RSA 15-A:3, I (c), requires every person appointed by the governor, governor and council, president of the senate, or the speaker of the house of representatives to any board, commission, committee, board of directors, authority, or equivalent state entity whether regulatory, advisory, or administrative in nature to file a statement of financial interests with the Secretary of State. In accordance with RSA 15-A:6, members were required to file on January 18, 2019.

Recommendation:

The Division should establish procedures to ensure all Board and Committee members submit statements of financial interests by the required filing date in accordance with RSA 15-A:3, I (c). As part of these procedures, the Division should consider sending annual reminders to Board and Committee members to remind them of the filing requirements.

Auditee Response:

We concur. The Office of the Commissioner sends an annual reminder to Divisions to ensure timely filing of statement of financial interests. Divisions are responsible for reminding related Boards and Commission members of the requirement. The Department will review and strengthen the existing notification process to ensure that all related Board and Commission members are reminded annually of their statutorily required reporting obligation under RSA 15-A:3, I (c).

Observation No. 17: Job Performance Evaluations Should Be Completed Annually

Observation:

The Department and the Division did not consistently perform annual employee performance evaluations as required by RSA 21-I:42, XIII and Administrative Rule Per 801.06 (a). Five out of 75, or approximately 7%, of the Division's employees selected for testing did not receive an annual performance evaluation as required during fiscal year 2019.

The Department reports that, while supervisory staff are made aware of the requirements of performing annual employee evaluations and are provided with guidance on how to determine when employee evaluations are due, the Business Office does not take steps to ensure compliance with the State statute and administrative rule unless there is a scheduled pay increase due to the employee. None of the five employees identified were due for step increases during the audit period.

Recommendation:

The Department and the Division should implement policies and procedures to ensure all full-time classified employees receive annual performance evaluations, regardless of whether a pay increment is due, as required by RSA 21-I:42, XIII and Administrative Rule Per 801.06 (a).

Auditee Response:

We concur. The Human Resources (HR) Bureau is responsible for supporting performance management activities within each Division. Delays in the timely completion of annual performance evaluations were previously identified and several procedures have been implemented to improve completion rates. Division Directors are now provided with a monthly listing of upcoming and overdue evaluations and overall completion rates are shared and discussed during regular HR meetings with Divisions. The Department will document existing procedures and develop a formal policy by December 31, 2020, to ensure that annual performance evaluations are completed timely.

Observation No. 18: Employer’s Share Of Retirement Contributions Should Be Calculated In Accordance With Statute

Observation:

The employer’s share of retirement contributions for certain Group II employees was not calculated in accordance with statute during our audit period.

RSA 100-A:16, II (b) states “the contributions of each employer for benefits under the retirement system on account of group II members shall consist of a percentage of the earnable compensation of its members to be known as the “normal contribution”...”. RSA 100-A:1, XVII (b)(3) further specifies that “earnable compensation shall not include compensation for extra and special duty for members who commence service on and after July 1, 2011.”

We tested six employer-share retirement contribution transactions that related to pay periods for which employees reported working special and/or extra duty assignments. Two of the six employees tested began State service on or after July 1, 2011. We noted that, for these two employees, special and/or extra duty pay was **not** excluded from earnable compensation when determining the employer’s share of retirement contributions, contrary to State statute. As a result, the Division over-paid the employer’s share of retirement contributions by \$221 for the pay periods selected for testing.

Because the Division uses the State’s automated system to process payroll, it is likely that the total overpayment in the payroll expenditure population is larger than the \$221 error amount detected by the auditors during sampling.

Recommendation:

The Division, in conjunction with the Department of Administrative Services (DAS), should work together to conduct a thorough review, and gain a complete understanding of, the various pay-codes used by the Division and the State.

Once the review has been completed, DAS should take steps to ensure that the employer's share of retirement contributions calculation appropriately includes or excludes pay-codes related to special and/or extra duty assignments, in accordance with statute.

Auditee Response:

We concur. The NHFIRST timekeeping system requires employees to select a pay-code based on the employee's understanding of the type of work being conducted including regular time, overtime, and extra-duty assignments. Pay-codes are selected by the employee, reviewed and approved by the supervisor, and reviewed and processed by payroll staff. The unique situations applicable to each employee can make confirming the proper pay-code selection a challenge.

The Department will work with the Department of Administrative Services to review the use of extra duty pay-codes and ensure that employees are better trained to select the appropriate code for the appropriate circumstance.

Department of Administrative Services Response:

DAS concurs. The implementation of multiple pay-codes used for employees working special and/or extra duty assignments, coupled with the eligibility restrictions tied to an employee's initial date of service, present significant challenges in payroll administration. This requires coordination of the pay-code set up in the automated payroll system and the agency selecting specified pay-codes. DAS agrees that ongoing training is required to ensure that there is a clear understanding of each pay-code "definition" and that agencies select the proper pay-codes for each employee, resulting in the proper deduction of NHRS contributions in accordance with state statute.

DAS agrees that for the two employees noted in the observation it appears that NHRS contributions were incorrectly applied, resulting in a \$221 error for the pay periods tested. Over the next six months, DAS will jointly conduct an analysis with the Department of Safety as part of an overall review and training program focused on proper use of special and/or extra duty pay-codes.

Additionally, DAS and the Department of Safety will work with the New Hampshire Retirement System to pursue the return of or credit for any amounts overpaid.

Observation No. 19: Authority For S416U Wage Schedule Should Be Documented

Observation:

The wage schedule used by the Department to compensate the Division's auxiliary troopers is not authorized by statute or collective bargaining agreement, and it is not published on the Department of Administrative Services (DAS) website with other established wage schedules.

State Police auxiliary troopers are part-time sworn troopers assigned throughout the State to assist with public relations events, communications, patrol, traffic control, and select criminal investigations. Auxiliary troopers work in unrepresented positions which do not fall under any State collective bargaining agreement.

We reviewed pay for one auxiliary trooper and noted the unrepresented employee wage-scale used to compensate the trooper was identified as S416U. This wage-scale is not incorporated within any existing wage schedule attached to current collective bargaining agreements, is not otherwise explicitly referenced or authorized in statute, and is not currently published on the DAS website with other established wage scales. The Department reported that, when initiating payroll information for an auxiliary trooper, the Department must reach out to the DAS Division of Personnel to obtain the appropriate rate of pay.

The DAS Division of Personnel reported that the S416U wage schedule was established in 2013 when unrepresented employees received a cost of living adjustment not granted to represented employees. Historical wage schedules published on the DAS website include a S416U wage schedule effective for calendar years 2013 through 2016; however, beginning with calendar year 2017, the wage schedule is no longer listed. Neither the Department nor the DAS Division of Personnel were able to explain why, or provide authority for, the S416U wage schedule currently used to pay auxiliary troopers.

There were 16 auxiliary troopers within the Division receiving pay based on the S416U wage schedule during our audit period.

Recommendation:

The Department and the DAS Division of Personnel should work together to establish and fully document the authority for the continued use of the S416U wage schedule. Additionally, the Division of Personnel should make the wage schedule available publicly, along with all other wage schedules used to compensate State employees.

Auditee Response:

We concur. The Department will work with the Department of Administrative Services to document the authority for the S416U wage schedule and make the S416U wage schedule available publicly.

Department of Administrative Services Response:

We concur that the Division of Personnel is responsible for posting all schedules on the DAS website including S416U. To correct this oversight, the Division of Personnel has posted S416U pay schedules for 2017-2020 on the website.

As noted, auxiliary troopers are unrepresented employees. It is DAS' practice to work with the legislature to include the collectively bargained costs of pay increases in legislation. That legislation's content includes the associated pay schedule for the largest union representing Executive Branch employees. That reference is included because the State's practice has been to approve the funding for all the collectively bargained agreements as well as to include language that authorizes increases to unrepresented, unclassified, and non-classified positions based on the largest union's negotiated increases.

The last enacted legislation that authorized funding for collective bargaining agreements, Chapter 162 Laws of 2018, included the following language specifically regarding unrepresented State Troopers, Section 162:17:

162:17 Increases in Salary; Other Nonclassified or Unclassified Employees, Unrepresented New Hampshire State Troopers. All other nonclassified or unclassified employees or unrepresented New Hampshire state troopers not covered by the provisions for salary increases in this act shall be granted a salary increase of 1.5 percent effective June 8, 2018, and an additional salary increase of 1.5 percent effective January 4, 2019.

DAS does not update and deploy pay schedules incorporating negotiated pay increases absent legislative authority.

Observation No. 20: Practice Of Awarding Prior Service Credit Should Be Incorporated Into Collective Bargaining Agreement

Observation:

The Department and the Division's current practice of awarding a two-step pay increase as credit for prior full-time certified law enforcement service is not explicitly authorized by the New Hampshire Troopers Association (NHTA) Collective Bargaining Agreement (CBA).

During payroll testing, we noted that seven out of 46 (approximately 15%) State Troopers tested were paid at a labor grade two grades higher than authorized by the NHTA CBA.

The Department reported that the difference in labor grade is due to the Troopers receiving a credit for prior full-time certified law enforcement service. It is the Division's current practice to provide an upgrade in pay from a labor grade 19 to a labor grade 21 once the Trooper I has achieved a combined ten years of certified law enforcement service, in accordance with a November 2005 letter provided by the DAS Division of Personnel and a May 2006 settlement agreement. Each of

the seven Troopers identified had a letter from the Director of State Police on file authorizing the increase, consistent with the Department's reported current practice.

The Department reported it intended to incorporate the practice into the NHTA CBA, but due to timing circumstances, was unable to do so.

Recommendation:

While the Department's current practice of awarding a two labor grade pay increase to Troopers as a credit for prior full-time certified law enforcement service appears to align with the 2005 letter from the DAS Division of Personnel to the NHTA and the 2006 settlement agreement describing the practice to be put in place, the Department, in conjunction with the DAS Division of Personnel and the NHTA, should take steps to incorporate this practice into the NHTA CBA in order to reduce confusion and increase transparency in the State Trooper payroll process.

Auditee Response:

We concur. The Department will continue the current practice of awarding prior service credit as supported by existing guidance and the 2006 settlement agreement. The Department will work with the DAS Division of Personnel to discuss incorporating this practice in the next Collective Bargaining Agreement with the NH Troopers Association.

Department of Administrative Services Response:

DAS concurs. In order to increase transparency and reduce confusion, DAS will add this item to the next round of collective bargaining for discussion with the union. Both parties must agree for it to be included in a Collective Bargaining Agreement (CBA). Should there be no agreement or if the parties do not agree to add this to the next CBA, DAS will pursue such agreement in future collective bargaining sessions.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF SAFETY
DIVISION OF STATE POLICE**

**AUDITED FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2019**

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STATE OF NEW HAMPSHIRE
DEPARTMENT OF SAFETY
DIVISION OF STATE POLICE

AUDITED FINANCIAL STATEMENT
FOR THE NINE MONTHS ENDED MARCH 31, 2019

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FINANCIAL SECTION

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

Report on the Financial Statement

We have audited the accompanying financial statement of the New Hampshire Department of Safety, Division of State Police (Division), which comprises the Statement of Revenues and Expenditures – Governmental Funds for the nine months ended March 31, 2019, and the related notes to the financial statement, which collectively comprise the Division's basic financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to

design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis For Qualified Opinion

As discussed in Note 1, the financial statement referred to above does not purport to, and does not, constitute a complete financial statement presentation of the Division in conformity with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the matter described in the Basis For Qualified Opinion paragraph, the financial statement referred to above presents fairly, in all material respects, the respective revenues and expenditures of the Division's portion of the State of New Hampshire's Governmental Funds for the nine months ended March 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Emphasis Of Matter

As discussed in Note 1, the financial statement referred to above reports certain financial activity of the Division. It does not purport to, and does not, present fairly the financial activity of the State of New Hampshire as of March 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis information and the budget to actual schedule for the General and Highway Funds that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statement is not affected by this missing information.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2020 on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.



Office Of Legislative Budget Assistant

July 29, 2020

State of New Hampshire
Department of Safety
Division of State Police
Statement of Revenues And Expenditures – Governmental Funds
For the Nine Months Ended March 31, 2019

<u>Revenues</u>	<u>General Fund</u>	<u>Highway Fund</u>	<u>Total Governmental Funds</u>
Unrestricted Revenues			
Fines	\$ -0-	\$ -0-	\$ -0-
Other	-0-	-0-	-0-
Total Unrestricted Revenues	-0-	-0-	-0-
Restricted Revenues			
Plea By Mail Fines	3,894,411	1,098,675	4,993,086
Criminal Record Fees	3,066,395	-0-	3,066,395
State Police Detail Fees	2,022,950	-0-	2,022,950
Boater Registration Fees	1,969,906	-0-	1,969,906
Initial Plate Fees	1,500,000	-0-	1,500,000
Grants From Federal Government	1,225,292	797,738	2,023,030
Grants From Other Agencies	1,088,867	-0-	1,088,867
Miscellaneous	1,033,567	11,655	1,045,222
Total Restricted Revenues	15,801,388	1,908,068	17,709,456
Total Revenues	15,801,388	1,908,068	17,709,456
<u>Expenditures</u>			
Salaries And Benefits	14,993,307	31,338,965	46,332,272
Operating Expenditures	4,397,945	5,396,836	9,794,781
Debt Service	559,701	-0-	559,701
Total Expenditures	19,950,953	36,735,801	56,686,754
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(4,149,565)	(34,827,733)	(38,977,298)
Other Financing Sources (Uses)			
Transfers In (Note 1)	20,214	24,831,582	24,851,796
Transfers Out (Note 1)	(18,970,925)	(20,214)	(18,991,139)
Net Appropriations (Note 1)	23,100,276	10,016,365	33,116,641
Total Other Financing Sources (Uses)	4,149,565	34,827,733	38,977,298
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	\$ -0-	\$ -0-	\$ -0-

The notes to the financial statement are an integral part of this statement.

**State Of New Hampshire
Department of Safety
Division of State Police
Notes to the Statement of Revenues and Expenditures – Governmental Funds
For the Nine Months Ended March 31, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statement of the Department of Safety, Division of State Police (Division), has been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. 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. REPORTING ENTITY

The financial activity of the Division is accounted for and reported in the State's General and Highway Funds, in the State'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 Department of Safety, Division of State Police, as an organization of the primary government, accounts for only a portion of the General and Highway Funds and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Division cannot be determined. Accordingly, the accompanying General and Highway Funds financial statement is not intended to show the financial position or fund balances of the Department of Safety, Division of State Police, in the General and Highway Funds.

B. FINANCIAL STATEMENT PRESENTATION

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

Governmental Fund Type:

General Fund: The General Fund is the State's primary operating fund and accounts for all financial transactions not specifically accounted for in any other fund. All revenues of governmental funds, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to the other funds are charged to the General Fund.

Highway Fund: The Highway Fund is used to account for the revenues and expenditures used in the construction, maintenance, and operation of the State's public highways and the supervision of traffic thereon.

C. REPORTING PERIOD

The State's and the Division's fiscal year is the 12 months ended June 30. The accompanying financial statement for the Department of Safety, Division of State Police, is for the nine months ended March 31, 2019.

D. 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 liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days after period end. Receivables not expected to be collected within 60 days are offset by deferred inflows of resources. An exception to this policy is federal grant revenue, which generally is considered to be available if collection is expected within 12 months after year end. Taxes, grants, licenses, and fees associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when available.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service and other long-term obligations including compensated absences, other post-employment benefits, pollution remediation obligations, and claims and judgments are recorded only when payment is due.

E. REVENUES AND EXPENDITURES

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "unrestricted" (general purpose) or "restricted". Unrestricted revenues are credited directly to the General Fund or other fund balance upon recording in the State's accounting system. Pursuant to the State's operating budget, unrestricted revenues collected by an agency are not used as direct source of funding for agency operations but are available to fund any activity accounted for in the fund. The recording of unrestricted revenues has no effect on an agency's authorization to expend funds. The Division did not report any unrestricted revenues during the nine months ended March 31, 2019.

Unused restricted revenues at year end are either lapsed or generally recorded as committed or assigned fund balance. When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's general policy to use restricted resources first. In the governmental funds, when expenditures are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the State's general policy to spend committed resources first followed by assigned and unassigned resources, respectively.

In the governmental fund financial statements, expenditures are reported by function.

F. OTHER FINANCING SOURCES

These additions to and reductions from resources in governmental fund financial statements normally result from transfers from/to other funds and financing provided by bond proceeds. Transfers are reported when incurred as “Transfers In” by the receiving fund and as “Transfers Out” by the disbursing fund. Net appropriations reflect appropriations for expenditures in excess of restricted revenues. Net appropriations are made from the fund balance of the respective Governmental Fund.

G. BUDGET CONTROL AND REPORTING

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 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 funds.

In addition to the enacted biennial operating budget, state departments may submit to the Legislature and Governor and Council, as required, supplemental budget requests necessary to meet expenditures during the current biennium. Appropriation transfers can be made within a department with the appropriate approvals; therefore, the legal level of budgetary control is generally at the expenditure class level within each accounting unit within each department.

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 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 generally lapse to assigned or unassigned 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 restricted, committed or assigned fund balance. The balance of unexpended encumbrances is 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.

H. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

2. RISK MANAGEMENT AND INSURANCE

The State and Division are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and natural disasters. The State generally retains the risk of loss except where the provisions of law require the purchase of commercial insurance or a risk assessment has indicated that commercial insurance is economical and beneficial for the State or the general public. In such instances, the State may elect to purchase commercial insurance. There are approximately 26 such commercial insurance programs in effect. These include, but are not exclusive to, state owned real property insurance, fleet automobile liability, inland marine insurance, foster parent liability, ski area liability for Cannon Mountain, data security and privacy cyber liability insurance, and a fidelity and faithful performance bond. In general, claims settled in the past three years under the insurance programs have not exceeded commercial insurance coverage. The State's exposure per claimant is limited by law to a total of \$475 thousand under RSA 541-B:14 and the State's current fleet policy coverage is \$250 thousand per claimant.

Claim liabilities not covered by commercial insurance are recorded by the State when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities not covered by commercial insurance relate primarily to worker's compensation claims and health benefit claims.

3. EMPLOYEE BENEFIT PLANS

NEW HAMPSHIRE RETIREMENT SYSTEM

Plan Description: The New Hampshire Retirement System is the administrator of a cost-sharing multiple-employer Public Employee Retirement System ("NHRS") established in 1967 by RSA 100-A:2 and is qualified as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. NHRS is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. NHRS covers substantially all full-time State employees, public school teachers and administrators, permanent firefighters, and police officers within the State of New Hampshire. Full-time employees of political subdivisions, including counties, municipalities, and school districts, are also eligible to participate as a group if the governing body of the political subdivision has elected participation. NHRS 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 its members and beneficiaries.

Group I members at age 60 (age 65 for members beginning service on or after July 1, 2011) 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 (1.667%) of average final compensation multiplied by years of creditable service (1/66 of AFC times creditable service for members beginning service on or after July 1, 2011). AFC is defined as the average of the three highest salary years for members vested as of January 1, 2012 and five years for members not vested as of January 1, 2012. At age 65, the yearly pension amount is recalculated at 1/66 (1.515%) of AFC multiplied by years of creditable service.

Members in service with 10 or more years creditable service who are between age 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 a minimum of 20 years of creditable service (age 50 with a minimum of 25 years of creditable service or age 60 for members beginning service on or after July 1, 2011) can receive a retirement allowance at a rate of 2.5% of AFC for each year of service not to exceed 40 years (2% of AFC times creditable service up to 42.5 years for members beginning service on or after July 1, 2011). A member who began service on or after July 1, 2011 shall not receive a service retirement allowance until attaining age 52.5 but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service. However, the allowance will be reduced by $\frac{1}{4}$ of one percent for each month prior to age 52.5 that the member receives the allowance.

Group II members hired prior to July 1, 2011 who have non-vested status as of January 1, 2012 are subject to graduated transition provisions for years of service required for regular service retirement, the minimum age for service retirement, and the multiplier used to calculate the retirement annuity, which shall be applicable on January 1, 2012.

All covered Division employees are member of either Group I or 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.

Pursuant to RSA 100-A:52, RSA 100-A:52-a, and RSA 100-A:52-b, NHRS also provides a postretirement medical premium subsidy for Group I employees and teachers and Group II police officers and firefighters.

NHRS issues publicly available financial reports that can be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at <http://www.nhrs.org>

Funding Policy: NHRS is financed by contributions from the members, the State and local employers, and investment earnings. By statute, Group I members contributed 7.0% of gross earnings. Group II firefighter members contributed 11.80% of gross earnings and group II police officers contributed 11.55% of gross earnings. Employer contributions required to cover that

amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed 11.08% of gross payroll for Group I members, 27.79% of gross payroll for Group II firefighter members, and 25.33% of gross payroll for Group II police officer members.

The Division's required and actual contributions for the period ended March 31, 2019 were \$7,612,609, which included an amount for other postemployment benefits of \$283,741.

OTHER POSTEMPLOYMENT BENEFITS

The State also participates in two other postemployment benefit (OPEB) plans - (1) New Hampshire Retirement System (NHRS) which is a cost sharing OPEB plan (medical subsidy portion of the pension trust) administered through a trust that meets the criteria in paragraph 4 of GASB 75 (Trusted OPEB Plan), and (2) State's single employer (primary government with component units) defined benefit OPEB plan which is not administered through a trust that meets the criteria in paragraph 4 of GASB 75 (Non Trusted OPEB Plan). The actuarial liabilities and expenses of the OPEB plans do not flow to the Division level financial statement.

General Information about the New Hampshire Retirement System Trusted OPEB Plan

Plan Description: Pursuant to RSA 100-A:52, RSA 100-A:52-a, and RSA 100-A:52-b, NHRS administers a cost-sharing multiple employer defined benefit postemployment medical subsidy healthcare plan designated in statute by membership type ("medical subsidy plan"). The membership groups are Group II Police Officers and Firefighters and Group I State Employees.

NHRS issues publicly available financial reports that can be obtained by writing to them at 54 Regional Drive, Concord, NH 03301-8507 or from their web site at <http://www.nhrs.org>

Benefits Provided: The Trusted OPEB Plan provides a medical insurance subsidy to qualified retired members. The medical subsidy is a payment made by NHRS to the former employers of its members, or their insurance administrator, toward the cost of health insurance for a qualified retiree, spouse, and certifiably dependent children with a disability who is living in the household and being cared for by the retiree. Under specific conditions, the qualified beneficiaries of members who die while in service may also be eligible for the medical subsidy. The eligibility requirements for receiving Trusted OPEB Plan benefits differ for Group I and Group II members. Eligibility for the medical subsidy payment is determined by the relevant RSA's, however, the medical subsidy plan is closed to new entrants. The State is a recipient of these medical subsidy payments on behalf of its former employees.

Contributions: Pursuant to RSA 100-A:16, III, and the biennial actuarial valuation, funding for the medical subsidy payment is via the employer contribution rates set forth by NHRS. Employer contributions required to cover that amount of cost not met by the members' contributions are determined by a biennial actuarial valuation by the NHRS actuary using the entry age normal funding method and are expressed as a percentage of gross payroll. The State contributed 1.07% of gross payroll for Group I members, 4.10% of gross payroll for Group II firefighter members,

and 4.10% of gross payroll for Group II police officer members. Employees are not required to contribute to the Trusted OPEB Plan.

The State Legislature has the authority to establish, amend and discontinue the contribution requirements of the medical subsidy plan. Employer contributions made by the State to NHRS for the medical subsidy component amounted to \$283,741 during the 9 months ended March 31, 2019.

General Information about the Non Trusted OPEB Plan

Plan Description: RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses. These benefits include group hospitalization, hospital medical care, surgical care and other medical care. Substantially all of the State's employees who were hired on or before June 30, 2003 and have 10 years of service, 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 2004, legislation was passed that requires State Group I employees hired on or after July 1, 2003 to have 20 years of state service in order to qualify for health benefits. During fiscal year 2011, legislation was passed that requires Group II employees to have 20 years of State service to qualify for retiree health benefits. Additionally, during fiscal year 2012, legislation was passed requiring Group I employees hired after July 1, 2011 to have 25 years of state service and increased the normal retirement age for Group I and Group II employees hired after July 1, 2011. These and similar benefits for active employees and retirees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, a single-employer group health fund, which is the state's self-insurance internal service fund implemented in October 2003 for active state employees and retirees. The Fund covers the cost of medical and prescription drug claims by charging actuarially developed working rates to State agencies for participating employees, retirees, and eligible spouses. The Fund covers the cost of medical and prescription drug claims by charging actuarially developed working rates to State agencies for participating employees, retirees, and eligible spouses. An additional major source of funding for retiree benefits is from the NHRS medical subsidy payment described earlier.