

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF  
RESOURCES AND ECONOMIC DEVELOPMENT  
DIVISION OF PARKS AND RECREATION  
CANNON MOUNTAIN**

**FINANCIAL AND COMPLIANCE  
AUDIT REPORT  
FOR THE TEN MONTHS ENDED  
APRIL 30, 2001**



**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT  
DIVISION OF PARKS AND RECREATION  
CANNON MOUNTAIN**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b>INTRODUCTORY SECTION</b>	
Reporting Entity And Scope.....	1
Organization .....	1
Responsibilities .....	1
Funding.....	2
Prior Audit.....	3
Audit Objectives And Scope .....	4
<b>CONSTRUCTIVE SERVICE COMMENTS SECTION</b>	
<b>Auditor’s Report On Compliance And On Internal Control Over Financial Reporting.....</b>	<b>5</b>
<i>Internal Control Comments</i>	
<i>Reportable Conditions</i>	
<b><u>Administrative Issues</u></b>	
1. All Expenditures Should Be Subject To Pre-Approval By Management.....	7
2. Monitoring Of Food Services Contract Should Be Improved .....	8
3. Use Of Receiving And Inspection Procedures And Reports Should Be Made More Effective.....	9
4. Controls Over The Issuance Of Complimentary Tickets Should Be Improved .....	10
5. Controls Over Discounting Or Adjusting Lift Ticket Prices Should Be Improved.....	11
6. Controls Over The Issuance Of Season Passes Could Be Improved.....	12
7. Controls Over Deposit Process Should Be Improved.....	13
8. Segregation Of Duties Over Processing Revenues Should Be Improved.....	13
9. Controls Over Rental, Repair, And Nursery Revenues Should Be Improved.....	14
10. Sales Of Excess Ski And Bike Rental Inventory Should Be Subject To Management Review .....	15
11. Controls Over The Inventorying And Sale Of Rental Shop Inventory Should Be Improved.....	16
12. Accountability Over Revenue Transactions At Echo Lake Beach Facilities Should Be Improved.....	17
13. Reconciliation Process For The Depository Account Should Be Improved.....	17
14. Revenues Should Be Recorded More Timely.....	19
15. Checks Should Not Be Made Payable To Cash Or Employees To Fund Revolving And Petty Cash Accounts .....	20
16. Computer Access Password Controls Should Be Better Utilized.....	20
<b><u>Equipment Issues</u></b>	
17. Procedures For The Annual Inventory Of Equipment Should Be Improved.....	21
18. Controls Should Be Established To Ensure Equipment Is Properly Identified And Tagged When Acquired.....	22
19. Physical Security Over Buildings And Equipment Should Be Improved .....	23

**TABLE OF CONTENTS (Continued)**

**PAGE**

20. Discrepancy Reports Should Be Filed To Report Lost, Stolen, Or Damaged Equipment .....	24
<b><u>Retail Sales Operations Issues</u></b>	
21. Management Oversight Of The Retail Sales Operations Should Be Increased.....	25
22. Controls Over Retail Sales Accountability Should Be Improved.....	26
23. Segregation Of Duties Should Be Established Over Retail Sales And Retail Inventory Control .....	27
24. Controls Over Purchases Of Retail Inventory Should Be Improved .....	28
25. Physical Controls Over Retail Inventory Should Be Improved.....	29
26. Merchandise Should Be Recorded Into Inventory Prior To Being Offered For Sale .....	30
27. Periodic Control Counts Of Saleable Inventory Should Be More Accurate .....	31
28. Additional Training And Support On The Use Of The Retail Operation’s Perpetual Inventory System Is Needed.....	31
<b><u>Payroll Issues</u></b>	
29. Review And Approval Of Hours Worked Should Be Implemented.....	32
30. Management Information System’s Reporting Of Ski School Employee Activity Should Be Improved.....	34
31. Time Recording Procedures Need To Be Emphasized In The Employee Manual .....	35
<b><i>Compliance Comments</i></b>	
<b><i>State Compliance</i></b>	
32. Discounts On Season Passes Should Be Applied And Reported As Required By Statute.....	36
33. Report Of The Activities Of The Cannon Mountain Capital Improvement Revolving Fund Should Be Prepared And Submitted .....	37
<b>Auditor’s Report On Management Issues .....</b>	<b>38</b>
<b><i>Management Issues Comments</i></b>	
<b><u>Administrative Issues</u></b>	
34. Inefficiencies In Recording Transactions Should Be Reviewed.....	39
35. Complimentary Ticket Policies Should Be Reviewed.....	39
36. Authority To Adjust Fee Schedules Should Be Clarified.....	40
37. Lessee’s Use Of Department Motor Vehicles Should Be Reviewed.....	41
38. Necessity And Operation Of The Capital Refurbishing Account Should Be Reviewed .....	42
<b><u>Payroll Issues</u></b>	
39. Necessity Of The Regular Payment Of Overtime To Employees Should Be Reviewed.....	44
40. Authority For And Control Over Additional Employee Benefits Should Be Reviewed .....	45
41. Appropriateness And Efficiency Of Two-Hour Minimum Pay Guarantee For Employees Should Be Reviewed.....	47
42. Employment Status Of Volunteer Workers Should Be Reviewed .....	47

**TABLE OF CONTENTS (Continued)**

	<b><u>PAGE</u></b>
<b>FINANCIAL SECTION</b>	
<b>Independent Auditor's Report</b> .....	50
<b>Financial Statement</b>	
Combined Statement Of Revenues And Expenditures - Budget And Actual Special And Capital Projects Funds.....	52
Notes To The Financial Statement .....	54
<b>Supporting Schedules</b>	
Schedule Of Budgetary Components - Special Fund.....	62
Schedule Of Budgetary Components - Capital Projects Fund .....	63
<b>APPENDIX - Current Status Of Prior Audit Findings</b> .....	65

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

**THIS PAGE INTENTIONALLY LEFT BLANK**

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT  
DIVISION OF PARKS AND RECREATION  
CANNON MOUNTAIN**

**Reporting Entity And Scope**

The reporting entity and scope of this audit and audit report is the Cannon Mountain operations of the New Hampshire Department of Resources and Economic Development (Department), Division of Parks and Recreation, for the ten months ended April 30, 2001. During this period, the Cannon Mountain operations of the Department consisted of the Cannon Mountain ski area including ski trails/lifts, ski and other equipment rentals and sales, aerial tramway, ski school, daycare facility, gift shops, and concession operations. While the majority of Cannon Mountain operations are related to winter ski activities, summer activities include aerial tramway, concession, and bike and canoe rental operations.

**Organization**

Cannon Mountain is a component of Franconia Notch State Park operated by the Department of Resources and Economic Development, Division of Parks and Recreation. The Cannon Mountain operations of the Division are under the direction of a mountain manager who reports to the Division director. The Division director reports to the commissioner of the Department.

Franconia Notch State Park and Cannon Mountain are located in the Lincoln/Franconia area of the White Mountain National Forest, on I-93/Rt 3, Franconia Notch Parkway. The main offices of the Department are located on Pembroke Road in Concord.

During the peak of the 2001 ski season, Cannon Mountain employed 16 permanent full-time, 22 seasonal full-time, and 208 part-time employees. At April 30, 2001, Cannon Mountain had 41 employees.

**Responsibilities**

The primary responsibility of the Cannon Mountain operations of the Division of Parks and Recreation is the operation of the State-owned ski area, including the year-round operation of an aerial tramway. Cannon Mountain ski area has 26 miles of ski trails, slopes for both beginning and experienced skiers and snowboarders, and a snow-tubing park. In support of the ski area, Cannon Mountain provides a ski school and child daycare facility; leases cafeteria and restaurant facilities to contracted vendors; runs sports equipment rental, repair and sales, and gift-type retail shops; and operates various mechanical, snowmaking, and repair services for the construction and repair of equipment and facilities.

Cannon Mountain is the home of the New England Ski Museum, located near the base of the first passenger aerial tramway in North America. The original tramway began operating at Cannon Mountain in 1938 and was replaced in 1980 with a two-car tramway that ascends 2,022 feet

vertically over a horizontal distance of more than one mile to the 4,180-foot summit of Cannon Mountain.

## Funding

The financial activity of Cannon Mountain is accounted for in the Special and Capital Projects Funds of the State of New Hampshire. A summary of Cannon Mountain revenues and expenditures during the ten months ended April 30, 2001 are shown graphically on pages 3 and 4, respectively.

In accordance with RSA 216-A:3-i, the State treasurer maintains a separate and distinct account known as the State Park Fund comprised of the Park Account and the Ski Area Account. The treasurer deposits into the Ski Area Account “actual revenue...from fees, services, accommodations, rentals, revenue from lift and tramway operations, retail sales, and net profit from concession operations, and including any federal moneys which become available, and all donations and gifts. The account [is] continuing and nonlapsing.” The Ski Area Account is reported in the State’s Special Fund.

All income from the lease of the State ski area at Mount Sunapee is deposited into the Cannon Mountain Capital Improvement Fund, a revolving fund established by RSA 12-A:29-c. The revolving fund is used for capital improvements for the ski area and related State park facilities at Cannon Mountain. The Cannon Mountain Capital Improvement Fund is reported in the State’s Special Fund.

The fiscal year 2001 appropriations combined with supplemental warrants, balances forward, and transfers resulted in spending authority at April 30, 2001 of \$3,628,607 and \$6,689 in the Special and Capital Projects Funds, respectively. Estimated restricted revenue combined with supplemental warrants and balances forward resulted in anticipated fiscal year 2001 revenues of \$3,590,290 in the Special Fund at April 30, 2001. There were no anticipated fiscal year 2001 revenues in the Capital Projects Fund. The following table summarizes the financial activity of Cannon Mountain in the Special Fund for the ten months ended April 30, 2001.

### Summary Of Revenues And Expenditures - Special Fund

Ten Months Ended April 30, 2001

(expressed in thousands)

#### Revenue

Cannon Mountain Income	\$	4,644
Sunapee Lease Income		<u>338</u>

<b>Total Revenues</b>	<b>\$</b>	<b><u>4,982</u></b>
-----------------------	-----------	---------------------

#### Expenditures

Operating Expenditures	\$	3,611
Debt Service-Capital Improvements		269
Debt Service-Tramway		<u>201</u>

<b>Total Expenditures</b>	<b>\$</b>	<b><u>4,081</u></b>
---------------------------	-----------	---------------------

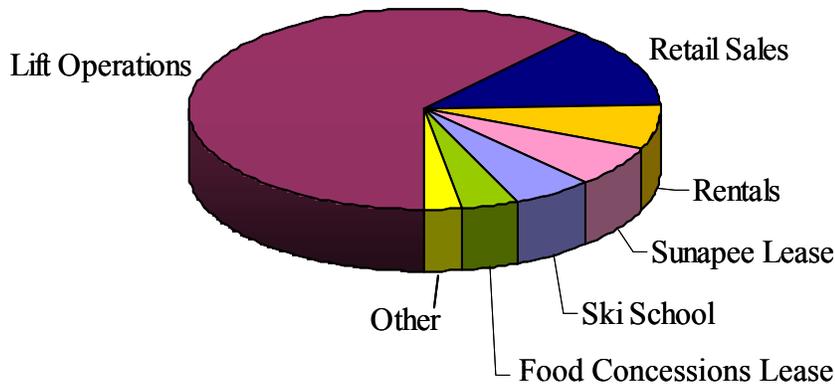
**Excess (Deficiency) Of Revenues**

<b>Over (Under) Expenditures</b>	<b>\$</b>	<b><u>901</u></b>
----------------------------------	-----------	-------------------

**Prior Audit**

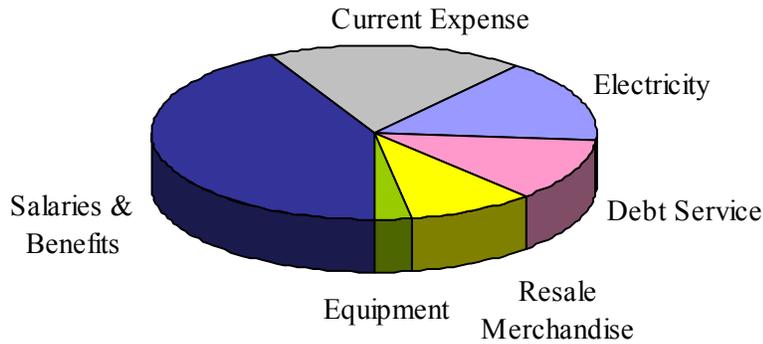
The most recent prior financial and compliance audit covering the operations of Cannon Mountain was the audit of the Department of Resources and Economic Development for the fiscal year ended June 30, 1994. The appendix to this report on page 65 contains a summary of the current status of the observations contained in that prior report that relate to the Department's operations at Cannon Mountain. Copies of the prior audit report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

**Department Of Resources And Economic Development  
Division Of Parks And Recreation  
Cannon Mountain  
10 Months Ended April 30, 2001**



Total Revenues			
Lift Operations	\$	3,061,269	61%
Retail Sales		628,118	13%
Rentals		363,946	7%
Sunapee Lease		338,091	7%
Ski School		266,339	5%
Food Concessions Lease		193,042	4%
Other		131,293	3%
	\$	4,982,098	100%

Department Of Resources And Economic Development  
 Division Of Parks And Recreation  
 Cannon Mountain  
 10 Months Ended April 30, 2001



Total Expenditures		
Salaries & Benefits	\$ 1,722,844	42%
Current Expense	765,768	19%
Electricity	632,568	15%
Debt Service	470,218	12%
Resale Merchandise	373,911	9%
Equipment	115,874	3%
	<b>\$ 4,081,183</b>	<b>100%</b>

**Audit Objectives And Scope**

The primary objective of our audit is to express an opinion on the fairness of the presentation of the financial statement of the Cannon Mountain operations of the New Hampshire Department of Resources and Economic Development, Division of Parks and Recreation, for the ten months ended April 30, 2001. As part of obtaining reasonable assurance about whether the financial statement is free of material misstatement, we considered the effectiveness of the internal controls in place at Cannon Mountain and tested Cannon Mountain’s compliance with certain provisions of applicable State laws and administrative rules. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues and appropriations,
- Expenditures and encumbrances, and
- Real property and equipment.

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

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

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying Combined Statement of Revenues and Expenditures – Budget and Actual – Special and Capital Projects Funds of the Cannon Mountain operations of the New Hampshire Department of Resources and Economic Development, Division of Parks and Recreation, for the ten months ended April 30, 2001, and have issued our report thereon dated January 28, 2002, which was qualified with respect to the lack of presentation of the financial position of Cannon Mountain in the Special and Capital Projects Funds. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Cannon Mountain's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted immaterial instances of noncompliance which are described in Observations No. 32 and No. 33 of this report.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cannon Mountain's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Cannon Mountain's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in Observations No. 1 through No. 31 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions noted above is a material weakness.

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

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

January 28, 2002

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

**Administrative Issues**

**Observation No. 1 - All Expenditures Should Be Subject To Pre-Approval By Management**

*Observation:*

Not all Cannon Mountain expenditures are subject to pre-approval by management. Management approvals for expenditures are often applied only after the purchases are made.

- RSA 12-A:27 allows the director of parks and recreation to make purchases up to \$2,000 for Cannon Mountain ski operations and facilities using field purchase orders. This is four times the normal field purchase order dollar limit allowed most other State agencies. The field purchase order forms, which are intended to be used to authorize these purchases, are not used by Cannon Mountain as an effective control as the forms are pre-signed by the director and are generally filled out by the Cannon Mountain business office only after the purchase has been made and Cannon Mountain has received the goods and vendor invoice. No authorizing individual signs the form approving the purchase based upon a review of the completed form; however, the form becomes part of the expenditure documentation package reviewed by the Department business office and others prior to the payment of the invoice.
- Other standard-limit State field purchase orders authorizing purchases for amounts less than \$500 are also not reviewed, approved, and signed by the Cannon business office prior to the purchase. These documents are prepared and signed only after the purchased goods and invoice have been received at the Mountain.
- Purchase orders for retail goods are not consistently approved prior to purchase. While some retail purchase orders are subject to approval by the Department's business office prior to purchase, this control is not consistently applied as purchases made at trade shows or made from vendors visiting Cannon Mountain's retail sales areas may not receive prior approval.

By not approving field purchase orders in advance, Cannon Mountain is allowing employees to obligate it to expenditures that may not be in accordance with management's intention. By preparing field purchase orders after the fact, Cannon Mountain may also be unintentionally obfuscating the documentation of the approval for the transactions.

*Recommendation:*

As a general policy, purchase orders and field purchase orders should be utilized, as intended, to provide a control over expenditures. To make this control effective, Cannon Mountain or other Department management should approve purchase orders and field purchase orders in advance of the purchase. Documents that are intended to display control procedures should not be completed after the fact, when the intended control is not effective and no control documents should be pre-signed by authorizing individuals.

*Auditee Response:*

We concur and will require pre-approval of purchase orders prior to purchase. The Mountain Manager will be assigned responsibility to sign \$2,000 FPO's [field purchase orders.] "Confirming" retail purchase orders resulting from trade show purchases are unfortunately necessary due to the nature of the retail business but will be kept to a minimum.

**Observation No. 2 - Monitoring Of Food Services Contract Should Be Improved**

*Observation:*

Cannon Mountain has not monitored for, or required contractor compliance with, control provisions in its food services contract intended to protect Cannon Mountain's interest in the operation of the food services facilities at the Mountain.

Cannon Mountain's contract with its food concessions operator provides that Cannon Mountain is to receive 18-26% of the concession operator's gross receipts for food services, alcohol, and vending sales occurring at the Mountain. An additional 3.5% of gross receipts is to be deposited by the operator into a Capital Refurbishing Account used to pay for improvements to Cannon Mountain's food services facilities. During the ten months ended April 30, 2001, the concessions operator paid approximately \$162,000 to Cannon Mountain as contract revenue and deposited approximately \$31,000 into the refurbishing account.

Cannon Mountain has not enforced the food services contract provisions that require the contractor to:

1. Provide a profit and loss statement, statement of financial position, and a certificate from a certified public accountant as to the accuracy of the food services revenues reported by the contractor for the period ended December 31, 2000.
  - The contractor did not provide the required financial reporting or the certification of the revenue amounts.
2. Set up the Refurbishing Account in an interest bearing account and to make deposits into the account of 3.5% of gross receipts by the 20<sup>th</sup> of each month of operations.
  - The account is non-interest bearing and deposits into the account are not consistently made timely.
3. Provide daily sales reports in duplicate with control totals for each food service sales terminal to support reported sales subject to the contract.
  - While the contractor provides monthly sales reports, the contractor does not provide any control total numbers or copies of sales tapes to document amount of sales covered by the report. In addition, the form for reporting daily sales is required by the contract to be approved in writing by the State. There is no evidence to establish that the form was submitted to the State for approval or that the Department's business office fully understands the format of the report and the information reported.

4. Provide a performance/surety bond at the inception of the contract agreement.
  - The contractor has not provided Cannon Mountain with evidence of a bond.

Because Cannon Mountain has not required the contractor to document sales subject to the contract, it is impossible for Cannon Mountain to be certain that it is receiving all of the revenues due from the contractor. In addition, because Cannon Mountain does not have evidence of the establishment of a surety bond, Cannon Mountain may have an exposure to risk it did not intend to have at the inception of the contract agreement.

*Recommendation:*

Cannon Mountain should fully understand all provisions of its contracts and the responsibilities of all contracting parties. Cannon Mountain should monitor for, and enforce compliance with, its food services contract. The food services contractor should be required to adhere to the reporting and other contract provisions intended to protect the State's interests. Information received by Cannon Mountain from its contractor should be reviewed for accuracy and reasonableness. Noncompliance with contract provisions should be aggressively pursued and resolved.

*Auditee Response:*

We concur and have assigned a Cannon staff member to monitor the concessionaire. We also are in the process of implementing these recommendations, and obtaining the necessary documentation.

**Observation No. 3 - Use Of Receiving And Inspection Procedures And Reports Should Be Made More Effective**

*Observation:*

Cannon Mountain does not employ standard receiving and inspection procedures for the acceptance of purchased goods.

The employees who receive goods purchased by Cannon Mountain's non-retail operations do not prepare receiving and inspection reports or otherwise document that the goods were received in a certain quantity and condition. The reports are prepared at a later time by Cannon's business office based on packing slips or phone conversations with the employees who received the deliveries.

While the retail-operation employees who receive saleable inventory use the merchandise packing slip to note receipt of deliveries and forward the annotated slip to the store manager to prepare a receiving and inspection report, this method of documenting receipt of delivered goods is not as controlled as the preparation of a blind or independent receiving and inspection report.

Standard receiving and inspection procedures generally require the individual who performs the actual receiving functions to prepare an independent record of the quantity and description of

items received. Receiving records or reports prepared without regard to the expected delivery amounts are intended to ensure that payments are made only for goods that have been received and that goods received are in accordance with purchase order specifications.

*Recommendation:*

Cannon Mountain should establish formal and controlled procedures for receiving and inspecting delivered goods. Cannon Mountain should incorporate, as appropriate, procedures from the State's Manual of Procedures relative to receiving and inspection reports and modify those procedures as necessary to meet the needs of Cannon Mountain and the Department of Resources and Economic Development. As a general rule, the individual who actually accepts a delivery of goods should prepare a record of the receipt, including quantity and description of the items received. This record should be dated and initialed to evidence the receipt and support the payment for the goods received.

*Auditee Response:*

We concur that the individuals receiving goods need to be responsible for completing receiving and inspection reports.

**Observation No. 4 - Controls Over The Issuance Of Complimentary Tickets Should Be Improved**

*Observation:*

Cannon Mountain management does not regularly review complimentary ticket registers to ensure that complimentary tickets are only issued in accordance with Cannon Mountain policy, nor does management ensure that complimentary tickets redeemed through the ticket sales system are adequately supported by appropriate postings in the complimentary ticket register.

According to Cannon Mountain's Ski Area Special Use Policy, section IX, "At the discretion of the director of parks, marketing director or mountain manager, complimentary day use or use at a reduced cost [tickets] may be issued in exchange for volunteer ski patrol, courtesy patrol, photography, promotion, medical, or other services of direct benefit to the Division." Complimentary tickets are also issued to state residents over the age of 65, members of the legislature, state employees (50% discount), etc. for free or discounted use of Cannon Mountain facilities. In addition, Cannon Mountain supervisors have been authorized by the acting Mountain Manager to issue complimentary tickets to aid in customer relations; for example, to satisfy an unhappy customer. Because misstatements in the reported redemption of complimentary tickets could be used to cover ticket revenue errors or frauds, effective internal control procedures prescribe that the issuance and redemption of complimentary tickets be effectively controlled.

Each Cannon Mountain ticket selling point maintains a complimentary ticket register to record the date, ticket number, and reason for each complimentary ticket issued. The registers are

intended to support a reduction of ticket revenue in the ticket sellers' cash-outs when coupons or other documentation are not part of a free or reduced-price ticket transaction; however, the complimentary ticket register is not regularly reviewed by Cannon Mountain management to ensure that complimentary tickets are issued only in accordance with policy or reviewed in the daily cash-out and deposit process to support ticket sales and deposit amounts.

*Recommendation:*

Cannon Mountain management should improve its controls over the issuance and redemption of complimentary tickets.

- Management knowledgeable of Cannon Mountain's policies should regularly review the ticket sellers' complimentary ticket registers for compliance with those policies.
- Cannon Mountain should consider requiring the recipient of the complimentary ticket to sign the ticket register to improve the documented support for the proper issuance of the tickets.
- The Mountain Manager should regularly review the complimentary tickets issued by supervisors to ensure that the tickets issued under his authority have been properly issued and are in accordance with the Special Use Policy.
- The complimentary ticket register should be used to support complimentary tickets redeemed through the ticket sales system as a regular step in the daily cash-out and deposit process.

*Auditee Response:*

We concur and have re-enforced procedures regarding comp tickets that were already in place, and established revised procedures to address these observations, including regular auditing of the registers and supporting documentation (comp tickets).

**Observation No. 5 - Controls Over Discounting Or Adjusting Lift Ticket Prices Should Be Improved**

*Observation:*

Some ticket sellers at Cannon Mountain have the ability to make price adjustments in the automated ticket processing system. Allowing ticket sellers the ability to change prices causes a significant segregation of duties risk over the collection of ticket revenue.

Cannon Mountain has given certain ticket sellers the authority and ticketing system access to make price adjustments to lift tickets they sell. This authority was intended to allow the ticket sellers to change prices to reflect sales promotions or discounts that had not been updated timely in the automated ticket sales and processing system. This authority was reportedly given to these ticket sellers as a response to occasional delays in implementing sales promotions and making other price changes in the automated ticket sales system.

Allowing ticket sellers the authority to adjust ticket prices without requiring supervisory approval defeats the controls provided by having established ticket prices. This lack of segregation of duties between the responsibilities of setting and collecting fees increases the risk that ticket sellers could inappropriately adjust ticket prices either due to error or fraud.

*Recommendation:*

Cannon Mountain should review the necessity of allowing ticket sellers the authority and ticketing system access to unilaterally adjust prices for lift tickets. The authority and access to change ticket prices should be properly segregated from the collection of revenues. In addition, all ticket price adjustments should be subject to a supervisory review and approval to ensure that price adjustments are for valid reasons as authorized by management.

*Auditee Response:*

We concur and have addressed this by improving communications between the sales (marketing) staff and the ticket management staff, as well as, eliminating the ability to make price adjustments by personnel not in a management position.

**Observation No. 6 - Controls Over The Issuance Of Season Passes Could Be Improved**

*Observation:*

Cannon Mountain's season-pass system uses plastic identification-card stock that is not prenumbered or otherwise controlled to ensure accountability over all issued passes. The system also does not prevent issuing a pass number more than one time.

A sales attendant could issue a fraudulent season pass by selling a pass using a previously issued pass number. The original pass-holder information would be overwritten with the information from the second pass issued. The sales attendant would be accountable for the revenue from the sale of only one pass even though there would be two pass documents issued that would appear valid and would allow skiers and other patrons access to the Mountain's facilities.

*Recommendation:*

Cannon Mountain should improve the accountability and controls over the sales of season passes. Cannon Mountain should determine whether the current system could be modified to provide additional controls over season passes including preventing the issuance of a pass number more than once. Cannon Mountain should also consider whether the use of prenumbered pass stock would allow for increased accountability over passes issued. If additional controls are not available within the current system, Cannon Mountain should consider whether there are other mitigating controls possible outside the current system or consider pursuing a more controlled season-pass sales system.

*Auditee Response:*

We concur and are now using a new season pass system that addresses these observations. The new system does not allow the use of a duplicate pass number.

**Observation No. 7 - Controls Over Deposit Process Should Be Improved**

*Observation:*

Cannon Mountain's deposit procedures do not include an independent review of the deposit receipt to ensure the bank received the deposit as intended.

The Cannon Mountain cashier is responsible for preparing the daily deposit of receipts and for delivering the deposit to the bank. A copy of the deposit slip prepared by the cashier is provided to the account technician for use in reconciling the deposit to the sales amount. This control process could be made more effective by also providing the account technician or other Cannon employee who is otherwise independent of the deposit process with a copy of the bank's deposit receipt. This would allow for independent verification that the deposit was delivered to and received by the bank as intended by the deposit slip.

*Recommendation:*

Cannon Mountain's deposit procedures should include an independent verification of the bank deposit. This verification could be accomplished by a comparison of the deposit slip to the bank's deposit receipt to review that the amount and time of the deposit was as intended.

*Auditee Response:*

We concur with this recommendation and will establish this into our procedures.

**Observation No. 8 - Segregation Of Duties Over Processing Revenues Should Be Improved**

*Observation:*

The employee who performs the reconciliations of the credit card accounts also has the ability to adjust revenue amounts without subsequent supervisory review.

During audit testing we noted a \$72 posting of revenue that was never collected. According to the Department, \$72 of transactions were never effectively transmitted to the credit card company due to system problems experienced during an electrical storm. The employee who reconciled the account had noted the error during the reconciliation process but did not resubmit the transaction for collection. The reason why the transaction was not resubmitted was not documented nor was there any indication that management was involved in this decision.

*Recommendation:*

The authority for determining when and how to correct errors and for making other accounting corrections should be segregated from the account reconciliation process. Department management should be involved in decisions affecting the collection of revenues and other similar significant processes.

*Auditee Response:*

We concur and will have management involvement in these decisions.

**Observation No. 9 - Controls Over Rental, Repair, And Nursery Revenues Should Be Improved**

*Observation:*

Cannon Mountain's current procedures for documenting the collection of rental, repair, and nursery revenues do not include sufficient controls to ensure that all receipts are properly reported and deposited. Missing receipts, either due to error or fraud, may go undetected.

- Cannon Mountain's rental shops use rental forms and the ski repair shop uses work tags as the initial records of rental and repair revenues, respectively. The rental forms and work tags are pre-numbered, however the shops do not consistently issue the documents in numeric order or account for all documents used. If the shops utilized the numeric control feature of these documents, missing documents and receipts, either due to error or fraud, would likely be detected in a timely manner. In addition, we noted that the rental forms were not always completely filled out and the forms used by the bike rental shop were not sufficiently detailed to allow a reviewer to "desk audit" the transaction.
- Cannon Mountain's nursery operation uses an enrollment form to document information about a child receiving nursery services. These forms are not pre-numbered and do not include information regarding the amount of the fees charged for services. There is no other control-type form used by Cannon Mountain's nursery operation that provides support for the revenues it collects. Such forms could be used to assist in the detection of missing documents and receipts.

*Recommendation:*

Cannon Mountain should use the accountability provided by well-designed and numerically controlled revenue documentation, including forms, to review for and ensure that all revenue collected by its operations is properly recorded and accounted for.

- Cannon Mountain should take advantage of the controls over the collection of revenue provided by the pre-numbered documents used by the rental and repair shops. All documents should be used in numeric sequence and accounted for.

- Cannon Mountain should review and revise its rental forms as necessary to ensure that sufficient information is captured on the forms to allow reviewers to “desk audit” the transactions represented by the forms. Information that should be recorded includes types of rentals, time out, time in, discounts or package pricing that may have been applied, and other conditions and information that would allow a reviewer to assess whether the proper fees were collected from the transaction.
- Cannon Mountain’s nursery operations should increase the information captured by the enrollment forms. All forms should be pre-numbered, used in sequence, and properly accounted for. Fee information should also be included on the forms.

*Auditee Response:*

We concur and have started taking the necessary steps to implement these recommendations.

**Observation No. 10 - Sales Of Excess Ski And Bike Rental Inventory Should Be Subject To Management Review**

*Observation:*

There is no management review of the sales of excess ski and bike rental inventory at Cannon Mountain.

The ski shop and bike shop managers are responsible for determining when to sell excess rental inventory and for setting the sales price. There are no policies or procedures to assist the managers in making these decisions. The determination to sell the inventory and the sales prices set by the managers are not reported to, or reviewed or approved by, Cannon Mountain management.

During the ten months ended April 30, 2001, Cannon Mountain disposed of excess rental ski and bike inventory that had an original cost of approximately \$92,000. Cannon Mountain received approximately \$34,000 for the inventory that it sold and discarded the remainder.

Because the ski and bike shop managers make determinations on the sales and other disposals of excess inventory without review, Cannon Mountain cannot be certain that the ski and bike inventory is managed, and excess equipment is disposed of, in a controlled and efficient manner.

*Recommendation:*

Controls should be established over the disposal of excess ski and bike rental inventory including establishing a proper segregation of responsibilities over the custody and sale of this inventory.

Policies should be established for managing rental inventories, including provisions for determining when to dispose of inventory and how to establish prices when inventory is sold. Periodic analysis of inventory rentals should be prepared to assist shop managers and Cannon

Mountain management in understanding inventory utilization. This information could assist in the determination of the inventory that should be purchased and disposed of and also assist in assuring Cannon Mountain management that the rental shops are operating as intended.

*Auditee Response:*

We concur and have established the appropriate policies to include management's involvement with the sale and disposal of rental equipment.

**Observation No. 11 - Controls Over The Inventorying And Sale Of Rental Shop Inventory Should Be Improved**

*Observation:*

Cannon Mountain equipment rental shops do not utilize appropriate inventory control and reporting procedures to ensure that inventories of rental sports equipment are properly inventoried, valued, and disposed of in a manner consistent with management's intentions. At April 30, 2001, Cannon Mountain reported that it owned \$84,000 in rental ski equipment, \$10,000 in rental bike equipment, and \$9,000 in rental canoes.

Cannon Mountain's business office maintains the inventory records for the Mountain's ski, bike, and canoe rental shops. The business office makes changes to the inventory records based on notification from the shops of the purchase or sale of rental equipment and other changes in equipment levels such as loss from theft or damage. Apparently, due to inconsistent communication between the rental shops and the business office, not all purchases and disposals of equipment have been reported to the business office and reflected in the inventory records. The result of this lack of effective communication is that the rental equipment inventory reported by the business office is not accurate.

Because detailed purchase and sales documentation is not consistently maintained by the rental shops and reported to the business office, records necessary to correct the business office inventory records when differences are detected may not be available.

As noted in Observation No. 10, the ability of the rental shop managers to unilaterally sell the equipment that they are custodian of without management's review and approval is a serious breach of effective segregation of duties controls. This lack of segregation of duties, along with the weak inventory controls mentioned above, increase the risk that errors or fraud involving the rental sports equipment inventory could occur and not be detected.

*Recommendation:*

Effective controls should be established over the rental sports equipment inventory. All inventory transactions should be adequately documented and reported to the business office in a timely manner.

Effective segregation of duties should be established over the sales of rental equipment. The custodian of the equipment should not also be able to establish a selling price and collect the proceeds of the sales of that equipment without the transaction being reviewed and approved by a responsible level of management.

*Auditee Response:*

We concur and have made the necessary changes to address this observation, including requiring the inspection and establishment of a sales price of equipment recommended for sale by management.

**Observation No. 12 - Accountability Over Revenue Transactions At Echo Lake Beach Facilities Should Be Improved**

*Observation:*

Employees at Cannon Mountain's Echo Lake beach concession as well as employees at the Echo Lake sales booth share a single sales terminal and cash drawer at each location. Because access to the terminals and cash drawers is not limited to a single employee, the culpability for any error or fraud that may occur may not be determinable.

During the ten months ended April 30, 2001, approximately \$30,000 of revenue was processed through Cannon Mountain's Echo Lake beach concession operation and approximately \$38,000 was processed through the Echo Lake beach sales booth.

*Recommendation:*

Cannon Mountain should review its revenue controls at its Echo Lake beach operations. While the scale of its sales operations may not support the installation of multiple sales terminals and cash drawers, Cannon Mountain should be aware of the risks inherent in the design of its current sales operations and may want to implement additional alternative controls to mitigate the risks caused by the shared sales terminals and cash drawers.

*Auditee Response:*

We concur and will take the necessary steps to address these observations.

**Observation No. 13 - Reconciliation Process For The Depository Account Should Be Improved**

*Observation:*

The Department does not directly reconcile the financial activity reported by the bank statements for its Cannon Mountain depository accounts to a general ledger book balance as of the bank

statement date. The results of the reconciliations that are prepared by the Department are not forwarded to management for review and approval.

Bank reconciliations are an essential control to ensure that errors or frauds that may occur in the accounts as reflected either in the book or bank records are detected and corrected in a timely manner.

The Department's current reconciliation process reconciles the month-end bank statement cash balance to a zero balance that occurs later in the following month when all of the amounts reflected in the bank statement balance have been drawn out of the account and paid to the State Treasury. While the reconciliation method used by the Department is intended to track all transactions recorded on the bank statement, the reconciliation method does not incorporate consideration of a month-end book balance of cash in the bank. This book balance information may be important to management in its review of the efficiency of the cash deposit and transfer activities.

In addition, the reconciliations prepared by the Department's Accountant II are not submitted to management for review and approval to ensure that the reconciliations are performed timely and accurately.

*Recommendation:*

The Department should include a direct reconciliation of Cannon Mountain's depository bank statement cash balance to a book cash balance as of the bank statement date. This will help ensure that errors or frauds related to the cash accounts are noted in the reconciliation process and resolved in a timely manner. Using an actual, statement end-date book balance in the reconciliation process will also provide management with information on the Department's efficiency in processing cash out of the Department's local bank account and into the Treasurer's account.

The results of the completed reconciliations should be forwarded to appropriate Department management for review and approval.

*Auditee Response:*

We concur with the necessity to reconcile depository account and we do so, but we find the book balance information has no importance to management. Maintaining the current handling of this and all park accounts used for deposits was established as a result of a 1992 audit. This segregation of duties was approved by the LBA and consequently the Accountant II's independent reconciliation cannot be reviewed by management because they have signatory authority on the bank account.

## **Observation No. 14 - Revenues Should Be Recorded More Timely**

### *Observation:*

Cannon Mountain's revenues are not transferred to the State Treasury and recorded in the State's accounting system in a timely manner.

Cannon Mountain operates seven days a week. Essentially all of the receipts collected by Cannon Mountain are deposited in the bank daily. However, Cannon Mountain's revenues processed from cash and check receipts are transferred out of the local bank account and sent to a State Treasury account on a weekly basis. Revenues processed from credit card transactions are transferred to the Treasurer's account on a monthly basis. The revenues from these transactions are recorded in the State's accounting system (NHIFS) upon the transfer to the Treasury account, either weekly or monthly.

Cannon Mountain and the State do not receive interest on the funds that remain in the local bank account awaiting transfer to the Treasury. Also, the delay in recording the revenue in NHIFS makes the revenue information in NHIFS not as current and accurate as it might be.

According to the Department, processing revenue on this weekly/monthly schedule is the result of limited Department resources and the Department not knowing credit card fees until a monthly credit card statement is received from the bank.

### *Recommendation:*

Cannon Mountain and the Department should work with the Department of Administrative Services and the State Treasury to determine the most efficient deposit and revenue reporting procedures to expedite the availability of the funds to the State and the recording of Cannon Mountain revenues in NHIFS. To assist in this effort, estimates of credit card fees could be used to post revenues to NHIFS, pending receipt of monthly credit card statements and reconciliations.

### *Auditee Response:*

We concur with the recommendation and are working with the Treasurer's Office to re-institute daily transfers of cash/check deposits that were done prior to the banking industry shake up a few years ago. Since then, we couldn't find a bank willing to do these transfers. We were unaware that we would be allowed to transfer credit card receipts prior to the fees being netted out. We are working with the Treasurer's Office on these transactions too.

## **Observation No. 15 - Checks Should Not Be Made Payable To Cash Or Employees To Fund Revolving And Petty Cash Accounts**

### *Observation:*

Checks drawn to replenish local cash accounts are made payable to Cash or Cannon Mountain employees increasing the risk that checks could be misdirected or subject to other error or fraud.

- Checks drawn by the Department to replenish Cannon Mountain's revolving account are made payable to Cannon Mountain employees. These checks are either cashed to provide currency for use at Cannon Mountain or deposited into Cannon Mountain's local bank account.
- Checks drawn by Cannon Mountain on its revolving account to replenish cash in its petty cash account are generally made payable to Cash and cashed at the local bank.

Drawing checks payable to Cash or to employees for non-payroll purposes increases the negotiability of the checks and the related risk that the checks may become misdirected or subject to other error or fraud.

### *Recommendation:*

Cannon Mountain should work with the Department of Administrative Services and its local bank to determine a more controlled manner to draw checks intended to provide cash to replenish its revolving and petty cash accounts. For example:

- Checks drawn by the Department to replenish Cannon Mountain's revolving account could be made payable to the account name and deposited directly into the account.
- Checks drawn from Cannon Mountain's revolving account to replenish its petty cash could be made payable to an employee with the addition of the words "petty cash" to distinguish the check from a payroll or personal expense check.

### *Auditee Response:*

We concur and for the sake of consistency will make all checks in these circumstances made payable to the "employee/Petty Cash."

## **Observation No. 16 - Computer Access Password Controls Should Be Better Utilized**

### *Observation:*

Cannon Mountain has not been consistent in using effective password control procedures to regulate access to its essential computer systems.

Effective use of computer access passwords is one of the important system controls intended to provide accountability and security over transaction recording and other information. Cannon Mountain has not established password controls over its retail sales computer terminals, does not require users of its ticketing, timekeeping, and season pass systems to periodically change passwords, and allows users of its season pass system to routinely process transactions under the user password of the first user of the system at the start of the business day. Cannon Mountain's lax application of computer access password controls limits the effectiveness of the controls and results in situations where the accountability for recorded transactions cannot be established.

*Recommendation:*

Cannon Mountain should establish and utilize effective computer access control procedures, including effective password control procedures, to ensure that access to essential computer systems is restricted to authorized employees and that accountability for transactions recorded in the systems is not compromised through its lax enforcement of established control procedures.

*Auditee Response:*

We concur and now have password access only on all Cannon computers.

**Equipment Issues**

**Observation No. 17 - Procedures For The Annual Inventory Of Equipment Should Be Improved**

*Observation:*

Cannon Mountain's procedures for taking its annual inventory of equipment are not sufficient to ensure that all State-owned equipment is properly accounted for and reported.

The procedures used by Cannon Mountain to inventory equipment do not provide for independent determination of existing equipment as the supervisors responsible for the custody of the equipment also perform the annual inventory. In addition, only equipment items that have been identified with State equipment tags are reported in the inventory. Equipment that is not tagged is not included in the inventory nor is its ownership researched to determine if its exclusion from the inventory is proper.

In order to obtain the control benefits provided by proper segregation of duties over inventory processes, individuals who are independent of the custody of, and record keeping for, the assets being inventoried should perform the physical inventories. This segregation of responsibilities provides for an independent oversight of the existence and condition of the assets being counted. In addition, inventories should be taken of all assets found at the location of the inventory without allowing inventory takers access to listings of equipment expected to be at that location. These procedures promote accurate inventories of existing equipment and lessen the likelihood

of false inclusion of missing equipment in the inventory results and other potential errors or frauds.

*Recommendation:*

Cannon Mountain should increase controls over its equipment inventory process. Employees independent of the custody of, and record keeping for, the equipment should perform annual inventories. The inventory should include all State-owned equipment meeting the criteria of controlled equipment at the Mountain regardless of whether the equipment had previously been properly tagged.

The ownership of all untagged equipment items that are noted during the inventory should be investigated. Equipment subject to severe weather, which makes the durability of tags problematic, should have identification information engraved or etched onto the equipment.

*Auditee Response:*

We concur that a blind and total inventory should be taken and equipment numbers etched onto equipment as necessary and as previously instructed. In addition, we also concur that inventories must be performed by independent parties.

**Observation No. 18 - Controls Should Be Established To Ensure Equipment Is Properly Identified And Tagged When Acquired**

*Observation:*

Cannon Mountain does not have adequate controls to ensure that all of its State-owned equipment is properly tagged or otherwise specifically identified when acquired to allow for tracking and for other accountability purposes.

Prior to April 2001, Cannon Mountain relied upon the Department to identify when equipment requiring identification tags was purchased. Cannon Mountain would apply tags provided by the Department based on the Department's review of Cannon Mountain's payment vouchers. Because Cannon Mountain would generally receive equipment identification tags sometime after the equipment was placed into operation, there was the potential that the tags would never be properly attached to the equipment. During our review of Cannon Mountain equipment, we noted many items that did not have equipment inventory tags applied.

Since April 2001, a Cannon Mountain business office employee has used a database to attempt to track class 30 equipment expenditures in the State accounting system (NHIFS) for equipment identification and control purposes. While this may be a reasonable approach for tracking equipment purchases, Cannon Mountain and Department management have not ratified this procedure and this procedure may not be effective in identifying all equipment items that require tagging.

*Recommendation:*

Cannon Mountain should institute controls to ensure that all State-owned equipment is identified and tracked and that accountability for the equipment is established. Cannon Mountain should reestablish with its employees the requirement to properly identify and track State-owned equipment.

Cannon Mountain should improve its inspection and receiving procedures for purchases to ensure that equipment items meeting the State's definition of equipment are properly identified and tagged. Cannon Mountain should not rely solely upon the Department or Cannon Mountain's business office review of class 30 expenditures to identify acquisition of equipment.

*Auditee Response:*

The Department follows State procedures regarding tagging equipment upon its purchase and maintaining a central inventory file. This function has been transferred from a part-time employee to a full-time employee to make tagging more timely. We concur that upon receipt equipment tags must be immediately placed on the equipment.

**Observation No. 19 - Physical Security Over Buildings And Equipment Should Be Improved**

*Observation:*

Cannon Mountain's fixed assets could be better safeguarded against loss from theft or vandalism.

Cannon Mountain does not sufficiently control access to its operations and storage buildings. Building keys are not inventoried and retrieved from terminated employees, nor are the keys marked to indicate that duplication of the keys is prohibited. Locks on buildings are changed infrequently and broken locks have not been repaired in a timely manner.

*Recommendation:*

Cannon Mountain should improve access controls to its buildings. Building keys should be controlled to ensure that only employees that require access to the buildings as a necessary job function have keys and that the use of the keys is appropriately monitored. Keys should be marked to discourage unauthorized duplication and employees should be reminded of the need to secure their assigned keys. Locks on doors should be regularly changed to periodically reestablish key controls. All buildings that are not intended to be open to the public should be sufficiently secured by locks to prevent unauthorized access. Securing buildings will limit the potential for the theft or vandalism of State assets and prevent the injury of unauthorized individuals who may wander into open buildings.

*Auditee Response:*

We concur and have changed locks, established a key inventory, marked keys “do not duplicate,” required employees to sign for keys, and all master and extra keys are in a locked cabinet.

**Observation No. 20 - Discrepancy Reports Should Be Filed To Report Lost, Stolen, Or Damaged Equipment**

*Observation:*

Cannon Mountain does not report lost, stolen, or damaged equipment on a Discrepancy Report (form P-18) as required by State policy.

According to the Department, Cannon Mountain reports lost, stolen, or damaged State equipment on monthly Equipment Adjustment Reports (form P-21) as “surplused per audit” or “junked per audit.” Reporting lost, stolen, or damaged equipment in this manner does not necessarily properly reflect the actual circumstances and promote the proper follow-up for missing State-owned equipment.

According to the Department of Administrative Services, Bureau of Purchase and Property, anytime an agency removes a lost, stolen, or damaged equipment item from its equipment records, a P-18 Discrepancy Report should be prepared and submitted to the Bureau. This report should accompany the monthly P-21 Equipment Adjustment Report. The Discrepancy Report provides for: 1) a certification by the person assigned to control the inventory, 2) an investigation by an independent person, and 3) an approval by the agency head. The P-18 provides for an official recognition by the responsible agency of the loss or damage of State equipment and that the loss or damage was investigated with appropriate action taken.

*Recommendation:*

Cannon Mountain should prepare and submit P-18 Discrepancy Reports for lost, stolen, or damaged State equipment as required by State policy. Appropriate Cannon Mountain or Department personnel should perform all certifications, investigations, and approvals needed to complete the reports.

*Auditee Response:*

We concur and have implemented this recommendation.

## *Retail Sales Operations Issues*

### **Observation No. 21 - Management Oversight Of The Retail Sales Operations Should Be Increased**

#### *Observation:*

There is relatively little management oversight of the retail sales operations at Cannon Mountain.

The Department's retail sales operations, including the retail operations at Cannon Mountain, are under the direction of a retail operations supervisor, a Department employee who works from her home. This employee is allowed by the Department to independently manage the Department's retail operations with very little oversight. This employee is responsible for product and vendor selection, purchasing and pricing, and store operating procedures, among other policy decisions.

The retail operations supervisor's home in Vermont serves as her official assigned headquarters. The Department's computer system that is used to track and report store inventory and sales activity is located at this employee's residence and the employee regularly meets with vendors at her home-based office. The Department's business office in Concord does not have direct access to this computer inventory system and relies on the retail operations supervisor to operate the system and report any information required by the business office. This employee does not complete a time sheet or formally report her daily activity but does notify the Division of Parks and Recreation's main office when she is on leave status. The Division office prepares and submits a time sheet for her reflecting any leave taken. The Department provides the employee with a state-assigned vehicle to commute to the Department's retail locations. Reportedly, the employee parks the State vehicle at a State facility near the state border and does not use the vehicle to travel into Vermont to her home.

Department management has indicated that they are aware of the risks associated with allowing this wide operating flexibility to the retail operations supervisor. They add however that they trust this employee and are comfortable with the current arrangement.

The Department's current procedures for operating and reporting the operations of its retail stores does not provide management with financial reporting such as cost of goods sold and inventory balances and activity analyses to allow management to effectively review the results of these retail operations. Because this employee performs essentially all purchasing activities and functions with minimal review and oversight, the Department does not have independent assurance that the purchasing is done on the most beneficial terms to the State. While Division management credits this employee with having turned around the Department's retail operations, management could not provide any analysis or documentation to support the efficiency and effectiveness of the retail operations.

It is management's responsibility to provide effective oversight over the activities delegated to, and performed by, its employees. Effective controls in a system cannot rely upon management's trust of an individual employee. Controls should be in place that are appropriate based on the risks inherent in the system and not on the perceived honesty of employees.

*Recommendation:*

The Department should increase its oversight over its retail operations.

The Department should require the retail operations supervisor to prepare and submit regular signed time and activity reporting documentation to support payroll amounts and to ensure that management is aware of the activities performed by its employees.

Cannon Mountain and the Department should require improved management information reporting on the activity of the retail operations. Management should be provided with sufficient information to objectively determine profitability and the efficiency and effectiveness of the retail operations. Periodic analyses of cost of goods sold, inventory levels and turnover, and other performance reporting should be provided to, and used by, management to establish and monitor expected and actual performance of the retail operations.

The Department's business office should have access to the retail sales computer inventory system. Access to the inventory system would allow the Department to review inventory information as needed and also allow the Department's information technology section to assist in maintaining the system and in providing other hardware and user support for the system.

*Auditee Response:*

We concur and will require signed timesheets and regular reporting of cost of goods sold and inventory activity over and above the inventories received twice each year. We will also look into providing access to the retail system, which we estimate will cost approximately \$8,000 to accomplish. The retail operations supervisor has documented her criteria for selecting vendors and goods which has been reviewed and approved by management.

**Observation No. 22 - Controls Over Retail Sales Accountability Should Be Improved**

*Observation:*

Accountability over sales transactions occurring in Cannon Mountain's retail operations is hampered, as access to the sales clerks' cash drawers is not adequately secured and sales clerks' access to the sales terminals is not restricted by a password or other control. Retail sales employees may, on occasion, share sales terminals and cash drawers. Also, terminals and cash drawers are not secured when employees go on break or temporarily leave their sales station.

Effective internal control procedures prescribe that entities establish and maintain effective accountability and security over sales terminal access, transaction processing, and the custody of cash receipts. Cannon Mountain retail sales employees should be accountable for the transactions they process. While it is understood that employees are conscious of the need to limit sharing access to terminals and drawers, because access to terminals and cash drawers is not adequately restricted to a single clerk, it may be difficult or impossible to establish the responsibility for any error or fraud that may occur in the retail sales operations.

*Recommendation:*

Cannon Mountain should establish procedures ensuring accountability over transactions processed in its retail sales operations. Sales employees should not share cash drawers, access to terminals should be restricted by password controls, and terminals should be closed down and cash drawers locked when employees go on breaks or otherwise leave the sales area. Improving accountability over sales transactions will allow for increased controls over revenue collected and also provide management with better information on clerk performance that may be useful for personnel evaluation and training purposes.

*Auditee Response:*

We concur with these recommendations and are implementing the necessary changes to address them.

**Observation No. 23 - Segregation Of Duties Should Be Established Over Retail Sales And Retail Inventory Control**

*Observation:*

There is a lack of segregation of duties in the job responsibilities performed by retail sales operation employees at Cannon Mountain.

Sales clerks have the conflicting job responsibilities of taking inventory counts of merchandise that they are custodian of and making adjustments to the perpetual inventory records to remove damaged, lost, or stolen inventory. Inventory adjustments made by the clerks are not formally documented and the clerks are not required to submit the adjustments to management for review and approval and possible analysis.

Having custody over the inventory and also having the ability to adjust the inventory records without review and approval allows clerks the opportunity to commit errors and frauds with minimal risk of detection.

*Recommendation:*

Cannon Mountain should establish effective segregation of duties over the custody of saleable inventory, the responsibility for counting the inventory, and the ability to make adjustments to the inventory records without management's review and approval. Clerks whose primary functions are to hold and sell inventory should not also have the authority to adjust inventory records without the adjustment being reviewed and approved by management.

*Auditee Response:*

We concur and will document the segregation of duties and document management approval of these transactions.

## **Observation No. 24 - Controls Over Purchases Of Retail Inventory Should Be Improved**

### *Observation:*

Cannon Mountain has not effectively established and communicated its policies for purchasing inventory for its retail sales operations with regard to determining the range of acceptable deviations between Cannon Mountain's purchase order prices and prices charged on vendors' invoices. Because these policies are unclear, Cannon Mountain has not been effective in reviewing and comparing purchase order to invoice prices to ensure that it is paying what it intended for inventory purchased for its retail sales operations.

The purchase order confirmation documents issued by Cannon Mountain's retail operations indicate that prices plus or minus 10% are acceptable. The retail operations supervisor, who is responsible for purchasing retail inventory, indicates that this means that, in total, the invoice amount may vary from the purchase order amount by plus or minus 10%. The Department employee responsible for performing the Department's pre-audit of the expenditures is unsure if the plus or minus 10% allowance is applied to the invoice in total or to each product purchased. The Department's Administrator indicates that there should be no deviations between the quantities and the unit costs between the purchase orders and the invoices.

In our testing of 15 retail purchases, we noted three invoices with products ordered that had variations between the purchase order and invoice price in excess of 10%. Each of these invoices was approved for payment with no indication that the deviations in price had been noted or investigated prior to the payment. In addition, it was not clear that the increase in cost had been properly reflected in the retail sales inventory system.

By not properly recognizing changes in the cost of ordered goods, Cannon Mountain's retail operations runs the risks of:

- Improper acceptance. Cannon Mountain may accept goods that might not have been accepted had the price changes been recognized.
- Improperly basing future orders on incorrect past information.
- Improper pricing of retail inventory. If the accurate cost of inventory is not recorded in the retail sales inventory system, there is the risk that the retail sales price will not reflect the profit margin expected by Cannon Mountain.

### *Recommendation:*

Cannon Mountain should establish and communicate its policies for purchasing inventory for its retail sales operations including policies for accepting price changes from vendors. All employees involved in the purchasing/expenditure control functions should be aware of their responsibilities for reviewing and approving purchases including what, if any, variations in pricing are allowed.

Any changes in prices should be reflected in the retail sales inventory system to ensure that retail pricing and future orders are based on current information.

*Auditee Response:*

Employees involved in this process have been instructed that no deviation from the purchase orders for retail goods are allowed with the exception of quantities without investigation and, if satisfactory, the request and approval of a change order that will be reflected in the retail sales system.

**Observation No. 25 - Physical Controls Over Retail Inventory Should Be Improved**

*Observation:*

The physical controls over the security of Cannon Mountain's retail inventories have not been enforced.

During a tour of the Cannon Mountain facilities early in the audit, we noted that the door from the ski instructors' locker room to the Peabody Lodge retail operations storeroom was unlocked, even though the storeroom was unattended. We were also informed that the Tram retail store's roll-up security doors are pulled down during non-business hours but are not secured because the locks need to be repaired.

By not enforcing security measures over its retail inventory, management allows the establishment of an environment where the employees' sense of accountability for the inventory is lessened, as is the employees' consciousness of controls and security over operations.

*Recommendation:*

Cannon Mountain's management must impress upon its employees the necessity for implementing and adhering to control procedures, including controls over saleable inventory. All doors securing State assets should be locked to prevent unauthorized access. Locks and other security systems that are not functioning properly should be reported for immediate repair.

*Auditee Response:*

We concur and have addressed this already.

## **Observation No. 26 - Merchandise Should Be Recorded Into Inventory Prior To Being Offered For Sale**

### *Observation:*

Cannon Mountain does not require retail merchandise to be entered into the perpetual inventory system prior to the merchandise being made available for sale in its retail operations.

The retail operations manager records the receipt of inventory into Cannon Mountain's perpetual inventory system using the packing slips that accompany the delivery of the products. This recording of the receipt of the inventory, which includes the generation of an inspection and receiving document used to support payment for the products, may occur sometime after the inventory has been stocked onto the sales shelves and after sales of the merchandise have occurred. Because sales of product can occur prior to the products having been recorded as received into inventory, the perpetual records can show sales against negative balances of inventory and report negative inventory balances of product available for sale.

Delays in recording the receipt of inventory into the perpetual inventory system lessens the value of the information available from the system. The inventory system does not accurately report the number or cost of items on hand and available for sale and therefore does not provide management with reliable information on inventory status and sales operations. Management's allowing the inventory system to routinely report out of date and incorrect information lessens the control value of the system and promotes an environment where employees may believe it is acceptable to disregard management controls for efficiency or other reasons.

### *Recommendation:*

Cannon Mountain management should require that all retail merchandise be entered as received into the perpetual inventory system prior to the merchandise being stocked on shelves and made available for sale in the retail shops. The retail operations should not sell merchandise that has not been previously inspected and received into the inventory system.

Management should emphasize with its retail operations personnel the need to maintain effective controls over the retail operations including timely recording of the receipt of inventory into the perpetual inventory system. Management should not allow employees to routinely bypass or lessen the effectiveness of management's control processes.

### *Auditee Response:*

We concur and have addressed this with the retail operations supervisor.

**Observation No. 27 - Periodic Control Counts Of Saleable Inventory Should Be More Accurate**

*Observation:*

During our observation of Cannon Mountain's control counts of saleable inventory at the end of the spring 2001 ski season, we noted a number of miscounts made by Cannon employees. Approximately 47% (9 of 19) of the items test counted had been incorrectly counted by Cannon employees. While the amounts of the noted discrepancies were relatively insignificant, the number of count errors indicates that the inventory control count was not carefully performed.

Control counts are used to periodically adjust the perpetual inventory records to reflect shrinkage that may occur due to pilferage and to correct for any missed or incorrect inventory postings. Incorrect perpetual inventory records distort management information reports such as inventory balances, turnover, and cost of goods sold, which are intended to inform management about the performance of the retail operations.

*Recommendation:*

Cannon Mountain employees performing inventory control counts should be provided with sufficient direction and assistance to ensure that the counts are performed with care and result in reasonably accurate counts.

Adjustments to inventory records based on periodic inventory control counts should be reported to, and reviewed by, a level of management independent of retail operations to ensure that Cannon Mountain's retail operations are operating as intended.

*Auditee Response:*

We concur that inventory counts need to be accurate and have implemented the recommendation. The Mountain Manager will continue to review adjustments made necessary by physical inventory counts.

**Observation No. 28 - Additional Training And Support On The Use Of The Retail Operation's Perpetual Inventory System Is Needed**

*Observation:*

Users of the computerized, perpetual inventory system supporting Cannon Mountain's retail sales appear to have only limited operational knowledge of the system. Users were unable to retrieve information that should be readily available from such a retail inventory system.

During audit fieldwork we noted instances where personnel responsible for retail operations were not as knowledgeable as expected with regard to the computerized retail inventory system. For example: a report of adjustments made to item balances could not be provided; there were

occasions where inventory was input twice, as the operators could not determine whether the first input had been accepted by the system; and one instance was noted where two system users reported inconsistent data in response to an auditors request for information.

According to Cannon Mountain employees, the Department's information technology section can not provide computer support on the inventory system as the main server is housed at the retail operations supervisor's residence and the Department's central office does not have access to a terminal on the system.

*Recommendation:*

Cannon Mountain should obtain additional training for employees who operate the retail sales inventory system. Employees should be able to generate appropriate and accurate management information reports, including reports of adjustments made, to assist management in understanding its retail sales operations.

Cannon Mountain and the Department should consider providing the Department's information technology section access to the computerized perpetual inventory system in order to provide additional computer support to the system's users.

*Auditee Response:*

The personnel responsible for retail operations has addressed these issues and received further training. The incident of double entry of inventory was a software glitch that has been dealt with. The main server must be housed where it is because it is the computer where purchase orders and inventory adjustments can be made and the employee's residence who is responsible for these functions is designated as the employee's official headquarters. All retail computers have "lap-link" software which enables central office IT [information technology] staff access should software support be required. Hardware support must be done on-site. The cost of an additional terminal is \$8,000 and is not cost effective just to have electronic versions of documents that are already on-site as hard copy.

**Payroll Issues**

**Observation No. 29 - Review And Approval Of Hours Worked Should Be Implemented**

*Observation:*

There is a lack of effective review and approval controls over hours reported worked by Cannon Mountain employees, including the hours reported worked by the employee responsible for recording and reporting hours worked by all employees.

Hours worked by Cannon Mountain employees are accumulated by a computerized time clock system and summarized by employees in Cannon Mountain's business office. The summary report is sent to the Department's business office where the hours are entered into the State's

payroll system, GHRS. While the Department's business administrator signs the Department's payroll certification, the administrator is only approving total amounts and does not review or approve hours worked by individual employees. There is no process at Cannon Mountain or at the Department to review and approve the hours reported worked by individual Cannon Mountain employees. This lack of review and approval function for hours worked presents a significant lack of segregation of duties situation and a resulting payroll risk, as the Cannon Mountain employee responsible for recording and reporting hours worked on the payroll summary regularly changes and adjusts the hours accumulated by the time clock system, including that employee's own hours and hours worked by that employee's family members. Cannon Mountain has no policy or procedure requiring the reasons for the adjustments to be documented or approved or for notifying the employees or the employees' supervisors of adjustments made to their time records.

*Recommendation:*

Cannon Mountain should establish effective review and approval controls over summarizing and reporting employee payroll. Bi-weekly payrolls should be reviewed and approved by someone otherwise independent of the payroll functions who has sufficient knowledge and understanding of Cannon Mountain's operations to be able to provide a control over the hours that employees are working and being paid for.

Cannon Mountain should review the reasons causing the unusually large number of adjustments made to the time clock records. Procedures should be established and adhered to that allow the time clock reports to be used as a reliable record of hours worked minimizing the need for adjustments. While some adjustments to the records will periodically be required, the reasons for all adjustments should be documented and approved. The employee who prepares the payroll summaries should not be allowed to adjust their own time records or the records of other employees who are family members.

*Auditee Response:*

We concur that time submitted to the Concord payroll office needs to be reviewed and that review documented by management on-site at Cannon. Management in Concord cannot certify hours worked at Cannon. We also concur that adjustments referenced need to be kept to a minimum and those that are necessary need to be documented and approved by management at Cannon. All employees must now document any overtime and supervisors must document their approval.

## **Observation No. 30 - Management Information System's Reporting Of Ski School Employee Activity Should Be Improved**

### *Observation:*

Cannon Mountain's payroll management information system does not provide sufficient information on the activity of ski school instructors to assist in determining efficient staffing levels and also to ensure that employees are only paid for hours of productive work.

Cannon Mountain ski school instructors do not record their work hours on the Mountain's automated timekeeping system. Ski school instructors record their hours worked on informal timesheets. The timesheets do not consistently document what work was performed, for example how many students in a class or even if a class was instructed, and are often not signed by the employee. The director of the ski school may subsequently change the hours worked posted to the timesheets by the instructors. According to the ski school director, it is necessary to provide guaranteed minimum work hours to certain employees to ensure that a reliable pool of quality instructors is available for the ski school. Again, according to the ski school director, the instructors who are guaranteed hours of work and paid for hours when not teaching a class are available at the mountain and may be assigned administrative work or may be recreationally skiing during the period of these guaranteed hours.

Because the management information system for ski school instructors' payroll is so poor, it is impossible to determine the paid activity of ski school instructors and to determine the efficiency in which the instructors are scheduled to work. It is unclear whether it is in Cannon Mountain's best interest to pay ski school instructors for hours not worked. According to the acting Mountain Manager, ski school instructors should not be paid to recreationally ski. Again, according to the acting Mountain Manager, there are other duties that could be performed by instructors when they are not teaching such as assisting lift operators check skiers' tickets, helping the parking lot attendants, etc.

In addition, a payroll system that does not maintain sufficient documentation to support amounts paid is subject to abuse. Unsigned timesheets, undocumented revisions to timesheets, and situations where employees are paid for time spent not working can lead to an environment where management's control over payroll becomes ineffective.

### *Recommendation:*

Cannon Mountain should improve its payroll management information system for ski school instructors. All ski school instructors should submit, and the ski school should maintain, sufficient documentation to support classes taught and hours worked.

Employees should not be paid for time spent recreationally skiing or for other nonproductive activities. The ski school management, using better information, should be able to more efficiently schedule ski school instructors to avoid paying instructors for hours not worked or hours worked in other than their intended job assignments.

Cannon Mountain should reestablish an effective control environment over the ski school payrolls. Ski school employees should be reminded of management's requirements that proper procedures and controls are to be maintained and enforced to ensure that payrolls are accurate and used as intended.

*Auditee Response:*

We concur and will implement the recommendations to include a thoroughly structured environment in ski school operations.

**Observation No. 31 - Time Recording Procedures Need To Be Emphasized In The Employee Manual**

*Observation:*

Cannon Mountain's Employee Manual, *Timeclock & Payroll Procedures*, does not address the importance of and requirement for employees to "punch in" and "punch out" at their scheduled times.

Cannon Mountain operates an automated time recording system to track the start and end times of employees' workdays. As currently operated, this automated system is not used to its full potential partly due to employees not consistently punching in and out as scheduled.

In order for Cannon Mountain to obtain the full efficiency and effectiveness of the automated time recording system, Cannon Mountain will need to impress upon its employees the importance of consistent and accurate time recording procedures. Fundamental in this effort will be clear, consistent, comprehensive, and communicated policies directing employee actions.

*Recommendation:*

Cannon Mountain should establish clear, consistent, comprehensive, and communicated policies covering all significant aspects of its timeclock and payroll procedures, including policies on punching in and out of work on schedule.

Once comprehensive policies are established and communicated, management will need to establish an effort to encourage and enforce compliance with the policies.

*Auditee Response:*

We concur with these recommendations and have implemented the necessary changes to address them.

## State Compliance Comments

### **Observation No. 32 - Discounts On Season Passes Should Be Applied And Reported As Required By Statute**

#### *Observation:*

Cannon Mountain has not discounted children's season passes a full 25% and has not reported discounted season passes as required by statute.

RSA 227:14 provides for a 25% discount to State residents who purchase a season pass prior to December 15<sup>th</sup>. While the discounted adult season pass price charged by Cannon Mountain provides a 25% discount from the standard price, the discount provided on children's season passes was less than 25%. The effect of not properly discounting resident children's season passes was to overcharge resident children \$19 for these passes (\$180 versus \$199 charged.) Cannon Mountain sold 204 children's season passes where residents were overcharged by \$19 each.

RSA 227:14 also provides for the Department to make quarterly reports of all season tickets issued under that statute section. While the Department does report information on the issuance of season passes, this reporting does not include information specific to season passes issued at a discount to New Hampshire residents.

#### *Recommendation:*

Cannon Mountain should revise its season pass rates to ensure that residents purchasing season passes prior to the December 15<sup>th</sup> date receive the 25% discount provided in statute. If Cannon Mountain determines that granting this discount is not in Cannon Mountain's best interest, a revision to the statute to allow it flexibility in determining discount amounts should be requested.

Cannon Mountain should review its reporting of season passes to ensure that the information required to be reported by RSA 227:14 is included in its reports. If it is unclear what information is required to be reported by the statute, Cannon Mountain should request clarification of the statute.

#### *Auditee Response:*

We will revise the children's season pass rate to reflect the proper discount, and have amended our reporting to reflect the additional information in the recommendation.

**Observation No. 33 - Report Of The Activities Of The Cannon Mountain Capital Improvement Revolving Fund Should Be Prepared And Submitted**

*Observation:*

The Department has not consistently filed a statutorily required report of the activities of the Cannon Mountain Capital Improvement Revolving Fund.

RSA 12-A:29-c, III, effective June 10, 1998, directs the Department to submit a report detailing the activities of the Cannon Mountain Capital Improvement Revolving Fund to the Governor and Council and the Fiscal Committee. This annual report is due within 60 days of the close of each fiscal year.

According to the Department, the reports required by the above-mentioned statute have not been filed.

*Recommendation:*

The Department should submit reports as required by statute.

*Auditee Response:*

All project activity funded by the Capital Improvement Fund was complete in December 1999. Consequently, there was no activity to report beyond that point. However, there was financial activity which was not reported and that interpretation of this statute results in this observation. Based on that interpretation, we concur with the recommendation and will file future reports as required.

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

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying Combined Statement of Revenues and Expenditures – Budget and Actual – Special and Capital Projects Funds of the Cannon Mountain operations of the New Hampshire Department of Resources and Economic Development, Division of Parks and Recreation, for the ten months ended April 30, 2001 and have issued our report thereon dated January 28, 2002, which was qualified with respect to the lack of presentation of the financial position of Cannon Mountain in the Special and Capital Projects Funds.

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

In planning and performing our audit of the financial statement of Cannon Mountain for the ten months ended April 30, 2001, we noted certain issues related to the operation of Cannon Mountain that merit management consideration but do not meet the definition of a reportable condition as defined by the American Institute of Certified Public Accountants, and were not issues of noncompliance with laws, rules, regulations, or contracts.

Those issues that we believe are worthy of management consideration but do not meet the criteria of reportable conditions or noncompliance are included in Observations No. 34 through No. 42 of this report.

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

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

January 28, 2002

## Management Issues Comments

### Administrative Issues

#### **Observation No. 34 - Inefficiencies In Recording Transactions Should Be Reviewed**

*Observation:*

The processes used to record Cannon Mountain's revenue and expenditure transactions are inefficient. Transactions are recorded in at least two different nonintegrated systems requiring duplicative keying which contributes to delays in processing.

Cannon Mountain is not online with the State's integrated financial system, NHIFS. Cannon Mountain's business office records all revenue and expenditure transactions into a standalone bookkeeping system and then forwards the supporting documents to the Department's business office where the transactions are again recorded into NHIFS for State processing. The Cannon Mountain business office indicates that it needs the timely information provided by the bookkeeping system to make management decisions such as availability of funds for snowmaking, etc. and, because the NHIFS paper reports may only be available weeks after transactions have occurred, relying on NHIFS reports cannot supply Cannon Mountain with the timely financial information needed by Mountain management.

Operating duplicative accounting systems is inefficient as it requires multiple posting of common information and reconciliations to ensure that all transactions have been accounted for and properly entered. This duplicative activity causes delays in transaction processing.

*Recommendation:*

The Department and Cannon Mountain should review the necessity of posting information to multiple systems. The Department and Cannon Mountain should review the possibility of providing Cannon Mountain online access to NHIFS. This access could be limited to expedite processing of transactions while still allowing Department business office controls and approvals to be applied to the transactions.

*Auditee Response:*

We concur and agree to look into whether NHIFS can be made available to Cannon and provide management with the same information on a timely basis that the current on-site system does.

#### **Observation No. 35 - Complimentary Ticket Policies Should Be Reviewed**

*Observation:*

Cannon Mountain's Special Use Policy, in regards to the issuance of complimentary tickets, is more permissive than RSA 218:16.

RSA 218:16 states “[i]n recognition of promotional or reciprocal cooperation, the director of parks and recreation, with the approval of the commissioner, may grant special daily or seasonal passes to persons to use recreational or other areas under his jurisdiction under the following conditions: no more than one such pass, including not more than one other person, shall be assigned to an individual and use of the [ticket] shall not be transferable to others than members of the family of said recipient.”

Cannon Mountain’s Special Use Policy allows certain employees to receive and distribute complimentary tickets for free or discounted use of Cannon Mountain facilities. These tickets include employee ambassador vouchers for employees to give to friends and family, vouchers given in exchange for promotions such as radio and television advertisements, complimentary one-day lift passes, etc. There is no prohibition in the Special Use Policy to limit the transference of these tickets and some complimentary tickets are intended to be transferred to third parties.

According to the Department, Cannon Mountain’s Special Use Policy regarding issuances of complimentary tickets has been in place for over 15 years. The Department could not provide reference to its specific statutory authority for granting complimentary tickets in addition to those allowed by RSA 218:16. The Department did suggest that RSA 12-A:2, which gives the Commissioner the “...power to establish Department and divisional policy as well as to control the actual operations of the Department and all divisions therein,” could be seen to grant that authority.

*Recommendation:*

Cannon Mountain should review its use of complimentary tickets to ensure that its policies are in compliance with applicable statutes.

If it is determined that RSA 218:16 is not responsive to its current needs, Cannon Mountain should request a revision to the statute.

*Auditee Response:*

We concur and have requested the Department of Justice review the Special Use Policy for compliance with current law.

**Observation No. 36 - Authority To Adjust Fee Schedules Should Be Clarified**

*Observation:*

The fee schedule submitted to the Fiscal Committee for the Cannon Mountain ski area effective for the ten months ended April 30, 2001 was not comprehensive, as it did not cover all fees charged by Cannon Mountain. In addition, the schedule of fees actually charged to customers during this period was not the fee schedule approved by the Committee.

RSA 216-A:3-g states that the commissioner of the Department shall establish fees for access to and use of the State park system and “The fees approved by the commissioner, after prior approval of the fiscal committee, shall not be subject to the provisions of RSA 541-A, so as to provide the department with the ability to maximize revenues and to adjust fees according to market conditions and trends as is the common practice in private industry.” The Department submitted its fee schedule effective for the 2000-2001 winter season to Fiscal Committee for its approval on September 8, 1999.

- During the 2000-2001 winter season, Cannon Mountain charged \$10 per session for snow tubing. Fees for snow tubing were not included on the fee schedule proposed to, and approved by, the Committee.
- Cannon Mountain did not use the most recently approved fees for season lift passes; rather, Cannon Mountain used the fees in effect prior to the requested increase, reportedly in order to keep fees competitive. According to the Department, the fees approved by the Committee represent a maximum fee and the Department has the ability not to charge the maximum fee or to reduce fees in order to maximize revenue and remain competitive.

*Recommendation:*

Cannon Mountain should clarify its authority to adjust fee schedules previously submitted to, and approved by, the Fiscal Committee.

If Cannon Mountain needs flexibility in the fees it charges to remain competitive and to allow for new products, Cannon Mountain should request that flexibility in its fee schedule submitted to the Fiscal Committee for approval.

*Auditee Response:*

We concur and will in future fee requests spell out that the requested fees are maximums and may be reduced to address market conditions.

**Observation No. 37 - Lessee’s Use Of Department Motor Vehicles Should Be Reviewed**

*Observation:*

The Department has allowed the lessee of the Mount Sunapee ski area to register and operate State-owned vehicles whose use was not granted to the lessee in the lease and operating agreement.

The Department has allowed the lessee of Mount Sunapee ski area to register and operate five State-owned motor vehicles, including four trucks and one Jeep, even though a Department letter dated October 1999 recognized that “It ha[d] been determined through the Attorney General’s Office and Administrative Services that the use of these vehicles was not part of the lease.” In the letter, the Department requested that the lessee remove the State plates and decals from these

vehicles and return them with the vehicle registrations to the Department. The letter also noted that the lessee would need to register these vehicles as leased.

It is not clear that the Department has the authority to allow State-owned vehicles to be registered, operated, and used by a private company.

*Recommendation:*

The Department should review with the Department of Justice whether the Department has the authority to allow the lessee of Mount Sunapee to register and operate the above-mentioned State-owned motor vehicles.

*Auditee Response:*

We concur and will seek the advice of the Department of Justice as recommended.

**Observation No. 38 - Necessity And Operation Of The Capital Refurbishing Account Should Be Reviewed**

*Observation:*

The Capital Refurbishing Account is an unusual accounting device used to provide a source of funds to make improvements to Cannon Mountain's food services facilities. Expenditures made from this account are not subject to the same controls and reporting systems that other State expenditures are subject to.

Cannon Mountain's contract with its food concession operator provides for the establishment of a separate bank account into which a certain portion of the rental payments is deposited. Money in this account is used to make improvements to the food services facilities and equipment according to a plan agreed to by the food concession operator and Cannon Mountain. Assets purchased are the property of Cannon Mountain and both a representative of the food concession operator and Cannon Mountain are required to sign the checks to make payments from the account. Any funds remaining in the account at the end of the term of the contract revert to Cannon Mountain. During the ten months ended April 30, 2001, approximately \$43,000 was deposited into the Capital Refurbishing Account and approximately \$10,500 was expended from the account.

The following are concerns related to the operation of the Capital Refurbishing Account.

- The account is not held in an interest bearing account even though the contract requires such an account.
- The food concession operator maintains the account documentation. While the Cannon Mountain's administrative supervisor is a signatory on the account, Cannon Mountain is not

provided with copies of the bank statement or other account documentation to support the timely deposits into the account.

- Equipment purchased from the account has not been included in Cannon Mountain's equipment inventory listing even though the equipment is Cannon Mountain's property according to the contract.
- Purchases made from the account are not subject to normal State purchasing controls such as purchasing through approved vendors or bidding processes.
- Operating the account in this manner understates the revenues of Cannon Mountain and the costs of its operations in the State's accounting system. The amounts deposited into the account are revenues to Cannon Mountain from the food concession contract; yet, this revenue is not reported in the State's accounts. Similarly, payments from this account purchase improvements to or additional State assets; yet, these expenditures also are not reported in the State's accounting system.

It is unclear that the use of this account is the most effective way to control and account for revenue from the food concession operations and expenditures for improvements to the food services facilities.

*Recommendation:*

Cannon Mountain should review the necessity of the Capital Refurbishing Account. Cannon Mountain should record all revenue related to the rent of the food services facilities and also all expenditures for the maintenance and acquisition of State equipment used in the food services facilities in the State's accounting system.

If Cannon Mountain determines that it is appropriate to retain the separate Capital Refurbishing Account, Cannon Mountain should require that:

- The account be interest bearing,
- The contractor provide copies of bank statements and other appropriate documentation to evidence deposit, expenditure, and balance information,
- All equipment purchased from the account be added to the State's equipment records, and
- All significant expenditures be subject to bids or other control processes and that the revenues and expenditures related to the account be properly reported in the State's accounting system.

*Auditee Response:*

We concur with the recommendations relating to the requirements attached to the use of the capital refurbishing account, which was established as part of the food concession contract

approved by the Governor and Executive Council, to provide an incentive to re-invest in the food operation facilities and equipment at Cannon. Upon expiration of this contract, we will review the use of this account and investigate other means to accomplish the goals established by its enactment.

### **Payroll Issues**

#### **Observation No. 39 - Necessity Of The Regular Payment Of Overtime To Employees Should Be Reviewed**

##### *Observation:*

Several Cannon Mountain and Department personnel providing services to Cannon Mountain operations are regularly scheduled to work 40 hours per week year-round, even though these employees are in 37.5 hour per week positions.

Cannon Mountain's business office personnel and the Department's retail operations supervisor regularly work and are paid for 37.5 hours at straight time and 2.5 hours of straight overtime each week. [Straight overtime is paid at normal hourly rate.] According to Department personnel, it is to the Department's benefit to have the Cannon Mountain business office open eight hours per day. While the Department indicated that it had received approval from the State's Division of Personnel to allow these employees to regularly work 40-hour workweeks, the Department could not provide documentation of that approval. The Department also could not provide documentation to support the need to have the business office open eight hours per day year round, even during off-season periods, or that employee coverage for having the office open eight hours per day could not be obtained by varying employee workday start and end times.

Regularly paying 2.5 hours of overtime 52 weeks a year to the same employees working a regular 40-hour schedule could be regarded as symptomatic of a potential inefficient utilization of resources.

##### *Recommendation:*

Cannon Mountain and the Department should review the necessity of paying overtime to employees on a regular, scheduled basis. Overtime pay, whether at straight time or at time and a half, should only be used during busy seasons or at other times when circumstances require.

If the Department determines that these positions require 40 hour per week coverage, the Department should request that these positions be reclassified from 37.5 to 40 hour per week positions.

##### *Auditee Response:*

We will review this situation as recommended and seek Personnel approval to change the basic workweek to 40 hours for any positions we deem necessary.

## **Observation No. 40 - Authority For And Control Over Additional Employee Benefits Should Be Reviewed**

### *Observation:*

Cannon Mountain employees and the employees of the food concession operator are provided with benefits including free or discounted season passes and equipment rentals for themselves and their dependents, discounts at the retail stores, discounts at the food concessions, free or discounted ski lessons, and discounts on childcare. While some of these additional employee and contractor benefits are described in Cannon Mountain's Employee Manual, the Cannon Mountain Ski Area Special Use Policy, and the food concession contract, not all of these benefits are contained in these documents. Also, Cannon Mountain has not consistently followed the criteria for granting these additional benefits that are contained in these documents.

According to Cannon Mountain's Employee Manual and the Cannon Mountain Ski Area Special Use Policy:

1. Full and part-time employees scheduled to work 16 or more hours per week receive a free season pass. For each year of service, a full-time employee is also allowed an additional free season pass for a dependent. Dependents of part-time employees and part-time employees who are scheduled to work less than 16 hours per week can purchase a season pass for \$75.
2. Employees and volunteers receive three ambassador vouchers per month during the ski season to facilitate skiing with friends, family, and members of the community. Vouchers entitle holders to a discounted ticket price.
3. Employees are offered free basic equipment rentals and dependents are offered a discount of approximately 50% on equipment rentals during non-peak periods.
4. Employees are offered a 25% discount on purchases in the retail shop. (Not included in the Manual and Policy is a 40% discount provided to supervisors on purchases in the retail shop.)
5. Employees and dependents can participate in regularly scheduled ski lessons during non-holiday periods at no charge and receive a 50% discount on weekday childcare.
6. Employees of the food concession operator are provided with the same ski privileges as Cannon Mountain employees who are scheduled to work 16 hours or more per week.

Cannon Mountain cannot provide the source of the authority to grant these additional benefits to its own employees and the food concession operator's employees. Normally, employee benefits are provided by statute or by the State's collective bargaining agreement. In addition, the benefits actually provided by Cannon Mountain have been in excess of those provided in the Cannon Mountain Employee Manual and the Cannon Mountain Ski Area Special Use Policy. For example:

- Season passes are provided to all Cannon Mountain and food concession operator employees regardless of their scheduled hours. Also, employees of the food concession operator receive all the same discounts and other previously mentioned benefits provided to Cannon Mountain employees.
- We noted in a sample of 25 ski equipment rental transactions tested where one employee was given a free rental of equipment for a dependent even though the employee did not meet the criteria for this benefit according to the Employee Manual.

Employees of Franconia Ski Club receive the same ski privileges as Cannon Mountain employees as part of the Land Facility Use Agreement. Eighteen season lift passes were issued to employees of the club pursuant to that agreement.

*Recommendation:*

Cannon Mountain should review the additional benefits provided to its employees and to the employees of the food concession operator to determine whether these benefits are necessary and appropriate to its operations.

Cannon Mountain should review its statutes to determine whether it has the authority to grant the additional benefits to its employees and to the employees of the food concession operator. This review should include consultation with legal counsel to determine whether Cannon Mountain has the authority to grant additional benefits and also to determine whether these benefits should be considered part of the employee compensation required to be reported for tax purposes.

If Cannon Mountain, upon review, determines that it has the authority to grant the additional employee benefits, it should establish controls to ensure that the benefits granted to the employees are limited to the benefits provided for in its manuals and policies. Benefits in excess of those provided in its manuals and policies should not be allowed.

If the benefits provided to its employees and food services employees are changed, Cannon Mountain will need to consider whether those changes affect the agreement with the Franconia Ski Club.

*Auditee Response:*

We concur and will review our authority which we believe is contained in RSA 12-A:2, with the Department of Justice. Benefits in this regard are consistent with those offered by other ski operators and are necessary to remain competitive in recruiting capable employees. We will also request the assistance of the Department of Justice to determine what, if any, tax implications these benefits have. Lastly, we will take steps to establish the controls recommended, after review of the various components of this policy.

## **Observation No. 41 - Appropriateness And Efficiency Of Two-Hour Minimum Pay Guarantee For Employees Should Be Reviewed**

### *Observation:*

Cannon Mountain employees who report to work on days when the mountain is unexpectedly closed or operated under reduced staffing conditions are paid two hours of pay even though they may be sent home and not work or work less than two hours that day.

According to the Cannon Mountain and Department business offices, there is no apparent authority in statute, rule, or contract to guarantee employees a minimum of two hours of pay. However, the business offices reported they believe this practice benefits the Mountain's operations as an incentive to the employees that operate the Mountain to travel to work during inclement weather.

### *Recommendation:*

Cannon Mountain and the Department should determine whether the authority exists for paying a guarantee minimum of two hours of pay to employees.

Cannon Mountain should consider whether there are alternative methods for ensuring adequate staffing at the Mountain during inclement weather, as encouraging employees to travel to the Mountain when the employees' services are not required is not efficient. Cannon Mountain should review its methods for communicating weather and mountain conditions to its employees to ensure that employees do not travel to the mountain unnecessarily during conditions that cause an unexpected reduction or closing of ski activities. This will allow for better control of employee costs and also lessen the risk to employees traveling unnecessarily to work during bad weather conditions.

### *Auditee Response:*

We concur and will look into alternate methods of handling situations of inclement weather. We have discontinued this practice.

## **Observation No. 42 - Employment Status Of Volunteer Workers Should Be Reviewed**

### *Observation:*

The employment status of Cannon Mountain's volunteer workers is unclear.

Cannon Mountain enters into written agreements with "volunteer" workers. The written agreements provide these volunteer workers with a season lift pass in return for a commitment to work at least four hours a day for fifteen days over the course of the ski season. A full-price adult's season pass would normally cost a state resident \$545 and a nonresident \$730. The work

performed by these volunteer workers includes duties that are also regularly performed by Cannon Mountain employees.

Because these written agreements provide something of value in return for services provided, these agreements resemble contracts creating employer-employee relationships. It may not be appropriate for Cannon Mountain to classify these workers as volunteers, not subject to employment tax and other similar requirements. It also may not be appropriate to assume the State has no employee/employer liability considerations for these workers.

*Recommendation:*

Cannon Mountain should review with legal counsel all possible legal ramifications of utilizing volunteer workers. The determination of the employment status should be considered as well as whether the utilization of workers in this manner may expose Cannon Mountain and the State to any possible currently unrecognized potential liabilities.

*Auditee Response:*

We concur and have requested review by the Department of Justice.

**THIS PAGE INTENTIONALLY LEFT BLANK**

## **Independent Auditor's Report**

*To The Fiscal Committee Of The General Court:*

We have audited the accompanying Combined Statement of Revenues and Expenditures – Budget and Actual – Special and Capital Projects Funds of the Cannon Mountain operations of the New Hampshire Department of Resources and Economic Development, Division of Parks and Recreation, for the ten months ended April 30, 2001. This financial statement is the responsibility of the Department's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

As more fully discussed in Note 1, the financial statement referred to above is not intended to present the financial position of the Cannon Mountain operations of the Department of Resources and Economic Development in the Special and Capital Projects Funds.

In our opinion, except for the matter discussed in the previous paragraph, the financial statement referred to above presents fairly, in all material respects, certain financial activity of the Department's Cannon Mountain operations for the ten months ended April 30, 2001, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statement referred to in the first paragraph. The accompanying schedules on pages 62 and 63 are presented for the purpose of additional analysis and are not required parts of the financial statement of Cannon Mountain. Such information has been subjected to the auditing procedures applied in our audit of the financial statement referred to in the first paragraph and, in our opinion, is fairly presented in all material respects in relation to the financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 28, 2002 on our consideration of Cannon Mountain's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and rules.

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

January 28, 2002

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT  
DIVISION OF PARKS AND RECREATION  
CANNON MOUNTAIN**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL – SPECIAL AND CAPITAL PROJECTS FUNDS  
FOR THE TEN MONTHS ENDED APRIL 30, 2001**

	<u>Special Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Favorable/ (Unfavorable) Variance</u>
<u>Restricted Revenues</u>			
Ski Area Income	\$ 3,459,475	\$ 3,296,770	\$ (162,705)
Ski School And Concessions	-0-	1,288,963	1,288,963
Sunapee Lease Income	-0-	338,091	338,091
Other	130,815	58,274	(72,541)
<b>Total Restricted Revenues</b>	<b>\$ 3,590,290</b>	<b>\$ 4,982,098</b>	<b>\$ 1,391,808</b>
<u>Expenditures</u>			
Ski Area Operations	\$ 3,108,592	\$ 2,788,967	\$ 319,625
Ski School And Concessions	29,427	773,641	(744,214)
Debt Service-Capital Improvements	169,876	268,917	(99,041)
Debt Service-Tramway	205,897	201,301	4,596
Ski Operations Administration	114,815	48,357	66,458
<b>Total Expenditures</b>	<b>\$ 3,628,607</b>	<b>\$ 4,081,183</b>	<b>\$ (452,576)</b>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<b>\$ (38,317)</b>	<b>\$ 900,915</b>	<b>\$ 939,232</b>

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

<b>Capital Projects Fund</b>			<b>Total (Memorandum Only)</b>		
<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Favorable/ (Unfavorable) Variance</u></b>	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Favorable/ (Unfavorable) Variance</u></b>
\$ -0-	\$ -0-	\$ -0-	\$ 3,459,475	\$ 3,296,770	\$ (162,705)
-0-	-0-	-0-	-0-	1,288,963	1,288,963
-0-	-0-	-0-	-0-	338,091	338,091
-0-	-0-	-0-	130,815	58,274	(72,541)
<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 3,590,290</u></b>	<b><u>\$ 4,982,098</u></b>	<b><u>\$ 1,391,808</u></b>
\$ -0-	\$ -0-	\$ -0-	\$ 3,108,592	\$ 2,788,967	\$ 319,625
-0-	-0-	-0-	29,427	773,641	(744,214)
6,689	6,688	1	176,565	275,605	(99,040)
-0-	-0-	-0-	205,897	201,301	4,596
-0-	-0-	-0-	114,815	48,357	66,458
<b><u>\$ 6,689</u></b>	<b><u>\$ 6,688</u></b>	<b><u>\$ 1</u></b>	<b><u>\$ 3,635,296</u></b>	<b><u>\$ 4,087,871</u></b>	<b><u>\$ (452,575)</u></b>
<b><u>\$ (6,689)</u></b>	<b><u>\$ (6,688)</u></b>	<b><u>\$ 1</u></b>	<b><u>\$ (45,006)</u></b>	<b><u>\$ 894,227</u></b>	<b><u>\$ 939,233</u></b>

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT  
DIVISION OF PARKS AND RECREATION  
CANNON MOUNTAIN**

**NOTES TO THE FINANCIAL STATEMENT  
FOR THE TEN MONTHS ENDED APRIL 30, 2001**

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

The financial statement of Cannon Mountain has been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**A. Financial Reporting Entity**

The Department of Resources and Economic Development is an organization of the primary government of the State of New Hampshire. The accompanying financial statement reports the financial activity of the Cannon Mountain operations of the Division of Parks and Recreation of the Department of Resources and Economic Development.

The financial activity of the Cannon Mountain operations of the Department of Resources and Economic Development is accounted for and reported in the Special and Capital Projects Funds in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. Cannon Mountain, as an organization of the primary government, accounts for only a small portion of the Special and Capital Projects Funds and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to Cannon Mountain can not be determined. Accordingly, the accompanying financial statement is not intended to show the financial position of Cannon Mountain in the Special and Capital Projects Funds and the changes in these fund balances are not reported on the accompanying financial statement.

**B. Basis Of Presentation - Fund Accounting**

The State of New Hampshire and Cannon Mountain use funds and account groups to report on their financial position and the 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. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

## *Governmental Fund Types*

### Special Revenue Funds

The Special Fund, one of the State's Special Revenue Funds, is used to account for specific revenue sources that are legally restricted to expenditures for specific purposes.

### Capital Projects Fund

The Capital Projects Fund is used to account for certain capital improvement appropriations which are or will be primarily funded by the issuance of state bonds or notes.

## *Account Groups*

### General Fixed Assets

The General Fixed Assets Account Group is used to account for the fixed assets of the governmental funds. As of April 30, 2001, Cannon Mountain had recorded in the General Fixed Assets Account Group the cost of general fixed assets based on available historical cost records. Donated fixed assets are recorded at fair market value at the time donated.

### General Long-Term Debt Account Group

Activities related to governmental fund unmatured long-term general obligation bonds payable and the cumulative long-term liabilities for compensated absences and uninsured claims are reflected in the General Long-Term Debt Account Group.

## **C. Measurement Focus And Basis Of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the flow of current financial resources measurement focus and reported on a modified accrual basis of accounting. Accordingly, the State of New Hampshire accounts for its financial transactions relating to the Special and Capital Projects Funds on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when measurable and available to finance operations of the fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which obligations are incurred as a result of the receipt of goods or services, except that interest on long-term debt is recognized as an expenditure as it becomes payable.

## **D. Budgetary Data**

### *General Budget Policies*

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes annual budgets for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs 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 and proprietary funds, with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents appropriations for individual projects, which extend over several fiscal years. Fiduciary-type funds are not budgeted.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current biennium. During the 2001 Legislative session, no significant supplemental budget requests were approved. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the department level. As shown on the Schedules of Budgetary Components – Special Fund on page 62 and Capital Projects Fund on page 63, the final budgeted amount includes the initial operating budget plus supplemental appropriation warrants, balances brought forward, and transfers.

Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State's financial operations, needs, and resources, and to maintain an integrated financial accounting system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

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

### *Variances - Favorable/(Unfavorable)*

The variance column on the Combined Statement of Revenues and Expenditures - Budget And Actual - Special and Capital Projects Funds highlights differences between budget and actual revenues and expenditures. For revenues, these variances are caused by actual revenue exceeding

budget generating a favorable variance or actual being less than budget generating an unfavorable variance. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the fiscal year. The favorable expenditure variances represent a combination of ending available balances and unliquidated encumbrances. Unfavorable expenditure variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the fiscal year.

When statements are presented at an interim date, a date other than a June 30 fiscal year end, the variance reflects the difference between the budget period amount, twelve months in the cases of the Special Fund and Capital Projects Fund, and a partial year's actual revenues and expenditures. Thus, on the ten-month financial statement dated April 30, 2001, unfavorable variances in Special Fund revenues are expected, because ten months of actual revenues are compared to the amount of revenue expected to be collected in the twelve-month period. Similarly, favorable expenditure variances are expected as ten months of expenditures are compared to amounts expected to be expended in the twelve-month budget period.

The unfavorable expenditure variances on the Statement of Revenues and Expenditures - Budget And Actual - Special and Capital Projects Funds reflect Cannon Mountain reporting the financial activity of the ski school and concessions and debt service capital improvements using revolving funds. Expenditures in revolving funds are not budgeted. Expenditures are limited by offsetting revenues into the revolving fund accounts.

#### *Encumbrances*

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. The unliquidated encumbrance balances at April 30, 2001 were \$54,333 and \$0 in the Special and Capital Projects Funds, respectively.

#### **E. Interpretation Of Totals (Memorandum Only) Column**

The "totals (memorandum only)" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information, since interfund balances and transactions have not been eliminated.

#### **F. Fixed Assets - General**

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. For State Comprehensive Annual Financial Report reporting purposes, the State capitalizes equipment that costs \$10,000 or more and land, land improvements, building, building improvements, and construction in progress with costs of \$100,000 or greater. All purchased fixed assets are valued at historical cost and in some instances at estimated historical cost. Donated fixed assets are

valued at their estimated fair market value on the date received. Assets in the General Fixed Assets Account Group are not depreciated.

### G. Interfund And Intrafund Transactions

The State accounts for interfund and intrafund transactions as described below:

Reimbursements - Various departments charge user fees for such services as centralized data processing, accounting and auditing, purchasing, personnel, and maintenance. In addition, the Department of Administrative Services charges rent to those departments that are housed in state-owned buildings. These fees and rent are not considered material and are recorded as revenue by the servicing department and as expenditures by the user department.

### NOTE 2 - GENERAL FIXED ASSETS ACCOUNT GROUP

The following is a summary of fixed assets at April 30, 2001 reported by Cannon Mountain. As well as reporting general fixed assets as defined by the State for financial reporting purposes, Cannon Mountain also reports equipment using the criteria required by the State Manual of Procedure, that being equipment with a historical cost of \$100 or more and useful life of greater than one year.

General Fixed Assets	Balance July 1, 2000	Additions	Deletions	Balance April 30, 2001
Land And Land Improvements	\$ 17,293,053	\$ -0-	\$ -0-	\$ 17,293,053
Buildings And Building Improvements	4,900,927	-0-	-0-	4,900,927
Equipment	1,088,053	183,299	454,801	816,551
<b>Total General Fixed Assets</b>	<b>23,282,033</b>	<b>183,299</b>	<b>454,801</b>	<b>23,010,531</b>
Equipment With Original Cost Between \$100 And \$10,000	555,820	55,865	93,517	518,168
<b>Total General Fixed Assets And Other Equipment</b>	<b>\$ 23,837,853</b>	<b>\$ 239,164</b>	<b>\$ 548,318</b>	<b>\$ 23,528,699</b>

### NOTE 3 - CASH

The Department of Resources and Economic Development (Department) maintains three demand deposit accounts for Cannon Mountain's operations. Two of the accounts are utilized as temporary depository accounts for the daily deposits of cash, checks, and credit card receipts awaiting transfer to the Treasurer's accounts. The third account is used for Cannon Mountain's revolving fund. This account funds the petty cash and cashiers' drawers used at the Mountain. None of the accounts are interest bearing.

The Department is FDIC insured up to \$100,000 for these accounts. The total bank balance represents amounts on deposit as reported by the banking institution at April 30, 2001. The

carrying amount represents the balance in the accounts per Department's records at April 30, 2001. The difference between the bank balance and the carrying amounts consists of checks or deposits that have not cleared the bank as of April 30, 2001.

	<b>Bank Balance</b>			<b>Carrying Amount</b>
	<b>FDIC Insured</b>	<b>Uninsured</b>	<b>Total Balance</b>	
<b>Demand Deposits</b>				
Operating Accounts	\$ 100,000	\$ 35,832	\$ 135,832	\$ 95,063
Revolving Account	-0-	11,475	11,475	12,000
<b>Total</b>	<b>\$ 100,000</b>	<b>\$ 47,307</b>	<b>\$ 147,307</b>	<b>\$ 107,063</b>

#### NOTE 4 - LONG-TERM DEBT

The principal and interest on various general obligation bonds used to finance capital improvements at the mountain are charged to Cannon Mountain's accounts. The following is a summary of the changes in long-term liability for bonds during the ten months ended April 30, 2001.

	<b>Balance July 1, 2000</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance April 30, 2001</b>
<b>General Long-Term Debt Account Group</b>				
Capital Improvement Fund - RSA 12-A:29	\$ 6,067,229	\$ 224,097	\$ 268,917	\$ 6,022,409
Tramway Replacement	196,786	4,515	201,301	-0-
<b>Total</b>	<b>\$ 6,264,015</b>	<b>\$ 228,612</b>	<b>\$ 470,218</b>	<b>\$ 6,022,409</b>

The following is a bond amortization schedule for the bonds related to Cannon Mountain operations.

<b>Payable Fiscal Year</b>	<b>Special Fund Debt Service</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2002	\$ 333,333	\$ 261,417	\$ 594,750
2003	333,333	247,250	580,583
2004	333,333	233,917	567,250
2005	333,333	220,583	553,916
2006	333,333	207,250	540,583
Thereafter	4,333,335	1,352,957	5,686,292
<b>Total</b>	<b>\$ 6,000,000</b>	<b>\$ 2,523,374</b>	<b>\$ 8,523,374</b>

## NOTE 5 - EMPLOYEE BENEFIT PLANS

### *New Hampshire Retirement System*

Cannon Mountain, as a component of the Department of Resources and Economic Development, an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan providing service, disability, death, and vested retirement benefits to members and beneficiaries. The Plan covers substantially all full-time employees of Cannon Mountain. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of employees and teachers. Group II consists of firefighters and police officers.

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

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

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:50, the New Hampshire Retirement System also provides a postretirement medical premium subsidy for Group I employees of political subdivisions and teachers and Group II police officers and firefighters.

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

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

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the ten months ended April 3, 2001, Group I and II members were required to contribute 5% and 9.3%, respectively, 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 system's actuary using the open group aggregate funding method and are expressed as a percentage of gross payroll. The State's share represents 100% of the employer cost for all of Cannon Mountain's employees enrolled in the Plan.

Cannon Mountain's payments for normal contribution costs for the ten months ended April 30, 2001 amounted to 3.94% of the covered payroll for its Group I employees. Cannon Mountain's normal contributions for the ten months ended April 30, 2001 were \$28,654, an amount equal to the required employer contribution for the period.

#### *Postemployment Health Care Benefits*

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care insurance benefits for retired employees. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. These and similar benefits for active employees are authorized by RSA 21-I:30 and are provided through an insurance company whose premium is based on the benefits paid during the year. The State recognizes the cost of providing these benefits by paying the entire annual insurance premium.

During the ten months ended April 30, 2001, the State paid for the full cost of health insurance premiums for the retired employees and spouses on a pay-as-you-go basis. The cost of the health insurance for Cannon Mountain employees and spouses is a budgeted amount and is paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Accordingly, the cost of health insurance benefits for retired Cannon Mountain employees and spouses is not included in Cannon Mountain's financial statement.

#### **NOTE 6 - SUBSEQUENT EVENT**

##### *Litigation*

The State is a defendant in a case that was filed on February 4, 2002. The case follows a skiing accident at Cannon Mountain resulting in paraplegia and a claim of loss of consortium. There is no set demand by the Plaintiffs in this matter at this time. The Department of Justice reports that, based on the fact that very few facts are known about this accident, it is difficult to determine the likely outcome of or any potential loss due to this case. However, the State has limited responsibility for skiing injuries and does have insurance coverage up to \$300,000.

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT  
DIVISION OF PARKS AND RECREATION  
CANNON MOUNTAIN**

**SCHEDULE OF BUDGETARY COMPONENTS  
SPECIAL FUND  
FOR THE TEN MONTHS ENDED APRIL 30, 2001**

	<b>Operating Budget</b>	<b>Supplemental Appropriation Warrants</b>	<b>Balances Brought Forward</b>	<b>Net Transfers In/(Out)</b>	<b>Budget</b>
<u>Restricted Revenues</u>					
Ski Area Income	\$ 3,788,436	\$ 80,392	\$ 165,755	\$ (575,108)	\$ 3,459,475
Ski School And Concessions	-0-	-0-	-0-	-0-	-0-
Sunapee Lease Income	-0-	-0-	-0-	-0-	-0-
Other	110,195	20,020	600	-0-	130,815
<b>Total Restricted Revenues</b>	<b>\$ 3,898,631</b>	<b>\$ 100,412</b>	<b>\$ 166,355</b>	<b>\$ (575,108)</b>	<b>\$ 3,590,290</b>
<u>Expenditures</u>					
Ski Area Operations	\$ 3,582,539	\$ 96,392	\$ 4,769	\$ (575,108)	\$ 3,108,592
Ski School And Concessions	-0-	-0-	29,427	-0-	29,427
Debt Service-Capital Improvements	-0-	-0-	169,876	-0-	169,876
Debt Service-Tramway	205,897	-0-	-0-	-0-	205,897
Ski Operations Administration	110,195	4,020	600	-0-	114,815
<b>Total Expenditures</b>	<b>\$ 3,898,631</b>	<b>\$ 100,412</b>	<b>\$ 204,672</b>	<b>\$ (575,108)</b>	<b>\$ 3,628,607</b>
<b>Excess (Deficiency) Of Revenues</b>					
<b>Over (Under) Expenditures</b>	<b>\$ -0-</b>	<b>\$ -0-</b>	<b>\$ (38,317)</b>	<b>\$ -0-</b>	<b>\$ (38,317)</b>

**STATE OF NEW HAMPSHIRE  
DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT  
DIVISION OF PARKS AND RECREATION  
CANNON MOUNTAIN**

**SCHEDULE OF BUDGETARY COMPONENTS  
CAPITAL PROJECTS FUND  
FOR THE TEN MONTHS ENDED APRIL 30, 2001**

	<b><u>Budget</u></b>	<b><u>Supplemental Appropriation Warrants</u></b>	<b><u>Balances Brought Forward</u></b>	<b><u>Net Transfers In/(Out)</u></b>	<b><u>Budget</u></b>
<u>Expenditures</u>					
Capital Improvements	\$ -0-	\$ -0-	\$ 6,689	\$ -0-	\$ 6,689
<b>Total Expenditures</b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 6,689</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ 6,689</u></b>
 <b>Excess (Deficiency) Of Revenues</b>					
<b>Over (Under) Expenditures</b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ (6,689)</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ (6,689)</u></b>

**THIS PAGE INTENTIONALLY LEFT BLANK**

## APPENDIX

### CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of January 28, 2002 of the status of the observations related to the operations of Cannon Mountain contained in the audit report of the Department of Resources and Economic Development for the fiscal year ended June 30, 1994. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

	<b>Status</b>
<b>Internal Control Structure</b>	
<i>Material Weaknesses</i>	
1. Lack Of Management Control At The Mountains	● ● ●
2. Ski Area Computerized Ticketing System	● ● ●
3. Inadequate Control Over Ski Ticket Stock	● ● ●
5. Ski Area Marketing Events – Lack Of Control	● ● ●
 <i>Reportable Conditions</i>	
6. Segregation Of Duties – Live Ticket Program	● ● ●
7. Different Operating Procedures At Mountains	● ● ●
11. Excessive Number Of Lift Ticket Types	● ● ●
12. Season Passes Obtained By Employees <i>(See current observations Nos. 35 and 40)</i>	○ ○ ○
13. Consumable Inventory <i>(See current observation No. 11)</i>	● ● ○

#### **Status Key**

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

**THIS PAGE INTENTIONALLY LEFT BLANK**