

STATE OF NEW HAMPSHIRE

STATE TREASURY

PROGRESS REPORT ON AUDIT FINDINGS

PURSUANT TO EXECUTIVE ORDER 2014-03

AUGUST 12, 2014

Observation No. 1

Improve Compliance With Federal Treasury-State Agreement

The audit report indicated Treasury had not monitored the State's operation of the Federal Treasury-State Agreement (TSA) for drawing federal funds to ensure State agencies are in compliance with its provisions. The audit report also stated the State's recent Single Audits of federal programs have identified a number of concerns with State agencies' drawing of federal program funds. Concerns included certain Agency practices for drawing federal program funds did not align with provisions in the TSA, the TSA does not necessarily treat the State's interests fairly, and the State accounting system's cash management routine was not in agreement with controlling provisions of the TSA.

Current Status:

State Treasury understands it is the Agency authorized to represent the State in the Federal Treasury-State Agreement. Historically, Treasury has worked with State agencies to ensure Agency practices were in accordance with the TSA. However, efforts have not been sufficient to coordinate all federal programs and its provisions as required by the Cash Management Improvement Act of 1990. Treasury has now been working with the Federal Grants and Cost Allocation Administrator (Administrator), a position recently created in the Department of Administrative Services. This position was created, in large part, due to the State's recognition that federal grant activity and funding levels warrant greater central resources. After working with this Administrator and discussing ongoing collaborative efforts, Treasury believes this added resource coupled with future internal assignment of certain responsibilities in the area of cash management alleviates the need for a new position here in Treasury. Treasury believes current efforts will contribute to the resolution of this audit observation. Resolution is targeted for June 30, 2015.

Observation No. 2

Review And Improve Controls Over Information Technology Systems

The audit report noted Information Technology (IT) controls could be improved to lessen risk and improve the security and reliability of Treasury's information systems.

Issues noted were as follows:

1. Access permissions to certain Treasury key information systems as well as templates and permissions granted in banking applications were not routinely reviewed,
2. Security concern identified by Treasury had not been timely addressed by other responsible agencies (Financial Data Management (FDM) and Department of Information Technology (DoIT)) since the implementation of NHFirst in 2009,
3. Backups and recovery controls were in need for improvement.

Current Status:

Treasury is currently reviewing, and updating as needed, user permissions granted to Treasury or other State employees for the use of key information systems and banking products. Management of banking tools and security controls, as established by banking partners, has been difficult to administer and it will be re-evaluated by members of Treasury management. Resolution is targeted for March 2015.

Treasury will re-initiate discussions with FDM and DoIT to ensure the security issue identified by Treasury in 2009 is resolved. Collaboration by FDM and DoIT is imperative, as this security concern is outside Treasury's control and controls implemented by Treasury cannot mitigate the risks associated with this security concern. Treasury will re-initiate this discussion immediately.

Treasury has implemented virtual servers maintained by DoIT that have included a new data backup and restore capabilities. However, production data has not yet transitioned to this new virtual environment. It is anticipated to have this transition completed by September 1, 2014.

Certain Treasury disaster recovery and business continuity components are routinely updated. However, no testing of the plan has yet been performed. Treasury will review and update its disaster recovery and business continuity plan, which will include testing of the plan by December 31, 2014.

Observation No. 3

Ensure Policies And Procedures For Posting Inter-Agency Transactions Are Appropriate For Treasury's Purpose

This observation stated "Treasury's error in posting two inter-agency transactions during fiscal year 2013 resulted in Treasury understating both revenues and expenditures by \$2.1 million. The audit identified that Treasury posted the receipt of reimbursements for two debt service payments as negative expenditures instead of revenues. These two posting errors resulted in expenditures and revenues both being understated. Treasury corrected the errors prior to the preparation of the June 30, 2013 financial statements."

Current Status:

Treasury corrected the errors and the weakness causing the errors prior to the audit report issuance on March 21, 2014. This observation remains fully resolved.

Observation No. 4

Maintain Accurate Information On All State-Guaranteed Debt

This observation indicated Treasury did not have policies and procedures for maintaining accurate information on the State's contingent liabilities related to certain mortgage loans issued with State guarantees.

Current Status:

The State is in the process of implementing Statement No. 70 of the Governmental Accounting Standard Board (GASB), *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. As a result of this implementation, the State will need to determine the likelihood of making payments in relation to guarantees extended to other governments. State Treasury is currently developing procedures to obtain the information needed to comply with GASB Statement No. 70. Procedures and implementation of this Statement should be in place by September 30, 2014.

Observation No. 5

Finalize Capital Projects Lists Timely

The audit report indicated Treasury had not finalized the capital projects list supporting its November 2012 bond issue as of March 5, 2014. The capital projects list identifies the capital projects supported by the bond issue and is used in Treasury’s allocation of bond proceeds, liabilities, and debt service charges. The incomplete nature of the capital projects list at June 30, 2013 may have contributed to the need for Treasury to make several corrections to draft debt disclosures prepared for the State’s comprehensive annual financial report, subsequent to auditor inquiry about amounts presented.

Documentation made available to the auditors did not fully support the responsibility for debt service allocated to certain State agencies responsible for paying a portion of debt service at June 30, 2013.

Current Status:

Capital Project lists undergo many iterations before they are finalized, as they are always part reimbursement of existing projects and part future projections of capital expenditures on authorized but unissued capital appropriations. During the timetable for deployment of bond proceeds, projects that do not spend as much as anticipated have to be replaced in whole or in part with projects that spend more than expected. This reallocation process is manual and thus very time consuming. For this reason, Treasury strives to include as much actual expenditure activity as possible on each bond issue before “finalizing” the list for budgeting purposes as well as determining individual debt service schedules based on funding sources that are then consolidated into the entire issue.

Treasury is actively working with the Department of Administrative Services in designing and developing the Capital Project functionality within NHFirst. Treasury believes once the implementation of this functionality occurs, certain functions currently performed manually will be automated, making the process more efficient. It is expected that the Capital Projects module will be in production by June 30, 2015.

Observation No. 6

Notify Financial Institutions Timely Of Changes In Individuals Authorized To Initiate Transactions

The audit report indicated that Treasury did not timely update its list of authorized signers at one financial institution with which it maintained 52 State investment accounts during, and subsequent to, fiscal year 2013.

Current Status:

Treasury updated the list of authorized signers as soon as it was notified by the auditors of the omission. Since being notified of the weakness, Treasury updated procedures and completed an exhaustive inventory of all accounts and followed-up with banking and investment partners to ensure such changes were implemented. Treasury believes this observation remains fully resolved.

Observation No. 7

Improve Segregation Of Duties For Trust And Agency Funds

The audit reported the financial accounting duties for Treasury's trust and agency funds were not fully segregated during most of the fiscal year ended June 30, 2013.

Current Status:

Treasury has been aware of the risks associated with trust and agency fund activity and, accordingly, has tried to mitigate those risks with other internal controls. However, Treasury is currently reviewing the trust and agency fund responsibilities to see if these functions could be further segregated or if additional controls could be applied to ensure those risks are further reduced or eliminated. In addition, Treasury will reach out to the Comptroller's office to re-initiate discussions of bringing, or accounting for, the trust and agency accounts into the State's accounting system, NHFirst, which has inherent system controls.

Resolution is targeted for March 2015.

Observation No. 8

Improve Record-Keeping For Trust And Agency Accounts

The audit reported during fiscal year 2013 Treasury primarily used spreadsheets to account for the financial activity in the 49 trust and agency funds for which it is custodian. The financial activity of certain trust and agency funds is also budgeted and accounted for in the State's accounting system (NHFirst).

Current Status:

As stated above, Treasury will reach out to the Comptroller's office to re-initiate the discussions of bringing the trust and agency accounts into NHFirst, which contains inherent system controls

and will potentially eliminate the risk associated with recording accounting transactions into spreadsheets. Resolution is targeted for June 2015.

Observation No. 9

Maintain Listing Of Authorized Initiators Of Trust And Agency Account Transactions

The audit report noted that Treasury's controls over the initiation of trust and agency account transactions did not include ensuring the individuals requesting the transactions have authority to direct the receipt or expenditure of funds within the accounts.

Current Status:

Treasury has not yet compiled a list of authorized individuals who can direct routine transactions. However, Treasury believes a list can be available by September 30, 2014.

Observation No. 10

Determine The Ownership And Disposition Of Account Balances

The audit report indicated three trust and agency accounts maintained by the Treasurer require review to determine the purpose and ownership of certain balances in those accounts.

Current Status:

Recent conversations have occurred between State Treasury and the State agency that has historically benefited from the Laconia State School trust funds relative to the use of trust fund money. Since the Laconia State School is no longer in existence, Treasury has encouraged the State Agency to obtain an opinion from the Attorney General's office as to the proper disposition and ownership of the funds. Treasury is not currently fulfilling any requests until clarification on the use of these funds is obtained.

Treasury will follow up with the State agencies responsible for administering the Crown Paper Workers Compensation and Financial Responsibility accounts to determine the ownership of certain funds.

Resolution is targeted for March 2015.

Observation No. 11

Review Trust And Agency Financial Information In State CAFR For Proper Presentation

The audit reported Treasury had not established policies and procedures to periodically review the trust and agency financial information included in the State's comprehensive annual financial report (CAFR) to ensure the trust and agency financial information of the accounts in the Treasury's custody is properly presented.

Current Status:

Treasury's procedure is to review, in collaboration with Administrative Services, the nature and authority of any new accounts given to Treasury for its custody to determine how the funds need to be reported in the CAFR. In addition, Treasury is now verifying trust and agency accounts as reported in the CAFR to ensure they are consistent with established criteria and as reported in prior years. Treasury believes this observation will be fully resolved by September 30, 2014.

Observation No. 12
File Report Of Information Required By Statute

The audit reported Treasury did not file certain statutorily-required reports during the fiscal year ended June 30, 2013.

Current Status:

Treasury is still on target and will begin filing quarterly reports required by RSA 6-B:2,VII for the quarter ended June 30, 2014 by September 30, 2014.

Treasury sent its 2013 annual report to the Director of Charitable Trusts after the auditors brought the issue to Treasury's attention and will file the annual report timely with the Director of Charitable Trusts, within the Department of Justice, by October 1, 2014, as required by RSA 11:5-b,II.

Observation No. 13
Create And Operate Accounts As Established And Described By Statute

The audit indicated Treasury did not utilize certain statutorily-established accounts during fiscal year 2013.

Current Status:

Treasury is planning on seeking statutory amendment in the 2015 legislative session and have the observation resolved by December 2015.