

**STATE OF NEW HAMPSHIRE
STATE TREASURY**

**PROGRESS REPORT ON AUDIT FINDINGS
PURSUANT TO EXECUTIVE ORDER 2014-03
MARCH 21, 2017**

**State of New Hampshire Treasury
Progress Report on Audit Findings
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Observation No. 1

Improve Compliance With Federal Treasury-State Agreement

The audit report identified that 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 (2013) Single Audits of federal programs 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:

Efforts for achieving full compliance with the federal Cash Management requirement continue. State Treasury, as the New Hampshire Agency responsible for representing the State in the U.S. Treasury-State Agreement, continues with the coordination of the federal cash management requirements included in the TSA and provides the necessary support to Grant Administrators directly responsible for the management and compliance of federal programs. State Treasury also remains in contact with the Federal Grants and Cost Allocation Administrator position created in 2014 within the Comptroller's Office, which coordinates and manages all aspects of federal program activity.

With the purpose of improving communications between State Treasury and State Agencies, in 2015 Treasury began publishing the yearly TSA documents on the State's Intranet site "*Sunspot*". The TSA contains relevant compliance information such as allowed funding techniques, clearance patterns, and other significant components of the federal Cash Management requirement pertaining to major federal programs. Therefore, this observation, as it pertains to State Treasury, remains resolved.

Observation No. 2

Review And Improve Controls Over Information Technology Systems

The audit report noted that 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 of improvement.

Current Status:

1. State Treasury continues the work in this area and monitors system accesses in accordance with State and Agency-wide policies. As mentioned in previous updates, Treasury has performed a very thorough review of its key systems in production and has completed the following activities:
 - Reviewed and updated banking system entitlements assigned to Treasury and non-Treasury employees for the management of the State’s cash operations.
 - Reviewed and updated banking templates within online banking applications to strengthen controls over wiring and transfer of funds between bank accounts using the banking systems.
 - Finalized a thorough review of system accesses for the Unclaimed Property (Kaps) and NH First (Treasury Module) systems and re-assigned permissions based on best practices and employee roles and responsibilities.
 - Instituted an Agency-wide policy to review, monitor, and update all system accesses at least once every year, as well as a complete inventory of systems that need to be reviewed as part of this annual procedure.
2. FDM and DoIT, in consultation with Treasury, implemented a solution to remediate a security concern identified by Treasury in 2009 and the financial audit in 2013. The solution essentially encrypts the accounts payable files upon creation in NHFirst and automates the retrieval and decryption process by MHC, the application utilized for transferring the payment files to the banking applications used by financial institutions.
3. All data backups are maintained off-site. Treasury has implemented Virtual Servers supported by DoIT that include data backup and restore capabilities. The backup cycle is *incremental* – Monday through Saturday, *full back up* – Sunday, and *monthly* – last business day in a month. The backups are retained for 18 months. Hosted Microsoft Exchange databases are backed up daily by a third-party vendor.

State Treasury updated its 2009 Continuity of Operations Plan (“COOP”) in early March 2016. A copy of the revised COOP was also submitted to Homeland Security and Emergency Management (HSEM) to retain a copy off-site and to assist the State in the development of the State’s Continuity of Government Plan. Furthermore, on two occasions in July of 2016, Treasury management temporarily relocated to the Public Utilities Commission, Treasury’s *Primary Alternate Location* identified in the COOP, to perform continuity of operations tests as prescribed in the COOP. As previously reported, Treasury intends to review and update its COOP documents at least once per year and will conduct tests, training, and exercises as described in its Training, Tests, and Exercise Program.

Ongoing monitoring of controls in place will continue. This observation remains resolved.

Observation No. 3

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

This observation stated that “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 resolved.

<p><i>Observation No. 4</i> <i>Maintain Accurate Information On All State-Guaranteed Debt</i></p>

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

Current Status:

The Treasury completed the necessary procedures to implement Statement No. 70 of the Governmental Accounting Standard Board (GASB) relative to *Accounting and Financial Reporting for Nonexchange Financial Guarantees* for the fiscal year ended June 30, 2014. As a result of this implementation, the State was able to determine and properly disclose in its comprehensive annual financial report (“CAFR”) dated June 30, 2014, the likelihood of making payments in relation to guarantees extended to other governments, as well as other pertinent information relative to its extended guarantees. Treasury has also updated its year-end procedures to ensure accurate information is reported each year relative to the State’s contingent liabilities, and in particular, information on bonds and loans issued with State guarantees. This observation remains resolved.

<p><i>Observation No. 5</i> <i>Finalize Capital Projects Lists Timely</i></p>

The audit report indicated that 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 debt service allocated to certain State agencies responsible for paying a portion of debt service at June 30, 2013.

Current Status:

Capital Project lists, which support the issuance of new General Obligation Bonds, undergo many iterations before they are finalized, as they reflect actual (bondable) and projected capital expenditures on authorized capital appropriations. Once finalized, the project list is included in the Bond Closing Documents of each bond issuance.

During the timetable for deployment of bond proceeds, general funded projects that do not spend as much or as quickly as anticipated must be replaced in whole or in part with projects that spend more quickly than expected. This reallocation is a manual process and may transpire over a period of 18 months due to bond proceed arbitrage rebate rules established in the Internal Revenue Code. For this reason, Treasury strives to include as much bondable expenditure activity as possible from 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. The allocation of bond proceeds and the establishment of debt service schedules for projects funded with non-general funds (“other funds”) are also based on agency budgets, which are typically enacted one or two years prior to a bond issuance. When agencies are developing their budgets, they typically consult with Treasury to request one or more estimated amortization schedules based on different assumptions in order to determine how much to budget for debt service payments. This exercise assists in the allocation of bond proceeds and total debt assigned to State agencies and programs.

Given these requirements and constraints, the Capital Projects application, using a functionality within the NHFirst Activities Module, was recently implemented and is expected to significantly enhance the process of determining what projects can be bonded. Although spreadsheets are and will continue to be used for some data tracking and analysis, the Capital Projects functionality and reporting capability will provide a more timely and stable output for compiling bondable and projected capital expenditures prior to a bond issuance. Treasury expects to fully leverage and evaluate the benefits of using the NHFirst Capital Projects application within a two-year period (bond issuances occur once or twice per year). This observation is considered substantially resolved.

Observation No. 6

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

The audit report noted 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, completed an exhaustive inventory of all accounts, and communicated with banking and investment partners to ensure such changes were implemented. Review of information and inventory of accounts is now performed annually. This observation remains resolved.

Observation No. 7

Improve Segregation Of Duties For Trust And Agency Funds

The audit reported that 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 segregated trust and agency account responsibilities as much as possible and has enhanced procedures in order to mitigate some of the risks identified in the audit observations. For example, as noted in the response to observation No. 9, Treasury implemented procedures to ensure that only authorized individuals have the ability to direct Treasury's actions while in custody of trusts and custodial accounts. Another example is that all of the records prepared by the Senior Treasury Analyst are now reviewed and reconciled by other staff within Treasury, in addition to the oversight provided by the respective trustees and fund administrators. However, Treasury believes the administration of these accounts will improve once the accounting of trust and custodial account transactions, currently maintained off-books via spreadsheets, is migrated to NHFirst. Reference response to Observation No. 8 below. This observation remains partially resolved.

Observation No. 8

Improve Record-Keeping For Trust And Agency Accounts

The audit reported that during fiscal year 2013 Treasury primarily used spreadsheets to account for the financial activity in the 49 trust and agency funds for which it serves as custodian. The financial activity of certain trust and agency funds is also budgeted and accounted for in NHFirst.

Current Status:

As of March of 2017, Treasury administers 44 trust and custodial accounts through the use of spreadsheets. Multiple benefits would be realized if NHFirst (the State's general ledger system) were used for this purpose: stronger internal controls over financial reporting of trust and custodial accounts, elimination of duplication of records, mitigation of risks associated with recording accounting transactions in spreadsheets, etc. Treasury met with the State Comptroller in 2015 to discuss the possibility of migrating these accounts to NHFirst. This initiative remains in its early stages; however, there are plans to continue these discussions. Treasury will be in contact with the Comptroller's Office to determine the next course of action for this project. This observation remains unresolved.

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 that the individuals requesting the transactions have the proper authority to direct the receipt or expenditure of funds within the accounts.

Current Status:

As a result of the audit in 2013, Treasury updated its procedures over trust and custodial accounts; periodic reviews are now being conducted. In the fall of 2014, Treasury compiled a list of individuals who are authorized to direct routine transactions on behalf of the Trust and Account Administrators. In addition, as part of its biennial review, Custodial Account Agreements were also updated to identify the individuals who are authorized to conduct financial transactions on behalf of the Trust and Account Administrators. This observation remains resolved.

Observation No. 10

Determine The Ownership And Disposition Of Account Balances

The audit report indicated that 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:

Communication between the Department of Health and Human Services and the Attorney General's Office continue regarding the ownership and proper use of the Laconia State School fund. Treasury will not process any disbursement requests until this matter is resolved and clear guidance is obtained from the Attorney General's Office. This portion of the observation remains unresolved.

After performing extensive research, Treasury has received final guidance from NH Department of Labor ("NH DOL") legal counsel directing that the Crown Paper Workers Compensation fund must remain open until all potential claims have been received or until potential claimants no longer exist. As a result, Treasury has instituted a procedure by which annual confirmation is obtained from NH DOL indicating whether or not the account should remain open. This portion of the observation is resolved.

Treasury received final guidance from the Attorney General's Office directing that the interest earned on Financial Responsibility funds, which are monies held in a custodial capacity, belong to Treasury and thus should be deposited in the general fund. Treasury validated records maintained with those retained by the Division of Motor Vehicles and performed two transfers to the general

fund, one in early March and the second one in May of 2016. Moving forward, Treasury plans to make one transfer yearly in May. This portion of the observation is resolved.

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 CAFR to ensure that the trust and agency financial information of the accounts in the Treasury's custody is properly presented.

Current Status:

Treasury has a comprehensive process to not only determine the proper reporting of Trust and Custodial account information reported in the State's financial statements (CAFR), but to determine how the accounts should be administered. Treasury begins tracking proposed legislation as soon as bills are introduced. Once it is determined State Treasury will be involved in the administration of new accounts, Treasury has to perform an initial evaluation of whether the account will be considered a Dedicated Account (included in the State's budget), Trust, or Custodial account. If accounts are assigned to Treasury by other means, Treasury performs a similar evaluation, in collaboration with other State Agencies (i.e. Administrative Services, Attorney General, etc.), in order to determine how the funds should be administered and ultimately reported in the CAFR. Beginning in the fall of 2014, Treasury incorporated into its year-end procedures a review and reconciliation procedure between Trust and Custodial (Agency) account information included in the unaudited CAFR and Treasury's records to verify that financial transactions are being reported accurately, in accordance with established criteria, and consistent with prior years. This observation remains resolved.

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 continues to file timely Quarterly Cash and Investments Balance Reports with the Governor and Executive Council, Commissioner of Administrative Services, and the Joint Legislative Fiscal Committee pursuant to RSA 6-B:2,VII.

Treasury continues to file its Annual Report in accordance with the requirements of RSA 11:5-b,II. This observation remains fully resolved.

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:

[Chapter 61, Laws of 2016](#), legislation requested by the State Treasurer, amended the statutes referred to in the audit observation: RSA 261:97-b, relative to the administration of the Conservation Number Plate Trust fund and RSA 227-M:7-a, relative to the administration of the Land and Community Heritage Investment Program Administrative fund. This observation is fully resolved.