

COÖS COUNTY
LEGISLATIVE DELEGATION

Report on
Agreed Upon Procedures

January 2010



MELANSON HEATH & COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

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January 2, 2010

William Hatch
State Representative - Coös County
State of New Hampshire
Legislative Office Building, Room 202
Concord, NH 03301

Dear Bill:

We are pleased to present our report related to Agreed-Upon Procedures performed for the Coös County Legislative Delegation, New Hampshire House of Representatives (the "Delegation").

We applied the Agreed-Upon Procedures, which are described below. This engagement was solely to assist the Delegation in evaluating management practices, financial budgeting and reporting, human resource practices, operating expenses, internal controls and other fiscal issues related to the following County Offices and facilities:

- County Administrator's Office, West Stewartstown, NH
- Corrections Office (DOC), West Stewartstown, NH
- County Sheriff's Office, Lancaster, NH
- Nursing Homes in Berlin and West Stewartstown, NH
- FY 2009 Budget and FY 2008 Actual Financial Statement Analysis

In addition, because the following operations and/or functions or County Offices were associated with the above County Offices, or we were in close proximity to them at the time of our review we performed review procedures there:

- County Farm operations
- Registry of Deeds
- County Attorney
- Information Technology (IT) department

Our engagement to apply Agreed-Upon Procedures was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the Agreed-Upon Procedures report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Additional Offices:

Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

1. For the County Administrator's Office we:
 - Performed an internal controls evaluation over County operations
 - Reviewed management practices
 - Reviewed human resource practices
 - Reviewed financial performance relative to the FY 2009 budget and prior year actuals and with other financial reportings. Reviewed County policies and procedures
 - Reviewed the utilization of certain County assets
2. For the Correction's Office :
 - Reviewed management practices
 - Reviewed Human Resources practices, staffing and safety issues
 - Reviewed current and prior budget performance
 - Reviewed compliance with policies and procedures
 - Reviewed short term capital expenditure needs
3. For the County Sheriff's Office:
 - Reviewed management practices
 - Reviewed human resources issues
 - Reviewed acquisition and utilization of certain County assets
 - Reviewed current and prior budget performance
 - Reviewed internal controls
4. For the Nursing Homes in Berlin and West Stewartstown:
 - Reviewed Human Resources practices compensation levels and staffing
 - Reviewed Medicaid cost reports and reimbursement performance
 - Compared budget data to each other and to similar facilities. Reviewed financial performance relative to the FY 2009 budget and prior year actuals and with other financial reportings. Compared actual data with other counties
 - Considered opportunities to consolidate nursing home services
5. For the IT Department:
 - Reviewed data security issues
 - Reviewed allocation of IT Director time and costs
6. For the Farm Operations:
 - Reviewed farm operations
 - Reviewed financial performance relative to the FY 2009 budget and prior year actuals and with other financial reportings.
 - Reviewed short term capital expenditure needs
7. For the Registry of Deeds Office:
 - Reviewed Registry operations
 - Reviewed internal controls

8. For the County Attorney's Office:

- Reviewed the County Attorney's operations
- Reviewed human resource issues

Because the Agreed-Upon Procedures referred to above do not constitute an examination in accordance with U.S. generally accepted auditing standards, we do not express an opinion on the financial statements of Coös County.

Attached is our report issued to you summarizing our findings. This report is intended solely for the use of the Coös County Legislative Delegation and should not be used by anyone other than the specified parties. Lastly, we want to note that had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Sincerely,

A handwritten signature in cursive script that reads "Melanson, Heath & Company, P.C.".

Melanson, Heath & Company, P.C.
Certified Public Accountants

BACKGROUND

County Statistics (Updated to July 7, 2009)

- County Offices: 136 County Farm Road, West Stewartstown, NH 03597
- Incorporated: 1803
- County Seat: Lancaster, NH
- 3 County Commissioners, elected
- 4 Represented Districts, NH House of Representatives elected
- Land Area: 1800.39 Square Miles
- Population: 33,019
- Population Density: 19 people/sq mile
- Households: 13,961
- Median household Income: \$36,587
- Median Age: 43.2 years

The County operating budget, in revenues, is approximately \$28.9 million for FY2009 and was \$28.6 million in FY2008.

Structure of County Government Today:

County Commissioners represent the executive branch (day to day) of Coös County government;

County Convention (House Representatives) works on budgeting and appropriating money for County use.

County government is responsible for funding the care of the elderly and indigent in need of long term care services. County government also operates regional jails.

NH law provides that the legislative body of county government be comprised of elected members to the House of Representatives from their county. As such, state representatives are also members of the County Delegation as the County Convention has come to be known.

Each County Delegation chooses an Executive Committee that reviews the annual county budget, which is prepared by the County Commissioners. The Executive Committee is required to review the budget at least quarterly.

County office locations are in W. Stewartstown, Berlin, and Lancaster, each a considerable distance apart from each other. Consequently, the County Administrator's time and day to day focus is on the W. Stewartstown county locations (nursing home, jail, unincorporated properties, farm, recycling center, etc.), less on the Berlin Nursing Home and still less on the three offices in Lancaster (Sheriff's office, Registrar of Deeds office, and County Attorney's office).

County employees at the beginning of January 2009 were as follows:

	<u>Full Time</u>	<u>Part Time</u>	
W. Stewartstown Nursing Home	77	67	
Berlin Nursing Home	42	144	
County Administrator		2	Sue Collins is PT
County Attorney's Office	4		
Registry of Deeds	4	1	
Sheriff's Dept	5	10-15	PT deputies
Dept. of Corrections	18	1	
County Farm	3	4	Inmates used PT
Recycling Center	1		
Transfer Station		2	
UNH Coop Ext	1	1	

For our review we interviewed the County Administrator, both nursing home administrators, Department of Corrections (DOC) Sergeant in Charge, County Farm Manager, County Information Systems Administrator, County Sheriff and staff, County Attorney, and the County Registrar of Deeds and staff. All of the interviewees were helpful and informative. The assistance and cooperation of the County Administrator, nursing home administrators, and county office holders was excellent. The County Administrator, in particular, was helpful in scheduling meetings with other County employees and in giving her time to answer questions and providing documentation.

We also spoke with the Commissioner's Chair, Burnham Judd, and with the County Treasurer, Frederick King.

EXECUTIVE SUMMARY

This summary provides findings and information which is contained in detail in the following report. Attached to this report are Exhibits which further support or present our findings in greater detail.

We would like to first report that we received sufficient information and very good cooperation from the County Administrator, the nursing home administrators and all of the County offices and staff who assisted us in performing our Agreed-Upon Procedures.

The following are topics, whose components are reflected in various sections of our report, that we feel need to be summarized for your review and which capture the key County issues that we believe need addressing.

FY 2008 and FY 2007 Financial Statement and Budget Issues

One of the major issues addressed in our report are the errors and reporting issues found in the audited financial statements at December 31, 2008 and 2007. Upon our review we noted mathematical errors, improper presentation of net assets related to the bond issued for the CCNH addition and the funds transferred from the UP, and most importantly the presentation of Unrestricted Deficits related to the nursing homes as receivables, when in, in our opinion, the nursing homes have no immediate ability to pay off these deficits. The net effect would be a reduction in Unrestricted Fund Balances which may leave insufficient surpluses to cover surplus used to reduce taxes. This is an important issue as the County has applied surplus balances to the 2009 budget.

Similar errors and reporting issues may be found in prior years' financial statements.

The County Commissioners and the Delegation need to take immediate action on this as they prepare the FY 2010 Budget.

Need for a Strategic Plan for Coös County

One apparent concern as we reviewed various County Offices, operations and administrative offices was the lack of a strategic plan for the County going forward for a period of time (i.e. immediate, 3, 5, years) which would acknowledge the challenges, goals and priorities of the County and put into place policies and action plans to address these. A similar type plan that can be used as a guide is the "Master Plan for Coös County Unincorporated Places (UP)", adopted June 13, 2006" (see Exhibit 19). It establishes long term goals and policies with regard to guiding growth in the UP, the

ecology, and the multiple use of human and natural resources. In short, the plan provides a framework for growth and a basis for protecting natural resources and supplying public services.

Similarly, we believe the County would greatly benefit from its preparing a strategic plan. Some topics for inclusion might be:

- Impact of Economic Challenges/Issues in the County
 - Poor economic conditions impacting County economic growth
 - Impact of recent County employer closings on County jobs and employee costs (i.e. health care insurance costs)
 - Impact of the new federal prison in Berlin on current County employees
- County Nursing Homes
 - Management of costs and operating losses
 - Headcount and position re-evaluation
 - Research options for consolidation of nursing home services
 - Explore new models of resident care (i.e. Culture Change model)
 - New ideas for increased occupancy at CCNH
- Challenges of County Complexity
 - County Offices and facilities are disjointed (W. Stewartstown, Berlin, Lancaster)
 - Stretched resources
 - Explore other DOC facility options
 - 23 Unincorporated Places

County Hirings and Succession

- County Administrator

The current CA has many roles and responsibilities in the County. She is currently 62 years old and plans to fully retire at 65. She has held many of her current responsibilities for over 15 years and is really the only one intimate with them. While the Commissioners and the County Administrator are considering her succession plans, transition issues and their related costs, we recommend that a formal succession plan with positions and detailed responsibilities, replacement target dates and timelines, and financial requirements be prepared and monitored/updated by both County and Delegation members

- Superintendent of the DOC

The DOC has been without a Superintendent since the beginning of 2007 due to a retirement. As an interim step, in March 2007 the Commissioners appointed the current County Administrator as an acting-superintendent for the DOC. A full

time Superintendent was not immediately re-hired due to reported budget constraints. The County Administrator reported that she doesn't have time to adequately manage the DOC. She is hoping to find a PT or FT Superintendent in 2010. Both she and the Sergeant in Charge admit that without a new Superintendent, they are "treading water" in the management of the facility.

There are numerous safety, staffing, training and other issues that need to be addressed immediately. The County can no longer depend on a part time appointed official to supervise and administer this operation. The County needs to find a competent replacement to take over the responsibilities and title of Superintendent.

- Finance Manager for the County

There are numerous instances noted in this report, such as the financial statement reporting issues noted above, where the absence of a competent Finance Manager for the County has left the County in need of significant fiscal repair. As the current CA is both the CEO and CFO of the County, there are also a number of segregation of duties issues (SOD) and internal control issues concerning her role and responsibilities.

In addition, the outside auditors in their 12/31/2008 "Significant Deficiencies Report". (see Exhibit 1c) cited the fact that the County management does not prepare its own financial statements in accordance with generally accepted governmental accounting principles (GAGAP), because of the lack of familiarity with them, staffing, and other issues.

We would recommend that both the commissioners and the state delegation review the County Administrator's many current responsibilities, and internal control issues and challenges that they represent, and consider hiring a Finance Officer for the County.

Prioritize Expenditure Needs of the County

There are many short term capital expenditure needs identified in a number of sections of this report. Included in these are both County nursing homes, the DOC, and County Offices in Lancaster. It was debated during the supplemental budget meetings in 2007, when the CCNH sunroom project was presented and approved, that a County wide review of capital needs be performed and a capital improvement plan prepared.

However this was not done and the sunroom project was approved. Although significant capital has already been tied up in the CCNH sunroom project, we believe there are many nursing home, staff safety and other issues identified that need addressing. We believe, after discussion with various County managers, that there is still a need to perform a County wide capital needs review and plan.

Nursing Home Operations, Funding and Services

We performed an analysis of County nursing homes (CCNH and BNH) and with Sullivan County nursing home by comparing the 2008 Medicaid cost reports for each facility. In summary, on a revenue per bed day used basis, CCNH and BNH are very comparable (\$183 to \$184); however on a cost per bed day used the differences are significant (\$284 for CCNH to \$249 for BNH) and warrant more detailed analysis and focus by County and Delegation members. While there appear to be some additional administrative personnel and related costs at CCNH, we believe the main cost differences are driven by proportionately higher staff levels per resident at CCNH (in particular at the administrative group cost category) and a higher percentage of full time employees at CCNH who carry higher employee benefit costs (see Human Resources section above). In addition, CCNH has higher capital group costs due to the new multi-purpose room and higher plant maintenance cost which may be due to the age of the existing facility.

The range of Daily Medicaid Losses calculated at December 31, 2008 is from (\$88.28) for Belknap County, (\$19.18) for Sullivan County, to (\$2.30) per day for Hillsborough County; with CCNH at (\$51.66) and BNH at (\$43.22). The County Administrator reported that she has tried to contact county administrators in Hillsborough, Sullivan and other counties with the thought of sharing ideas which could benefit CCNH and BNH in reducing their daily cost components. She has reported that as of our in-field date she has been unsuccessful in meeting with them. Such meetings could be quite beneficial and should be pursued vigorously. Such contacts/meetings should include the nursing home administrators of each nursing home.

On the issue of consolidating County nursing home services, new ideas on this issue need to be discussed. An example of one suggested by both nursing home administrators and the County Administrator as one way of migrating away from the current model of residents living only in a traditional nursing home that is called a "Culture Changes Model". This model emphasizes "resident centered care" in an environment void of nursing stations and with smaller detached/modular living quarters where residents with distinctive needs or care would live together with appropriate nursing support. In the case of CCNH, such a model could be deployed and tested using available land for detached quarters. Depending on its success, such modular quarters could be relocated away from existing CCNH and BNH facilities with the thought of providing better care at a lesser cost. Such a model, given its awareness around the country and with administrators, in addition to local counties, should be explored.

We noted in our report a number of issues obtained from brief facility tours we took at both CCNH and BNH. In addition to obtaining "wish lists" from each facility of short term capital and expense items needs, we noted a number of other issues that may need to be addressed. It also seemed apparent that it would be beneficial for both facilities to collaborate, across all staff categories, to observe and share best practices and resources with the goal of reducing costs, providing better care for residents and a better working environment for staff. In addition, "wish lists" could become the basis for more formal capital improvement plans in the future.

We also looked at selected wage comparisons between nursing and administrative positions at CCNH vs. BNH, which were brought to our attention. At issue was the seniority of certain positions at BNH and the amount of their 2008 wages as compared with those similar positions at CCNH. It appeared that a number of these selected staff at BNH were paid wages disproportionate to their counterparts at CCNH, given their number of years of service. We also found similar findings in our Medicaid Cost Report review. In addition, we noted significant disparity between the number of full and part time positions between both facilities, with CCNH having significantly more full time positions, while BNH had significantly more part time positions, ones caring no health-care benefits. While this may cause continuing morale issues amongst staff at both facilities, the County needs to consider the potential cost impact of future federal legislation regarding healthcare coverage and employers. We recommend that the two nursing home administrators work directly together to address any seniority and wage related differences, while the County considers any future healthcare cost impact.

Decision on Closing the Farm

We reviewed farm operations and short term capital expenditure needs with the Farm Manager and performed a financial review of operations and cost allocations with him and the CA.

In addition, we discussed the future of the farm with the Farm Manager and with the County Treasurer; both were not optimistic about the farm's future for reason's mentioned in our report. Although unpopular and not without sentimental emotion against doing so, we believe the County Commissioners, the CA and County Delegation should consider the complete economics and continued losses of running the County Farm with a view of closing its farm milking and other operations for the benefit of the rest of the County taxpayers.

Internal Control Issues in County Operations

As part of our review, we went through an internal controls evaluation questionnaire with the County Administrator, the Nursing Home Administrator in Berlin and selected key staff in the West Stewartstown facility including the Director of Information Technology, the Sergeant in Charge of the DOC and the Administrator of the Unincorporated Places (UP). We also reviewed internal controls at County offices in Lancaster (County Sheriff, Registrar of Deeds and the County Attorney). We noted a number of internal control issues; most concerning were segregation of duties issues, financial reporting, purchasing, cash receipts and data security issues throughout the County. According to many staff interviewed, an in depth internal controls review of County operations had not been performed in recent memory.

While there is a cost/benefit relationship to be considered in implementing internal controls, controls in these reported areas are crucial in safeguarding assets and the integrity of financial reporting. Please refer to the various sections of our report which identify internal control weakness and suggest recommendations for improving them.

Note: One of the fundamental concepts of internal control systems is that the level of control increases when duties are segregated among employees. By segregating duties, one person is typically responsible for handling an asset (i.e. cash), while another records the transaction and a third approves the transaction, with no one being responsible for more than one of the handling, recording, or authorization tasks.

The advantage of using segregation of duties is that a massive level of collusion would be required to commit fraud or undisclosed transactions. There is a cost of segregation, in the hiring of additional staff, so one would have to do a cost/benefit analysis between the cost of additional staff and the benefit achieved with the increased level of segregation. The deciding factor is typically the size of any potential loss, for example procurement of assets or handling of cash deposits will usually call for the use of a considerable degree of duty segregation, while petty cash management will not.

County Financial Policies and Procedures

Except of for County policies in Purchasing and Investments we did not note any other County wide financial or related (IT) policies. We did note that the nursing homes, the Sheriff's office and the Registry of Deeds Offices had their own policies and procedures but they were not financial policies.

Given the internal control issues noted County wide in our report, in areas like cash, information technology, purchasing and financial reporting we recommend that formal County wide policies in these areas be developed which will address internal control deficiencies and provide consistency of practice throughout the County.

INTERNAL CONTROLS EVALUATION

At the beginning of our review we went through an internal controls evaluation questionnaire with the County Administrator, the Nursing Home Administrator in Berlin and selected key staff in the West Stewartstown facility including the Director of Information Technology and the Administrator of the Unincorporated Places (UP). We also reviewed internal controls at County offices in Lancaster (County Sheriff, Registry of Deeds and the County Attorney), which we will comment on later in this report. The following are control areas noted that need focus and appropriate attention to make improvements in:

Tax Receivables

1. UP tax collection involves the receipt of both cash and checks. It was reported that very rarely are taxes paid by check. The UP administrator receives both cash and checks from taxpayers, although she only deposits the checks, and posts to the taxpayer records. She reportedly gives the cash to the AR clerk who makes a deposit for it.

Ideally, cash/checks should not be received for deposit by the person updating the taxpayer records; in particular cash should not be received, if only to pass it along for others to deposit.

Accounting and Finance

1. The County Administrator and others have access to the full suite of applications (accounts payable, payroll, fixed assets, fund accounting) in the Business Management System (BMSI) fund accounting system, including the general ledger module. The County Administrator also has access to the accounts receivable application which is internally developed. The BMSI system has the ability to restrict user access by module but this has not been implemented; which allows users access to accounting modules that are not in their area of responsibility, which is a control weakness.

Ideally, the County Administrator (CA), who has the ability to create and execute accounting transactions in all accounting modules, should not also be able to enter those transactions without review. The CA advises us that there are approximately 15-20 adjusting journal entries made monthly which require her making them in the general ledger. This would present a segregation of duties (SOD) (See Note below) control issue. Having a Finance Director recording accounting entries, and not the CA, would be a more controlled accounting environment. In addition, segregating access of users within BMSI is a relatively easy way of improving controls over accounting applications.

2. In the accounts payable module of the BMSI system there is a vendor master file which is used to set up vendors in the system to be paid. Currently, both the accounts payable clerks and the CA reportedly have the ability to create new vendors in the vendor master file, an ability which they should not have as it creates an SOD issue and control weakness. Vendor master file changes should be made by someone outside of the accounts payable function (i.e. Purchasing) and not by the CA.
3. There is currently no "internal audit" of cash or other account balances of the County during the year. The purpose of such audits would be to check process controls in key areas (cash receipts, cash disbursements, tax account reconciliations etc.) during the year. The CA relies on the audit of the independent auditor to do this although this audit focuses only on year end balances. A review of cash and reconciliations should be done on a non-routine base throughout the year.
4. There are several sources of cash receipts outside of the CA offices in W. Stewartstown which include, the County Sheriff's office, the Registry of Deeds office, and the County Attorney's office, all in the County offices in Lancaster, and the Berlin Nursing Home. The Berlin Nursing Home has their own internal controls over cash receipts and frequent contact with the CA office in W. Stewartstown to provide oversight. However, the CA does not know that all cash receipts received in the Lancaster offices are being recorded and reported. Each office deposits their own cash and checks received. An internal controls review at those locations should be performed.
5. Although there is no Purchasing department, purchases greater than \$50 reportedly require the preparation of a purchase order in the Coös County Nursing Hospital/Home (CCNH) and the Berlin Nursing Home (BNH). Department heads approve purchase requests up to \$1,000 and the CA approves all line items greater than this. For purchases greater than \$5,000, bids must be solicited unless this requirement is waived by vote of the County Commissioners. The County offices in Lancaster do not follow these purchasing procedures although expenses are monitored by the CA after the fact in the financial statements. Consistent procedures for purchases should be followed in the County offices in Lancaster. There is a Purchasing Policy, one of the few, which is old (05/90) and needs to be updated.
6. Signature stamps are available in W. Stewartstown (2) and Berlin (1) for signing checks. They are reportedly controlled in both locations. There is no single signature limitation in using these stamps however, which would require a second signature over a certain limit (\$500, \$1,000, etc.) and provide more control over cash disbursement if utilized correctly. A second signature requirement should be considered for improved control. In addition, the current computer application does not reject duplicate payments of an invoice. An inquiry to BMSI to see if this functionality is available would be appropriate.

7. Currently, County Commissioners review and authorize and sign manifests for cash disbursement and payroll payments after the fact (at their next scheduled meeting) of their actual approval and likely payment by the CA's office. Reportedly, the Commissioners rely on the CA to administer this process. Ideally, having a Finance Director oversee this process would provide more internal control in this area. Having the CA who has the ability to create and approve purchases and other disbursements control this process creates an SOD issue.
 8. The County Cash Book provides a complete trail of receipts, deposits and cash and payroll disbursements. There are currently 30 cash accounts with 22 banks; including 8 sub accounts. The CA has the authority to make adjustments in the cash book and oversees the bank reconciliation process each month which is performed by several individuals. While the CA does not believe there are any SOD issues in who is currently performing bank reconciliations she believes this could be an issue. Her ability to make adjustments to the cash book may also present an SOD issue.
 9. The CA currently opens all mail into the County offices in W. Stewartstown. Usually this procedure when coupled with other internal controls can improve the overall control environment. However, as the CA is responsible for and participates in financial accounting transactions and reporting, this procedure presents an SOD control issue.
 10. There are few accounting and finance related policies. There is a purchasing policy (see above) and an investment policy. It is interesting to note that in the new investment policy (01/09) there is a section that requires the CA to be responsible for insuring that certain internal controls are in place. Specifically, conflicts of interest, separation of duties (SOD), control of collusion, custodial safekeeping and avoidance of physical delivery of investments.
- There needs to be accounting and finance policies for all accounting practices and processes performed; in specific detail to allow a new staff to perform the function; and to demonstrate necessary internal controls required. In particular all functions and processes involving cash and financial institutions (banks etc.) should be documented. Process and procedure policies can be modeled after those already prepared for each nursing home facility.

Payroll Process

Currently the payroll process for the many employees, offices and facilities is not formally documented. There should be a formal process documented which includes the integration of technologies in the nursing homes and labor contract requirements.

Information Technology Department(IT)

1. The accounts receivable application used in the W. Stewartstown and Berlin facilities was developed by the current IT Director, who currently has access to use of this application. The program and any revisions or enhancements to this program are not documented. This documentation is very important to have in the event of application failure or should the IT Director leave. He noted that he knows that this needs to be done, but that he hasn't had the time to do this.
2. Computer files in W. Stewartstown and Berlin are currently backed up daily but are kept on site at each location (4 weeks of backup at each site). Having these backups on site presents an unnecessary risk to them in case of a disaster related event. We recommend storing backups offsite at convenient and secure locations.
3. The Lancaster offices are currently not integrated with the BMSI system, or any other system except email. The IT Director currently does not visit the Lancaster location to insure standardization of IT practices or a review of IT controls over documentation in each County office.
4. As previously mentioned, computer users in the BMSI system are not restricted to just the applications in their areas of responsibility. This could result in an SOD control weakness and should be reviewed and remediated.
5. Access profiles for the BMSI and accounts receivable applications are not reviewed by data owners (A/R, A/P, UP etc.) to insure that no users have inappropriate access to data files and records.
6. The IT Director is reportedly not directly involved in the employment termination process with Human Resources, so as to insure that computer access is timely suspended for terminated employees.
7. There is currently no IT/Data Security policy with regard to using County computers, their applications (BMSI, A/R, Windows based applications etc.), or security within the County IT domains. There is a policy on internet usage. Given the number of users in the County and applications; and the fragmented nature of County offices and facilities, a comprehensive IT/Data security policy should be prepared.

Note: One of the fundamental concepts of internal control systems is that the level of control increases when duties are segregated among employees. By segregating duties, one person is typically responsible for handling an asset (i.e. cash), while another records the transaction and a third approves the transaction, with no one being responsible for more than one of the handling, recording, or authorization tasks.

The advantage of using segregation of duties is that a massive level of collusion would be required to commit fraud or undisclosed transactions. There is a cost of segregation, in the hiring of additional staff, so one would have to do a cost/benefit analysis between the cost of additional staff and the benefit achieved with the increased level of segregation. The deciding factor is typically the size of any potential loss, for example procurement of assets or handling of cash deposits will usually call for the use of a considerable degree of duty segregation, while petty cash management will not.

FINANCIAL STATEMENT ANALYSIS

Audited Financial Statements for FY2008 and FY2007

Auditors Report

The public accounting firm of Mason and Rich has performed independent audits for the County for many years (reportedly greater than 10 years). The financial statements are presented using the accrual basis of accounting. In reviewing their comparative FY 2008 and FY 2007 audited financial statements (see Exhibit 1a), the auditors made a qualification in their opinion regarding the County's not adopting GASB #45 regarding Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, for the reporting of postemployment health and life insurance benefits. The County continues to report such benefits on a "pay as you go basis". The amount by which this departure would affect the liabilities, net assets and expenses of the governmental activities and major propriety funds (Nursing Homes) although not necessarily determinable, are presumed to be material. Consequently, the financials referred to, do not present fairly, in all material respects, the financial positions of the governmental activities and the major propriety funds (Nursing Homes) of the County as of December 31, 2008. However the respective financial position of the major funds and the aggregate remaining fund information was presented fairly. There was no such reporting requirement or auditor's qualification in the December 31, 2007 financial statements.

Review of Prior Issued Financial Statements

We have issues with representations made in the audited financial statements issued for FY 2008 and FY 2007. There are errors in the budget to actual report contained in the 2008 report (see Exhibit 1a). A similar error is contained in the 2007 report (see Exhibit 1b). There is an error in the 2008 Variance with Final Budget column of their Exhibit I, which reflects a deficit variance of (\$1,861,368) that should be a surplus variance of \$345,814. In the 2007 report, the reported deficit is (\$1,191,990) which should be (\$209,682). Also, in the 2007 budget to actual report, there is a supplemental budget for the \$971,500 bond issued for capital improvements at the West Stewarts-town Nursing Home. The bond should not be included in the general fund budget as it was applicable to the proprietary funds. In addition, the budget to actual report does not show the bond proceeds as actual receipts even though the proceeds came in during the 2007 fiscal year. This presentation materially distorts the financial activity of the general fund for FY 2007.

The proprietary fund financial statements for the West Stewartstown Nursing Home reports the Investment in Capital Assets, Net of Related Debt as \$24,094 at the end of 2007. That created a substantial reduction in net assets from 2006 and appears to result from subtracting the \$971,500 bond issue from Capital Assets, even though the bond proceeds had not been spent at December 31, 2007. The unspent bond proceeds should have been included in the Investment in Capital Assets calculation resulting in a net number that is meaningful. We have included this calculation in our Exhibit 1b.

The 2008 Combined Statement of Revenues and Expenditures (their Statement 4) classifies \$450,000 (see Exhibit 1a) expended in the Unincorporated Places column as Capital Outlay when in fact these funds were transferred to the Nursing Homes' Proprietary Fund and should have been reported as a Transfer from the UP and not a Capital Outlay.

In both the 2007 and 2008 financial statements there are material Unrestricted Deficits in the proprietary fund. As reflected in the statements, this deficit is covered by the general fund as represented by the Internal Balances of \$1,073,631 in 2007 and \$1,310,886 in 2008. The receivable is included in the General Fund Unrestricted Net Assets even though the Nursing Homes have no immediate ability to pay off their combined and accumulated deficits.

In our opinion, the receivable Internal Balances should be reserved from unreserved General Fund balance as that money is not available to be spent. This is an important issue as the County has applied surplus balances to the next year's budget each year. If this receivable is removed from Net Assets at the end of 2008, the Net Assets available for appropriation would be reduced to \$1,404,403. The County used \$2,200,000 of surplus to balance in the 2009 budget even though there were not sufficient Net Assets to cover that amount (\$1,404,403 vs. \$2,200,000). This practice sets the County up for financial hardship, similar to that experienced in other Counties.

The County Commissioners and the Delegation need to take immediate action on this issue as they prepare the FY2010 Budget and tax rates.

The result of these differences also impacts representations made in the Management Discussion and Analysis section of the financial statements. In addition, and as reported in the 2008 audit report of Significant Deficiencies (see Exhibit 1c), the County "does not prepare its own financial statements in accordance with generally accepted governmental accounting principles". We believe that the failure to have that expertise in house places the County at significant risk.

Other

It is interesting to note that there are recorded liabilities for Compensated Balances in the financial statements of each year of \$2.5 million and \$2.3 million, respectively.

These represent the largest liabilities for the County. County policy allows employees to accumulate earned but unused vacation and sick pay benefits, referred to as compensated balances. All compensated absence balances are accrued when incurred in the financial statements, contrary to post employment health and life insurance benefits.

Review of FY2008 Actual and FY 2009 Revised Budget Operations

We reviewed the FY 2008 actual revenues (modified accrual vs. accrual method) and expenditures and FY 2009 budgeted revenues and expenditures with the County Administrator for the Coös County Nursing Home; with the nursing home Administrator for the Berlin Nursing Home and with the applicable County government managers for their areas of responsibility (see Exhibit 2). Items of particular note in our review were the following:

- According to the County payroll schedule, every sixth fiscal year the County pays out a "53rd payroll" which had accrued over that time. This 53rd payroll was paid out in FY 2008 and was reported to be approximately \$270K. This is a considerable expense to record on the books and pay out in one year. The County Administrator has thought of but has not implemented an accrual process to ratably accrue for this expense over the six year period. We recommend that this be done so as to minimize the expense impact of this event in the year it is paid.
- Higher investment income reflects lower net interest expense using the County's new line of credit facility.
- Federal in lieu of taxes represent payments to the County by the Federal government for land in national forest status. Payments have been made since 1977.
- Farm revenue is from the sale of milk, calves and non-producing cows. It was expected that the Farm would not make its 2009 budget, and losses could reportedly be as high as \$150K.
- Recycling center is operated for eight neighboring towns that fund all expenses. The County sells the recycled commodities.
- County Administrator expenses include 40% of the current County Administrator's salary, allocated to this role. Reportedly, in the past (pre 2008) 91% of her salary was allocated to the Coös County Nursing Home.
- Human services administration, children, youth and family services born by the State of NH since 7/1/08, in return for greater County reimbursement (50%) of Medicaid costs of County nursing homes.
- Correction's costs increases due to 3% raises, higher medical benefits for officers and higher medical costs for inmates (substance abuse treatment and prescription drugs), and increased fuel costs.
- Farm costs have escalated in the cost of fuel for vehicles, cost of feed, sawdust (used to be supplied free by closed Ethan Allen factory) fertilizer. County Administrator reports that the farm is "treading water" in terms of sustainability.

The barn is very old and in need of repair and paint, and a new tractor is needed (est. cost of \$70K). See also comments in the report section on the Farm operation.

- Department of Corrections costs have increased 12.6% in the 2009 budget. The County Administrator reported that she doesn't have time to adequately manage the Department of Corrections. She is hoping to find a PT or FT Superintendent in 2010. See also comments in the report section on the Department of Corrections operation.
- Debt service is for interest on tax anticipation notes (replaced with a line of credit) plus \$97,000 principal payment for the 10 year note for the CCNH multi-purpose room addition. Interest expense on the addition is charged to the CCNH.

We also reviewed line item transfers from December 2007 to January 2009 and noted the following items over \$10K:

- Four employees retired which had not been budgeted for who had compensated balances owed to them. Costs related to these were over \$90K.
- Significant increase in grain cost for feed at the farm, for \$21K.
- More meals were served in the Department of Corrections, for \$15K.
- Unanticipated increases in the County Administrator's expenses relating to additional juveniles being placed, for \$34K
- Unexpected cost, \$10K, for a one on one special education aide in an UP location. The County was not notified in time of the need.

For the nursing homes, we reviewed the 2008 Medicaid costing reports for each facility and compared them with each other (see the Nursing Homes section and other County departments in this report for any notable comments). We believe it is best to analyze the nursing homes using the costing reports because of their cost category format and detail. You will also note that revenue and expense information for nursing home operations is presented differently between the cost reports, the budget reports and the audited financial statements for FY 2008, as follows:

FY 2008		Medicaid		M&R	
		Cost Reports (In Patient)	Budget Reports	F/S Audited	
Revenues					
CCNH	\$	5,049,509	\$ 5,326,241	\$	5,087,932
BNH		6,545,395	6,544,984		6,596,446
Expenses					
CCNH		7,845,717	8,000,464		7,591,382
BNH		8,848,663	8,784,381		8,427,665
Profit/Loss					
CCNH		(2,796,208)	(2,674,223)		(2,503,450)
BNH		(2,303,268)	(2,239,397)		(1,831,219)

The County Administrator is the primary architect for each year's fiscal budget, and the only County staff person intimately knowledgeable about it. This would also be considered a segregation of duties issue, given the County Administrator's many other financial, reporting and operational responsibilities. The County Delegation needs to keep this in mind as they review and analyze County budget preparation and performance.

COUNTY ADMINISTRATOR'S OFFICE

Management Practices

As part of our work we reviewed and discussed the management practices of the County Administrator's Office with Ms. Suzanne Collins, the current County Administrator.

Ms. Collins is a capable and dedicated administrator. She handles many responsibilities within the County and the Commissioners and other management staff in the Nursing Homes and County Offices acknowledge this. She has over 25 years experience (knowledge skills and abilities) in various County roles, including 15 years as County Administrator (since 1994). In December 2008 she officially retired, with a State pension, from full time status in her responsibilities. She agreed to stay on in a part time status (32 hours/week) keeping her same responsibilities, except for her role as CCNH Administrator where a replacement had been hired. She did however pick up responsibilities as Acting Superintendent of the Department of Correction (DOC) in 2009. She currently is 62 years old and her reported plans, at this time, are to retire fully from County service at age 65.

Job Description

The job description for County Administrator (see Exhibit 18) states that he/she is the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Personnel Director of the County, Clerk to the Board of Commissioners, Unincorporated Places Administrator, Clerk to the Board of Commissioners and other job functions including maintaining the upkeep of county buildings, responsible for construction projects and contracts, overseeing the County Farm, Re-Cycling Center, and Transfer Station. She also will serve on an interim basis as the Superintendent of the DOC and may serve on an interim basis as a nursing home administrator. She acts as the Commissioner's liaison to legal counsel on employment and other legal matters, makes presentations at delegation, commissioner, and public hearings. She also represents the County's interest in issues involving state and federal agencies. She is also responsible for succession planning for the appointed management positions in the County.

As CEO she directs and coordinates administration of County government under the direction of the County Commissioners. The position is responsible for the management of all affairs of the County and for the coordination of activities and operations of the various County departments.

As CFO she is responsible for the preparation and accuracy of accounting and financial statements. She administers all grants received annually, assists the County Treasurer in debt financings, monitors the investments of the County and authorizes all purchases of equipment greater than \$1,000. She effectively is the Gatekeeper of most County

expenditures. She also directs the operation of the accounting department and is responsible for updating computerized accounting, fixed assets and payroll systems.

As personnel Director for the County she exercises direct supervision over management, supervisory and clerical staff, and represents management in negotiating collective bargaining agreements with unions representing County employees.

She acts as the Town Manager for the County's 23 UP's. She prepares 20 annual budgets, financial statements, and annual audit materials. She oversees the distribution of National Forest Reserve Funds and federal payments in lieu of taxes. She supervises the work of personnel performing administrative work for the UP, including tax warrants and tax collections.

Segregation of Duties (SOD)

As she is both the CEO and CFO of the County, there appears to be a number of segregation of duties issues (SOD) concerning her role and responsibilities. Specifically:

- In the area of financial accounting and reporting, she executes transactions (i.e. County budget preparation, purchasing transactions including fixed assets, operating expenses, accounting and general ledger entries, legal contracts, human resource actions including salary and benefit transactions) and also control the financial reporting of them, including how they are reported in Medicaid reports, federal and state reportings and County financial presentations.
- In her role as Town Manager for the County's 23 UP, she supervises that setting, collection and reporting of County taxes, and makes decisions on revenue and operating transactions and their financial reporting. (23 sets of financial statements). She currently has a staff person assisting in this position, and she allocates 8 of her 32 hours to responsibilities in this area.
- She also supervises the IT department, and has access to all integrated County applications, including financial and reporting applications.
- She also is responsible for developing and implementing a succession plan for her multiple responsibilities as she approaches retirement.

It is unusual to see an executive position covering so many operational and financial responsibilities, and with as many SOD issues. As previously mentioned, there is a cost associated with providing the right level of staff to mitigate significant segregation issues as we have outlined.

In addition, the outside auditors in their 12/31/2008 "Significant Deficiencies Report". (see Exhibit 1c) cited the fact that the County does not prepare its own financial statements in accordance with generally accepted governmental accounting principles (GAGAP), because of the lack of familiarity with them, staffing, and other issues.

We would recommend that both the commissioners and the state delegation review the County Administrator's many current responsibilities and internal control issues and challenges that they represent, and consider and participate in selected strategic hirings such as a Finance Officer for the County.

Succession Plan

In addition to replacing her role as the County Administrator (expected to be by someone outside of the current County staff and hired full time in the second half of FY 2010), the role of Administrator of the 23 UP and the Superintendent of the DOC need to be filled. While the Commissioners and the County Administrator are considering these succession issues and their related costs, we recommend that a formal succession plan with positions and detailed responsibilities, replacement target dates and timelines, and financial requirements be prepared and monitored/updated by both County and Delegation members. The current CA hopes to be able to prepare written policies and procedures for all of her current responsibilities prior to hiring her full time replacement. Completing this task is critical in insuring a smooth transition of responsibilities, minimizing any disruptions in operations and the cost of transition. This task should be incorporated in the formal succession plan.

Human Resource Practices

County Comparisons

Attached in Exhibit 3 is a salary survey produced by the NH Association of Counties which compares various County positions and their respective salaries. As one can see, Coös County ranks lowest in almost all reported county positions.

In FY 2008, the County published in its annual report, for the first time, a listing of all County employees and their salaries. Per several county managers, this caused a number of salary questions and concerns amongst some employees; in particular the nursing homes staff. (See narrative on nursing home salaries and staff in the nursing home section of this report).

County Administrator Compensation

In 2008, while working fulltime and acting as the CA, CCNH Administrator, Acting DOC Superintendent, CFO and Human Resources Officer, the CA earned wages of \$97,371, which when loaded with longevity, health insurance, NH retirement, workers' compensation, life insurance, excess FICA and sick time costs equated to a total wage/benefit cost of \$120,142.

In December 2008, as part of her retirement arrangement with the County Commissioners, the CA agreed to work part time (32 hours), and less the CCNH Administrator responsibilities, for \$75, 942 (2009 salary), with no NH retirement funding,

sick time and longevity pay and reduced health insurance, workers compensation and FICA payments. There are no reported additional wages paid to the CA for her current job responsibilities as noted above. The Commissioners agreed to allocate the cost of her wages/benefits at 40%/40%/20%, for the CA/UP/Acting Supt of Department off Corrections positions.

(See also Utilization of County Assets section below regarding the County Administrator's use of the County house ~~and a vehicle~~.)

Hold on Full Time Hirings

The County Administrator reported that for the last 2 years, the Commissioners have held the line on hiring any new full time employees in the County which would add the incremental cost of healthcare to their overall wages and benefits. This is a reported cost of approximately \$20,000 per employee per year. An employee working more than a 30 hour week would be eligible for healthcare benefits. This has been a chronic issue with the Berlin Nursing Home (see Background section for FT and PT headcounts) who would like to have more of their employees full time as their peers are in the Coös County Nursing Home. The County Administrator reports that each year a headcount re-evaluation is performed in all departments for budget purposes, using a zero based approach.

Utilization of County Assets

County House

As outlined in her job description as County Administrator, a requirement for the position is that she must live in the County's house, near the Coös County Nursing Home, Farm and other County operations. It is expected that she will be available for emergencies and on-call, except when out of the area. The County home reportedly began its history in the 1974 when the then Superintendent of the County, Mr. Bouchard and his wife, who was the NH Administrator for the Coös County Nursing Home, both lived in the Coös County Nursing Home. In order to accommodate more residents in the Coös County Nursing Home, the County built the County home for their use on County property. Since then, the prior (Mr. King) and current County Administrator have lived at the home. The costs of heat and electricity and property upkeep are borne by the County. The County Administrator also has the use of a vehicle (four wheel drive) with gas, maintenance and fees borne by the County. This vehicle is used for County business and the County Administrator reports that as a result she is expected to be on call 24/7 to respond to County emergencies when in the area.

The County Administrator reported that the need for the use of the County home is debatable if one lives in the local area. However, in that the County will be looking to attract and hire a new County Administrator before her retirement, being able to offer the use of the home may be an attractive benefit to a candidate. Another option

suggested by the County Administrator is that the home and property be used in an alternate care program for Coös County Nursing Home residents.

New CCNH Multi-Purpose Room (Sunroom)

In October 2007, the County Commissioners and House Delegation voted in a public hearing to approve the construction of a 1200 sq ft multi-purpose room, new boilers and renovation of County offices and areas in the CCNH building. The design goal was to try to create a happier, more enjoyable area for the CCNH residents in this part of the building. The total cost of the project was \$1,421,500. The construction was done in FY 2008. The financing was obtained in two parts. First, an amount was calculated and obtained from the UP's surplus funds, or \$450,000. Secondly, \$971,500 was to be borrowed from bank financing over a 10 year period, at 3.5% interest.

This construction was unusual in several ways. Firstly, the construction plan was reportedly not discussed with the House Delegation or its nursing home sub-committees until July 2007, nor in any Delegation or public meeting until October 2007 when it was discussed as part of a proposed 2007 supplemental budget. In addition, it appeared from reading minutes that there was little discussion of the project at County Delegation and public hearings in FY 2008. Secondly, this project was not part of any formal capital improvement plan for the County, with any ranking as to priorities. It appeared as if the project was presented, discussed and approved as one of immediate need for the current residents. Thirdly, no formal survey of other needed County projects was performed prior to the submission of approval of this project. Only 75 residents, less those with very poor physical conditions, would apparently benefit from this sunroom. Fourthly, the selection of the contractor for this project was done without competitive bidding (something that is allowed for purchases greater than \$5,000; with the approval of the County Commissioners). The County's only experience with the selected contractor was with plumbing services he provided. The County Administrator recommended that a "design-build" approach be used in the construction of the facility, something that she had read about in several professional nursing home magazines, but had not been previously used by the County.

It was also presented that costs for the project would be recoverable through Medicaid reimbursements. While this is true through additional, allowable depreciation costs, the County currently does not receive sufficient reimbursement currently from Medicaid to cover daily costs, and that any foreseeable recoverable benefits for this project through Medicaid would be in the form of reduced cash losses.

In discussions with the County Administrator the idea for this project was born primarily from her and she was the main driver for its construction. The priority, design and benefit to residents of such an addition and expenditure are not easily discernable and measured. There did not appear to be any independent opinion of what was best for residents at this time, given the significance of the expenditure. It would seem that it would be best left in the hands of professionals, both medical and financial, who best know the needs of the residents and the taxpayers who would fund it.

In addition there was debate and legal challenges (to the Attorney General of NH) presented by the representative of one UP as to the appropriateness of using UP surplus funds to finance \$450,000 of the \$1.4 million multi-purpose room addition to the CCNH, as opposed to returning surpluses to the UP's.

As noted previously, the Delegation discussed the proposed construction and voted to approve the project by an 8-2 vote.

In summary, we believe that a review of the process used to appropriately discuss, plan, fund and monitor this project, in part, indicates the authority and influence of the County Administrator, in this case demonstrated very effectively in getting the project approved in spite of several control measures. The Delegation should consider this in light of Segregation Of Duties issues previously mentioned concerning the County Administrator position, and also consider the approval and bidding process, dollar and authority guidelines currently in state law as these, we don't believe, were intended for a project as large as and as complex as this one.

Capital Asset Budget/Improvement Plan for the County

We did not note any formal capital budget/improvement plan for the County, comprising all of the County offices. The CA seemed to be knowledgeable of individual department needs; in particular those in the W. Stewartstown operations (CCNH, DOC, farm, etc.). We will cover identified needs ("wish lists") with each department later in this report. It was reported in the October 12, 2007 delegation public hearing and quarterly meeting that a capital improvement plan or study had not been performed in many years. Our discussions with various department heads identified asset requirements and preferences that were individually in the tens to hundreds of thousands of dollars. There was no formal document which listed these asset requirements, their estimated costs, their ranking/priority by department and ranking/priority by the County. From a review of County Commissioner, Delegation and public hearing minutes in FY 2007 and FY 2008, there were a number of instances where single asset items were brought up for discussion and voted on without a broader perspective presented which may have made for better decisions on their procurement. Such a document and a process which identifies these, could serve the Commissioners, the Delegation, and the public well in planning the procurement/construction and funding of these assets. As with the economy, priorities and costs change over time, oftentimes quickly, and updating a capital budget/improvement plan at least annually (or sooner) should be performed as well.

COUNTY NURSING HOMES IN WEST STEWARTSTOWN AND BERLIN

Coös County is the only county in New Hampshire with two nursing homes: the Coös County Nursing Hospital (CCNH) in W. Stewartstown, NH and the Berlin Nursing Home (BNH) in Berlin, NH. The CCNH was originally built in 1932 as an alms house for the poor; later converted to a hospital and now used exclusively as a nursing home. It has 97 available beds. Occupancy rates at CCNH are on average low, or about 77%, or approximately 75 residents. The BNH was built in the mid 1980's to handle nursing home bed demands in the County that could not be met at the CCNH. It has 100 available beds. Occupancy rates at BNH are on average about 97%, or approximately 97 residents.

Human Resource Practices, Compensation Levels and Staffing

CCNH has approximately 77 full time employees and 70 part time employees. Part time employees receive no medical benefits. Full time equivalent (FTE) positions at CCNH are approximately 126 staff. For a break out of FTE positions by department, see Exhibit 4.

BNH has approximately 42 full time employees and 144 part time employees who receive no medical benefits. The cost of family medical benefits is approximately \$20,000 per employee and this, along with the number of full time positions, are closely monitored by the County. Full time equivalent positions at BNH are approximately 139 staff.

One would expect to see fewer FTE's at CCNH because of the lower occupancy. As reported above, BNH has only 10% more FTE's than CCNH (which has 1.5 more in administration), yet it has approximately 30% more residents. This would seem to indicate a higher staffing per resident at CCNH than at BNH.

Wages

Since salaries were published in the County Annual Report for 2008 there has been some tension and concerns expressed by nursing home staff, primarily at BNH, as to the equity of certain wages paid for certain similar positions between nursing homes. We reviewed wages by position classification, at a step 10 level, between both nursing homes (see Exhibits 5 and 6) and found that wages listed were primarily the same except for some nursing professional staff at BNH, which had higher per hour rates than CCNH. Certain administrative staff positions at CCNH were paid higher than at BNH. Many hourly wage positions between the two nursing homes were close to being equal; were off by up to approximately \$0.20 per hour. This disparity could be an easily resolvable issue to address if it is not cost prohibitive.

We also looked at selected comparisons between nursing and administrative positions (approximately 7) at CCNH vs. BNH, which were brought to our attention by the BNH Administrator. At issue was the seniority of certain positions at BNH and the amount of their 2008 wages as compared with those similar positions at CCNH. It appeared that a number of these selected staff at BNH were paid wages disproportionate to their counterparts at CCNH, given their number of years of service. We believe that many of these concerns were a direct result of publishing County wages and recommend that the two nursing home administrators work directly together to address any seniority and wage related differences.

Finally, we reviewed the 2008 cost report of each nursing home, which compared the average hourly wage rates by position between each nursing home (Schedule K, see Exhibits 7 and 8). It disclosed that of the fourteen positions categorized, CCNH had higher average hourly wages in eight of the categories, BNH had two categories that were higher and four were roughly equal. The County Administrator reported that the majority of instances where CCNH average wages were higher were due to the seniority of the individuals or in one instance the technical certification of the individual.

Payroll matters are always sensitive ones; particularly where the value of seniority and skill do not appear to be valued the same from one institution to another. Making sure that job descriptions accurately describe each position's responsibilities is oftentimes key in justifying wage differences for apparently similar positions. We recommend that the CA take the lead with the two nursing home administrators to work together to better understand any wage/seniority differences and correct any inequities which might exist.

Financial Performance per Review of 2008 Medicaid Cost Reports

Each year the State of New Hampshire (Department of Health and Human Services) requires a comprehensive Medicaid annual report of all of its nursing home facilities, which includes a detailed cost report identifying key patient census statistics, expenses and allocations, building and general information, fixed assets and depreciation, debt and interest, financial statement, patient fund and other information (see Exhibits 9 and 10 for CCNH and BNH Cost Reports, respectively).

We performed a comparative review between CCNH and BNH cost reports and also included in the review the 2008 cost report data for the Sullivan County Nursing Home, which was available to us (see Exhibit 11).

As you can see in the Exhibit, some of the key financial and operational metrics for the nursing homes are as follows:

FY 2008	Sullivan County NH	BNH	CCNH
Total IP Revenue	\$ 10,442,700	\$ 6,545,395	\$ 5,049,509
Total Profit (Loss)	(2,900,444)	(2,303,268)	(2,796,208)
# of Beds	156	97	100
# of Bed Days	56,940	36,600	35,502
# of Bed Days Used	48,410	35,494	27,631
% Occupancy	85.04%	96.98%	77.83%
Square Footage	117,473	54,812	36,920
Total Accumulated Costs			
as a % of Revenue	91.8%	120.9%	133.7%

Based on bed days used, 2008 cost report data is as follows:

	<u>Revenues</u>	<u>Costs</u>	<u>P(L)</u>
Sullivan	\$ 216	\$ 276	\$ (60)
BNH	184	249	(65)
CCNH	183	284	(101)

We discussed the above and other detailed financial and operational data (highlighted) with the County Administrator for the CCNH and the nursing home administrator for the BNH. Some of the most notable comments for each are as follows:

CCNH

In general, CCNH's low percentage occupancy negatively impacted its cost to revenue percentages. The following comments were obtained from the County Administrator:

- Total Capital Group costs are higher and directly related to the new \$1.4 million multi-purpose room (increased depreciation and interest costs)
- Total Plant cost and square footage per resident costs are higher because of higher salaries and related medical insurance costs paid, and non-capitalizable asset costs. In addition, the layout of CCNH, having 4 floors vs. three at BNH is reportedly very inefficient and more expensive to maintain and in addition CCNH has less square footage/pp.

- Laundry costs are percentage wise higher due to higher medical insurance costs.
- Social Service costs are higher due to higher medical insurance costs.
- Total Recreation costs are higher due to higher medical insurance costs.
- Total ICF costs are higher because of higher aide costs, employee benefit costs and lower occupancy rates
- Total Administration Group Costs were higher because CCNH has accounting and UP staff, higher administrator salary related costs including higher employee benefit costs, more seniority in their staff, higher one time new administrator related costs.

BNH

In general, BNH's higher percentage occupancy positively impacted its cost to revenue percentages. The following comments were obtained from the Nursing Home Administrator at BNH:

- Plant employee benefit costs are higher due to lower full time positions
- Water and sewer costs (city water and sewer) are much higher in Berlin than CCNH which has its own well
- Laundry costs are higher because of a higher number of residents at BNH
- Dietary – Food costs were higher in 2008 when contract food services were used. Food quality also went down and consequently food preparation went in-house in 2009
- Medical record costs are higher because of more residents, more physicians attending to them and more resident records

In summary, on a revenue per bed day used basis, CCNH and BNH are very comparable (\$183 to \$184); however on a cost per bed day used the differences are significant (\$284 for CCNH to \$249 for BNH) and warrant more detailed analysis and focus by County and Delegation members. While there appear to be some additional administrative personnel and related costs at CCNH, we believe the main cost differences are driven by proportionately higher staff levels per resident at CCNH (in particular at the administrative group cost category) and a higher percentage of full time employees at CCNH who carry higher employee benefit costs (see Human Resources section above). In addition, CCNH has higher capital group costs due to the new multi-purpose room and higher plant maintenance cost which may be due to the age of the existing facility.

County Medicaid Funding

The County Administrator, in addition to filing Medicaid Cost Reports with the State of New Hampshire, Department of Health and Human Services (DHHS) for both nursing home facilities, calculates and compares it's County Medicaid Funding (daily Medicaid Payment Rate) with that of other counties (see Exhibit 12). A daily cost per patient/resident is calculated considering direct care costs, administration costs, support costs, plant maintenance costs and capital costs. Each of these costs is itself a separate

calculation using DHHS guidelines. A daily reimbursement per patient/resident is then calculated in a similar fashion. This daily reimbursement rate is then reduced to accommodate the State of NH's "budget neutral" policy to keep its statewide Medicaid costs static which negatively impacts county home daily reimbursement rates.

For example, at December 31, 2008:

<u>CCNH (see Exhibit 13)</u>	
Calculated Daily Actual Medicaid Allowable Costs	<u>\$259.12</u>
Reimbursement Total Before Budget Neutral Factor	<u>\$189.98</u>
Deduction for Budget Neutral Factor 22.40%	<u>\$42.56</u>
Medicaid Payment Rate	<u>\$147.42</u>
Daily Medicaid Loss, after Additional Medicaid Funding (MQIP) and ProShare Funding	<u>(\$51.66)</u>

<u>BNH (see Exhibit 14)</u>	
Calculated Daily Actual Medicaid Allowable Costs	<u>\$245.33</u>
Reimbursement Total Before Budget Neutral Factor	<u>\$184.88</u>
Deduction for Budget Neutral Factor 22.40%	<u>\$41.41</u>
Medicaid Payment Rate	<u>\$143.47</u>
Daily Medicaid Loss, after MQIP and ProShare Funding	<u>(\$43.22)</u>

As of July 1, 2009, daily actual Medicaid allowable costs for CCNH and BNH were \$297.13 (vs. \$259.12) and \$256.56 (vs. \$245.33), respectively, while the Medicaid payment rates were \$150.26 (vs. \$147.42) and \$146.91 (vs. \$143.47) respectively (see Exhibit 15 and 16). These amounts are exclusive of additional Medicaid funding (MQIP) and ProShare funding.

As can be seen from Exhibit 12, the range of Daily Medicaid Losses calculated at December 31, 2008 is from (\$88.28) for Belknap County, (\$19.18) for Sullivan County, to (\$2.30) per day for Hillsborough County; with CCNH at (\$51.66) and BNH at (\$43.22).

The County Administrator reported that she has tried to contact county administrators in Hillsborough, Sullivan and other counties with the thought of sharing ideas which could benefit CCNH and BNH in reducing their daily cost components. She has reported that as of our in-field date she has been unsuccessful in meeting with them. Such meetings could be quite beneficial and should be pursued vigorously. Such contacts/meetings should include the nursing home administrators of each nursing home.

Consolidation of Nursing Home Resident Services

This is a very complex and difficult issue to address by even the most learned of nursing home experts. The economics don't hint to a solution as to where nursing home beds should be, as the loss per day/per resident is approximately (\$52) for CCNH and (\$43) for BNH. Given that the reported mission of both nursing homes to provide care to those in need of it and a "safety net for the poor", even if at a loss, a prudent recommendation would be that until some decisive discussion or resolution on this issue is had, that there should be a moratorium on non-essential capital spending at both nursing homes. Another recommendation would be to perform a comprehensive review, similar to ones performed by learning institutions regarding future enrollments (done on the basis of population age), of nursing home requirements within the County over the next five to ten year window. With such information, one would be better equipped to discuss the issue.

The current distance between the CCNH and BNH and their unique building complexities makes discussion of the issue more challenging. One of the reported reasons for BNH's location was to meet the need for resident care in the area as well as to accommodate families who did not want to travel the distance to CCNH. The decision to build a County nursing home in this geographic appears to have been a good one as BNH has been at or near full capacity for many years. On the issue of building complexity, CCNH has intertwined itself with the DOOC facility (utilities, food, laundry and medical services) which makes it difficult to separate the operation of the NH facility without incurring costs to make each facility independent and to perform cost analyses on each facilities capital and operating costs. Finally, the recent addition of the multi-purpose rooms at CCNH added a significant cost to the building which would make a decision to relocate from it a difficult one.

New ideas on the issue need to be discussed. An example of one is a nursing home concept that was suggested by both NH administrators and the County Administrator as one way of migrating away from the current model of residents living only in a traditional nursing home that is called a "Culture Changes Model". This model emphasizes "resident centered care" in an environment void of nursing stations and with smaller detached/modular living quarters where residents with distinctive needs or care would live together with appropriate nursing support. In the case of CCNH, such a model could be deployed and tested using available land for detached quarters. Depending on its success, such modular quarters could be relocated away from existing CCNH and BNH facilities with the thought of providing better care at a lesser cost. Such a model, given its awareness around the country and with administrators, in addition to local counties, should be explored.

Physical Facility Observations

We toured both the CCNH and BNH nursing homes escorted by the respective nursing home administrator, and noted the following comments:

CCNH

- Has four floors of operation. Building not intended to be a nursing home, has patients on three floors. Workflow is not efficient. Narrow floors.
- No sprinkler system in nursing home except in new multipurpose rooms
- Average age of residents is in the 70's; some in 90's and 100's.
- Nursing home administrator has not been to BNH to observe their operation and any opportunity for new/helpful ideas. BNH nursing home administrator has not been to CCNH to tour facility in four years. Both administrators admittedly do not get together much at all.
- CareTracker equipment installed.
- Waivers on thirteen rooms, to make rooms for two residents vs. a designated one, expired in December 2009.
- A waiver exists on the current fire alarm system to allow it to be wired to the Department of Corrections facility who would contact custom/border officials (Beecher Falls VT, one mile away) for response in case of emergency.
- Two licensed plumbers were employed to manage utility and HVAC issues
- The service, kitchen and laundry elevator is vintage 1932 yet has been performing adequately. A new elevator or higher service costs may be incurred to keep this elevator functioning adequately. A second elevator, vintage 1970's, is used in nursing home operations, but this has incurred higher maintenance costs than expected.
- Laundry room handles laundry for the Department of Corrections.
- Second floor has five private baths and one old tub room in need of updating
- The third floor was the old hospital part of the building; half of the floor and residents are special care residents. This floor has shared baths and an old tub room in need of updating.
- The third floor has 22 empty beds; only one single resident room empty
- Thermostats control three resident rooms
- New multi purpose addition/sun porch is accessed for first, second and third floors
- EMS ambulance service is sub-contracted out
- Short term "Wish List" of improvements to make to the nursing home:
 - Update/upgrade all bathrooms/tub areas, est. cost: ??\$ millions
 - New fire alarm system, est. cost: \$80K - \$200K
 - Secure care for elevators, est. cost: \$8K/flr
 - Replace 1932 elevator, est. cost: ??\$
 - Nurse call, est. cost: \$46-80K
 - Replacing all windows, est. cost: ??\$, trying to get through grants
 - Keep a van for emergencies, est. cost: ??\$

BNH

- A debt free facility
- Does not have accounting staff
- Business office has very inefficient layout, with no privacy for Human Resource practices and sensitive resident files
- Care Tracker equipment installed
- Wider floors than CCNH.
- Sprinkler system throughout the facility
- Individual thermostats in each resident room
- Poor airflow (from current air conditioning and heating system) because of “winged” design
- Original boilers (Hebert installation) had to be replaced. New boilers in facility outside of nursing home.
- Only two private rooms in nursing home
- Kitchen can accommodate 25+ more people to serve
- New van accommodates only five residents vs. older van which accommodates nine
- Maintenance staff are not licensed, but are very versatile
- Trying one person from the state prison one day/week
- Use of stairs by staff encouraged for exercise and to save energy and maintenance on elevators
- Short term “Wish List” of improvements to make to BNH:
 - New more private and efficient business office layout, with separate room for employee/family private meetings est. cost: \$50K
 - Digitized electronic records capability, est. cost: ??\$
 - Central air conditioning for the nursing home, est. cost: \$1 million+
 - New call bell system, est. cost: \$50 - \$75K
 - New phone system, est. cost: \$60K
 - Additional resident room in the dementia unit, est. cost: ??\$
 - Parking lot improvements, est. cost: ??\$
 - Keep old, nine person van, est. cost: just maintenance costs

There may be other issues at both nursing homes that should be noted, however these were ones observed during a brief tour of both facilities. It would seem that it would be beneficial for both facilities to collaborate, across all staff categories, to observe and share best practices and resources with the goal of reducing costs, providing better care for residents and a better working environment for staff. In addition, “Wish Lists” could become the basis for more formal capital improvement plans in the future.

Strategic Planning – Nursing Homes

A number of factors support the County preparing a strategic plan over future time intervals (3,5, 10 years) for County nursing home operations, which would help identify and prioritize significant issues for County Commissioner, delegation and public discussion. From this process, the County should be better able to plan for its capital, and operational needs, be better able to respond to dynamic federal and state reimbursement practices, identify and work towards new or better ways to provide nursing home services, and better forecast County tax rates. These factors include:

- Continued significant losses in both nursing homes, with little possibility of change identified for the future
- No ongoing formal project to make CCNH and BNH more cost efficient/economical by working with other county nursing homes, or between each other.
- Determining the need for two County nursing homes vs. one, (existing, new or rehabilitated). Although likely a major and expensive project for the County, if a new nursing home were to be built, where would the preferred location be to best meet future aged demographics, be most cost efficient and meet the needs of the County.
- Addressing the lower occupancy rate at CCNH. Efforts to sell/lease CCNH beds to other counties.
- Varying and significant capital equipment needs (both short and long term) at both facilities (see above)
- Possible options to sell County property owned in W.Stewartstown to pay down CCNH debt
- Health care cost increases, Medicaid and State of NH reimbursement rate changes and requirements
- The long and short term impact of the closing of the Ethan Allen factory in nearby Beecher Falls, VT on staffing and related costs. Reportedly, many spouses of CCNH staff lost their jobs.
- Potential impact of professional staff (nursing) migration to new federal prison being constructed in Berlin
- BNH being debt free and CCNH with only sunroom debt
- New nursing home models for providing resident care, i.e. "Culture Change Model" (see above), and current resource options (i.e. County land availability in both CCNH and Berlin, use of CA home at CCNH)

A strategic planning team could be organized by the Commissioners from County, CCNH and BNH staff along with possible outside expertise in these areas.

INFORMATION TECHNOLOGY

Data Security Issues

Please see IT comments in the Internal Controls Evaluation section of this report

Allocation of IT Director Time and Costs

The IT Director reportedly is assigned to work three days on CCNH IT issues, one day on BNH IT issues and one day on DOC IT issues. The IT Director's salary, however, is reportedly allocated one third to each of the three facilities, which leaves BNH with a slightly unfavorable cost allocation.

The IT Director does not provide IT services to the County offices in Lancaster (Registry of Deeds, Sheriff's and County Attorney's offices). He reportedly is not very familiar with IT, security and operational issues at this location. Each of these offices has their own IT operations and technologies, although different from each other and not networked other than with email. The County Attorney has his own outside IT resources, which has installed an internal office network, but not connected to W.Stew. It was reported to us that if the County Sheriff and Attorney and the Register of Deeds shared a files server, these offices could be networked and file sharing with W. Stewartstown. Backups of files and tapes can be stored in W.Stewartstown, Lancaster or other County locations. We recommend that the IT Director have a greater involvement and oversight over County operations in Lancaster for communication and connectivity and consistency of IT operation and data security standards.

COUNTY DEPARTMENT OF CORRECTION

Background

The existing County Department of Correction (DOC) is attached to the CCNH with a sub ground tunnel accessible to each facility and used to deliver meals, laundry and personnel. The structure was reportedly built in the 1930's and was originally intended to be built out in the countryside. It has three floors and two wings, an outside recreation cage, plus an access tunnel into the CCNH. Under New Hampshire state statute, 30 B - 1, a county may provide a county department of corrections, or may contract with another state or county to use their facilities. The current facility does not accommodate female inmates (because they are so few in number) who are contracted out to other facilities with larger women populations.

The W.Stewartstown DOC is approximately one hour from each County courthouse, which makes for a lot of travelling time for officers in the County Sheriff's office to move inmates back and forth to the DOC.

On the day of my brief visit and discussions with a DOC staff sergeant, there were 59 registered inmates as follows:

Inmate Population:	
Inmates out on contract (female, State prison inmates)	11
Inmates with electric monitoring	2
Adult male inmates (14 pre-trial; 22 sentenced inmates)	<u>36</u>
Total	49

Pre-trial inmates are the most surprising and concerning as their personal behavior and judgment status is not known. Many have drug and/alcohol or mental problems and can be very dangerous upon entering the facility. They also tend to stay longer in the facility as the judicial system and courts currently have long waiting times for trial due to backlogs. This equates into more costs being borne by the DOC. The sentenced inmates are reportedly more complacent and stable, their judgment known and their predisposition is to serve out their sentence or accelerate their leaving due to good behavior. Inmates are given 30 days to show they are manageable and have static behavior (Group 1). After 30 days of good behavior inmates are given privileges ranging from more private bedding and bathroom facilities to inmate assignments outside the DOC (Group 2).

The sergeant noted that at times the adult male inmate population has reached 50. At these times the environment inside the DOC is very risky, particularly with higher pre-trial inmates. DOC officers carry only pepper spray for their protection.

DOC Staff included:

Inside correctional staff (including three sergeants and five corporals)	16
Acting Superintendent (current CA)	1
Nurse	<u>1</u>
Total	<u>18</u>
Outside staff (recycling center, farm, grounds)	<u>3</u>
Part time civilians (transfer station)	<u>3</u>

Selected DOC inmates perform many duties in the County's W.Stew properties. Inmates are selected based upon their skill and good behavior while at the DOC. Inmates do all the outside facilities (CCNH, County home, farm, transfer and recycling center) ground maintenance and some repair. For this they earn a wage of \$1 per day which is credited to their DOC account.

Management Practices

According to State statutes, the County must appoint a DOC Superintendent to supervise and manage the department. The DOC has been without a Superintendent since the beginning of 2007 due to a retirement. We were informed about concerns that his departure would lead to a legal matter, but this is reportedly not the case according to the County Administrator. As an interim step, in March 2007 the Commissioners appointed the current County Administrator as an acting-superintendent for the DOC. A full time Superintendent was not immediately re-hired due to reported budget constraints. The County Administrator assumed overall responsibility for the DOC while maintaining all of her regular and other job responsibilities. It was decided that the County Administrator would apportion 40% of her time and salary, (40% of \$96K, exclusive of benefits) to the DOC. The prior Superintendent had a salary of approximately \$72K, exclusive of benefits.

DOC costs have increased 12.6% in the 2009 budget over FY 2008. Correction costs are reportedly increasing due to officer raises (3%), union officer wage step increases, higher medical benefit costs for both union and non-union officers, higher medical costs for inmates (substance abuse treatment and prescription drugs), and increased fuel costs.

While significant cost savings were generated by not filling this top County position, a gap in services has resulted. The County Administrator reported that she doesn't have time to adequately manage the DOC. She is hoping to find a PT or FT Superintendent in 2010. Both she and the Sergeant in Charge admit that without a new Superintendent, they are "treading water" in the management of the facility. They also both report that there are currently no violations of state laws at the DOC. Services in need of immediate attention are:

- Ensuring a sustainable DOC, an integral part of the County's rural criminal justice system,
- Improving the functioning of the DOC as well as the County's criminal justice system,
- Ensuring job growth and job retention caused by a reduction in available funds as a direct result of recent economic conditions,
- Enhancing the County's DOC and its programs by identifying partnerships for accessing community resources that can help the department address challenges,
- Provide officer training and career development opportunities for correction staff,
- Updating and enhancing the DOC policies and procedures. Currently there are no formal written policies and procedures and no formal compliance testing,
- Develop new rehabilitation programs for inmates as their profiles (mental health/substance abuse cases) have changed significantly over recent years,
- Updating and supervising the County's electronic monitoring program as well as other "alternatives to incarceration" programs.

In her Acting Superintendent role, she receives daily statistics on the DOC and has the Sergeant in Charge (SIC) come over to her County/nursing home office for discussions, typically on safety issues. However, she is reportedly only on-site at the DOC 2-4 times per year and viewed as very busy with non-DOC matters. The County can no longer depend on a part time appointed official to supervise and administer this operation.

Human Resource Practices

The lack of a replacement Superintendent has become a morale issue for the DOC officers. The SIC believes that the passage of time since his replacement, since the beginning of 2007, is very concerning to him and other officers at the DOC. Without a Superintendent, DOC management (sergeant and corporals) and officers are reportedly concerned:

- That they are not represented in the County, and at important meetings. They feel forgotten and taken for granted.
- They are missing a key link between them and County management to air any complaints or concerns,

- That there is no one currently overseeing their staff development. Staff need 30 hours of training per year and many officers are reportedly behind in this requirement
- Little on-site oversight of DOC operations,
- About safety concerns with a growing inmate population; in particular pre-trial inmates. A Superintendent would provide an extra on duty officer (day shift only) and management skills to help deal with these safety issues,
- That the DOC is in jeopardy of closing,

Another area of concern amongst the sergeants, corporals and other officers is staff succession within the ranks. The SLC reported that in the next five years 4-5 senior officers will be eligible to retire. Without sufficient focus on training of low ranking officers, there will be succession and promotion challenges that would be unnecessary.

It has also been asked if a DOC Superintendent should be responsible over the Farm, Re-cycling center and Transfer station. With the deficiencies noted above that would be inherited by a new Superintendent, we don't believe that spreading his/her responsibilities over other operations which are not DOC related would be advisable. Any inmates, however, which may work at these operations, would be their responsibility.

As mentioned earlier, inmates that work for the County earn \$1 per day, which is credited to their "bank account". Families of inmates can send them money as well. Monies spent by inmates in the DOC are for mostly snacks and personal grooming and other items. Receipts are given inmates and relatives for all monies received. All funds are tracked by computer accounts set up for each inmate. Receipts and disbursements are reconciled to internal bank statements by an accountant in the CCNH. We reviewed the DOC tracking system for inmate funds and it appears to be adequately controlled as long as control over the issuance of receipts is maintained.

The current Farm Manager holds the rank of corporal in the DOC, as he has fulfilled training and staff development requirements. He does supervise four selected inmates who help him with daily farm chores. For this, part of his compensation costs have been allocated (83%) to the DOC for years. We don't believe this is an appropriate practice. According to the SLC, he provides no direct DOC operation management or input and does not have a visible or active presence in the DOC. (See other comments in the Farm operation section).

Staffing and Safety Issues

In our discussion with the SLC, he raised several staffing and safety issues. Officers work three shifts (800a-300p, 300p-1100p, 1100p-800a) at the DOC, with a sergeant or corporal required on each shift (see Exhibit 17). Staff typically work a four day on then one or two days off schedule. The SLC reports that this schedule is supposed to provide for four officers to be on duty. There must always be an officer at the control desk to control outside and inside access to the DOC. However, most of the time there

reportedly are only three officers on duty because of training and officers taking accrued time off.

The SIC believes that having only three officers on duty is not enough for both officer and inmate safety. Having just two officers to monitor the two wings, each with inmates, is too risky. Oftentimes, for new admissions, haircuts, medication conferences etc. one officer has to monitor inmates participating in these activities which leave only one officer to monitor both wings and most of the inmates. If there was a full time Superintendent in the DOC, there would be more coverage and presumably better scheduling of officers which would provide greater safety.

A second area of concern is regarding how inmates are viewed outside the DOC when inmates are on assignments/duty. The SIC believes that many County staff and the public that come in contact with inmates do not mentally see them as inmates, but rather something less concerning. Supervision expectations are reportedly different inside and outside of the DOC. The SIC believes that this is a risky situation and that inmate escape or injury to outsiders is possible and more concerning with the pre-trial inmates. While on tour of the farm, two inmates approached the area where we were standing and picked up two pick axes and started using them on their assignment. This was a startling experience knowing these men were inmates, as good natured as they seemed to be. There are also record numbers of inmates with mental health and substance abuse issues in the DOC which adds to this risk.

Other safety risk areas that we witnessed or were brought to our attention are as follows:

- In the re-cycling station, four of the six inmates assigned here have no coverage or supervision for two to four hours at times. When the assigned corporal and two inmates take a truckload of material away from the area, the remaining inmates are left by themselves. Finding contraband in this area has been a problem at times.
- At the Farm, the four inmates assigned to work here are reportedly left unsupervised when the farm manager is off doing some of his chores.
- There is no screened cover over the outside recreation cage,
- Many of the door locks in the facility need to be fixed. We were with the SIC on the third floor and his keys could not open a room (recreation/library). The lock had to be open by the officer in the control room.
- Officers have to eat with the inmates as nobody can leave their posts when there are three officers on duty.
- It is dangerous to get to the outside recreation area as the only access route is through the pre-trial inmates bedding area,
- Inmates on duty in the CCNH (kitchen/laundry) are not supervised by a DOC officer,
- If there is a very unruly/psychotic/enraged inmate acting up, officers have to wait for a shift change in order to have enough officers to handle the situation. In the meantime the inmate can do substantial damage to his cell or himself.

- There is no sprinkler system in the DOC.
- There is currently no way of knowing where fire detectors are that go off in the facility. The zoning and wiring of them to the control room needs repair.

Short Term Capital Expenditure “Wish Lists” and Other Issues

We asked the SIC what improvements needed to be made at the DOC in the immediate and short term future out of necessity. He noted the following:

- Replacement of the current door control panel. The lights on it don't work and it doesn't show the status of internal door locks.
- Doors and cell locks are very old and need to be fixed; keys cannot at times open door and cell locks. Replacing locks are expensive; replacing the main entrance door lock cost \$1,500. An electric door locking system is more modern and reliable but would be very expensive to install one.
- A new intercom/facility monitoring system throughout the facility. The current system is “home grown” by the officers but is not functional at places in the facility.
- Maintenance at the facility has gone by the wayside. There are many ways to save energy in the facility including:
 - Window upgrades (from 1980's) are needed; particularly in the cell blocks. Huge heat loss is reported from these.
 - Heat/air-conditioning control in the facility is inconsistent, with both hot and cold spots in the winter/summer, including sleeping areas. No one reportedly knows how to control the heating in the facility. Replacing very old radiators is one of the recommendations. Air conditioning is a real problem; in particular in the control room and inmate processing area.
 - Cold water only in showers and sinks at times.
- There is no assigned vehicle to the DOC. They share the use of the farm truck.

The SIC believes that a full or part time maintenance person at the DOC is necessary given the age of the facility and the many maintenance issues.

FARM OPERATIONS

In the September 17, 2009 edition of the New Hampshire Union Leader there was an article on the Coös County farm and how it is financially struggling. The Coös county Commission called together state agricultural officials, including Department of Agriculture Commissioner, as well as the County Delegation and farmers to discuss the future of the farm.

The County Administrator reported that: "over the past three decades, the net profit for the farm is at approximately \$357K, or about \$11K per year. In 1991 and 1992, the county lost more than \$100K. (It is estimated by county farm and financial officials that the county farm could lose \$120K to \$150K in 2009 alone)".

The Coös County farm manager said of FY 2009, that "this year has been a higher producing year, but the price of milk is at a 30 year low". Farmers then were receiving \$0.98 per gallon of milk that costs \$1.80 to produce. Farm experts talked about the differences between private dairy farms and a county operation and the dilemma farms are facing in these tough times. It was said that "Farmers (private) can't afford to stay in the business, but they can't afford to get out. If a farmer were to sell his or her herd, it would not likely cover the debt. Farmers are between a rock and a hard place".

No one at the meeting favored closing the farm, but several state representatives questioned if there were other things the farm could do to remain viable.

Background

For nearly 145 years, the county farm has grown produce and milked cows, at first providing jobs for able-bodied paupers and later as a work site for DOC inmates. On the farm is the barn which has three floors: third floor for equipment storage, second for hay storage, and first floor for the cows and milking operations. The overall building appears sound. The farm manager has been manager at the farm for 19 years and worked on a family farm before working for the County.

The farm replaces all cows for milking internally, using artificial insemination. Cows are usually ready for milking at two years old. At the time of our review, the farm was milking 70 cows; had 170 cows overall, including non-producers and young cows/calves. This is considered to be a small farm. 200 milkers (500 cows total), would be considered a big farm. On average a producing cow can produce 65-75 lbs of milk, per day (65 lbs. x 70 cows x 365 days = 1,660,750 lbs. per year). Milk is picked up from the farm every other day.

Farm Operations

Farm operation costs continue to rise. Some of the areas noted in our tour of the facilities were the following:

- Feed grain costs are getting ever more expensive; causing line item transfers to fund overspending in this area as reported earlier. As a result, the farm manager is cutting back on the grain given to cows; trying to maintain the weight of the cows with fillers.
- Wood chips used for bedding have become expensive. What once was a low cost item purchased from a local furniture factory is now an expensive material with costs escalating from approximately \$8K to over \$20K/year
- The farm still has to buy hay feed in spite of what is grown on the farm
- The farm is a very good worksite for selected DOC inmates (usually take the best four inmates as farm hands, who work their exclusively until their sentence is completed or they are transferred). While several inmates have gone onto farm hand jobs after serving their sentences, more appreciate the work opportunity but do not seek out this type of work after completing their sentence.

Financial Review

In order to look at the financial viability of the farm you should look at the farm as a single entity.

The FY 2009 budget for the County Farm included approximately \$304K for the sale of milk. Capacity was estimated at 1.8 million pounds of milk per year versus the 1.7 million pounds calculated above. Using a per pound price of \$0.16 estimated for the year, that would equate to approximately \$288K; below the amount budgeted. It was reported by the farm manager that prices had fallen from January to April from \$0.12 per pound price to \$0.10 per pound. At 1.7 million pounds per year at a per pound price of \$0.12, that would calculate to approximately \$200K of milk revenue versus the \$304K. Budgeted revenues appear to have been well overstated for FY 2009, and could mean higher losses on farm operations than even the \$150K later estimated.

Federal government supplemental funding for farms was stopped in 2009 which provided approximately \$25-30K to the county farm each year.

As previously mentioned in our DOC section of this report, a major piece of the farm manager's salary and benefit costs have traditionally been allocated to the DOC operation, both in the budget and financial statements. 83% of his salary and benefits, or approximately \$63K (\$76K total salary and benefit costs x 83%) is allocated. The basis for this allocation is that the farm manager is a qualified corporal under DOC standards and he supervises 4 inmates who work on the farm. We don't believe this to be an appropriate allocation of costs. Firstly, the farm manager's primary role and responsibility is to oversee the farm operation, to which he devotes his full attention.

Secondly, he does not spend any time in the DOC and does not participate in any of its operation or command or has a visible presence at the DOC. Thirdly, he only supervises four inmates during one working shift of the day. The inmates working there are individuals specifically selected for this assignment because of their good behavior and skill. No other inmates have daily regular farm duty assignment. Fourthly, he does not supervise these four inmates as attentively as DOC does theirs. These four inmates appear to be treated like regular farm hands, without full time supervision because they appear to be responsible and skilled enough not to require full time supervision. The DOC SIC reports that these inmates are oftentimes left unsupervised at the farm which give him cause for some concern as they still are inmates. We don't believe that the farm manager's salary and benefits should be allocated to the DOC for these reasons. The financial impact of reversing the current allocation would be to add an additional \$63K, approximately, to the farm's current budget and booked expenses, further increasing its current and prior years' losses.

Needed Capital Expenditure "Wish List" of the Farm Manager

The following items were identified in our tour of the farm facilities with the Farm Manager that need to be replaced in the current or near term (within a few years) there after:

- New/used hot water tanks for milk processing. Est. costs; \$???
- Replace their 1993-94 primary farm tractor. Needed repairs should reportedly be done by the end of 2009 or early 2010 at a cost of: \$70K
- Replace the grass storage machine which is worn out 25K
- Manure pit maintenance 20K
- Replace the grass cutter which is ten years old and is worn out ???
- Replace the farm truck which is 1991 vintage ???
- Replace the farm pick up, the old one requiring a lot of maintenance ???
- Replace the dump wagon for corn which was bought in 1975 ???
- Not requested, but the barn/farm does not have a sprinkler system

On the positive side; as previously mentioned and unlike many private farm owners, this farm operation has essentially no debt to cover in a closure, sits on one of the best portions of County land owned (reportedly 300+ acres), which could be sold to pay off other County debt such as the multi-purpose sunroom on the CCNH; and farm animals and equipment could be sold to local farmers or to market. The farm could also continue as hay or other grain farm if profitable.

We discussed the future of the farm with the Farm manager and with the County Treasurer; both were not optimistic about the farm's future for reason's previously mentioned. Although unpopular and not without sentimental emotion against doing so, we believe the County Commissioners, the CA and County Delegation should consider the complete economics and continued losses of running the County Farm with a view of closing its farm milking and other operations for the benefit of the rest of the County taxpayers.

COUNTY SHERIFF'S OFFICE

Background

The County Sheriff position is an elected position in the County. It is a unique position in that, according to state law, the Sheriff has exclusive authority to control the provision of law enforcement and the terms and conditions of employment of deputy sheriffs, so long as the sheriff complies with the overall budget as adopted by the County Convention. The Commissioners may not interfere with the Sheriff's direct provision of law enforcement duties (constitutional authority).

The Sheriff's office is in Lancaster, NH about an hour South of W. Stewartstown. The Sheriff's office is made up of one large room where the Sheriff and three deputies have desks and a small outside room for an administrative assistant. In simplistic terms, according to the Sheriff, his department "just needs good vehicles and funding" to transport inmates to and from and around the County facilities (court system facilities, prisons, nursing homes and hospitals throughout the County and State). Like other County departments, the Sheriff's budget is challenging in achieving both revenue and expenditure targets; he reports that he has been trying to keep spending down (2008 actual expenditures of approximately \$593K versus a budget of \$671K). The department also has a contract with the federal government to patrol campgrounds. The Sheriff reports that his department tends to be more of a reactive one than a proactive one.

Management Practices and Human Resource Issues

There are also four part time deputy sheriffs, who work per diem with no benefit costs. Part time deputy sheriffs are usually retired police officers and are used to transport inmates and serve civil process which is the primary role of the full time deputies. Sometimes the Sheriff's Office uses police staff from other city police departments in the State to transport inmates to dentists etc. There are occasions where there is an "IEA", involuntary emergency admissions, where two deputies are required to escort an inmate because of their volatility and risk.

One of the issues raised for our review in this report concerned the sale of a department owned truck to a deputy. This case was reviewed and resolved by the Attorney General's office with no criminal wrongdoing found.

Another issue raised for our review concerned the use of radar detectors in the Sheriff's department vehicles, in that their use might be excessive. The Sheriff reviewed his records for the three cars with radar for 2009 to date and 2008. He reported that there were 0 citations for speeding in 2009 and 1 citation issued in 2008. The Sheriff reported that although he is primarily a transport operation he would have to respond to speeding

threats on the road if they were not transporting inmates or other approved passengers. He also stated that his department has to participate with other State run checkpoint and DUI programs where radar is needed.

There are a few department human resource issues to note which include the following:

- The Sheriff would like to increase the part time deputy's hourly wage from \$13 per hour to \$15. The Sheriff reports that deputies often get up in the middle of the night to make a transport, which his full time deputies would have to do after working a full day. He believes that this increased rate would make it easier to retain his current deputies.
- In several instances (some noted above) the Sheriff's role and responsibilities have brought about public debate. The Sheriff also does not have a job description which should be prepared. This would help clarify his role and responsibilities in the County and possibly mitigate questions regarding them by others.
- The Sheriff's office is not very secure and may be an unsafe environment for his secretary/administrative assistant. Even though there is pre-screening security upon entering the main building, someone can enter the Sheriff's reception area without notice to the Sheriff or deputies. As will be described later, there is often cash and checks of over \$2,000 in the assistant's unsecured desk. Additionally, she oftentimes feels uncomfortable with some of the people coming into the reception areas, including people who have lost their homes or children in court cases. The installation of security cameras and a safety window barrier between her and visitors should be considered.
- The Sheriff's secretary/administrative assistant, who works for the County and not the Sheriff's office, reported that she earns less than other assistants in the County. We reviewed County wage schedule for 2009 and found that she was paid \$1.12 per hour less than the County Legal secretary position in the same building. The County should review her job responsibilities against other secretaries in the County and determine if her wages need to be adjusted. A job description for her position should also be prepared.

Sheriff's Vehicles

The Sheriff's department currently has eight vehicles as follows:

- 3 SUVs (2005,07,08) with mileage range of 72K – 160K miles, SUV's are used because of the changing County road conditions year round
- 5 Crown Victoria's with mileage range of 9K (new) – 142K miles. The car with 142K miles is driven by the Sheriff

The Sheriff reports that the department used to replace two vehicles per year because of the high mileage driven, however this has been reduced for cost savings purposes to one vehicle per year.

Internal Control Issues

We noted the following internal control issues reported in the Sheriff's office with regard to cash receipt and cash disbursements:

Cash Receipts:

- Civil process receipts are received by the Assistant and deposited weekly. These deposits include up to \$1,000 in cash and up to \$1,200 in checks. Receipts are entered into a QuickBooks application and the deposits are kept in an envelope in an unlocked desk drawer. The Assistant reconciles her QuickBooks deposits to her actual bank deposits. Although unaware of actual deposit activity, an accountant in W. Stewartstown reconciles the bank statement. It is possible in this scenario for cash/checks to be misappropriated.
- Checks received from billings for court security, special details, juvenile transport etc. are reportedly restrictedly endorsed to the County for deposit and photo copies kept in the Sheriff's office. They are also entered into QuickBooks by the Assistant. Checks are kept in a bag for transport and deposit by the CA. The bag is kept unsecure in the Assistant's office. It is possible in this scenario that without an independent control over their receipt, checks could be misplaced or misappropriated.
- Currently the Assistant has the ability to waive civil process fees without the Sheriff's notification. She reported that she had waived approximately \$400 in the past year. It is possible in this scenario for funds to be misappropriated.

A comprehensive review of cash receipts procedures in the Sheriff's office should be performed. It should include:

- Considering installing a security camera over the secretary's area for both safety and cash receipts control purposes,
- Cash receipts, from a pre-numbered stock, should be used when receiving funds from any source,
- There should be an independent control of both cash and checks received and a more secure process for funds before deposit. Daily receipts of cash and checks should be counted by the Sheriff or his deputies and secured in a safe until deposit in the bank. The Sheriff should monitor daily receipts. The assistant should not be making bank deposits. Active participation by W. Stewartstown accounting staff over cash/check receipts and deposit should be instituted,

- An independent control and Sheriff's approval process over waived fees should be put in place, including signed documentation of amounts and approvals. The Sheriff should authorize all waived fees or other charges,
- Preparing formal policy and procedures in the receipt, recording, and depositing of all cash receipts in the Sheriff's office should be prepared.

Cash Disbursements:

- The County purchasing bid process is not formally in place in the Sheriff's office. Vehicles may be the only assets put out for bid and the Sheriff reports that he does shop around for the best price,
- Purchase orders are reportedly not used for small purchases.

A formal policy and procedures for cash disbursements in the Sheriff's office should be prepared, consistent with other County policies and procedures in this area.

IT Control Issues:

- All hardcopy files for the Sheriff's office are boxed up and in the bailiff's room downstairs from the Sheriff's office.
- The QuickBooks application used in the Sheriff's office is currently the assistant's own personal licensed version, used in a prior family business. It is an old version (2000). The County should procure an appropriate current product license for this application. It was occasionally backed-up while she had her family business but not regularly. It is unclear if there is a current backup of the Sheriff's department data files.
- The records for all juvenile transports, civil processes, including all billings, and court security transactions are processed in an old (est. 1995) program called Sesame Q&A. It is not sure when a backup of this software and data files was made.

It is very important that the security of these files be assessed and that all electronic data file and software, where appropriate, be backed up as soon as possible and a backup and data security policy be created and implemented. As previously recommended, the IT Director for the County should also include in his responsibilities the data security of the Sheriff and other County offices in Lancaster.

REGISTRY OF DEEDS

Background

The Registry of Deeds office is located in the County offices in Lancaster. All property transactions and related records are resident in the office. Scanning and indexing of records started in 1994, with plans to ultimately scan all documents, including aged, bound leather registry books which are maintained on site. The Registrar is an elected position and the Registrar is a former bank branch manager. She manages the office with three other staff.

Office procedures are broken up into four "Jobs", each one comprised of several tasks (i.e. Job # 2: scan documents, return documents, 1st proofreading) and each of the four staff, including the Registrar, is cross trained in these jobs and performs them on a daily rotating schedule. She also collects all the cash/checks herself, with staff assistance, each day. All cash receipts, mostly all checks, are recorded through the Connor and Connor register and the office registers and are reconciled with the daily bank deposit slips (Passumpsic Savings Bank). There are four security cameras in her offices.

The software used to record cash/check receipts (mostly checks) is proprietary, Connor and Connor, Concord NH (C&C, and is integrated with registry files on County property. Staff have no access to source code. File server back ups and property document scanning back ups are prepared each day. One copy goes home with a staff person at night and one copy goes to C&C. All other back ups (older copies) are stored at Guardian Angel Bank.

Registry revenues have been steadily decreasing over the last few years, in-line with the slumping real estate market.

Internal Control Issues

- Although there appears to be good cash receipt controls in the Registry office, County offices (CA) have no way of knowing if the all receipts at the Registry have been deposited and recorded. The CA needs to be better interfaced with the Registry accounting practices. CA/County access through C&C software and participation in the banking processes can further enhance controls in this area. County accounting staff and the IT Director should visit the Registry on a regular basis (quarterly) as well.
- The Registry staff needs to better secure their file servers. Fileservers containing accounting, land and other documents are in a room accessible to the public who enter their offices each day to do research. The fileservers need to be in a locked room with restricted access. It appears that this can be achieved by

moving publically accessible computers out of the current room with the file servers. The IT Director should participate in this process.

- The lock on the entrance to the public room is on the inside door of the public room and should probably be on the outside of the door, where the Registry staff are.
- Daily backups of Passumpsic Savings account activity should be stored off site, along with other backups.
- Backups of office personal computers files, which contain accounting and office operations documentation, should be performed regularly and stored offsite.

The County IT Director should advise and participate in the development/updating of Registry data security policies and procedures.

Other Issues

- The Registry office staff complain about the office phone system. The counter phone and a couple of office phones are not functioning.
- The Registrar keeps an office safe in her office where key daily documentation and funds are kept locked. However, all office staff know the safe combination. Such knowledge should be restricted to as few persons as possible.
- The County office should review registry purchasing practices with a view towards making them consistent with the rest of the County.

COUNTY ATTORNEY'S OFFICE

Background

The County Attorney is an elected office and is also a constitutional office, set up in the State constitution and not dissolvable. The County Attorney is the chief law enforcement officer in the County and the current one is serving his first elected term. He is assisted by an Assistant Attorney who is partially funded by a Federal grant and a staff who coordinates a County violence against women program, similarly funded by the Federal government. Reportedly, 90% of the County Attorney office's efforts are in prosecuting felony and misdemeanor cases. The County Attorney Office does not do homicide cases. The balance of time is used to do the following:

- Provide advice to the County Sheriff and police departments in the County
- Victim Witness services
- Advise the Commissioners on civil matters
- Collection cases
- Nursing home issues

The County Attorney reports that the County has access to a judge every other month which translates into case and sentencing delays and public defenders often outnumber his office in cases.

Operation and Human Resource Issues

- As was shown in Exhibit 3 (County Administrator section), the County Attorney's salary is the lowest in all similar county positions. The current County Attorney reported that after nine months on the job that his compensation is not worth the effort expended and he would be discussing this issue with the CA later in his term.
- There is a significant issue with filing space in the office. There is no place for closed case files. Files are currently kept in the conference room in such a way that it is difficult to have more than one attendee for a meeting. The room cannot even be vacuumed. Space for files and evidence, and indexing, is a priority item as both can be destroyed or lost which could affect trial proceedings. Inquiries were made to fund off site storage or finding space in one of the County nursing homes. Referring to the above space issue, the County Attorney reports that there is no space in the office for an intern which is a desired resource for the office.

Subsequent to our review date, we were informed that the County Attorney's Office would be relocated to other office facilities in Lancaster. This would be an ideal opportunity to address some of the issues noted above.

- There is no budget for expert witness costs which has meant not winning some cases that could have been won if this resource was available.
- The County Attorney is using his own monitor and printer to save money.
- Computer networking in the office is done internally by a friend.
- There are no legal practice books in the library and the County Attorney has to bring in his own to use.
- The County Attorney's office, except for email, is not (IT) networked with other County offices
- Has to network with Attorney General staff to obtain legal and case information because he does not have available on-line services
- The County office should review County Attorney purchasing practices with a view towards making them consistent with the rest of the County.

The County Attorney and the CA should meet to discuss the issues noted above and how they may or may not be addressed in the FY 2010 budget.