

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF
RESOURCES AND ECONOMIC DEVELOPMENT
DIVISION OF PARKS AND RECREATION
REVENUES OF THE STATE PARK FUND**

**AUDIT REPORT
SEPTEMBER 2008**

**STATE OF NEW HAMPSHIRE
 DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT
 DIVISION OF PARKS AND RECREATION
 REVENUES OF THE STATE PARK FUND**

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This report can be accessed in its entirety on-line at www.gencourt.state.nh.us/lba/audit.html

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT
DIVISION OF PARKS AND RECREATION
REVENUES OF THE STATE PARK FUND**

Reporting Entity

The reporting entity of this audit and audit report is the revenues of the State Park Fund for the fiscal year ended June 30, 2008. Unless otherwise indicated, references to the Department refer to the Department of Resources and Economic Development and references to the Division refer to the Department's Division of Parks and Recreation. Auditee responses were prepared by the Department.

Organization

The State Park Fund was established pursuant to RSA 216-A:3-i, I, which directs the State Treasurer to establish a separate and distinct account to be known as the State Park Fund. RSA 216-A:3-i, I, further directs the State Treasurer to establish within the State Park Fund separate and distinct accounts known as the Park Account and the Ski Area Account. The Department utilizes the following State accounting system (NHIFS) accounts to record State Park Fund transactions:

Park Account

- State Parks Fund (revolving account)
- Service Parks
- Administration and Support
- Design, Development, and Maintenance
- Unemployment
- Worker's Compensation
- State Park Concessions (revolving account)

Ski Area Account

- Cannon Mountain
- Cannon Concessions (revolving account)

According to the statute, "The treasurer shall deposit in said accounts actual revenue derived by the commissioner of the department of resources and economic development in excess of budget expenses from fees, services, accommodations, rentals, revenue from lift and tramway operations, retail sales, and net profit from concession operations, and including any federal moneys which become available, and all donations and gifts."

Responsibilities

Pursuant to RSA 216-A:3-i, II, "Any funds deposited into the park account and ski account are hereby continually appropriated to and may be expended by the commissioner of the department of resources and economic development only with the prior approval of the governor and council and the fiscal committee, provided that additional funds above those authorized in the budget are

necessary for the division of parks and recreation to provide an adequate level of service and maintenance in the state park system, restore park facilities and for proper operation of the state-owned ski areas.”

Funding

Pursuant to RSA 216-A:3-g, I, “Fees for the use of park areas shall be designed to recover a reasonable portion of budget expenses consistent with the purposes of RSA 216-A:1 and 216-A:3. The general court does not intend that all park facilities be self-supporting.”

While the State Park Fund is used to account for the revenues and expenditures applicable to the operation of the State Park System, including the Cannon Mountain Ski Area (Ski Area), the revenue from the lease of the Sunapee Ski Area is reported separately in the State’s Cannon Mountain Capital Improvement Fund, in accordance with RSA 12-A:29-c, II, and the financial activity related to the operation of the Mount Washington State Park is reported separately in the Mount Washington Fund, in accordance with RSA 227-B:9.

The State Park Fund accounts are reported within the General Fund of the State of New Hampshire. A summary of the State Park Fund for the fiscal year ended June 30, 2008 is shown in the following schedule.

**Summary Of Revenues And Expenditures (Unaudited) - State Park Fund
 For The Fiscal Year Ended June 30, 2008**

	<u>General Fund</u>
Total Revenues	\$ 11,168,024
Total Expenditures (Unaudited)	<u>(10,421,993)</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ 746,031</u>

Prior Audit

The most recent prior financial and compliance audit of activity reported in the State Park Fund was the financial and compliance audit of Cannon Mountain for the ten months ended April 30, 2001. The appendix to this report on page 47 contains a summary of the current status of the observations in that report relevant to the scope of this current audit. A copy of the Cannon Mountain audit report can be accessed at and printed from the Office of Legislative Budget Assistant website: www.gencourt.state.nh.us/lba/audit.html.

Audit Objective, Scope, And Methodology

The primary objective of our audit was to express an opinion on the fairness of the presentation of the Schedule of Revenues of the State Park Fund for the fiscal year ended June 30, 2008. As part of obtaining reasonable assurance about whether the financial schedule is free of material misstatement, we considered the effectiveness of the internal controls in place at the Department and Division over the revenues in the State Park Fund and tested compliance with certain

provisions of applicable State laws, rules, regulations, and contracts. As directed by Chapter 359:3, Laws of 2007, areas subject to our examination included, but were not limited to, the following:

- Cash control,
- Cash flow management and security issues.

A recommendation summary, our report on internal control over financial reporting and on compliance and other matters and related observations and recommendations, our independent auditor's report, and the Schedule of Revenues of the State Park Fund are contained in the report that follows.

Also included in this report is a performance audit component beginning on page 22. The performance audit component focused on the methodology for setting park fees and determining whether the Division has effectively ensured enterprise operations are as profitable as possible. The observations and recommendations resulting from the performance audit component begin on page 26.

**STATE OF NEW HAMPSHIRE
 DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT
 DIVISION OF PARKS AND RECREATION
 REVENUES OF THE STATE PARK FUND
 RECOMMENDATION SUMMARY**

Observation Number	Page	Legislative Action Required	Recommendation	Agency Response
1	8	No	The Department and Division must become familiar with all components of internal controls and strengthen those controls to ensure their objectives are achieved.	Concur
2	9	Yes	The Department and Division must establish and demonstrate an appropriate control environment for the Department and Division.	Concur in Part
3	12	No	The Department and Division must establish risk assessment processes.	Concur
4	14	No	The Department and Division must establish reasonable and appropriate control activities.	Concur
5	18	No	The Department and Division must improve the effectiveness of their information sharing and communication.	Concur
6	21	No	The Department and Division must establish an effective control monitoring process.	Concur
7	26	Yes	The Division should work to clarify statutory expectations for Park fees to cover Division operating expenses and align fee-setting accordingly.	Concur
8	27	No	The Division should establish policies and procedures for setting Park fees.	Concur
9	28	No	The Department and Division should establish a business plan for Cannon Mountain.	Concur
10	30	No	The Division should maintain an accurate list of revenue collection points.	Concur
11	31	No	The Division should expand use of “iron rangers” for unattended fee collection points.	Concur
12	32	No	The Division should develop a formal cost allocation plan to allow the accurate determination and reporting of profitability.	Concur

Observation Number	Page	Legislative Action Required	Recommendation	Agency Response
13	34	Yes	The Division should ensure all Park fees are submitted for Fiscal Committee approval.	Concur
14	35	No	The Department and Division should establish business plans, budgets, and policies and procedures for all Park retail outlets.	Concur
15	36	Yes	The Department should organize its units as specified in statute.	Concur

Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters

To The Fiscal Committee Of The General Court:

We have audited the Schedule of Revenues of the State Park Fund of the State of New Hampshire Department of Resources and Economic Development (Department), Division of Parks and Recreation, for the fiscal year ended June 30, 2008, and have issued our report thereon dated August 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over the financial reporting of State Park Fund revenues as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedule, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the

entity's internal control. We consider the deficiencies described in Observations No. 1 through No. 6 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe Observations No. 1 through No. 6 are material weaknesses.

Compliance And Other Matters

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

We noted certain other issues related to the effectiveness of the Department's fee-setting methodology, which are described in Observations No. 7 through No. 15, that were reported to the management of the Department in a separate performance audit report dated September 2008.

The Department of Resources and Economic Development's response is included with each observation in this report. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management and others within the Department and the Fiscal Committee of the General Court and is not intended to be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

August 22, 2008

Internal Control Comments
Significant Deficiencies – Material Weaknesses

Observation No. 1: Improve Internal Controls

Observation:

The Department and Division have not established reasonably effective internal controls over the financial operations of the Division of Parks and Recreation and the revenues it collects and deposits in the State Park Fund. The lack of an effective system of internal controls over State Park Fund revenues puts the achievement of efficient and effective Park Fund operations, including reliable financial reporting and compliance with laws and regulations, at significant risk.

Internal control is defined as a process, effected by an entity's people, designed to accomplish specified objectives. The definition is broad, encompassing all aspects of controlling a business, yet facilitates a directed focus on specific objectives. Internal control consists of five interrelated components, which are inherent in the way management runs an enterprise. The components are linked, and serve as criteria for determining whether the system is effective.¹

The Division's operations are hampered by significant weaknesses in each of the five generally recognized interrelated internal control components of:

- Control environment,
- Risk assessment,
- Control activities,
- Information and communication, and
- Monitoring.

The following five observations provide specific examples of significant deficiencies in controls over financial reporting, including issues related to cash controls and cash flow management and security.

Recommendation:

The Department and Division must become familiar with all of the components of internal control and strengthen those controls to ensure their objectives are achieved.

Auditee Response:

We concur and are addressing the opportunities to improve internal controls presented by the audit team.

¹ Committee of Sponsoring Organizations of the Treadway Commission, Internal Control-Integrated Framework, May 1994, page 13.

Observation No. 2: Improve Control Environment

Observation:

Management has not provided employees with adequate direction nor has it followed through on many of its directives. The lack of an effective control environment and demonstrated control consciousness has resulted in a situation where employees frequently regard controls as impediments to getting the job done and not as requirements necessary for accountable and controlled operations.

The control environment encompasses a number of factors that have a pervasive influence on the way business activities are structured, objectives are established, and risks are assessed. The control environment influences employees' control awareness and instills an enterprise-wide attitude of integrity and control consciousness commonly referred to as the "tone at the top." The tone at the top affects all aspects of the entity's operations and is evidenced in management's philosophy and operating style, organizational structure, assignment of authority and responsibility, and human resources policies and procedures.

We noted the following evidence of the lack of an effective control environment during our audit.

1. The Department and Division have not resolved prior period audit comments. Twenty-six of the 42 audit comments contained in the 2001 Cannon Mountain audit report related to issues included in the scope of this audit. Seventeen of those 26 comments remain less than substantially resolved at August 22, 2008.
2. The Department has directed employees to charge expenditures to improper accounts to allow expenditures in excess of appropriation limits, instead of requesting supplemental, or transfers of, appropriations to fund the expenditures. During fiscal year 2007, approximately \$639,000 of Park operating costs were inappropriately charged to the retail accounts. During fiscal year 2008, in an attempt to correct for prior period charges, approximately \$135,000 of retail costs were inappropriately charged to the operating accounts. However, approximately \$250,000 of Ski Area Account operating costs were inappropriately charged to the Ski Area retail account in fiscal year 2008, evidencing the continuation of the underlying issue. The Department does not have a full accounting of these inappropriate charges.
3. The Department has expended more than it received in revenue and therefore overspent its appropriations in the Ski Area Account for several years prior to fiscal year 2008. At June 30, 2008, the State accounting system (NHIFS) reported the cumulative available appropriation balance in the account was a negative \$1,076,000.
4. The Department has allowed two of its State Park Fund revolving accounts and its Cannon Mountain Capital Improvement Fund revolving account to accumulate negative balances, as reported in NHIFS at June 30, 2008, totaling \$(2,776,425) as follows:

<u>Revolving Account</u>	Balance <u>June 30, 2008</u>
State Parks Fund	\$ (1,591,468)
Cannon Mountain Capital Improvement Fund	(495,207)
State Park Concessions	<u>(689,750)</u>
Total Revolving Accounts	<u>\$ (2,776,425)</u>

Source: Fiscal Year 2008 Statement of Appropriations

5. The Department's accounting for the State Park Fund accounts is not consistent with RSA 216-A:3-i. According to the statute, only those revenues in excess of budget expenses should be deposited into these accounts. The Department would then need prior approval of the Fiscal Committee and Governor and Council to expend any of the funds. In practice, all revenues are deposited in the State Park Fund accounts, not just those in excess of budgeted expenses. In addition, the Department has established the State Park Fund account as a revolving account without appropriate authorization.

6. The Department and Division have not established an organizational structure with clear lines of authority and responsibility. Without clear lines of authority and responsibility, situations can develop where no one takes full responsibility for certain Division activities.
 - Division management was unable to describe the number and nature of all of the retail operations that were in place at the Parks during fiscal year 2008.
 - Division management did not present a complete listing of Park fees for Fiscal Committee approval.
 - Division management was unable to describe the basis for changes to fees that occurred during fiscal year 2008 which were not submitted to the Fiscal Committee for approval.
 - As discussed in Observation No. 15, the manager in charge of Cannon Mountain reports directly to the Department Commissioner even though organizationally this position falls within the Division of Parks and Recreation and should report to the Division director.

7. The Division has not responded to challenges to its authority resulting in managers' directions being ignored without consequence.
 - The Division acknowledged that it has not been able to centrally control the purchase of inventory for the retail operations at the Parks. Despite directions to the contrary, Park managers purchase inventory for resale without regard to available funding for those purchases and without prior approval of purchase orders.

8. The Division has not established or maintained current policies and procedures. Employees are allowed and expected to perform responsibilities without formal direction.

9. The Division has not demonstrated to employees that controls are important, and adherence to and use of appropriate controls is required.

Recommendation:

Department and Division management must establish and demonstrate an appropriate control environment for the Department and Division.

1. Audit comments should be resolved in a reasonable timeframe. Audit recommendations that cannot be resolved timely due to financial, personnel, or technological constraints should be included in a plan for future action.
2. The Department and Division must discourage employees from acting outside of the budget law. Employees must be directed to adhere to all laws, rules, regulations, contracts, grant agreements, and policies. If circumstances require emergency actions that are outside of these normal practices, direction to do so should only come in writing from the Commissioner, with a plan to issue proper notifications and subsequent corrections if necessary.
3. The Department should not overspend its appropriations. When there are available funds in the State Park Fund accounts, the Department should request prior Fiscal Committee and Governor and Council approval to expend funds from those accounts in accordance with RSA 216-A:3-i.
4. Revolving accounts are intended to be self-supporting and should not be used as a vehicle to exceed Department appropriations.
 - The Department should not allow its revolving accounts to routinely operate with negative balances; it has no authority to do so.
 - The Department should include its revolving accounts in the Department's operating budget, as it budgets all other accounts.
5. The Department and Division should account for the State Park Fund as provided for in statute. If the Department and Division determine the accounting described in statute is not efficient and effective for the operations of the State Park Fund, the Department and Division should request that the statute be amended accordingly. If the Department and Division are to continue to operate the State Park Fund revolving account, the Department and Division should request the appropriate statutory authorization for the account.
6. Management must demonstrate and require respect for supervisory authority and control in its operations. Management employees should have knowledge of key aspects of activities for which they are responsible.
7. Management must act in a manner that demonstrates the expectation of and requirement for cooperation from subordinate employees. Management should take deliberate action in response to employees failing to respond to reasonable direction.
8. Management should establish written policies and procedures for all significant financial activities.

9. Management must demonstrate through its actions that controls are important and that employees are expected to adhere to controls.

Auditee Response:

We concur in part.

We concur that the Division must improve the control environment and are in the process of reviewing policies/procedures, revising them as necessary, and developing a means to implement and monitor them on a regular basis. Previous audit observations were resolved in 2001 with the exception of two which require review by the Department of Justice. We have requested and have been provided a detailed listing of these prior audit observations that have become unresolved since 2001. We are in the process of addressing those deficiencies, once again.

We also concur with the recommendations pertaining to the revolving accounts with one exception. We do not concur with the recommendation that they be budgeted. They were established to provide the ability to operate retail operations in a manner that quickly addresses market conditions. If they are budgeted, we lose that flexibility.

In regards to operating in a deficit situation, the Department concurs that should not occur. However, this happens because the operations are weather dependent and the income window is very small but the investment in resources in order to open for business is large and must be made in advance of being open for business.

Lastly, we are open for suggestions as to how to better manage the Parks Fund within the State's financial system.

Observation No. 3: Institute Risk Assessment Process

Observation:

The Department and Division do not have a formal risk assessment process. A prerequisite to risk assessment is the establishment of objectives for the organization. While the Department and Division have experienced organizational and operational changes over time, they have not periodically and formally reviewed operations to assess where and how things could go wrong, evaluated the likelihood of those occurrences, and established reasonable responses to those potential occurrences. Without a risk assessment process, the identification and response to risk occurs in a reactive mode, often after a risk has been realized and a loss incurred.

An entity's performance can be at risk due to internal or external factors. These factors can affect the entity's ability to reach and maintain adherence to its stated or implied objectives. External factors include economic changes having an effect on decisions related to financing, capital expenditures, changing customer needs or expectations, new legislation, natural catastrophes, and others. Internal factors including disruption of information systems, quality of personnel

hired, methods of training and motivating employees, and change in management responsibilities can also affect the way certain controls operate. Risks increase at times of change including changes in personnel and changes in procedures.

There is no clear indication the Division has regularly reviewed its operations for exposure and response to risk.

1. The Division has not performed periodic risk assessments of its operations, including risks to its cash control and cash flow management and security, and risks to other mission critical assets. For example, assessments have not been performed of the risk of loss of cash at various stages of the Division's revenue collection process or the risk of loss of use of other significant assets, such as the Division's information technology (IT) systems, due to deliberate or accidental physical loss or diminishment from fire, flood, pollution, or other infringements.
2. The Division has not prepared a disaster recovery and business continuity plan for its IT systems.
3. The Division has unintentionally exposed itself to significant risk in its handling of credit card information at Cannon Mountain. Customers that rent ski equipment are required to provide credit card information to secure the equipment rented. Cannon Mountain does not secure the information from unauthorized access. Documented loss and misuse of credit card information could result in a significant financial liability to the Department as well as a significant loss of customer good will.

Recommendation:

The Department and Division must establish risk assessment processes to continuously review operations for exposure to risk and to reasonably respond by eliminating or mitigating the risk where reasonably possible.

1. The Division should perform periodic risk assessments of those aspects of its operations critical to meeting its objectives, including the security of Cannon Mountain and Park operations related to the collection and processing of cash and the operations of other mission critical assets.
2. The Division should establish disaster recovery and business continuity plans for its information systems and mission critical assets.
3. The Division should respond to the significant risk that personally identifiable credit card information used to secure the rental of ski equipment could be misused.

Auditee Response:

We concur and will determine the best means of implementing the recommendations, including the identification of resources to provide continuous assessment.

Observation No 4: Establish Effective Control Activities

Observation:

Many Department and Division control activities have become ineffective due to the lack of proper design and performance of controls and the lack of follow-up on the results of the control activities that are performed.

An entity's control activities are the policies and procedures used to ensure that the entity's objectives are attained and that management's directives identified as necessary to address risk are carried out. Controls are categorized as preventative, detective, manual, computer, and management controls and include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

1. The lack of revenue collection control activities at Cannon Mountain and other Parks is alarming.
 - Employees were observed taking payments and making change out of open cash register drawers, bypassing standard cash register control processes. At three of the 11 Parks visited, cash transactions were observed as not being secured in a cash drawer.
 - Keys were observed left in unattended cash drawers and registers at the Parks and Cannon Mountain.
 - Employees also regularly shared cash drawers preventing accountability for cash collected.
 - One safe was observed left open at one of the 11 Parks visited and two safes were left open at Cannon Mountain. The practice of leaving safes open during business hours was reported as being common at other Parks as well.
 - Cash, checks, and credit card receipts were transported in unsecured bags at Cannon Mountain.
 - Logs for tracking and accounting for free and discounted tickets at Cannon Mountain were not consistently used or accurately completed.
 - Accountability over ticket stocks used at Cannon Mountain and Parks visited was not established and safeguarded.
 - There was no signage or other notification to customers that tickets should be received upon payment of admittance fee.
 - Initial recording and restrictive endorsement controls were not consistently used.
 - Auditors were able to ride the lifts without displaying tickets in 34 of 37 attempts during a one-day, mid-week visit in March 2008, even though employees were posted to observe ski lift tickets prior to allowing skiers on lifts.
 - Of five cash revenue test items left by auditors at "iron ranger" self-pay stations at five different parks, only two were recorded as revenue. Two cash payments of \$4 and \$5, submitted with numerically controlled envelopes, were not recorded in the Parks' cash deposits. One \$4 payment placed in the iron ranger without an envelope (due to envelopes not being available at the site) also was not recorded in the Park cash deposit.

- In auditor visits to three campgrounds, fourteen campsites observed as occupied during the visits did not have corresponding revenue transactions recorded. It is not clear whether the cause was paid campers moving to alternative sites, campers not having paid, or revenue from paid campers not being included with the recorded deposits.
 - During testing of discounted season ski passes, we noted that in 12 of 25 sample items tested (48%), required documentation was not on file to support the discount allowed.
2. The Division maintained 17 bank accounts that required preparation of manual checks to transfer Park revenue to Treasury. The Division generally transfers weekly from the depository accounts and monthly from the credit card account (changed to weekly during the summer of 2008). However we noted the following late postings of fiscal year 2008 activity:
- June, July, and August 2007 credit card revenues from Cannon Mountain operations were reconciled, submitted to Treasury, and posted as revenue in the State accounting system (NHIFS) in October 2007. September and October 2007 credit card revenues from Cannon Mountain were reconciled, submitted, and posted in NHIFS in December 2007.
 - Monthly credit card revenues from the Parks were reconciled, submitted, and posted 46 and 75 days after the month of activity for two tested months during the summer of 2007.
 - Weekly Park revenues were reconciled and posted an average of 29 days after the week-end date for five weeks selected for testing.

The Department's Business Office reported it did not have adequate staff to provide for a consistent, timely reconciliation and posting of revenue.

3. Hampton meter operations personnel have not utilized available controls intended to provide accountability over cash collected from the meters. Employees do not use available wand devices to verify meter activity and do not use values from the coin counters to determine change machine activity. During fiscal year 2008, the Department reported approximately \$1.4 million in revenue from the Hampton meters. In accordance with RSA 216:3, approximately \$613,000 of that amount was lapsed to the State Park Fund and approximately \$361,000 was transferred to the Hampton Beach Capital Improvement Fund. The difference, approximately \$411,000, covered related expenses.
4. A Cannon Mountain supervisor acknowledged the regular use of a shortcut for issuing replacement season passes which avoids ticketing system controls and could allow the issuance of a season pass without recording corresponding revenue.
5. Reconciliations of the approximately 3,000 season ski passes issued during the ski season to revenues received are not timely or complete. Reconciliation of ski passes for the 2007-2008 ski season occurred after the end of the ski season and did not include a review of logs reporting reprints of lost passes.
6. The Division does not reconcile in detail the campground reservation activity reported by its contracted reservation agent. While detail supporting information is made available to the Division, the Division does not use this documentation to review and compare the reported

activity to the revenue collected by the agent and forwarded to the Division. The agent submitted approximately \$1.3 million of revenue during fiscal year 2008.

7. According to Cannon Mountain personnel, the retail sales inventory control system at Cannon Mountain has not worked for at least three years, preventing the use of the system as a control over the security of the inventory. Over \$300,000 of Cannon Mountain retail inventory was purchased during fiscal year 2008. The lack of an inventory control system prevents the determination of cost of inventory sold and inventory shrinkage and hampers the effective management of the inventory levels. No other effective inventory controls were implemented in place of this system.
8. While RSA 21-I:18, I(e) and RSA 219:21, I, allow the Department and Division to make purchases of inventory for subsequent resale outside of the State's normal purchasing rules, the Division regularly prepares State purchase control documents purporting to authorize the purchases after the purchases occur, masking the actual lack of review and approval control exercised over the reported transactions.
9. The Department and Division have avoided budgetary controls by recording transactions in the State's accounting system, NHIFS, in inappropriate accounts. The Department and Division have charged expenditures in incorrect accounts in order to overspend limited appropriations in the correct accounts.
10. The Department and Division have not monitored the Cannon Mountain food service vendor contract to ensure completeness and accuracy of revenue reported to Cannon Mountain. During the 2007-2008 ski season, the vendor paid Cannon Mountain over \$150,000 pursuant to the contract, but the Department and Division did not require the contractor to provide an independent certification of the accuracy of the amounts as provided for in the contract.

Recommendation:

The Department and Division must establish reasonable and appropriate control activities for its operations.

Controls must be established for revenues collected by Cannon Mountain and Parks. These controls must be supported by formal, documented policies and procedures. Employees must be trained in these control activities and policies and procedures. Employees must be informed that compliance with the controls is expected and required.

1. Controls establishing accountability over the collection of revenue must be put into operation for the protection of both the Department and the employees. Personal accountability for collected revenue must be initially established upon receipt and must be maintained through deposit at the bank. Accountability and security over saleable inventory at the retail operations and over ticket stock must be established.
2. Revenue from Parks and Cannon Mountain operations should be transferred to State Treasury accounts in a timely manner in accordance with RSA 6:11. Excess balances should

not remain in Division accounts. The Division should review its deposit practices with the State Treasury in an effort to promote efficient cash handling practices including cash controls and cash flow management and security.

3. Controls over Hampton meter revenues must be established. Available controls for determining meter activity should be utilized to support the amount of coins and tokens collected from the meters and reconciled to the deposits. Available controls for money transactions processed through the change machines must also be utilized and reconciled to the deposits.
4. Employees should not be allowed to avoid control activities in the processing of season passes or other transactions. When management becomes aware of system conditions that allow control avoidance, employees should be restricted from taking advantage of those conditions pending the mitigation of those system weaknesses.
5. Reconciliation controls must be utilized to support the accuracy, including the completeness, of revenues deposited by Cannon Mountain and Parks. Numeric sequence and other controls provided by Cannon Mountain and Parks ticket stock should be used to provide for an effective analysis of sales activity information compared to revenues deposited.
6. The Division should improve its oversight of the activity performed by its contracted campground reservation agent. The Division should request the agent provide a service auditors report, commonly known as a SAS 70 report, if available. The Division should expand its reconciliation procedures to include review of detail information available from the agent, including support for the charging of credit card fees.
7. The Division should immediately resolve the problems with the current perpetual inventory system at Cannon Mountain or replace the system as needed. The Division should require the use of appropriate inventory systems at Cannon Mountain and all other significant Park retail operations to provide a level of control to the retail operations by tracking retail inventory activity, including purchases and sales.
8. Purchasing and receiving control documents should be utilized as intended. Documents should not be completed after the fact, which may provide an illusion that normal State purchasing and receiving controls are operating when they are not.
9. The Department and Division should initially record all transactions in their appropriate accounts. The Department and Division should not deliberately record transactions in inappropriate accounts to avoid budgetary controls. If necessary, the Department and Division should request supplemental appropriations or transfers of appropriations to obtain expenditure authority in excess of original appropriations.
10. The Department and Division should monitor the Cannon Mountain food service vendor contract, including requiring and reviewing the independent certification required by the contract.

Auditee Response:

We concur and are in the process of addressing these issues, many which stem from a lack of monitoring and enforcement of procedures that were implemented years ago. We are in the process of implementing a new retail system; we have hired a new Retail Operations Supervisor, and will be evaluating the need for additional staff, such as an internal auditor dedicated to addressing these issues and monitoring compliance on a continuous basis.

The Division will work with the Retail Operations Supervisor and Business Administrator to establish revised policies once a workable point of sale (POS) system is fully functioning. Policies will be included in the manager's manual and training will be provided to support staff.

Observation No. 5: Improve Information And Communication

Observation:

Lack of effective information sharing and communication within the Department and Division have contributed to situations where managers have not consistently exerted appropriate authority or given effective direction to employees at Cannon Mountain and Parks.
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Information is needed at all levels of an organization to run its operations and to move toward achievement of the organization's objectives. Financial information is used not only in developing financial statements for external reporting but is also used as a basis for operating decisions, such as monitoring performance and allocating resources. In order for information to be useful, it must be communicated and made available for use in a timeframe that allows the information to remain relevant. Information that is not communicated or is not communicated timely loses its value.

The following are examples we noted where the Department and Division suffered from a lack of information and communication.

1. The Department and Division have not established or maintained current, comprehensive policies and procedures manuals. Users consider manuals that are available, such as the Park Managers Manual, as out of date and only useful for copies of document forms.
2. Lack of policies and procedures manuals have contributed to the situation where the Department and Division rely upon key employees for continued performance of certain activities. For example, only one employee at Cannon Mountain has the full knowledge and experience necessary to: grant new Cannon Mountain employees access to the ticketing system, modify or remove employees' access to the ticketing system, back up the ticketing system data and computer system, and balance and reconcile the ticketing system output. In addition, one employee at the Department's Business Office is trained in significant aspects of the revenue reconciliation and posting process, placing the Division at risk if that employee becomes unavailable to continue to perform those duties.

3. Division and Parks management were unable to provide the number, location, and nature of all of the retail operations at the Parks. Management was also unable to provide the number of areas at the Parks where revenue was collected, including “iron ranger” self-pay stations.
4. One Park visited by the auditors was unaware that the Park System offered a State resident’s discount on Wednesdays and charged the auditor the full, undiscounted fee. One Park visited was apparently unaware that the approved Park System fee schedule provided for a day-use charge at the Park and refused the offer made by the visiting auditor to pay a day-use fee.
5. The Department and Division have not aligned the accounts in Cannon Mountain’s ticketing system with accounts in the State’s accounting system (NHIFS). Information reported by Cannon Mountain’s ticketing system has to be reallocated by the Department’s Business Office into the account structure used by NHIFS prior to posting to NHIFS. Spreadsheets are also maintained to further categorize revenues by seasons. This redistribution and separate accounting is inefficient and the manual intervention increases the risk of error in reported amounts.
6. A review of complimentary passes issued during fiscal year 2008 noted four passes were traded for certain promotional work. According to RSA 218:16, complimentary passes are limited to a single pass to an individual. The employee responsible for distributing the passes reported being unaware of the statutory limitation.
7. Continuing problems in obtaining information to identify motor vehicle owners prevents the Division from pursuing all Hampton parking meter violators. While the Division continues to work with the Department of Safety to obtain this information, the Division was unable to obtain addresses for approximately 25% of the meter violators during fiscal year 2008. The Division reported receipt of less than \$223,000 in meter violation revenue during fiscal year 2008, and outstanding meter violations at June 30, 2008 were over \$329,000.

Recommendation:

The Department and Division must improve the effectiveness of their information sharing and communication.

1. The Department and Division should provide employees with comprehensive, accurate, and timely information, including policies and procedures manuals, necessary to perform their jobs. Training should be provided to promote employee understanding and compliance with job requirements.
2. The Department and Division should review employee job responsibilities for instances where the Division’s successful operations rely upon the knowledge and experience of a limited number of employees to ensure that appropriate information sharing and training occurs to mitigate the risk to operations of any of these key employees abruptly leaving employment.

3. Division management must become more knowledgeable about Park operations. Division management, in conjunction with Park managers, should develop Park business plans on which to base current Park operations and plan future Park operations. While the Parks must maintain some flexibility in operations to be able to adapt to changing conditions such as the weather and the economy, business plans should provide management and Park employees with usable information on the structure and operations of the Park to which they may be assigned.
4. The Division should improve its training of Park employees. Park employees responsible for collecting entry and other fees should be trained in performing that task including compliance with the Park's fee schedule.
5. The Division should revise its account structures in NHIFS and Cannon Mountain's ticketing system to allow for the efficient accounting and reporting of its financial activity. The reporting module of Cannon Mountain's ticketing system and the Division's NHIFS accounts should be revised to provide and utilize financial information in a format that does not require a subsequent reallocation of amounts reported and does not require additional spreadsheets to accumulate and report important management information.
6. All employees should be provided clear guidance and training in compliance with laws, rules, regulations, and other guidelines applicable to their duties and responsibilities. The Department and Division should ensure that employee compliance training is regularly updated for any changes that occur.
7. The Division should continue to work with the Department of Safety to obtain vehicle owner information necessary to pursue collection of Hampton meter violation revenue.

In addition, the Division should review with the Administrative Office of the Court, and the Hampton District Court, the possibility of taking nonpaying Hampton meter parking ticket violators to the Hampton District Court to provide additional support in pursuing parking ticket violation revenue.

Auditee Response:

We concur that communication within the Division must improve to include a review and revision of the Park Manager's Manual, training, and cross-training. We will investigate the possibility of amending the ticketing system at Cannon to tie in more closely to the State's accounting structure. We will ensure that policies and procedures are in compliance with law. We will look at Hampton meters fine collections in order to identify any improvements.

Observation No. 6: Establish Effective Control Monitoring Process

Observation:

The few effective revenue controls noted during the audit indicates a weak control monitoring effort by the Department and Division.

Monitoring is a two-step process intended to ensure that internal controls operate effectively and as intended by management. This involves: 1) assessments by appropriate personnel of the design and operation of the controls on a timely basis, and 2) taking necessary actions to ensure controls remain responsive to changes in risks and are operating effectively. Without effective monitoring of controls, a false sense of assurance can result if controls assumed to be effective prove not to be.

Division management typically does not monitor Cannon Mountain and the State Park locations on-site. Essentially all Business Office monitoring occurs from the Department's Concord office. The Department does not have an internal audit function. While the Division relies upon the Park, Cannon Mountain, and Regional Managers to ensure that the Parks and Cannon Mountain are operating as intended, we found little evidence that controls are effectively monitored. As noted in Observations No. 2 through No. 5, management was apparently not aware in many instances that intended controls were not in place and, in some instances where it was aware, management did not require timely corrective actions.

Recommendation:

Department and Division management must institute a process for monitoring controls. In addition to establishing a proper control environment and control activities, management must continually monitor the operation of control activities to ensure that the control activities are in operation and respond effectively to the risks to operations.

A significant aspect of an effective control monitoring process is management's feedback and guidance to the employees performing the control activities. Only by providing effective feedback and guidance will employees appreciate and understand management's expectation for controlled operations. Management's feedback and guidance will help employees realize the importance of internal controls and why these activities must be an integral part of their daily responsibilities.

Auditee Response:

We concur. Over the years many controls have been put in place, but the Department does not have the staff that's either available or capable of continuously monitoring these controls. We believe that the Department needs an internal auditor to implement and monitor controls.

To The Fiscal Committee Of The General Court:

We conducted a performance audit of the Department of Resources and Economic Development (Department), Division of Parks and Recreation (Division), pursuant to Chapter 359:3, Laws of 2007. We conducted our audit in accordance with standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to provide a reasonable basis for our findings and conclusions. Accordingly, we performed such procedures as we considered necessary in the circumstances.

According to Chapter 359:3, Laws of 2007, the audit was to include, but not be limited to, the Division's cash control, cash flow management and security issues. We satisfied these requirements by conducting a financial and compliance audit of the Division's State Park Fund revenues for the fiscal year ended June 30, 2008 and have issued our report thereon dated August 22, 2008. The purpose of this performance audit was to determine the effectiveness of the Division's methodology for setting park fees, as well as ensuring the profitability of its enterprise operations, according to State law, policy and procedure, and best practice for fiscal years 2007 and 2008.

This report is the result of our evaluations of the Division's park fee-setting process and the profitability of its enterprise operations, and is intended solely for the information of the Department of Resources and Economic Development and the Fiscal Committee of the General Court. This restriction is not intended to limit the distribution of the report, which upon acceptance by the Fiscal Committee, is a matter of public record.

September, 2008

Office Of Legislative Budget Assistant

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT
DIVISION OF PARKS AND RECREATION
REVENUES OF THE STATE PARK FUND
PERFORMANCE AUDIT SECTION**

Audit Scope And Objectives

The performance audit component of the audit addresses the following question: **Is the Division of Parks and Recreation fee-setting methodology effective?**

To address this question performance audit efforts focused on determining:

1. if Park fees are designed to recover a reasonable portion of budget expenses;
2. if State Park fees are comparable to similar private facilities; and
3. what the Division has done to ensure enterprise operations (retail/concession, campground, and ski) are as profitable as possible within the purposes of the Park System.

As discussed on page 2, our review did not include Mount Washington State Park and Sunapee Ski Area.

Methodology

In conducting the performance audit component, we reviewed and analyzed various information including State laws, administrative rules, policies and procedures, financial reports, and prior audit reports. We conducted interviews with personnel at Cannon Mountain, Division of Parks and Recreation, and the Department Business Office. We surveyed personnel responsible for state parks in the Northeast including New York, Massachusetts, Connecticut, Maine, Vermont, and Rhode Island.

Background

According to RSA 216-A:3-g, the Commissioner of the Department of Resources and Economic Development (Department), in consultation with the Director of the Division of Parks and Recreation (Division), is responsible for establishing fees for the State Park System. Fees must also receive approval from the Fiscal Committee but are not subject to RSA 541-A, the Administrative Procedure Act, to provide flexibility to adjust fees according to market conditions and trends and maximize revenues.

The Division charges a fee for Park entrance, campsites, historic sites, special use permits, parking, and other miscellaneous services, such as showers, electricity, and wastewater dumping. Twenty-nine State Park properties including Parks, waysides, natural areas, and historic sites, either have no fee or “iron ranger” self-pay stations to accept donations.

According to RSA 216-A:3-g, I, fees are intended to “recover a reasonable portion of budget expenses,” however “the general court does not intend that all park facilities be self-supporting.”

Division management reported there are many different interpretations of this law. According to the Division Director, at one time the expectation was fees would pay for the Division's Parks Bureau; however, currently fees are also expected to cover indirect Division administrative costs. Park fees also cover 50 percent of costs associated with Planning and Development and the Construction and Maintenance Units, which service the entire Department. According to the Division Director, Park fee revenues are adequate to cover direct Park expenses but not indirect Division administration.

RSA 216-A:3-g, II, provides campground and ski lift fees be comparable with similar privately owned facilities and all Park enterprise functions including ski lifts, food service, retail facilities, campgrounds, and other concession activities should be "as profitable as possible within the purposes of the park System."

Parks

While the public is welcome to use the Parks year-round, entrance fees are only collected when Parks are open, with the exception of some Parks with iron rangers available all year round. Parks are generally open in May or June and close in September or October.

Campgrounds

There are 19 campgrounds in the State Park System with 1,312 campsites including family sites, youth group sites, and remote sites. In addition, one campground has three cabins available for reservation. Campgrounds are generally open from May through October. There are various fees for reservations and cancellations, youth groups, and additional per person fees for extra adults and children. Youth groups are charged a youth group service charge and per person fee. Service charges and fees are established in accordance with RSA 216-A:3-g.

Franconia Notch

Fees for Cannon Mountain Ski Area are set according to RSA 216-A:3-g. An allowance for rate setting flexibility is provided under RSA 12-A:29, which allows the Division Director, with the Commissioner's approval, to adjust fees at Cannon "when the quality of a facility is poor due to such natural causes as inadequate snow, ice conditions, cold, rain, or other environmental or equipment problems or for the purpose of cooperative marketing or market experimentation." Ticket prices vary for weekend/holiday, midweek/holiday, age, and for State residents. Discounts of 25 percent on season passes are offered to State residents when purchased prior to December 15th in accordance with RSA 227:14. New Hampshire seniors are entitled to free mid-week skiing in accordance with RSA 218:5-c, however, if they prefer the convenience of a mid-week season pass, they are charged a \$50.00 processing fee. Under the "cooperative marketing or market experimentation" allowance, the Department offers the following three season passes: Bold and Beautiful, New Hampshire Educator, and a college season pass. The Department has also developed a "Cannon Mountain Special Use Policy" to detail discounts offered to employees, employee dependents, employees of other ski areas, and members of the General Court.

Miscellaneous

The Division also charges fees for five of its 12 historic sites, particularly those with interpretive services. Parking fees are charged at Hampton Beach and Wallis Sands Parks. Special use permit applications are approved by the Division Director. The most typical requests are for weddings and family gatherings. Special use permits are also required for: commercial activity and canvassing, soliciting, mineral collecting, constructing or erecting structures, fireworks, and sledding.

Eight Parks charge various day and season pass boat launch and parking fees for car top boats and car and trailer boats. Some Parks also charge for items such as cable television, viewing machines, recreational vehicle wastewater dumping, electricity, and showers.

Retail

The Division operates 25 retail shops at campgrounds, beaches, and other State Parks and three large gift shops at Crawford Notch, the Flume, and on the summit of Mount Washington. The number of smaller retail outlets can fluctuate depending upon staffing.

Cannon Mountain retail operations include Echo Lake Beach concessions and boat rental, ski rental, ski school, the Peabody store, and the Tramway concession and retail outlet.

Performance Audit Comments

Observation No. 7: Clarify The Park Fee Purpose And Align The Fee-setting Methodology

Observation:

A clearly stated purpose for Park fees has not been established and linked to the fee-setting methodology.

According to RSA 216-A:3-g, I, fees “shall be designed to recover a reasonable portion of budget expenses...”; yet the “...general court does not intend that all Park facilities be self-supporting.” According to Division management, there are several interpretations of this statute among policy makers, creating competing and inconsistent philosophies regarding what portion of operating costs Park fees should cover. The Division of Parks and Recreation budget for fiscal year 2008 was designed for Park fee revenue to cover all Park operating costs, including indirect expenses associated with Division administration. However, Division management reports even in the best years the Parks do not generate sufficient revenue to cover expenses. At the close of fiscal year 2007, the State Park Fund revolving account had a deficit balance of approximately \$1,565,000.

State Parks charge fees for day-use, parking, camping, and other miscellaneous purposes. When setting fees, management must understand and determine the purpose of each fee. Division recommendations for the current Park fees were determined using a round table approach with Division management and Park managers. The analysis completed at the Division of Parks and Recreation included a comparison with other states and similar private campgrounds in the State but did not include a detailed analysis of the direct and indirect cost of operating the Parks to meet budgetary obligations and provide a basis for setting the fee. On recommendation from the Division Director, the Commissioner approved the fees. The Fiscal Committee approved the current fees in March 2008.

Recommendation:

The Division of Parks and Recreation should work with the Legislature to clarify RSA 216-A:3-g, I, with regard to expectations for Park fee revenues covering Division operating expenses. The Division should also align its fee-setting methodology with these expectations and design and implement standard guidelines for calculating Park fees accordingly.

Auditee Response:

We concur. The issue of what should be covered by park fees is being addressed in the master plan due later this year. It is also being reviewed and analyzed by the State Park System Advisory Council (SPSAC), who will make recommendations for any needed legislative change. If it is not the intent of the general court to have all administrative and non park operation expenses paid for by fees collected, then a recommendation needs to be made to have those expenses paid for from the State General Fund or alternate funding source. During the last

biennial budget process (2008-2009), administrative costs were requested from the State General Fund, but were denied. If all expenses are expected to be paid by the Park Fund, then additional fee increases will be needed, as well as other and or new fees (school groups, inspections for Land Water Conservation Fund, permit fees, etc.).

The SPSAC will take up and make recommendations for the 2009 legislative session, per RSA 216-A:3-k, VI(c).

Observation No. 8: Develop Policies And Procedures For Setting State Park Fees

Observation:

The Division of Parks and Recreation has not developed formal policies and procedures for setting State Park fees including: 1) factors to consider when setting State Park fees, 2) criteria to use in determining which Parks should charge a fee, and 3) a schedule for fee review.

Policies and procedures should identify factors to be considered when setting fees such as competition, cost increases, or inflation. Additionally, a review schedule ensures fees are evaluated regularly and continue to meet their stated purpose. We found State Park fees are not reviewed on a consistent basis. For example, the day-use fee for adults was set at \$3 for seven years until the most recent change in March 2008 increased the rate to \$4. The total revenue for Parks charging a \$3 entrance fee in fiscal year 2007 was nearly \$874,000. Additionally, prior to the March 2008 rate increase, group area reservation fees remained unchanged for non-pavilion use for ten years and seven years for pavilion use.

A clearly documented methodology for determining which Parks should charge fees is also not available. According to Division management, properties with developed recreation such as trails, campgrounds, and swimming generally charge a fee; however, there was no documented methodology justifying why certain Parks currently charge a day-use fee and others do not. Our analysis of State Parks and their available amenities found at least five State Parks offering recreational activities other than camping and not charging day-use fees, including Pisgah, Coleman, Lake Francis, Crawford Notch, and Franconia Notch State Parks. Three of these Parks are approved by the Fiscal Committee to charge a day-use fee. The average expenditures associated with each of the five Parks over three years was \$55,785. The average expenditures over three years for each of the Parks currently charging a day-use fee was \$70,818. However, 12 of the 26 Parks charging a day-use fee had average expenditures of less than \$48,000 each.

Policies and procedures implemented by management to guide the development and review of State Park fees should provide reasonable assurance fees are fair, equitable, and continue to meet their stated purpose.

Recommendation:

Division of Parks and Recreation management should develop and formally document policies and procedures for setting State Park fees. Additionally, these policies and procedures should be clearly linked to the Park fee purpose discussed in Observation No. 7.

Auditee Response:

We concur. The Division will work with the State Park System Advisory Council, as well as the Division of Travel and Tourism Development on policies and criteria for establishing fees. Other resources include the National Association of State Park Directors information exchange, which provides nationwide statistics on state park fees.

Separate fee structures will be considered for developed and non-developed parks.

Observation No. 9: Develop A Business Plan, Policies, And Procedures To Guide Lift Ticket Pricing At Cannon Mountain

Observation:

The Department and Division have not established a formal business plan for Cannon Mountain ski operations detailing the existing business, long and short-term goals, and a course of action or strategies for achieving goals. Additionally, no policies and procedures were available to describe the process for setting fees.

During the 2007 Legislative Session, House Bill 52 proposed leasing Cannon Mountain Ski operations. The bill was voted inexpedient to legislate, partially based on a commitment from the Department to complete a business plan with a timetable for regular reports to the House Resources, Recreation, and Development Committee.

The *Cannon Mountain Financial Analysis and Recommendations For Improvement* report, completed in June 2007 by the Tuck School of Business at Dartmouth College, includes some of the data, analysis, and recommendations necessary to develop a business plan and a strategic vision for Cannon Mountain. The report concludes that to increase profitability at Cannon Mountain, management must increase the number of skiers and revenues per visit, which will require a review of ticket prices.

In fiscal year 2008, over 300 different ski lift ticket rates, including ski school rates, were available for use at Cannon. Ticket prices are reviewed annually and several factors are reportedly taken into consideration, including prices at other ski mountains, operating cost increases, various market groups expected to visit the mountain, and requirements set forth in statute. However, the basis for each of the over 300 ticket rates and rate increases is not documented.

A business plan would include an overarching vision for Cannon Mountain with related goals. A business plan also would identify strategies, including ticket pricing and promotional strategies, describe actions and resources to use in accomplishing each goal, and provide management with an objective basis for evaluating the success of various strategies.

Policies and procedures would identify factors to be considered when setting lift ticket prices such as competition, cost increases, inflation, and strategies outlined in a business plan. Policies and procedures outlining the process for setting fees would provide management reasonable assurance all appropriate factors are considered when setting lift ticket prices. Additionally, a review schedule ensures lift ticket prices are evaluated regularly and continue to meet goals and objectives in the business plan.

Recommendation:

The Department and Division should develop and formally document a business plan, as well as policies and procedures for guiding lift ticket price-setting at Cannon Mountain. The business plan should include a review schedule for evaluating strategies to ensure they continue to meet their stated purpose.

Auditee Response:

We concur. There is currently no comprehensive business plan for the operation of the ski area. The General Manager was tasked by the Commissioner of the Department of Resources and Economic Development (DRED) with drafting a comprehensive business plan after one (1) full year of observing and managing the operations of the area, commencing with his start date of July 13, 2007. As such, it follows that no comprehensive business plan is currently in place regarding the setting of fees. The expectation by the General Manager and the Commissioner is that said comprehensive business plan shall be drafted and incorporated during the second year of the General Manager's tenure, no later than the close of FY '09 (June 30, 2009).

The General Manager will also report as requested by the Commissioner at established intervals to the Commissioner, the Director of the Division of Parks and Recreation, the Cannon Mountain Advisory Commission, and the House Resources, Recreation and Development Committee.

Observation No. 10: Maintain An Accurate Master List Of State Park Revenue Collection Points

Observation:

Division management did not maintain a complete and accurate list of State Park revenue collection points during fiscal year 2008. We found numerous discrepancies when we compared a Division master list of State Parks fees, the Division website, and Parks reporting receipt of day-use fees and “iron ranger” revenue on weekly cash reports.

A Division master list of State Parks and their associated fees was missing two State Parks charging a day-use fee and included five Parks which do not charge a day-use fee. The Division website listing Parks with day-use fees included one Park not charging a day-use fee and was missing two Parks charging a day-use fee. Additionally, we found three Parks not on the schedule of State Park fees approved by the Fiscal Committee reporting receipt of day-use fees on weekly cash reports.

The Division does not maintain an inventory of “iron rangers”. Iron rangers are self-pay stations used to collect camping or day-use fees when attendants are not available. The Division did not start tracking income from iron rangers until fiscal year 2008 and thus was unable to provide a list of iron rangers by Park for fiscal year 2007. The Division uses weekly cash reports to track iron ranger income; however, there is no independent inventory of iron rangers allowing management to determine from which Parks to expect iron ranger revenue. When we compared the Division list of iron ranger revenue for fiscal year 2008 to our list of Parks reporting iron ranger revenue on weekly cash reports, two Parks were missing from the Division list.

An agency must have relevant and reliable financial and operational information to enable management to carry out management control and operational responsibilities. Without complete and accurate information identifying which State Parks levy day-use fees, management cannot adequately monitor operations or make informed decisions about the effectiveness of the current fee structure. Additionally, it is important to present accurate State Park information to the public so potential guests can make informed recreational decisions and to the Fiscal Committee to ensure compliance with statutory oversight obligations.

Recommendation:

The Division of Parks and Recreation should maintain an accurate list of State Park revenue collection points. The Division website listing State Parks fees should be updated accordingly.

Auditee Response:

We concur. The Division will review, amend as necessary and maintain a list of all revenue sources including admission fees, leases, special use, and other payments. The Division will update the inventory and continue to track revenue for currently installed iron rangers. We will update our website to accurately reflect fees and where iron rangers are located.

Observation No. 11: Expand The Use Of Iron Rangers And Ensure Their Availability When Parks Are Closed

Observation:

Not all State Parks are equipped with self-pay stations, known as “iron rangers”, promoting the secure collection of fees at unattended fee collection points. In addition, some iron rangers that are in place are disabled and unavailable to accept fees when the Park office is closed.

Currently, fees are collected from guests during the day when the Parks are open, generally from Memorial Day weekend through the Fall, however guests can use the Parks year-round. Off-season guests and guests visiting the Parks when the attendants are not on duty may voluntarily pay fees if an iron ranger is present. According to our review of cash reports, 20 State Parks currently utilize iron rangers, however there are 12 Parks charging a day-use fee without iron rangers available. Additionally, we found two iron rangers at State Parks blocked from accepting fees. At one Park there was a sign taped over the deposit slot instructing visitors to register at the office; however, the office was closed. In another case, there was a wooden box placed on top of the deposit slot which could not be removed. A third iron ranger was observed without instructions or envelopes when the Park office was closed.

According to the Supervisor of Parks Operations, iron rangers cost between \$400 and \$500 to install. During fiscal year 2008, approximately \$70,000 in revenue was reported as collected through iron rangers.

The addition of iron rangers would assist in increasing revenues by collecting fees from guests when there are no attendants on duty.

Recommendation:

The Division of Parks and Recreation should expand the use of iron rangers and ensure all iron rangers are available for use when there are no Park attendants available to collect fees. The Division should develop policies and procedures to include a clear documented methodology for determining which Parks should include iron rangers.

Auditee Response:

We concur. The Division has worked diligently to install new iron rangers throughout the system. Concerns with the installation at remote locations are safety of the attendant during collection, frequency of collection, security of the location and upkeep of supporting signage and kiosk.

As the Division implements self service electronic pay stations at the seacoast parking areas, the Division will consider such collection stations at other park locations.

Observation No. 12: Develop A Cost Allocation Plan And A System To Accurately Track Profitability

Observation:

The profitability of the State Parks retail outlets could not be determined for fiscal years 2007 or 2008 because reported expenditures were not accurate, direct expenses shared between Park and Ski operations and retail outlets were not adequately allocated, and inventory was not adequately controlled to determine cost of goods sold.

The Department Business Office prepares the Comparative Statement of Income and Expenses, which reports revenues and expenditures associated with both the retail outlets and general Park operations for each State Park. According to this Comparative Statement, in fiscal year 2007, State Park retail outlets reported revenues of approximately \$1.3 million and expenditures of approximately \$1.8 million resulting in a net operating loss of approximately \$486,000. Twenty-four State Park retail outlets reported operating at a loss and eight reported operating at a profit for fiscal year 2007. The State Park retail account reported a cumulative negative balance at the close of fiscal year 2007 of approximately \$1 million.

Operating expenses are allocated on an ad-hoc basis, often based upon which accounts have available appropriations and not necessarily on which accounts are most appropriate based upon the nature of the expenses. The result of this informal cost allocation process is that the profitability of individual operations is distorted by the effect of charging expenses that are not reflective of the actual cost of operations. The State's accounting system reported retail activities at Cannon Mountain had a net profit of approximately \$61,000 during fiscal year 2008. However, during fiscal year 2008, approximately \$250,000 in utility related payment vouchers associated with Cannon Mountain Ski operations were charged to the Cannon Mountain retail account, reportedly because the Ski operations account appropriation was not adequate to cover the expenditures.

As discussed in Observation No. 2, during fiscal year 2007, the Department overstated expenditures in the retail operations by charging expenditures from the Park operations account to the retail account. The Department also directly charged Park operations expenditures to the retail account. The Department indicated it recorded these expenditures in the inappropriate accounts in order to make Park operation expenditures in excess of available Park operations appropriations.

We also found direct expenses shared by Park and Ski operations and retail outlets, specifically Cannon Ski operations, Franconia Notch State Parks, and Cannon retail operations, were not adequately allocated. According to Department personnel, a portion of the heat and electric expense paid by the Cannon Ski operations is attributable to the various Cannon retail operations. Additionally, approximately 20 personnel working for both Cannon and the Franconia Notch State Parks are either paid completely out of the Cannon operations account or the Parks operations account.

During fiscal year 2008, the Division hired a Retail Operations Supervisor who has been allocating some direct expenses such as rubbish removal, septic, and internet expenses between operations and retail activities. However, there are no policies and procedures for these allocations or for payroll, electricity, and heating, for common buildings and personnel. Additionally, while the Division does have documentation for how certain direct expenses will be allocated, the basis for the allocation is lacking.

An agency must have relevant and reliable financial and operational information to enable management to carry out management control and operational responsibilities. Without complete and accurate information identifying direct expenses associated with Park retail operations, management cannot adequately determine the profitability of retail operations, monitor operations, compare store results, and focus efforts on retail stores in need of management attention. The *Cannon Mountain Financial Analysis and Recommendations For Improvement* report, completed in June 2007 by the Tuck School of Business at Dartmouth College, also reported management should better allocate costs to appropriate business centers.

Recommendation:

The Division should develop formal policies and procedures to accurately track and report State Park retail store profitability. The policy should include detailed procedures for allocating expenses where resources are shared with Park operations. Once Division management has a clear understanding of direct expenses, management should develop policies and procedures for determining the indirect expenses associated with retail store operations.

Auditee Response:

We concur. Currently the Division is in process of developing formal policies and procedures to ensure retail profitability. A new Retail Operations Supervisor was hired in the spring of 2008 and was charged with the development and implementation of such policies. The Supervisor will address these issues as outlined in the observation and work closely with the Supervisor of Parks Operations and the Business Administrator. Along with policies, an annual review schedule will be created and implemented at the staff level.

A revised section on retail operations will be included in the park manager's manual and we are investigating additional training to support policy implementation.

We concur that direct expenses for operations and retail need to be allocated appropriately and that indirect or shared charges should be allocated as recommended. We will develop a cost allocation plan to do so.

Observation No. 13: Approval Process For Park Fees Should Be Reviewed

Observation:

During fiscal year 2008, the Department charged some Park fees and applied some promotional and other discount programs that were not submitted for Fiscal Committee approval and changed some approved fees without submitting the change to the Fiscal Committee for approval.

According to RSA 216-A:3-g, the Department Commissioner, in consultation with the Division Director, shall establish fees for the State Park system. These fees require approval from the Fiscal Committee. The Department submitted and received approval from the Fiscal Committee for a revised fee schedule on March 26, 2008, which became effective immediately.

- We compared the approved fee schedule to Parks reporting receipt of day-use fees on weekly cash reports after March 2008 and found three Parks charging day-use fees that were not on the approved list, including the Monadnock Old Toll Road hiking access area, and Rollins and Winslow State Parks.
- We noted additional revisions to the approved fee schedule where the Division charged fees beyond those approved by the Fiscal Committee. These included a \$10 increase for remote campsite transportation at Umbagog State Park, and the age for a child's admission and Park season pass were changed from the approved ages of six through 17 to ages six through 11.
- During the 2007 and 2008 seasons, the Department charged a \$5 premium for every campground site during peak season. The \$5 premium charge represents an average 23 percent increase over the rates authorized by the Fiscal Committee for State campground sites. Additionally, for the 2008 season the Department charged an \$8.75 fee to reserve or change a campsite reservation, \$3.75 (75 percent) more than the authorized fee, and up to \$15 to cancel a reservation, \$3 (25 percent) more than the authorized fee. None of these fees were submitted for Fiscal Committee approval.
- The Department instituted the "Great Park Pursuit" discount program to provide participants free Park admission to six Parks to complete self-guided or guided activities (activity days), and the "Combo Pass" and the "Franconia Notch Discovery Pass" discount programs for visitors purchasing Tram and Flume passes together. These discount programs were not submitted for Fiscal Committee approval. Notably, other discounts related to various group rates are included in the approved Fiscal Committee fee schedule.
- Cannon Mountain's Special Use Policy, covering items such as discounts offered to employees, employee dependants, employees of other ski areas, and members of the General Court, was also not submitted for approval, even though many of the discounts and programs have been in place for several seasons.

Recommendation:

The Department and Division should ensure all State Park fees receive approval from the Fiscal Committee as required by statute.

If the Department and Division determine that the statutory requirement for Fiscal Committee approval does not provide the ability to quickly respond to the marketing needs of the Park System, the Department should request the statute be revised or that additional flexibility be provided in the Fiscal Committee approval to allow authority to the Department and Division to revise fees in response to changes in Park business opportunities.

Auditee Response:

We concur. The Division did a comprehensive review of its fees in November of 2007 and worked closely with the Commissioner. Fiscal Committee approval was sought on March 26, 2008 and a new fee schedule was implemented at the start of the 2008 summer season. The parks identified as having no fees were inadvertently left off the master list. We will be sure to include them upon the next fiscal approval fee request. We will continue to review our fee schedule and will bring it forth to Fiscal Committee on an annual basis to ensure that we are in compliance with the statute.

We agree that the Fiscal Committee should approve promotional activities and discount programs, and the Division will include the discounts in its annual fee package to Fiscal Committee. Flexibility should be retained to implement promotional programs (free residents day, combo pass, etc.) to quickly respond to changing market conditions, visitor trends, and general state tourism efforts. The Division should be allowed to continue such efforts through its Governor and Council approved advertising agency.

Observation No. 14: Centralize State Park Retail Management To Control Operations And Help Ensure Profitability

Observation:

State Park retail outlets receive little direction from Division management and operate without a business plan, individual Park retail budgets, or policies and procedures for selecting inventory and product markup.

The Division does not maintain complete and accurate data on retail operations, including a list and descriptions of the various outlets, their size, and products sold. The Division could not demonstrate that it had a formal business plan for the general operation of Park retail outlets detailing the existing business, long and short-term goals, and a course of action detailing how goals will be achieved.

Division management reports Park retail outlets operate largely autonomously, independently determining inventory and product markups, and without budgets. The Retail Operations Supervisor, hired during fiscal year 2008, reports working to establish budgets for some retail outlets in fiscal year 2009, and has expressed concern over the inventory and product mix available for resale. We found Park stores using various methods to price retail products

including manufacturer's suggested retail, keystone (i.e., 100 percent markup), and staff judgment to mark items up anywhere from 35 to 100 percent.

A business plan communicates the overarching vision and goals for the State Park retail outlets. Budgets, policies, and procedures provide reasonable assurance retail outlets operate in a manner consistent with management's vision and objectives established in the business plan. Policies and procedures should include detailed instructions on product mix and pricing, in addition to the purpose of the budget and how to track each item included in the budget to help ensure accountability. Budgets allow management to plan, communicate expectations, and provide a basis for evaluation. Without a business plan, budgets, policies, procedures, and clear information about the scope and size of each retail outlet, management cannot adequately control or monitor State Park retail operations.

Recommendation:

The Division should establish formal business plans for the State Park retail outlets, budgets for each Park store, and policies and procedures to guide general retail operations. The plans should cover retail operations as a whole and individual Park retail outlets.

Auditee Response:

We concur. The Division is currently developing a business plan for retail operations. The Retail Operations Supervisor, who is new to the position has been reviewing each field operation and is in the process of developing an internal budget for each retail outlet and policies/procedures to be implemented upon park openings in 2009.

Observation No. 15: Reporting Structure Should Be Consistent With Statute

Observation:

<p>The current organizational reporting structure for the Division is not in compliance with RSA 216-A:2. While the statutory structure has the Cannon Mountain Manager reporting to the Division Director, the actual structure has the Mountain Manager reporting directly to the Department Commissioner.</p>
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During fiscal year 2008, the Parks and Recreation Director's responsibilities for the management and operation of Cannon Mountain, as required by RSA 12-A:24, had been reassigned to the Mountain Manager. According to RSA 216-A:2, the Division Director is responsible for "all matters related to the design, development, administration, operation, and maintenance of the state park system," including the Cannon Mountain Ski operation. The current Mountain Manager, hired in 2007, reports directly to the Commissioner. According to the Mountain Manager, the structure was altered because the previous reporting structure was inefficient and because of the high profile nature of the Ski operation.

Cannon Mountain consists of Echo Lake Park, the Tramway, and Cannon Ski operations. The Mountain Manager also oversees operations at Franconia Notch, which includes the Flume, Franconia Notch, and Lafayette State Parks. In addition to the five Parks, there are seven retail outlets at Cannon Mountain and Franconia Notch, which under the current reporting structure bypass any formal oversight from Division of Parks and Recreation management. According to the Retail Operations Supervisor, it is not clear which position is responsible for retail operations at Franconia Notch and Cannon.

Under RSA 21-G:9,V, Commissioners have the duty to propose legislation to the General Court to effect desired internal reorganizations. To effectively control operations, authority and responsibility must be clearly assigned and communicated to employees. Aligning operational responsibilities and authority with statute and clearly communicating all responsibilities and authorities to Department employees can help lessen confusion and strengthen accountability.

Recommendation:

The Department should organize its units as specified in statute.

Should Department management determine a structural change is needed to increase efficiency and effectiveness, established procedures to propose changes should be followed and brought to the Legislature's attention for proper consideration. Additionally, the Department should ensure authority and responsibility for retail operations are clearly assigned.

Auditee Response:

We concur. The Commissioner has the statutory authority to appoint a Mountain Manager for Cannon, who is an at-will employee, and assign tasks to complete the mission of the agency. The Department will seek the advice and recommendation of the legislatively created State Park System Advisory Council on a legislative strategy to bring the organizational structure in line with current needs of the Division.

Performance Audit Conclusion

The Division of Parks and Recreation's process for setting fees is not effective. While State Park fees are comparable to similar private facilities, all five respondents to our survey of other Northeastern states reported receiving General Funds to support Park operations, with four respondents reporting Park fees account for between 40 and 50 percent of operating costs.

User fees have not been adequate to cover operating expenditures, as intended in the budget. At the close of fiscal year 2008, the State Parks Fund revolving account had a deficit balance of approximately \$1,591,000, the Ski Area Account had a deficit balance of approximately \$1,076,000, and the State Park Concessions revolving account had a deficit balance of approximately \$690,000, as recorded in the State accounting system. It was not possible to determine the profitability of Park operations because of poor financial management at the Department of Resources and Economic Development. During fiscal years 2007 and 2008, the Division of Parks and Recreation, including Cannon Mountain, inappropriately charged nearly \$1 million of operational costs to unrelated, unbudgeted retail revolving accounts. These actions obscured the profitability of Division enterprise operations.

We found the Division lacked a systematic approach to setting fees. There was no clear documented methodology for determining how fees should be established, collected, marketed, or adjusted to respond to changing market situations. For example, Cannon Mountain ski lift ticket prices, including discounts associated with various marketing tactics, were implemented without a comprehensive plan, such as a business plan, detailing expected outcomes associated with goals and strategies.

We found the Division can do more to promote the profitability of Park retail outlet operations. Basic management information necessary to determine the profitability of operations must be made available and used in a timeframe that allows management to respond to changes affecting its operations. Management must understand the entire scope of its operations. Management must maintain a comprehensive list of Park retail outlets, collect and use information relative to direct and indirect costs and control retail inventory and pricing. During fiscal year 2008, the Division hired a Retail Operations Supervisor and has begun to address some of these concerns.

The Division of Parks and Recreation is responsible for developing, operating, and maintaining the State's Parks. We believe implementing the recommendations included in this report will result in significant improvements to management controls, including enacting an effective fee-setting process and providing management with timely information necessary to act to improve the profitability of its operations which will ultimately assist the Division in effectively managing the State Parks.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Schedule of Revenues of the State Park Fund of the State of New Hampshire Department of Resources and Economic Development (Department), Division of Parks and Recreation (Division), for the fiscal year ended June 30, 2008. This financial schedule is the responsibility of the management of the Department and Division. Our responsibility is to express an opinion on this financial schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial schedule presents only the revenues of the State Park Fund. The financial schedule does not purport to, and does not, constitute a complete financial presentation of the State Park Fund, the Department, or the State of New Hampshire in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedule referred to above presents fairly, in all material respects, the revenues of the State Park Fund for the fiscal year ended June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the Schedule of Revenues of the State Park Fund. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial schedule.

Such information has not been subjected to the auditing procedures applied in the audit of the financial schedule, and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 22, 2008 on our consideration of the internal control over financial reporting of the State Park Fund and on our tests of compliance with certain provisions of laws, rules, regulations, contracts, and other matters related to the State Park Fund. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office Of Legislative Budget Assistant

August 22, 2008

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT
DIVISION OF PARKS AND RECREATION
REVENUES OF THE STATE PARK FUND**

**SCHEDULE OF REVENUES OF THE STATE PARK FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Revenues

Ski Area Account

Cannon Mountain Operations	\$ 4,188,502
Net Retail Activities	403,755
Total Ski Area Account	<u>4,592,257</u>

Park Account

Park Operations	6,359,281
Net Retail Activities	216,486
Total Park Account	<u>6,575,767</u>
Total Revenues	<u><u>\$ 11,168,024</u></u>

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

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT
DIVISION OF PARKS AND RECREATION
REVENUES OF THE STATE PARK FUND**

**NOTES TO THE FINANCIAL SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial schedule of Revenues of the State Park Fund has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The State Park Fund was established pursuant to RSA 216-A:3-i, I, which directs the State Treasurer to establish a separate and distinct account to be known as the State Park Fund. RSA 216-A:3-i, I, further directs the State Treasurer to establish within the State Park Fund separate and distinct accounts known as the Park Account and the Ski Area Account. The Department utilizes the following State accounting system (NHIFS) accounts to record State Park Fund transactions:

Park Account

- State Parks Fund (revolving account)
- Service Parks
- Administration and Support
- Design, Development, and Maintenance
- Unemployment
- Worker's Compensation
- State Park Concessions (revolving account)

Ski Area Account

- Cannon Mountain
- Cannon Concessions (revolving account)

According to the statute, "The treasurer shall deposit in said accounts actual revenue derived by the commissioner of the department of resources and economic development in excess of budget expenses from fees, services, accommodations, rentals, revenue from lift and tramway operations, retail sales, and net profit from concession operations, and including any federal moneys which become available, and all donations and gifts."

B. Measurement Focus And Basis Of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when

they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the State generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

C. Financial Schedule Presentation

The Schedule of Revenues of the State Park Fund reports revenues from Park admittance and other fees, services, accommodations, rentals, revenue from lift and tramway operations, retail sales, and net profit from concession operations of the State Park System. The schedule does not include expenditures or account balances and therefore does not constitute a complete financial presentation of the State Park Fund.

The revenues of the State Park Fund are recorded within the State's General Fund, a governmental fund, which is a separate accounting entity with a set of self-balancing accounts. The General Fund is the State's primary operating fund and accounts for all financial transactions not accounted for in any other fund. Fund accounting is designed to report financial position and the results of operations, to demonstrate legal compliance, and to aid financial management by segregating transactions related to certain government functions or activities.

D. Revenues

In the Schedule of Revenues of the State Park Fund, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "general purpose" or "restricted." General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g. federal grants), available only for specified purposes. Unused restricted revenues at year-end are recorded as reservations of fund balance. When both general purpose and restricted funds are available for use, it is the State's policy to use restricted resources first. There are no unrestricted revenues associated with the State Park Fund.

E. Budget Control And Reporting

General Budget Policies

The statutes of the State of New Hampshire require the Governor to submit a biennial budget to the Legislature for adoption. This budget, which includes a separate budget for each year of the biennium, consists of three parts: Part I is the Governor's program for meeting all expenditure needs and estimating revenues. There is no constitutional or statutory requirement that the Governor propose, or that the Legislature adopt, a budget that does not resort to borrowing. Part II is a detailed breakdown of the budget at the department level for appropriations to meet the expenditure needs of the government. Part III consists of draft appropriation bills for the appropriations made in the proposed budget.

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund. In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests to meet expenditures during the current biennium. Appropriation

transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the department level.

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

Unexpended balances of appropriations at year-end in the State Park Fund do not lapse, which means the balances are reported as reservation of fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year.

STATE OF NEW HAMPSHIRE
DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT
DIVISION OF PARKS AND RECREATION
REVENUES AND EXPENDITURES OF THE STATE PARK FUND (UNAUDITED)
FISCAL YEAR ENDED JUNE 30, 2008

	<u>Revenues</u>	<u>Expenditures</u>	<u>Net Revenues</u>
Ski Area Account			
Cannon Mountain Operations	\$ 4,188,502	\$ 4,205,539	\$ (17,037)
Net Revenue From Retail	<u>403,755</u>	<u>-0-</u>	<u>403,755</u>
Total Ski Area Account	<u>4,592,257</u>	<u>4,205,539</u>	<u>386,718</u>
Park Account			
Park Operations			
Flume	1,402,714	425,782	976,932
Hampton Meters Net Revenue	612,696	-0-	612,696
Hampton Beach	604,081	191,684	412,397
Pawtuckaway	578,949	289,389	289,560
White Lake	378,139	223,047	155,092
Lafayette	271,385	81,942	189,443
Greenfield	285,083	219,511	65,572
Monadnock	251,883	195,733	56,150
Wallis Sands	224,491	123,552	100,939
Lake Umbagog Campground	223,928	142,010	81,918
Ellacoya	217,099	94,651	122,448
Bear Brook	213,385	128,391	84,994
Sunapee State Beach	122,850	92,078	30,772
Wellington	106,237	72,199	34,038
Lake Francis	89,695	49,471	40,224
Crawford Notch (Dry River Campground)	86,326	84,947	1,379
Moose Brook	86,232	51,496	34,736
Odiorne Point	77,591	150,621	(73,030)
Miller	72,692	15,649	57,043
Silver Lake	67,470	35,560	31,910
Pillsbury	66,088	42,638	23,450
Mollidgewock	50,108	27,537	22,571
Echo Lake	38,244	33,089	5,155
Coleman	32,952	27,386	5,566
Winslow	31,188	20,428	10,760
Rollins	29,912	19,228	10,684
Kingston	29,027	27,286	1,741
Other Parks	101,094	65,379	35,715
Regional Park Expenses	-0-	500,524	(500,524)
Park Headquarters	836	241,785	(240,949)
Hampton Seashell	1,201	226,670	(225,469)
Hampton Lifeguards	-0-	194,809	(194,809)
Reservation Office	-0-	114,084	(114,084)
Other	5,705	341,621	(335,916)
Administration & Support	-0-	1,243,013	(1,243,013)
Design, Development & Maintenance	<u>-0-</u>	<u>423,264</u>	<u>(423,264)</u>
Total Park Operations	6,359,281	6,216,454	142,827
Net Revenue From Retail	<u>216,486</u>	<u>-0-</u>	<u>216,486</u>
Total Park Account	<u>6,575,767</u>	<u>6,216,454</u>	<u>359,313</u>
Total State Park Fund	<u>\$ 11,168,024</u>	<u>\$ 10,421,993</u>	<u>\$ 746,031</u>

STATE OF NEW HAMPSHIRE
DEPARTMENT OF RESOURCES AND ECONOMIC DEVELOPMENT
DIVISION OF PARKS AND RECREATION
STATE PARK FUND BALANCES (UNAUDITED)
JUNE 30, 2004 -2008

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>Operations Accounts</u>					
Ski Area Operations Account	\$ (65,433)	\$ (220,377)	\$ (993,172)	\$ (1,494,431)	\$ (1,076,424)
Parks Operations Accounts					
Revolving Account	(987,560)	(1,158,229)	(2,581,501)	(1,564,931)	(1,591,468)
Other	<u>(64,039)</u>	<u>(123,349)</u>	<u>(135,599)</u>	<u>(124,948)</u>	<u>(181,055)</u>
Total Park Operations Accounts	<u>(1,051,599)</u>	<u>(1,281,578)</u>	<u>(2,717,100)</u>	<u>(1,689,879)</u>	<u>(1,772,523)</u>
Total Operations Accounts	<u>(1,117,032)</u>	<u>(1,501,955)</u>	<u>(3,710,272)</u>	<u>(3,184,310)</u>	<u>(2,848,947)</u>
<u>Retail Accounts</u>					
Cannon Mountain Concessions	50,313	29,317	8,426	2,736	57,565
State Park Concessions	<u>468,477</u>	<u>(280,644)</u>	<u>(531,494)</u>	<u>(1,017,214)</u>	<u>(689,750)</u>
Total Retail Accounts	<u>518,790</u>	<u>(251,327)</u>	<u>(523,068)</u>	<u>(1,014,478)</u>	<u>(632,185)</u>
Total State Park Fund	<u>\$ (598,242)</u>	<u>\$ (1,753,282)</u>	<u>\$ (4,233,340)</u>	<u>\$ (4,198,788)</u>	<u>\$ (3,481,132)</u>

Source: Statement of Appropriations, Fiscal Years 2004 - 2008

APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of August 22, 2008, of the current status of the 26 observations contained in the audit report of the Department of Resources and Economic Development, Division of Parks and Recreation, Cannon Mountain for the ten months ended April 30, 2001 that are relevant to the scope of this audit. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906, or can be accessed in its entirety on-line at www.gencourt.state.nh.us/lba/audit.html.

<i>Internal Control Comments</i>	<u>Status</u>		
<i>Reportable Conditions</i>			
2. Monitoring Of Food Services Contract Should Be Improved (<i>See Current Observation No. 4</i>)	●	○	○
4. Controls Over The Issuance Of Complimentary Tickets Should Be Improved (<i>See Current Observation No. 5</i>)	●	○	○
5. Controls Over Discounting Or Adjusting Lift Ticket Prices Should Be Improved (<i>See Current Observation No. 4</i>)	○	○	○
6. Controls Over The Issuance Of Season Passes Could Be Improved (<i>See Current Observations No. 4 and No. 6</i>)	●	○	○
7. Controls Over Deposit Process Should Be Improved	●	●	●
8. Segregation Of Duties Over Processing Revenues Should Be Improved	●	●	●
9. Controls Over Rental, Repair, And Nursery Revenues Should Be Improved (<i>See Current Observation No. 4</i>)	○	○	○
10. Sales Of Excess Ski And Bike Rental Inventory Should Be Subject To Management Review	●	●	●
11. Controls Over The Inventorying And Sale Of Rental Shop Inventory Should Be Improved	●	●	●
12. Accountability Over Revenue Transactions At Echo Lake Beach Facilities Should Be Improved	●	●	○
13. Reconciliation Process For The Depository Account Should Be Improved	●	●	●
14. Revenues Should Be Recorded More Timely (<i>See Current Observation No. 4</i>)	○	○	○
15. Checks Should Not Be Made Payable To Cash Or Employees To Fund Revolving And Petty Cash Accounts	●	●	○
16. Computer Access Password Controls Should Be Better Utilized (<i>See Current Observation No. 3</i>)	○	○	○
21. Management Oversight Of The Retail Sales Operations Should Be Increased (<i>See Current Observation No. 4</i>)	●	○	○
22. Controls Over Retail Sales Accountability Should Be Improved (<i>See Current Observation No. 4</i>)	●	○	○
23. Segregation Of Duties Should Be Established Over Retail Sales And Retail Inventory Control (<i>See Current Observation No. 4</i>)	○	○	○
25. Physical Controls Over Retail Inventory Should Be Improved	●	●	●

	<u>Status</u>		
26. Merchandise Should Be Recorded Into Inventory Prior To Being Offered For Sale <i>(See Current Observation No. 4)</i>	○	○	○
27. Periodic Control Counts Of Saleable Inventory Should Be More Accurate <i>(See Current Observation No. 4)</i>	○	○	○
28. Additional Training And Support On The Use Of The Retail Operation's Perpetual Inventory System Is Needed <i>(See Current Observation No. 4)</i>	○	○	○

Compliance Comments

32. Discounts On Season Passes Should Be Applied And Reported As Required By Statute	●	●	●
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Management Issues Comments

34. Inefficiencies In Recording Transactions Should Be Reviewed <i>(See Current Observation No. 5)</i>	○	○	○
35. Complimentary Ticket Policies Should Be Reviewed <i>(See Current Observation No. 2)</i>	○	○	○
36. Authority To Adjust Fee Schedules Should Be Clarified <i>(See Current Observation No. 2)</i>	●	○	○
40. Authority For And Control Over Additional Employee Benefits Should Be Reviewed <i>(See Current Observation No. 13)</i>	●	○	○

<u>Status Key</u>				<u>Count</u>
Fully Resolved	●	●	●	7
Substantially Resolved	●	●	○	2
Partially Resolved	●	○	○	7
Unresolved	○	○	○	10



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that a SAS70 is not available and is not planned to be made available in the near future. In both of these cases, the applications are widely used in the industry by many customers, thus providing basis for the claim of being an industry standard. The department does not have the funds or personnel needed to replace industry standard software; therefore the following steps will be taken to reduce the business risk to the department:

1. Major system upgrades and application changes will be applied only after the internal audit staff has reviewed the profile of the changes involved, the testing done and the migration plan. It will be the IA's responsibility to communicate the risk profile to management for final approval prior to proceeding.
2. Minor patches and bug fixes will be applied as needed with notice to IA for follow up examination.

The third software application is in the process of being replaced. The SAS70 requirement is being added to the RFP.

- An improved Park Managers Manual as a policies and procedures handbook was drafted. Experience in the field during the 2009 season has yielded a wealth of information which will be utilized to enhance the next version of the manual. For the 2010 season these revised policies and procedures will lose the status of guidance and become the foundation for all activity.
- A more detailed financial component will be added to the annual Park Managers Spring Training curriculum. The Internal Audit staff and representatives of the business office will play key roles in the training.
- Analysis of the Division's budget is based on actual revenues received rather than on legislatively authorized amounts, resulting in a much tighter and more accurate analysis of the current budget status and the various expenses paid from the State Park Fund.
- Active monitoring all accounts and expense / revenue categories, with the goal of reducing the deficit that has been brought forward over the past several years and positioning itself to fund the park system on the revenues it earns from operations.
- In April 2009 the division submitted and received approval for the pricing schedules used by the parks from the Legislative Finance Committee. IA is including the pricing as part of its initial operations review.

Cannon Mountain Audit Response Activities

- The development of several strategic documents has been completed:
 - Cannon Mountain 5-year Winter Business Plan,
 - Cannon Mountain Special Use Policy,
 - Cannon Mountain Promotions Methodology.
- As of September 2009 the manager of Cannon operations continues to report to the Commissioner of DRED.
- The use of *Siriusware* software that provides the following features to ensure revenue controls:
 - a) Automatic numbering of season pass tickets;
 - b) Controlled generation of replacement passes that puts a block in the system to disallow reprints unless accompanied with the appropriate revenue and/or the voided pass as supporting documentation;
 - c) Processing secure credit card information for ski equipment rentals;
 - d) Password security function. *Siriusware* is PCI (Payment Card Industry) data security standard compliant.



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- The use of *QuickBooks* for onsite, real-time financial recordkeeping. The GM relies on the weekly revenue report and bi-weekly Profit and Loss statement to guide his decision-making to operate the Park efficiently and effectively.
- The General Manager provides tighter oversight of executive- and mid-level management. He works directly with FNSP/Cannon's Financial Officer and the Food Services Director to resolve deficiencies, audit performance, and monitor financial activity.
- Policy and training manuals have been updated to incorporate the audit recommendations. Staff that handle cash are required to acknowledge their understanding of cash controls by their signature.
- Better coordination between the Cannon and Division retail management; development of retail operations policy and procedures manuals; and the use of *WinRetail* to provide tighter controls over purchasing, receiving and inventory.

State Park Fee Setting Methodology

- A revised fee package was approved by the Fiscal Committee in April 2009.
- As part of its fee-setting methodology, the Division will institute a performance review of each product and service, by unit and dollar volume, on an annual basis. Projections in units and revenues will be included in the subsequent fiscal year planning, so that gross revenue for the Division can be stated.

Self-pay Stations ("Iron Rangers") Program

- A thorough inventory of State Park revenue collection points has been completed. Recent findings have resulted in all IR's being visited a minimum of twice each week.
- New locations for self-pay stations and whether fees should be voluntary or mandatory for that location are being considered as part of the ongoing business approach.

Hampton Beach Meter Program

- Tightened protocol for the collection of Hampton meter parking tickets, including the timeliness of correspondence, assessment of late fees, and development of a dispute policy.
- Contracted with a collections agency to collect outstanding Hampton meter parking tickets that the Division was not able to resolve through its regular procedure.
- A lockbox service has been implemented that receives and processes meter ticket payments directly from the ticket recipient and provides the Division with daily reporting.

Division Retail Operations Program

- The Division Retail Operations Supervisor has developed a three year business plan and budget for the system-wide retail operation
- Better operating business practices, moving towards a more efficient and productive business model are being developed and redeveloped as experience teaches us.
- The use of *WinRetail* to provide tighter controls over purchasing, receiving and inventory. Testing of the Point-of-Sale system is near completion with 90% of the retail products setup and inventoried in the database.
- *QuickBooks* is being used to support park-specific retail financials, budget compliance, and accountability on a day-to-day, real-time basis. Financial transactions are reconciled with the State financial system, which has a six-week interval to resolve audit procedures.
- The retail operations budget will be utilized to monitor purchases, payroll, sales and other variable expenses. Statistical formulas for shared expenses between the operational and retail budgets have



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been developed, and expenses will be allocated appropriately. Policies and procedures for charging shared expenses will be part of a cost allocation plan.

- A Retail Operations Manual has been written including policies and procedures regarding cash controls, purchasing and receiving, store operations, inventory tracking, and discount programs.

The State Park System Advisory Council (SPSAC)

- The Department is working through the State Park System Advisory Council (SPSAC) to address statutory changes authorizing the Division to use revolving accounts. Pursuant to RSA 216-A:3-k, the SPSAC was established to advise the Division Director on issues relating to the operation and development of the state park system. The council has been tasked to “review existing statutes and capital appropriations relating to the state park system and recommend to the general court any changes needed to improve efficiency and clarify responsibilities in the operation of the state park system.”

It has been deemed beneficial to pursue these efforts after a strategic plan has been developed and agreed upon, thereby ensuring coordination of the legislative efforts with the agreed upon long term goals of the division.

- Pursuant to RSA 216-A:3-c, the Division is preparing a comprehensive 10-year strategic and development plan for the state park system. The State Park System Advisory Council provided initial public and legislative review of the plan, and co-hosted several public informational sessions on the draft plan. After review the division has decided to revise the plan and has applied for an extension until January 2010.