

The Board of Trustees
Community College System of New Hampshire

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Community College System of New Hampshire (CCSNH) as of and for the year ended June 30, 2014, and have issued our report thereon dated December 22, 2014.

We did not audit the financial statements of the discretely presented component unit, Community Colleges of New Hampshire Foundation (the Foundation), as of and for the year ended June 30, 2014. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditor.

Professional standards require that we provide you with information about our responsibilities under U.S. generally accepted auditing standards, *Government Auditing Standards* and U.S. Office of Management and Budget (OMB) Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our communications dated June 10, 2014. Professional standards also require that we communicate to you the following information related to our audit.

PART I – REQUIRED COMMUNICATIONS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by CCSNH are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014, with the exception of increasing the capitalization threshold for capital assets from \$3,000 to \$5,000, effective on July 1, 2013. We noted no transactions entered into by CCSNH during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The estimated valuation allowance for uncollectible student loans receivable, which is based on an assessment of the collectability of the accounts based on the aging of the outstanding balances.
- The estimated useful lives of capital assets used in the calculation of depreciation expense, which is based on the expected life of the related capital asset.

- The estimated vested accrued sick time earned that is paid out upon an employee's retirement from CCSNH. The estimated liability factors in each employee's estimated retirement date, probability of retirement from CCSNH, and rate of pay, discounted to present value using an interest rate of 3%.

We have evaluated the key factors and assumptions used to develop these estimates to satisfy ourselves of their reasonableness in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are the disclosure of commitments in Note 6 and the disclosure of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, in Note 8 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The material misstatements detected as a result of audit procedures that were corrected by management are summarized on Attachment 1.

In addition, there were uncorrected misstatements of the financial statements that are summarized on Attachment 2. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 22, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to CCSNH's financial statements or a determination of

the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the CCSNH's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

PART II – CURRENT YEAR INTERNAL CONTROL MATTERS

In planning and performing our audit of the financial statements of the business-type activities and the aggregate discretely presented component unit of CCSNH as of and for the year ended June 30, 2014, in accordance with U.S. generally accepted auditing standards, we considered CCSNH's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCSNH's internal control. Accordingly, we do not express an opinion on the effectiveness of CCSNH's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of CCSNH's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in CCSNH's internal control to be material weaknesses:

General Ledger Analysis and Account Reconciliations

During our audit of the financial statements, we noted that the majority of the trial balance accounts that had not been reconciled and therefore the determination of the correct account balance resulted in a significant amount of work by CCSNH's accounting department. In addition, we identified seven significant audit adjustments that resulted in a net increase in net position of approximately \$454,000 that were required to produce financial statements that are in accordance with U.S. generally accepted accounting principles. These conditions were also noted in the audits for the years ended June 30, 2013 and 2012.

We recommend CCSNH use its account reconciliation matrix to document the procedures to be followed on a monthly/quarterly/annual basis to ensure that all balance sheet accounts are reconciled and reviewed periodically. Although it appears time consuming to implement, a more routine account reconciliation process will help improve efficiency of the financial reporting close process in the future.

We believe that there are two projects that continue to be of significant importance to CCSNH:

Reconciliations of Payroll:

As noted in the prior audit, during our audit procedures for payroll and our review of the internal audit report of the payroll function it was noted that CCSNH does not prepare a reconciliation of the payroll register to the general ledger for each pay period. We recommend that a process be implemented such that an employee, who is independent of the processing and posting functions, reconciles the payroll register to the general ledger for each pay period.

Accounting for Capital Assets:

CCSNH does not capitalize capital asset acquisitions during the year; instead, the expenditures are recorded in various expense accounts and later capitalized when the annual financial statements are prepared. Management records the capital asset acquisitions to expense accounts to make information on the progress on capital projects readily available and to utilize Banner's automatic postings for efficiency purposes. By using the expense accounts, information on actual costs to date, comparisons to budget and amounts encumbered vs. available are easily communicated to staff across the system. In addition, Banner is currently set-up to use the expense accounts to automatically generate the entry to record the receivable and revenue for capital items that will be paid by the State's capital budget, federal grants, or other grant funds.

The challenge is that the expense accounts currently include a combination of expenditures that meet CCSNH's capitalization policy and expenditures below the capitalization policy. As a result, it is difficult to reconcile the amounts that should be capitalized at year-end from the trial balance accounts. In order to separate those purchases that will be capitalized from the purchases below the capitalization threshold of \$5,000, we recommend that all capital asset purchases in excess of the capitalization threshold be coded to separate expense accounts. This will allow management to continue to assess current asset acquisitions using the expense accounts along with identifying significant expenditures that will later be capitalized.

Another issue that we had noted in prior years was the fact that CCSNH tracked capital assets and the related depreciation on Excel spreadsheets that were not reconciled to the trial balance at any point during the year. During the year ended June 30, 2014, CCSNH worked to convert the Excel spreadsheets to a fixed asset program (Vertere), which was previously used to track assets for inventory purposes. Since the initial reporting options provided by Vertere were limited, we received a download of the assets recorded in Vertere in an Excel file to perform our audit procedures. We noted that an initial reconciliation and analysis was performed by management that resulted in journal entries that were provided by management during the course of the audit. In addition to the entries provided by management, our audit procedures identified three significant audit adjustments to the trial balance that were required to agree the capital asset accounts to the information maintained in Vertere. Due to the significant volume of capital assets maintained in Vertere and the limitations to Vertere's reporting capabilities, we spent a significant amount of time and effort auditing the information provided by management. We recommend that management continue to make improvements in CCSNH's capital asset accounting by working with Vertere to improve the program's reporting capabilities, including the identification of items included in Vertere that do not meet CCSNH's capitalization threshold, developing a report that separately identifies current year additions and deletions, and adding totals to all of the available reports, such that management can more easily reconcile the activity between Vertere and the trial balance.

Documented Review and Approval of Reconciliations

During our audit procedures, we noted that the reconciliations tested did not have documented evidence of review and approval by a responsible member of management.

We recommend the adoption of a policy whereby all account reconciliations be approved by an appropriate member of management. All reconciliations should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.

PART III – CURRENT YEAR ADVISORY COMMENT

H-1B Job Training Grant - Public Announcements

In accordance with the H-1B Job Training Grant agreement, Section IV.9, when CCSNH issues any type of statement-press release, request for proposal, bid solicitation, or other documents-describing the projects or programs funded in whole or in part by the H-1B Job Training Grant, such statement shall clearly state: (1) the percentage of the total cost of the program or project which will be financed with Federal money, and (2) the dollar amount of Federal funds for the project or program.

During our audit, we noted that CCSNH has general language that is included in any type of statement-press release, request for proposal, bid solicitation, or other documents-describing its H-1B Job Training Grant; however, this language does not include all of the information stipulated by the H-1B Job Training Grant agreement. We recommend CCSNH revisit the language included in the aforementioned documents to match the requirements set by the United States Department of Labor.

PART IV – UNRESOLVED PRIOR YEAR ADVISORY COMMENTS

Documented Policies and Procedures Manual

During our prior year audits, we noted that CCSNH does not have documented policies and procedures related to the various accounting systems in place. Without documented policies and procedures, turnover within the accounting department may result in significant inefficiencies as it would be difficult for new employees to gain an understanding of their roles and responsibilities. In addition, documenting the approved policies and procedures could improve the consistency of the operation of the policies and procedures among the various campuses and within the CCSNH offices.

We recommended that CCSNH institute a program to methodically identify and document its significant operation and accounting processes. Processes include activities and procedures involved in repeatable operation or accounting transactions or events, such as hiring employees, paying invoices, processing payroll, posting cash receipts, preparing journal entries, etc.

Documenting a process involves identifying and gaining an understanding of the events or transactions that trigger performance of the process, the automated or manual procedures used in performing the process, the person(s) or position(s) responsible for performing the procedures, the source documents used or generated, the procedures for approval and review and correction of any errors detected, and the financial or operational entries or reports summarizing the result of the process.

Procedures that may be used to gain an understanding of the workflow or flow of transactions include inquiry of CCSNH personnel; observation of them performing their duties; inspection of documents, forms, and records used in or produced in the process; tracing transactions through the system; and performing a walk-through of the procedures performed in the process.

Documentation may include policy manuals, process models, flowcharts, job descriptions, documents, and forms, and can be in paper form, electronic files, or other media.

In addition to documenting policies and procedures over significant transaction classes, other policies that should be considered include:

- Documented policy related to addressing potential impairment on capital assets
- Documented policy regarding taking at least a biennial inventory on all capital assets, including specifically identifying those capital assets purchased through federal funding
- Documented policy regarding review of subrecipient reports submitted to CCSNH related to federal grant funding
- Documented policy requiring vacations and the implementation of cross training for employees to cover for certain functions for instances of extended absences

Current Status:

During our audit as of and for the year ended June 30, 2014, we noted that documentation of the policies and procedures recommended above has been started by CCSNH. While progress has been made, there is still significant work to complete the project.

Accounting for Retainage Payable

During our testing of capital assets and related liabilities in prior years, we noted that CCSNH does not record the retainage associated with the projects under construction during the construction stage. The retainage component of the contracts is recorded by CCSNH when it is paid at the conclusion of the project. We recommended CCSNH record the retainage component of vendor invoices during the construction phase to capture the full amount of the committed costs associated with each project.

Current Status:

CCSNH recorded an initial accrual of \$269,291 for retainage payable for construction in progress as of June 30, 2014. As a result of our search for unrecorded liabilities, we identified additional invoices for retainage payable that should have been recorded as of June 30, 2014. As a result of our procedures, we proposed an audit adjustment to increase the retainage payable for construction in process and the related appropriation revenue by \$93,337 as of June 30, 2014.

Floating Budget Approval

During our review of CCSNH's budget to actual analysis in prior years, we noted that CCSNH utilizes a floating budget to adjust for any changes to the originally adopted budget. These adjustments are made by the Chief Financial Officers of the Colleges and/or the Budget Director; however, none of these adjustments had a formal approval by the Board of Directors or the Director of Finance.

We recommended CCSNH consider obtaining formal approval for any budget changes over a certain threshold which are outside the normal day-to-day operations of CCSNH.

Current Status:

During our audit as of and for the year ended June 30, 2014, we noted no changes to the budgetary process and use of floating budgets.

PART V – CORRECTED PRIOR YEAR ADVISORY COMMENTS

Automate the Calculation of Depreciation Expense

CCSNH calculates depreciation expense on capital assets in an Excel spreadsheet. It is our understanding that CCSNH's inventory management software used to track the capital assets is capable of calculating depreciation expense. We recommended that CCSNH explore the functionality of this software to help automate the calculation of depreciation expense.

Current Status:

During our audit as of and for the year ended June 30, 2014, we noted that the project recommended above was completed by CCSNH as depreciation is now calculated by Vertere. During our testing of the depreciation calculation performed by Vertere, we noted that Vertere calculates a full twelve months of depreciation in the year that the capital asset is acquired. This methodology is consistent with the calculation of depreciation expense previously done in the Excel spreadsheets. We recommend management investigate whether Vertere can utilize a mid-year or mid-month depreciation methodology in the fiscal year that the capital asset is placed in service.

Federal Perkins Loan Program Notifications

During our testing of new loans advanced through the Federal Perkins Loans Program in prior years, we noted that NHTI – Concord's Community College and Manchester Community College did not provide all borrowers notification of their right to cancel the disbursement of aid in accordance with federal guidelines (34 CFR 674) and the Student Financial Aid Handbook.

It is our understanding that upon initial input of the students' awards into Banner, a miscoding occurred that resulted in notifications not being distributed to these students. Since the process of notifications is automated, there was no report generated to review students that did not receive notifications; as a result, there was a greater risk of students not being sent the proper notifications. We noted that, after identification of this miscoding, CCSNH corrected the error and notifications, although late, were subsequently mailed to the students. It was our recommendation that CCSNH implement a procedure to identify students that do not receive the required notification.

Current Status:

During our audit as of and for the year ended June 30, 2014, we noted no instances where a school did not provide all borrowers with the required notification described above.

Procurement Process

When an organization incurs, or expects to incur, expenditures of \$25,000 or greater with one particular vendor that is funded by federal money, there must be written documentation that a procurement process was performed that complies with the applicable federal requirements. It is our understanding that CCSNH has implemented a more strict policy in that any expenditure of \$10,000 or greater is required to go through a bidding process.

During our testing of the Carl D. Perkins Career and Technical Education Act grant during the year ended June 30, 2012, we tested five of 19 capital asset acquisitions, and identified one acquisition for \$10,530 that did not go through a bidding process as required by CCSNH's policy.

We recommended that CCSNH adhere to its written policy regarding the procurement process and be sure to disseminate that information to the responsible employees within CCSNH that are involved with the acquisition of any capital assets so that all employees are aware of CCSNH's policy for requiring a bid process for expenditures in excess of \$10,000.

In connection with our 2013 audit of the expenditures funded by the Trade Adjustment Assistance Community College and Career Training, we noted that 9 of the 11 purchases selected did not have documentation that a bidding process was completed. Based on our discussions with management and review of the underlying invoices, these 9 purchases were for specialized equipment. It is our understanding that the CCSNH procurement policy provides an exemption to the bidding process for specialized equipment. However, there was no documentation attached to the invoice that provides an explanation as to why these purchases met the exemption criteria. There were no other exceptions noted during our 2013 testing of the procurement process in connection with our compliance audit of the major programs included in the schedule of expenditures of federal awards.

Current Status:

There were no such exceptions noted during our current year testing of the procurement process in connection with our compliance audit of the major programs included in the schedule of expenditures of federal awards.

PART VI – EMERGING ISSUES

Pension Plan Accounting

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting by governmental entities for pensions. It also improves information provided by governmental entities about financial support for pensions that is provided by other entities. GASB 68 requires the liability of employers and nonemployer contributing entities to employees for defined benefit pension benefits (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to the employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary assets.

A cost-sharing employer is required to recognize a liability for its proportionate share of the net pension liability of all employers for benefits provided through the pension plan – the collective net pension liability. The employer’s proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates related to separate portions of the collective net pension liability. There are additional disclosure requirements that will have an impact on cost-sharing employers.

GASB 68 will be effective for the financial statements as of and for the year ending June 30, 2015. The financial impact of the adoption of GASB 68 will likely be significant to CCSNH as an additional liability will be required to be reflected in the financial statements equal to CCSNH’s proportionate share of the underfunded status of the pension plan component of the New Hampshire Retirement System (NHRS). We recommend that management discuss this pronouncement with NHRS to determine the potential impact on CCSNH’s financial statements.

Changes in OMB Uniform Guidance Administrative Requirements

There are significant changes to the rules governing over how organizations are to spend and administer federal grant funds. The new requirements are effective for any new federal grants or additional funding to existing federal grants on December 26, 2014. Below is a summary of some of the key changes in the administrative requirements:

Must vs. should

- The new Uniform Guidance uses the terms “must” and “should” throughout the document
- “Must” means “required”
- “Should” indicates best practices or the recommended approach

Definition of supplies

- Computing devices will be considered a supply if “the acquisition cost is less than the lesser of the capitalization level established by the non-federal entity for financial statement purposes or \$5,000

Internal controls

- Language related to internal controls over sensitive information was added, which explicitly states that organizations are responsible for establishing measures to safeguard protected personally identifiable information as well as any other information designated as sensitive consistent with all applicable laws regarding privacy and obligations of confidentiality

Reforms to procurement standards

- Increased burden of awarding contracts to vendors that are essential to the federal grant
- Revised language requires entities to maintain “oversight” rather than a “system”
- Conflict-of-interest guidance was expanded to require “strong policies preventing organization conflicts of interest which will be used to protect the integrity of procurements under federal awards and subawards
- Purchases under \$3,000 may be awarded without soliciting competitive quotes if the nonfederal entity considers the price reasonable
- The procurement implementation has been given a grace period of one full fiscal year after December 26, 2014

Subrecipient monitoring and management

- Pass-through entities are required to evaluate the risk associated with a recipient before making awards by considering the financial stability, quality of management systems, recipient's performance history, reports and findings from audits, among other factors
- The uniform guidance lists several data elements that pass-through entities must include at the time of a subaward

Changes to the cost principles

- Allows administrative costs to be charged directly when they are specifically allocated to one award, if the nonfederal entity has prior approval from the awarding agency (The regulations include four conditions that need to be met in order to charge these costs as direct costs)
- Under new guidance, federal agencies must accept a negotiated indirect cost rate unless a statute or regulation requires an exception or unless the head of the agency approves it based on publicly documented justification
- Nonfederal entities that have never negotiated indirect cost rate may use a de minimus rate of 10 percent of modified total direct costs

Additional guidance is available on the Council of Financial Assistance Reform's website. As some of these changes are likely applicable to your federal grants, it is critical to have an understanding of how the new requirements will impact CCSNH's policies and procedures to ensure that you are in compliance on December 26, 2014.

In conclusion, we would like to express our appreciation to the management of CCSNH for their efforts during our audit. It is a pleasure working with management and staff of CCSNH.

This letter is intended solely for the information and use of the Audit Committee, Board of Trustees, and management of CCSNH and is not intended to be, and should not be, used by anyone other than these specified parties.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
December 22, 2014

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
SIGNIFICANT AUDIT ADJUSTMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

	Increase (Decrease) in Net Position for the Year Ended June 30, 2014
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To record the expected loss on the sale of WMCC building held for sale	\$ (207,453)
To record accounts payable identified through the search for unrecorded liabilities and the corresponding State appropriation	183,280
To reconcile capital assets to detail from Vertere Capital Asset module	431,084
To reverse depreciation expense recorded for the GBCC asset held for sale	192,573
To reverse accounts payable entry as of June 30, 2013 related to prior year audit	355,542
To reverse grants receivable entry as of June 30, 2013 related to prior year audit	(757,044)
To reverse the write-off of a receivable in 2014 that was written off in 2013	<hr/> 256,010
	<hr/> \$ 453,992 <hr/>

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
UNRECORDED AUDIT ADJUSTMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2014**

**Increase (Decrease)
in Net Position for
the Year Ended
June 30, 2014**

To record the net impact of capital asset and related note payable for WMCC property not recognized in prior years as a prior period adjustment

\$ 205,279

To record the unidentified variance in the student clearing and student deposit liability accounts as of June 30, 2014

(60,000)

\$ 145,279
