BerryDunn

Board of Trustees
Community College System of New Hampshire
(A Component Unit of the State 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, 2016, and have issued our report thereon dated December 7, 2016.

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, 2016. 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 communicate to you our responsibilities under U.S. generally accepted auditing standards, *Government Auditing Standards* and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 13, 2016. 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 2016. 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 useful lives of capital assets used in the calculation of depreciation expense, which is based on the perceived life of the related capital assets.

- The estimates used in the calculation of the net pension liability, deferred inflows of resources and deferred outflows of resources related to the pension plan, which are based on information provided by the New Hampshire Retirement System and audited by KPMG.

We have evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosures of the cost-sharing multiple-employer defined benefit pension plan required by Governmental Accounting Standards Board (GASB) Statement No. 68 in Note 6; and

- The disclosure of the issuance of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in June 2015 in Note 10.

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. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or 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 7, 2016.

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.

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.

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, 2016, 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 was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be a significant deficiency:

Payroll System

We noted during our payroll testing that the Payroll Manager has full access to the ADP Payroll software, which includes adding and removing employees and changing rates and deductions of existing employees. The Payroll Manager is the also the primary control over the payroll changes through her review of the payroll change report.

As a result, all changes made to the ADP Payroll software are monitored by one employee that makes all of the changes to the payroll software. Although CCSNH performs compensating controls related to the overall review of the monthly payroll registers, there is an increased risk that an employee is not being paid the proper rate or does not have the proper withholdings and deductions. In addition, there is a risk that a fictitious employee could be used to perpetrate fraudulent activity.

We recommend that the payroll change report be reviewed by an individual without access to the ADP Payroll software to help ensure that all changes are properly authorized. We also recommend that this review be documented and retained with each monthly payroll reconciliation.

PART III – CURRENT-YEAR ADVISORY COMMENT

Reconciliation of Federal Perkins Loan Program Cash Account

CCSNH outsources the billing, collections and due-diligence procedures for the Federal Perkins Loan Program to Heartland ECSI (ECSI). During our audit, we noted that ECSI is reporting a cumulative cash balance held for CCSNH's Federal Perkins Loan Program amounting to $212,711. The balance in the Federal Perkins Loan revolving cash account maintained by Citizens Bank amounted to $995,437 as of June 30, 2016. We recommend that management determine how the cash balances are calculated by ECSI. We also recommend that CCSNH reconcile the amount held at Citizens Bank to the amount reported by ECSI to determine whether any funds can be transferred from the Federal Perkins Loan revolving cash account to the operating account.

PART IV – RESOLVED PRIOR-YEAR INTERNAL CONTROL MATTERS

General Ledger Analysis and Account Reconciliations

While we noted improvements over prior years, we continued to identify instances in which trial balance accounts had not been reconciled throughout the year and, therefore, the determination of the correct account balance resulted in a significant amount of work by CCSNH's accounting department. We received numerous entries as of and for the year ended June 30, 2015 that were provided by management during our fieldwork, some of which were received in December. In addition, we identified several significant audit adjustments identified that were required to produce financial statements that are in accordance with U.S. generally accepted accounting principles. There were approximately 40 journal entries posted during the course of our audit procedures. These conditions were also noted in the audits for the years ended June 30, 2014, 2013 and 2012.

During our audit procedures, we noted that the ADP payroll reconciliations tested did not have documented evidence of review and approval by a responsible member of management. We did note that management had implemented a process to track the preparation and review of certain reconciliations during the year ended June 30, 2015.

During our audit as of June 30, 2015, we noted that the student accounts receivable module was not reconciled to the general ledger as of year-end. We understand that management is in the process of resolving this issue, which is believed to have been caused by the Banner Revitalization project. We encourage the timely resolution of the discrepancy and increased monthly reconciliations surrounding the accounts related to student billing, including accounts receivable, deferred tuition revenue and tuition revenue.

Furthermore, we discovered that the reporting of credits by the various campus Registrars is not reliable and management is unable to reconcile credit activity per Registrar systems to the general ledger in an effective and efficient manner. A key control over the revenue cycle is the tuition reasonableness reconciliation between Banner and the information maintained by the Registrar at each campus. Without reliable information being provided by the Registrars, it is not feasible for management to prepare a tuition reasonableness reconciliation.

We recommend that, as part of the ongoing process to correct issues caused by the Banner Revitalization project, management determine the cause of the Registrar errors and begin a regular reconciliation process in which Registrar reports are reconciled to actual student billing recorded in the general ledger for each semester. In connection with the preparation of the notes to the financial statements, management identified two projects that were included in construction-in-progress that were completed before year-end that should be placed into service. As a result, the costs were reclassified from construction-in-process and depreciation was adjusted accordingly. We recommend that management review the construction-in-process account on a routine basis to ensure that projects are placed in service on a timely basis.

We also noted several accounts included in the statement of net position that have not been reconciled by management. Many of these accounts represent clearing accounts with a significant amount of activity that should have a zero balance if they were fully reconciled as of year-end. The overall balances in these accounts are not material to the financial statements.

We recommend CCSNH continue the efforts to establish a process by which an account reconciliation matrix is used to document the procedures to be followed on a monthly, quarterly, or annual basis to ensure that all balance sheet accounts are reconciled and reviewed periodically. A more routine account reconciliation process will help improve efficiency of the financial reporting close process in the future and reduce the potential for significant audit entries. If the process cannot be completed with the current staffing levels, we recommend that CCSNH consider engaging a consultant to assist with the development and implementation of a process to perform the required reconciliations on a regular basis.

Current Status:

During our audit as of and for the year ended June 30, 2016, we noted that the issues noted above were corrected.

Information Technology Risk Assessment

CCSNH recently completed an Information Technology (IT) Security Risk Assessment (Assessment) to identify gaps in security practices and establish a baseline for future audit and operational planning, including future IT Assessment efforts. The Assessment included all seven colleges that comprise CCSNH, as well as the Chancellor’s Office. The Assessment addressed IT security risk areas that are most prevalent to higher education institutions and key control areas from the ISO 27002 information security standards.

The Assessment identified 38 areas of risk (10 ranked as high-risk, 15 ranked as medium-risk, and 13 ranked as low-risk). The majority of the areas of the risk could have an impact on the design, implementation and maintenance of internal control over financial reporting.

It is the responsibility of CCSNH to take the information in the Assessment report, prioritize risks, and make plans for mitigation and/or remediation. Accordingly, management and the Audit Committee should work collaboratively to review, prioritize, and implement the recommendations described in the Assessment report. The individual colleges should also have responsibility for understanding recommendations and working with the Chancellor’s Office to develop plans to remediate risks and adopt changes associated with addressing common risk areas.

The Chancellor's Office should be available to support the individual colleges in navigating changes and improving their security practices. To facilitate effective change, it may be necessary to allocate additional resources towards strengthening the level of IT security support services that are available to the colleges.

During the current year, we noted that Management has developed a detailed plan in order to address the risks identified through the assessment starting with the 10 high risk areas. The plan includes expected due dates, deliverables and assigned staff members. As of June 30, 2016, the client had started began process improvement for seven of the identified areas.

Current Status:

During our audit as of and for the year ended June 30, 2016, management has developed an action plan to make targeted improvements in IT in response to the findings outlined in the report.

Payroll Processing

Currently, CCSNH makes payroll payments to employees in the form of direct deposits and physical checks. Based on our review of a sample of payroll periods, approximately $500,000 in physical checks are being processed each pay period. There is increased risk associated with the use of physical checks over direct deposit. We recommend that CCSNH consider converting to only using a direct deposit process to lead to a more efficient payroll processing methodology with less risk.

Current Status:

During our audit as of and for the year ended June 30, 2016, we noted that management provided guidance to all employees receiving physical checks as to the benefits of direct deposit and the risk associated with receiving physical checks.

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; and
- Documented policy requiring vacations and the implementation of cross-training for employees to cover for certain functions for instances of extended absences.

During our audit as of and for the year ended June 30, 2015, 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.

Current Status:

During our audit as of and for the year ended June 30, 2016, we noted that this issue was corrected.

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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 the 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 7, 2016

Community College System
Year End: June 30, 2016
Passed Adjusting Journal Entries
Date: 7/1/2008 To 6/30/2016

Number	Date	Name	Account No	Debit	Credit	Proposed Amount Chg
		Net Income (Loss)				5,487,968.06
PAJE 1	6/30/2016	Construction in Progress	1770 CCSNH	123,408.15		
PAJE 1	6/30/2016	Accounts Payable Disbursements	2100 CCSNH		140,116.87	
PAJE 1	6/30/2016	Electricity	7450 CCSNH	15,708.72		
PAJE 1	6/30/2016	Other Expenses - BerryDunn	BD7100 CCSNH	1,000.00		
		To recored additional Accounts Payable identified during the search for unrecorded liabilities				
				140,116.87	140,116.87	(16,708.72)
PAJE 2	6/30/2016	Accounts Payable Disbursements	2100 CCSNH	73,965.28		
PAJE 2	6/30/2016	Miscellaneous (Object Code 0717)	7F38 CCSNH		73,965.28	
		To adjust accounts payable to agree to the detail listing.				
				73,965.28	73,965.28	73,965.28
PAJE 3	6/30/2016	Deferred Outflow - Pensions	1801 CCSNH		110,833.00	
PAJE 3	6/30/2016	Retirement Permanent Exp (Obj 060	6604 CCSNH	110,833.00		
		To remove the difference to included deferred outflows for the 2015 pension expense per Banner and the 2015 pension contributions reported by NHRS.				
				110,833.00	110,833.00	(110,833.00)
PAJE 4	6/30/2016	Employer HRA	2418 CCSNH		57,306.67	
PAJE 4	6/30/2016	ER HRA	6618 CCSNH	57,306.67		
		To adjust HRA accrual to agree to actual claims received.				
				57,306.67	57,306.67	(57,306.67)
				382,221.82	**382,221.82**	**(110,883.11)**