



To the Board of Trustees
Community College System of New Hampshire

We have audited the financial statements of the business-type activities and the aggregate discretely presented component unit of the Community College System of New Hampshire (CCSNH) as of June 30, 2012 and 2011 and for the year ended June 30, 2012 and have issued our report thereon dated December 21, 2012.

We did not audit the financial statements of the aggregate discretely presented component unit, Community Colleges of New Hampshire Foundation (the Foundation) as of June 30, 2012 and 2011 and for the year ended June 30, 2012. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the reports of the other auditors.

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 letter dated June 6, 2012. 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 2012. 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 collectibility 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 the System, 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.

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 disclosure of the transfer of capital assets from the State of New Hampshire in Notes 1 and 3 and the disclosure of commitments in Note 6 to the financial statements.

The disclosures in the financial statements are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

The commencement of the audit was delayed to allow management the time to prepare the necessary reconciliations and provide trial balance information as of June 30, 2012 and 2011 and for the year ended June 30, 2012. As a result, we were not able to meet the proposed timing of the audit included in our letter dated June 6, 2012. The delayed start of the audit combined with the tight deadline to complete the audit by December 25, 2012 mandated by the State of New Hampshire resulted in a significant change in the engagement team.

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 attached schedule summarizes the material misstatements detected as a result of audit procedures that were corrected by management.

In addition, there was one uncorrected misstatement of the financial statements as of June 30, 2011. During our audit, we noted that accounts payable and construction in progress was understated by approximately \$512,000 related to construction services provided in June 2011, but not paid until July 2011. The potential misstatement does not have an impact on the net position of CCSNH as of June 30, 2011. Management has determined that its effect was immaterial 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 auditors' 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 21, 2012.

Management Consultations with Other Independent Accountants

Management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” in certain situations. If a consultation involves application of an accounting principle to CCSNH’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to discuss the situation 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 CCSNH’s auditors. 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 June 30, 2012 and 2011 and for the year ended June 30, 2012, 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, there can be no assurance that all such deficiencies have 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 there were a significant number of trial balance accounts that had not been reconciled and therefore determination of the correct account balance resulted in a significant amount of work by CCSNH’s accounting department. In addition, we identified a large number of significant audit adjustments that were required to produce financial statements that are in accordance in U.S. generally accepted accounting principles. We also made a significant number of changes to the Schedule of Expenditures of Federal Awards in order to report a complete and accurate listing of federal funds expended by CCSNH during the year ended June 30, 2012.

Based on our observations, it appears the primary cause of the issue with untimely or missing account reconciliations related to an under-staffed accounting department. While we noted that the personnel in the accounting department work very well together and understand the transactions that are reported in the accounting software, Banner, the only certified public accountant (CPA) in the department is the Director of Finance. Issues that can be caused by an under-staffed accounting department appear to be compounded by the high level of involvement of the accounting department staff in other critical projects needed by CCSNH.

We recommend CCSNH develop an account reconciliation matrix and 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 improve efficiency of the financial reporting close process in the future.

We also recommend that CCSNH consider adding the role of a financial analyst or controller to the accounting department. Ideally, that role should be filled by a CPA with financial reporting experience. The addition of this position would help resolve the staffing issues and allow CCSNH to generate accrual based financial statements in accordance U.S. generally accepted accounting principles.

Documented Review and Approval of Reconciliations and Journal Entries

During our audit procedures, we noted that the account reconciliations that had been prepared as well as some of journal entries 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 and journal entries be approved by an appropriate member of management. All reconciliations and entries should be initialed by the preparer and the individual approving them in order to attribute reasonability to the appropriate individuals.

PART III – CURRENT YEAR ADVISORY COMMENTS

In connection with our audit of the financial statements of the business-type activities and the aggregate discretely presented component unit of CCSNH as of June 30, 2012 and 2011 and for the year ended June 30, 2012, we noted matters for your consideration. As CCSNH's independent accountants, we are in a unique position to provide you with constructive ideas and insights. Despite our close working relationship, we are, in fact, outsiders to CCSNH and can therefore be objective in presenting to you our observations and suggestions.

Our comments relate to matters noted as a by-product of our audit and are not based on a detailed study of all aspects of CCSNH's operations. Accordingly, we do not express an opinion on the effectiveness of CCSNH's internal control.

Documented Policies and Procedures Manual

During our audit, 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 recommend 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.

Accounting for Retainage Payable

During our testing of capital assets and related liabilities, we noted that CCSNH is not recording 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 recommend CCSNH consider recording the retainage component of vendor invoices during the construction phase to capture the full amount of the committed costs associated with each project.

Automate the Calculation of Depreciation Expense

CCSNH currently 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 recommend that CCSNH explore the functionality of this software to help automate the calculation of depreciation expense.

Federal Perkins Loan Program Notifications

During our testing of new loans advanced through the Federal Perkins Loans Program, we noted that NHTI – Concord's Community College (NHTI) and Manchester Community College (MCC) 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 students. It is our recommendation that CCSNH implement a procedure to identify students that do not receive the required notification.

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, 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 recommend 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.

Student Consumer Information

Pursuant to 34 CFR 668.41 – 48, CCSNH is required to provide certain information to enrolled and prospective students. The required information is separated into 11 categories and includes general institution information, campus safety, and completion and placement rates of students. The required information may be provided through an appropriate mailing or publication, including direct mailing, campus mail or electronic mail. Simply posting the information on CCSNH's website does not constitute a notice.

We reviewed four of the seven colleges' procedures to provide this information and noted varying practices among the colleges selected for testing. Three of the colleges tested posted the required information on their websites. Two of the three that posted the information on the web notified the students of the location of the information on the website via email. The third did not notify the students that the information was on the website, which does not comply with the federal regulation. The fourth college tested provided the information physically but did not maintain documented evidence that the information was sent to the students.

We recommend that CCSNH develop a standardized procedure that can be used by all of the colleges that complies with 34 CFR 668.41 – 48. In addition, we recommend that the information posted to the websites be reviewed by an appropriate member of management to verify that it is in compliance with the federal regulations.

Information Technology (IT)

Develop an IT Standards, Policies, and Procedures Manual

We noted that CCSNH currently does not have a formally documented IT standards, policies, and procedures manual to provide control over the various activities being performed. A computer-based accounting system requires effective general and application controls in order to ensure that the assets are safeguarded and that the transactions are recorded in accordance with management's authorization. We recommend CCSNH develop an IT standards, policies, and procedures manual. The following item should be considered for inclusion in the manual:

- General controls including:
 - Plan of operation of the IT Department and computer facility,
 - Procedures for developing, testing, documenting, reviewing and approving systems or programs and subsequent modifications,
 - Controls over access to computer equipment and data contained therein,
 - Disaster/recovery plans, including backup procedures, testing of backups maintained, off-site storage, and contingency planning, and
 - Review procedures and guidelines for tasks performed in the IT Department.
- Application controls in the following three areas:
 - Input controls to provide reasonable assurance that data received for processing by the computer is authorized, complete, and accurate,
 - Processing controls to ensure that all transactions are processed as intended and that no unauthorized transactions are processed, and
 - Output controls to ensure the accuracy of data processing and that only authorized personnel receive the output.

Suppression System

During our review of the IT controls, we noted that the suppression system installed within the server room to protect from fire or other unfavorable environmental issues is not operational. The server room is currently in a condition where the proper inspection to place the suppression system online has been unable to be obtained. We recommend that CCSNH perform the necessary upgrades to the server room to obtain the inspection needed to place the suppression system online to further safeguard the server.

Floating Budget Approval

During our review of CCSNH's budget to actual analysis, 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 recommend CCSNH consider obtaining formal approval for any budget changes over a certain threshold which are outside the normal day-to-day operations of CCSNH.

PART IV – EMERGING ISSUE

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, Accounting and Financial Reporting for Pensions (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 is effective for fiscal years beginning after June 15, 2014 with earlier application encouraged. 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 unfunded 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.

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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 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.



Manchester, New Hampshire
December 21, 2012

**COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
SIGNIFICANT AUDIT ADJUSTMENTS
AS OF JUNE 30, 2012 AND 2011
AND FOR THE YEAR ENDED JUNE 30, 2012**

	Increase (Decrease) in Net Assets as of		Increase (Decrease) in Change in Net Assets
	June 30, 2012	June 30, 2011	
To adjust accrual for estimated vested sick time as of June 30, 2012 and 2011. Incorporates an estimate of the date of retirement based on employee's date of birth and an estimate of the percentage of employees that will reach retirement as an employee of CCSNH	\$ (850,000)	\$ (770,000)	\$ (80,000)
To record additional accounts payable identified during BerryDunn's search for unrecorded liabilities	(72,769)	(457,443)	384,674
To record grant revenue received in correct period	-	(500,000)	500,000
To record the deferred revenue associated with funds received from Chartwell's for facility renovations	(180,000)	(202,500)	22,500
To record allowance for uncollectible Perkins Loan receivable	(450,000)	(450,000)	-
To reclass federal capital contribution portion of Perkins Loan fund	(940,500)	(971,764)	31,464
To capitalize equipment with a cost basis between \$3,000 and \$10,000, net of accumulated depreciation as part of assets transferred from the State	729,046	-	729,046
To record building improvements below \$100,000, net of accumulated depreciation as part of assets transferred from the State	3,795,572	-	3,795,572
To record depreciation on land improvements that are depreciable	(136,010)	-	(136,010)
To record capital lease obligations and related assets, net of accumulated depreciation	(65,546)	(129,559)	64,013
To recognize revenue from summer terms ratably over the academic period. Revenue was previously deferred until the next fiscal year.	3,128,198	3,068,366	59,832
To adjust accounts receivable to cash received from July 1, 2011 through June 30, 2012	-	(762,895)	-
To adjust net assets as of June 30, 2012 to actual	-	-	474,374
	<u>\$ 4,957,991</u>	<u>\$ (1,175,795)</u>	<u>\$ 5,845,465</u>