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, 2015, and have issued our report thereon dated December 17, 2015.

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, 2015. 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 24, 2015. 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.

During the year ended June 30, 2015, CCSNH adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68 (the new accounting standards). The changes made to the basic financial statements to comply with the new accounting standards have been reported as an adjustment as of the beginning of the year ended June 30, 2015. Because it was not practical for CCSNH to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to the pension plan as of June 30, 2013, the beginning balances of deferred inflows of resources and deferred outflows of resources related to the pension plan have not been reported. The impact of the adoption of the new accounting standards as of the beginning of the year ended June 30, 2015 was as follows:

Net pension liability as of the measurement date of June 30, 2013 $  63,843,950  
Contributions made in 2014 after the measurement date included in deferred outflows of resources as of July 1, 2014 (5,035,405)  
Cumulative effect of change in accounting principle as of July 1, 2014 $  58,808,545  

No other new accounting policies were adopted and the application of existing policies was not changed during 2015. 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 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 an actuarial study.
- The calculation of depreciation expense, which is based on the expected lives of the related capital assets.

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 were:

- The disclosure of the impact of the change in accounting principle in Note 2.
- The disclosures of the cost-sharing multiple-employer defined benefit pension plan required by GASB Statement No. 68 in Note 6.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit. We did experience delays in receiving reconciliations and significant adjustments for certain accounts as of June 30, 2015 from management. As a result, we had difficulties with the scheduling of our professionals outside the planned timing of fieldwork to complete the audit as information was provided. Due to the delays, we were not able to meet the proposed timing of the audit included in our letter dated June 24, 2015.

**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 in Attachment 1.

In addition, there were uncorrected misstatements of the financial statements that are summarized in 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 17, 2015.

**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, 2015, 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**

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 in Attachment 1 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 of 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 that 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.

**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.
PART III – CURRENT YEAR ADVISORY COMMENTS

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.

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.
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.

**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 Campus Solutions 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 $361,468. The balance in the Federal Perkins Loan revolving cash account maintained by Citizens Bank amounted to $852,159 as of June 30, 2015. We recommend that management 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 - 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.

**Current Status:**

During our audit as of and for the year ended June 30, 2015, we noted capital asset activity was reconciled as of June 30, 2015, and Vertere was reconciled to the trial balance.

**General Ledger Analysis and Account Reconciliations - Reconciliations of Payroll:**

As noted in the June 30, 2013 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.

**Current Status:**

During our audit as of and for the year ended June 30, 2015, we noted payroll activity was reconciled as of June 30, 2015 to the trial balance.

**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.

**Current Status:**

During our audit as of and for the year ended June 30, 2015, we noted that this issue was corrected.

**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 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.

**Current Status:**

During our audit as of and for the year ended June 30, 2015, we noted that this issue was corrected.

**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:**

During our audit as of and for the year ended June 30, 2015, CCSNH provided a reclassifying entry of approximately $1.2 million to reclassify retainage payable from accounts payable.

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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.

_Barry Dunn McNeil & Parker, LLC_

Manchester, New Hampshire
December 17, 2015
<table>
<thead>
<tr>
<th>Description</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To adjust beginning net asset balance per Banner to match prior year financial statements due to $2,000,000 bond adjustment and a true-up for an immaterial variance</td>
<td>$                   - $                   - $                   - $ (1,997,502)</td>
</tr>
<tr>
<td>To reclassify amounts recorded as capital appropriations expected to be funded through a bond issuance</td>
<td>-                   1,854,293          (1,854,293)          (1,854,293)</td>
</tr>
<tr>
<td>To adjust calculation of depreciation expense on leasehold improvement that should have been placed in service in prior year</td>
<td>442,946             -                      442,946             442,946</td>
</tr>
<tr>
<td>To adjust grants payable for amount paid in prior year that should have eliminated the grant payable</td>
<td>-                   (245,742)            245,742             245,742</td>
</tr>
<tr>
<td>To adjust amount due from State for capital appropriations</td>
<td>520,281             -                      520,281             520,281</td>
</tr>
<tr>
<td>To write-off unsubstantiated accounts receivable balances</td>
<td>(201,787)           -                      (201,787)           (201,787)</td>
</tr>
<tr>
<td></td>
<td>$ 761,440           $ 1,608,551          $ (847,111)           $ (2,844,613)</td>
</tr>
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</table>
### COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE
UNRECORDED AUDIT ADJUSTMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

<table>
<thead>
<tr>
<th>Increase (Decrease) in change in net position for the year ended June 30, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>To adjust for the prior-year impact of the true-up of capital assets during the year ended June 30, 2015</td>
</tr>
<tr>
<td>To reflect correction of grant payable recorded during the year ended June 30, 2015 as a prior period adjustment</td>
</tr>
<tr>
<td>$ (381,040)</td>
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