STATE OF NEW HAMPSHIRE
DEPARTMENT OF
REGIONAL COMMUNITY-TECHNICAL COLLEGES

FINANCIAL AND COMPLIANCE
AUDIT REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2007

STATE OF NEW HAMPSHIRE
DEPARTMENT OF REGIONAL COMMUNITY-TECHNICAL COLLEGES

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STATE OF NEW HAMPSHIRE
DEPARTMENT OF REGIONAL COMMUNITY-TECHNICAL COLLEGES

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire Department of Regional Community-Technical Colleges, excluding the Police Standards and Training Council, the Christa McAuliffe Planetarium, and the New Hampshire Community-Technical Colleges Foundation. The scope of this audit and audit report includes the financial activity of that portion of the Department of Regional Community-Technical Colleges noted above for the fiscal year ended June 30, 2007. Unless otherwise indicated, reference to the Department, System, or auditee refers to the Department of Regional Community-Technical Colleges. Reference to the CCSNH refers to the Community College System of New Hampshire. The Department was established as the CCSNH, effective July 17, 2007. Reference to College or Colleges refers to the colleges within the Department including the college campuses in Berlin, Claremont, Concord, Laconia, Manchester, Nashua, and Stratham.

Organization

The Department of Regional Community-Technical Colleges is established in RSA 188-F:2. During fiscal year 2007, the Department was a State agency consisting of an Office of the Commissioner, the New Hampshire Regional Community-Technical Institute in Concord, and colleges in Berlin, Claremont, Laconia, Manchester, Nashua, and Stratham, and associated off-campus programs. Also included in the organization of the Department are the Police Standards and Training Council and the Christa McAuliffe Planetarium which, as noted above, are not included in the scope of this audit. A Board of Trustees governs the Department.

At June 30, 2007, the Department had a payroll of 811 full-time, 256 part-time, and 1,181 adjunct faculty employees.

Responsibilities

The Department's mission states: "The Community College System of New Hampshire will provide comprehensive, market-driven, accessible, quality programs of higher education and services that respond to the changing needs of students, businesses and communities."

The Department offers various day and evening educational programs, both degree and nondegree, at its seven Colleges. Additionally, the Department offers continuing education courses and provides customized training to businesses.

Funding

The financial activity of the Department is accounted for in the General, Capital Projects, and Agency Funds of the State of New Hampshire. A summary of the Department's revenues and expenditures in the General and Capital Projects Funds for the fiscal year ended June 30, 2007 is shown in the following schedule.

Summary Of Revenues And Expenditures
For The Fiscal Year Ended June 30, 2007

	General Fund	Capital Projects Fund	Total
Total Revenues	$ 58,977,379	$ -0-	$ 58,977,379
Total Expenditures	86,794,005	16,434,826	103,228,831
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**(27,816,626)**	**(16,434,826)**	**(44,251,452)**
Other Financing Sources (Uses)			
Net Appropriations	27,816,626	16,434,826	44,251,452
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	**$ -0-**	**$ -0-**	**$ -0-**

Prior Audit

The most recent prior financial and compliance audit of the Department of Regional Community-Technical Colleges was for the nine months ended March 31, 1998. The appendix to this report on page 61 contains a summary of the current status of the observations contained in that report. A summary of the prior report can be accessed on-line at www.gencourt.state.nh.us/lba/audit.html. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

Audit Objectives And Scope

The primary objective of our audit was to express an opinion on the fairness of the presentation of the financial statements of the Department for the fiscal year ended June 30, 2007. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we considered the effectiveness of the internal controls in place at the Department and tested its compliance with certain provisions of applicable State and federal laws, rules, regulations, contracts and grant agreements. Major accounts or areas subject to our examination included, but were not limited to, the following:

- Revenues and Expenditures,
- Agency Funds, and
- Student Financial Aid Compliance.

Our report on internal control over financial reporting and on compliance and other matters, the related observations and recommendations, our independent auditor's report, the financial statements, and supplementary information are contained in the report that follows.

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

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues and Expenditures - General and Capital Projects Funds and Statement of Changes in Assets and Liabilities - Student Activity Accounts of the New Hampshire Department of Regional Community-Technical Colleges (Department) for the fiscal year ended June 30, 2007 and have issued our report thereon dated September 11, 2008, which was qualified, as the financial statements do not constitute a complete financial presentation of the Department. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Observations No. 1 through No. 6 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.* However, we noted immaterial instances of noncompliance which are described in Observations No. 7 and No. 8.

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

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

Office Of Legislative Budget Assistant

September 11, 2008

Internal Control Comments
Significant Deficiencies – Material Weaknesses

Observation No. 1: Improve Internal Controls

Observation:

The Department has not been proactive in establishing and maintaining effective internal controls over the financial operations of the Department and Colleges. Deficiencies in internal controls put the achievement of efficient and effective Department and College operations, including reliable financial reporting and compliance with laws, rules, regulations, contracts, and grant agreements at risk.

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

During fiscal year 2007, the internal controls in place over the Department included the general Statewide controls established by the Department of Administrative Services (DAS). In addition, the Department was subject to controls inherent in Governor and Council approval of contracts and the Department's use of State Treasury, Department of Justice, and other common State services, including audits by the Office of Legislative Budget Assistant. The internal controls established and maintained by the Department and Colleges specific to its individual operations also affect the Department's and Colleges' ability to operate in a controlled manner.

The following five observations provide specific examples of significant deficiencies in controls over financial reporting noted during the audit of the Department's fiscal year 2007 operations. The comments are categorized in the five generally recognized interrelated internal control components of:

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

While the following five observations discuss significant deficiencies that existed in the internal control operations and structure at the Department and Colleges during fiscal year 2007, it is important to recognize that Chapter 361 of the Laws of 2007 significantly revised the operating structure and related controls of the Department and Colleges.

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

Chapter 361 of the Laws of 2007 established the Department as the Community College System of New Hampshire (CCSNH), a body politic and corporate, effective July 17, 2007. As such, many of the common State internal controls provided to the Department as a State agency ceased to be provided to the CCSNH after that date or will only be provided on an interim basis until June 30, 2009. The elimination of Statewide government controls after June 30, 2009 will compound the risk to CCSNH operations resulting from the lack of effective Department-based internal controls observed during the course of the audit.

Specifically:

- While RSA 188-F:8 provides for the continuation of certain Statewide financial and other services, Chapter 361:35, II, Laws of 2007, provides for the repeal of the section effective July 1, 2009. **As of the date of this report**, **it is not clear the Department or CCSNH has taken the steps needed to ensure the necessary staff, expertise, and policies and procedures will be in place when the State ceases to provide services on June 30, 2009.**
- As a State agency, the Department has not been required to prepare periodic financial statements and has relied upon the DAS for the preparation of financial statements. While the Department has provided DAS with information for inclusion in the State's Comprehensive Annual Financial Report and Single Audit Report, **at the time of the audit the Department did not have the knowledge or experience necessary to prepare standards-based financial statements for the CCSNH or its own Single Audit report.**
- **While the Department has, since June 30, 2007, begun to prepare policies for the new CCSNH organization, the policies issued to date largely describe the organization and broad responsibilities of sections of the organization, but do not establish operating policies and procedures necessary for the controlled financial operation of the CCSNH.**

Recommendation:

The Department and Colleges must incorporate all of the components of internal control in the Department's and Colleges' daily operating activities. The Department, especially, needs to demonstrate its acceptance of the internal control framework and its expectation that employees of the Department and Colleges will also employ the concepts of the internal control framework in performing their regular job responsibilities.

The CCSNH must further consider the effects on its operations of the dissolution of its organization as a State agency and its establishment as a separate corporation. The CCSNH must create internal controls that are commensurate with the scope of its new operations and exposure to risks, including those that may have previously been mitigated by State controls, and are structured at the most efficient level of its organization. Generally, it should be more efficient and effective in establishing a system of internal control for common application at all Colleges. The CCSNH should resist the establishment of seven separate systems of controls.

The CCSNH must also ensure that it has the necessary organization, staffing, and resources to accept its increased responsibilities. Where necessary, the CCSNH must take action to ensure that it has or obtains the capability and resources to respond to its responsibilities in a proactive manner.

Auditee Response:

In fiscal year (FY) 2006, based on our assessment of risk following audit work done for the FY 2005 Single Audit Report, we focused our internal audit resources on the area we perceived to contain the most risk, financial aid. That, along with the addition of more financial aid staff at the System level, provided an increased level of compliance that has been reflected favorably in the FY 2006 and FY 2007 Single Audits.

The relationship with the State of New Hampshire is one that is evolving. It was not feasible to ramp up staffing and other resources prior to the legislation passing since it might not have. So we are currently assessing our position in relation to the State and to other organizations within the State. The Chancellor has been visiting various agencies to determine an approach that is reasonable, cost effective and achievable.

The Board of Trustees voted to maintain the policies and procedures in place at the time the legislation was passed unless specifically changed by the Board. So the policies, forms and procedures used by us while a regular state agency have not changed dramatically since the passage of the legislation. We have added to the internal audit staff and hope to have a full complement soon which will allow us to monitor our systems in greater detail.

Observation No. 2: Improve Control Environment

Observation:

The Department has not established a strong, centralized control environment for the Department and Colleges. The Department has largely relied upon the Colleges to independently recognize the need for controls and to initiate necessary controls for their institutions. This distributed responsibility for establishing a control structure has resulted in a control environment that tends to be ad hoc, not consistently applied among the Colleges, and not sufficient for the needs of the Department.

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

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

1. **During fiscal year 2007, significant portions of the Department's administrative rules were expired.** Many of the Department's rules had expired in July 2003. While the

Department reported that it had initiated efforts to readopt required rules, the Department did not follow up on those efforts to ensure the rules were ultimately adopted. During fiscal year 2007, the Department did have a Board of Trustees Policy Manual in place that incorporates some of the topics included in its expired rules.

While, effective July 2007, the Department is no longer statutorily required to file administrative rules, the subjects of the prior rules are critical to the controlled operations of the Department and the public's interaction with the Department. The fact that the Department allowed these significant rules to expire and remained out of statutory compliance for four years raises concerns about the Department's control environment, including management's concern for compliance with the regulatory requirements placed on the Department.

2. **The lack of explicit, documented, and communicated policies and procedures for the approval and acceptance of federal and other grants has resulted in at least one instance during fiscal year 2007 (a $5,000 grant) where a College applied for and entered into a grant agreement without the prior knowledge and concurrence of the Department and Board of Trustees.**

3. **The Department has not established a formal fraud reporting policy. The lack of a written policy may delay the reporting of fraudulent activity.** The effectiveness of a fraud reporting policy is enhanced when employees have a clear understanding of fraud indicators and what constitutes a fraudulent act. It is important that the reporting procedure is non-threatening for the reporter and provides for the reasonable protection of all parties.

4. **The Department has not required and demonstrated compliance with its contract for a financial management system.** Weaknesses in the Department's administration of the project have resulted in a situation where the contract amount has been fully expended and, as of June 30, 2007, the Department and Colleges had not achieved full functionality from the system. Insufficient employee training and acceptance of the capabilities of the Banner Finance system have resulted in employees continuing to rely upon spreadsheets and other information systems intended to be eliminated by the new system. According to the Department, additional training and expense is needed prior to its achieving full utilization of the Banner Finance system.

   During fiscal year 2006, the Department entered into a $1.8 million contract to install a new financial management system and upgrade other related software. According to the contract, payments were to be based on contractor invoices and contract deliverables. As provided in the standard State contract, the contract also provided that the State may make changes or revisions within the scope of the contract at any time by written change order. The contract further provided that all change orders shall be subject to the amendment process described in the contract, which requires written documentation and Governor and Council approval for contract changes.

   The contract was for the implementation of a new operating system, an update to existing software, consolidation of four regional Student Services Databases into a single database, and the installation and implementation of a single, central finance system (known as Banner Finance) to be used by all of the Colleges. Subsequent to the start of the contract work, the Department and the vendor agreed that a common database structure for the Student Services Database with a separate installation at each of the seven Colleges would serve the Colleges better than a single Department installation. In March of 2006, a revised scope of work creating seven replica systems was agreed to. As the change in the scope of work made the original contract deliverables no longer applicable, the Department and contractor agreed the remaining contract amount, approximately $1,062,000, would be paid in 15 payments of approximately $70,800. According to the Department, the change in the contract scope of work from one to seven systems and the change in the contract payment terms were not documented or submitted for Governor and Council approval. It is unclear whether the Department was aware of the contract control requirements. By not complying with contract controls, including not documenting significant changes to contract provisions and not submitting those changes to Governor and Council, the Department significantly increased its risk that the objectives of the contract would not be achieved.

5. **During fiscal year 2007, the Department's internal audit staff, consisting of a manager and one staff person, focused primarily on the College's federal financial aid programs, while other areas of the Department and Colleges also needing internal audit attention have been largely ignored.** The Department's internal audit activities have for the most part focused on these programs since 2005 in response to a financial aid fraud reported in the State's 2005 Single Audit of Federal Financial Assistance Programs. Some Colleges reported to the auditors that their institutions would have benefited from increased internal auditor attention during this period. A similar finding was noted in the 1998 audit of the Department.

6. **During fiscal year 2007, the Department paid the salary and benefits of a State employee to serve as the Executive Director of the New Hampshire Community-Technical Colleges Foundation.** The Department and Foundation have participated in this relationship since August 2004 despite contrary advice received from the Department of Justice (DOJ) in October 2002.

   The lack of separation between the Department and Foundation, illustrated by the Executive Director of the Foundation being a Department employee reporting directly to the Commissioner of the Department, may affect the Internal Revenue Service's determination of the organization's status as a 501(c)(3) tax-exempt organization. This status was granted to the Foundation in 2005.

7. **The Department has not established and implemented comprehensive information technology (IT) policies and procedures to promote controls in its IT systems.** Many of the IT policies and procedures currently in place at the Department and Colleges are informal and not the result of documented direction from management. The lack of documentation supporting IT policies and procedures increases the risk that controls necessary for the secure and controlled operation of the Department and Colleges will not be in place or operating as intended.

The Department is exempt from the statutory requirement for the preparation of an IT plan and is also exempt from adherence to the Office of Information Technology (OIT) State-wide IT policies and procedures. Because the Department has not established and enforced its own IT policies and procedures, many of the common, yet critical, IT security controls were not adhered to during fiscal year 2007.

8. **Documentation maintained to support disbursements from the Student Activity Account (Account) is not consistently sufficient to demonstrate the disbursement met the purposes of the Account.** A similar finding was noted in the 1998 audit of the Department.

   a. Testing of Account disbursements revealed instances where insufficient documentation was available to justify charging certain disbursements to student funds. These purchases included landscaping athletic fields, repairs to a dormitory stairwell and flooring, emergency financial aid loans to students, grants to students to purchase books, and signage at one College. While documentation for each of the disbursements noted an authorized student representative and advisor approved the disbursement, the documentation did not establish why the expenditure, which would otherwise appear to be a College responsibility, would be funded from the Account. While student organizations receive certain limited information on activity in the Account, it is not clear that the information is sufficient to allow students and student organizations to fully recognize and understand the purpose of disbursements made from their Account.
   b. In two instances, we noted Colleges used the Account for other than their intended purposes.
      1. One College deposited a relatively small grant received by a faculty member in the College's Account, reportedly because the account would allow easy access to the grant money. Making an expenditure out of the Account is less cumbersome as it avoids the normal State expenditure control processes. According to the Department, this was an improper use of the College's Account.
      2. One College held $3,000 of Account funds in the College's administrative operating account instead of depositing the money to the Account. The College ultimately used this money to match a Governor Success Grant. The College disbursed this student money without obtaining the necessary prior approval of the Student Senate representative. According to the College, this method of funding the match to the Governor Success Grant has been in place since 2004.

Recommendation:

The Department and Colleges must establish and demonstrate an appropriate control environment for the Department and Colleges.

1. The Department should review the circumstances that allowed the rules to expire without timely readoption. The Department should recognize the significance of its responsibility to provide clear and binding guidance for the public's interaction with the Department and also the negative effect on the organization's control environment when employees and others regard management's apparent inattention to significant rules and responsibilities. In order to

encourage controlled operation, the Department should ensure that it sets an appropriate example to employees and others of the need to comply with rules and other operating procedures.

2. The Department should clearly document and effectively communicate all policies and procedures.

   If the Department and Board determine that centralized Department and Board approval of all grant agreements is an important control activity, the Department and Board should establish clear, documented policies and procedures to effectuate that control. In addition, the Department should clearly communicate the policies and procedures and provide any training and other guidance that may be needed by the Colleges to ensure that the policies and procedures are understood and applied as intended. The Department should also institute monitoring efforts to demonstrate its commitment to ensuring continued compliance with any instituted control.

3. The Department should establish a fraud reporting policy and provide its employees with fraud awareness training. The Department should take measures to ensure that the policy facilitates and encourages a reporting environment that protects all parties involved.

4. The Department must become more responsible for project monitoring, including requiring compliance with contract terms and conditions. Changes to contracts, including changes to contract deliverables and other significant contract provisions, must be subject to controls that will ensure that changes are only made and accepted when required by valid and vetted business needs of the Department.

   The Department should review the circumstances that allowed the control failures over the finance system contract to determine how and why they occurred and how they can be avoided in the future. The Department should consider whether it provided sufficient Department technical, financial, legal, and administrative resources to properly support and monitor contract activity and progress.

   The Department should review the current status of its Banner Finance system to determine the most efficient and cost effective way to complete the project and receive full functionality from its finance system.

5. The Department should avoid utilizing its internal audit staff to augment operating staff at the expense of internal auditing and should consider expanding its internal audit resources to allow for increased internal audit coverage of Department and College operations.

6. The Department should consult with legal counsel to review the Department's relationship with the Foundation to ensure that the necessary separation of operations exists to provide continued compliance with Internal Revenue Service regulations.

7. The Department should establish appropriate controls over its IT systems, including the IT systems at the Colleges. While the Department may be exempt from OIT controls, the

Department should recognize the OIT controls as guidance for controls that should be in place and incorporate all relevant OIT controls in its IT control structure. The Department should supplement these standard controls as appropriate for its circumstances.

The Department should also prepare an IT plan. While the Department is exempted from the statutory requirement for an IT plan, such a plan can be a critical component of IT controls. A well developed IT plan documents the framework upon which IT controls are established and provides information on anticipated future changes to the IT framework.

8. Activity in a College's Student Activity Account should be limited to the purpose of the Account. Documentation supporting disbursements from the Account should include documentation that supports the student benefit derived from the disbursement. Financial information provided to student organizations having oversight of the student funds should be sufficiently complete to allow for proper oversight and unusual expenditures from the Account should be supported by additional documentation, such as approved minutes of student oversight organizations.

Auditee Response:

The business process throughout the System is changing. We started an implementation process in fiscal year (FY) 2007 that moved us from a cash basis of accounting to an accrual basis. With that change came numerous changes in the way the accounting information was processed. In order to make those changes we held meetings that included accounting personnel from the colleges and the System Office, on a monthly basis and often, more frequently. During those meetings the manner of change and the implications of change were discussed in detail. The elements of the control environment were discussed in those meetings as employees sought to effect change while at the same time sought to do so in a manner that would control the transactions. We did not do this in a formal manner, starting with number one and going through to number 5, but did touch upon those very subjects. Many of the new procedures were documented with narrative and screen shots of the applicable software. Those procedures, along with numerous Banner training guides, computer courses, forms and reports, were posted on an internal website for access by all the colleges and the System Office. While not formally documented, we did discuss the need for internal control and attempted to implement procedures for the new system to achieve that. We were not perfect as the observations below indicate however, we did not abandon the concept of internal control.

1. We concur. We were in the process of reestablishing the rules and continued to operate under the terms of the expired rules. As CCSNH moves forward under the terms of Chapter 361, Laws of 2007, the Board of Trustees, the System Office and the Colleges are engaged in developing operational policies and procedures to include topics previously covered by the administrative rules.

2. We concur. We will standardize the procedures for approval of grant agreements in order to ensure compliance with Board of Trustees policy.

3. We concur. The System will work to establish a fraud reporting policy to ensure that all employees are aware that they have a responsibility to report fraud. We will check with other agencies and schools to see if we can incorporate existing policies. In addition, the System will provide fraud awareness training to its employees.

4. We concur. In July 2005, the System entered into a five year contract, which runs through July 2010. The first two years of the contract were funded in the amount of $1,759,000. The contract was signed in order to accomplish the following.

   - Install, upgrade and test all Banner modules from version 6 to 7.
   - Install and test a new enterprise backup system capable of performing system and incremental backups for the entire data center.
   - Install hardware and software necessary to convert Banner modules to run on UNIX as opposed to VMAS.
   - Combine the four existing college databases using Banner Accounts Receivable module to a single database instance with minimal disruption to the colleges.
   - Install and configure Banner Finance for use by the System as its primary finance software.

   Nine months into the project, it was determined that combining the four existing databases into one would not be feasible. Instead, a database was established at each of the 7 campuses. Due to the change in deliverables, from that point on the contract was paid out monthly; in an amount equal to the remaining balance divided by the remaining months.

   The change in the contract workplan should have been better documented and subject to additional approvals. We will see that this type of instance is not replicated in the future and that additional controls are exerted over contracts.

   The Banner Finance module was not implemented at the end of FY 2007, but rather four months later, on November 1, 2007. The delay was at the request of the System. We felt the user acceptance training had not progressed as it should have and we were not in a position to flip the switch until November. The Banner Finance module is currently fully installed and operating according to the terms of the contract.

5. We concur. The System made a decision to focus its internal auditing resources on the area with the most risk, financial aid. As a result, 100% of the internal auditor's time was spent on financial aid. Resources have been added to the financial aid function at the system level and now financial aid is monitored by the employees in those new positions. That now leaves the audit manager and the two new auditing positions that have been established to audit the other aspects of the system.

6. We concur. We will seek legal advice to clarify the relationship between the Foundation and the System with regard to the executive director to ensure the 501(c)(3) tax exempt status is maintained.

7. We concur. We have started the review and revision of current System policies pertaining to user access to computing and networking/internet facilities and resources. The goal is to ensure the policies are aligned with today's services, the user responsibilities are clearly defined, and the policies are broadly disseminated. We believe we have adequate control over physical access to the computer room. Access is limited to those people who are on call after hours for systems failures and to NHTI security in case of fire. Access is controlled by key card.

   Automatic password expirations are in place for Banner Finance and will be implemented for all Banner systems. Quickbooks will be phased out at the colleges. We have started meeting with the college presidents and their IT staff to prepare our new IT Strategic Plan. While it is still early in the process, the primary goals are disaster recovery, enhancements which will increase the availability of central systems, enhanced communications including emergency alert systems, and the general coordination of technology projects which affect both the business and academic processes of the colleges.

8. We concur.

   a. The System will review these types of expenditures to ensure they conform with the students' intended use of these funds.

   b.1. This was an oversight. The policy is to establish grants in the state's accounting system and record the revenue and associated expenditures there. The college has received instructions for future instances of this type of situation.

   b.2. This was an oversight. The policy is to obtain student approval of all student activity expenditures prior to disbursement. The system will review these types of expenditures to ensure they conform to the student's intended use of these funds.

Observation No. 3: Establish A Risk Assessment Process

Observation:

The Department has not established a formal risk assessment process. A prerequisite to risk assessment is the establishment of objectives for the organization. While the Department and Colleges have experienced organizational and operational changes over time, including significant changes since June 30, 2007, they have not periodically and formally reviewed operations to assess where and how things could go wrong, evaluated the likelihood of those occurrences, and established reasonable responses to those potential occurrences. Without a risk assessment process, the identification and response to risk occurs in a reactive mode, often after a risk has been realized and a loss incurred.

An entity's performance can be at risk due to internal or external factors. These factors can affect the entity's ability to reach and maintain adherence to its stated or implied objectives. External factors include economic changes affecting decisions related to financing, capital expenditures, changing customer needs or expectations, new legislation, natural catastrophes, and others.

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

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

1. **The Department does not have formal policies and procedures in place for periodically reviewing its operations for risks that could jeopardize its ability to continue to function as management intends.** Currently, when risks are identified the Department may review the risk area and make recommendations; however, there are no formal policies and procedures to continuously review operations for risks.

2. **During fiscal year 2007, the Department had not implemented a comprehensive, documented, Department-wide and College-specific disaster recovery and business continuity plan to address an emergency or other unplanned events that could cause significant disruption, risk of loss, or other harm to the Department, employees, students, or others.** A similar finding was noted in the 1998 audit of the Department.

3. **The decentralized acceptance and transfer of unrecorded receipts, primarily in the form of unendorsed checks, increases the risk that the receipts could be lost, misapplied, or stolen.**

   As a matter of customer convenience, the Department and Colleges have allowed various areas of the Colleges, in addition to the Bursar's Office, to collect fees and other revenues from students without requiring these areas to employ standard revenue collection controls. For example, tuition and fee revenues collected at the Concord Division of Continuing Education, the Registrars Office, and Admissions and Reception areas are not initially recorded upon receipt. Checks received in these areas are regularly stapled to accompanying documents and forwarded without restrictive endorsement to the Bursar's Office for initial recording and processing. A similar finding was noted in the 1998 audit of the Department.

4. **The Department has not addressed the risks associated with its practices for collecting and depositing student loan repayments, which are inefficient and lack appropriate control processes.**

   The Department employs a loan-servicing agent to collect and account for the repayments of student loans disbursed under the federal Perkins Loan program. This agent regularly deposits amounts collected on behalf of the Department into a Department bank account. During fiscal year 2007, the Department cut 12 checks totaling $163,495 from this account for deposit in the State Treasury account. This Department process, in addition to being inefficient (not having the agent deposit directly into a Treasury account), has significant segregation of duties weaknesses as one Department employee is essentially singly responsible for all activities related to the Department account. This employee has custody of the checkbook, prepares the checks to transfer funds to the Treasury, receives the bank statements, and performs the reconciliation of the bank account. The employee is also responsible for performing the reconciliation of the Perkins Loan Activity reported by the servicing agent and the information reported in the State's accounting system (NHIFS).

Recommendation:

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

1. The Department should develop risk assessment policies and procedures that establish and formalize a risk assessment process and provide for a regular and continuous risk assessment of its operations. Identifying risks significant to Department operations, and strategies to mitigate those risks, should enhance the effectiveness of the Department's planning and resource allocation processes and its control processes.

2. The Department should establish and implement a disaster recovery and business continuity plan that addresses the risks faced by the Department as a whole and for each of the Colleges. The Department should clearly identify relevant emergencies, protocols for the notification of an emergency, the response to an emergency, and the establishment of a crisis management team to direct response operations intended to mitigate any physical, financial, and other damage and disruption that may result.

   Once the disaster recovery and business continuity plan is established and implemented, the plan should be periodically tested, reviewed, and modified to ensure it continues to meet the Department's needs.

3. The Department and Colleges should assess the additional risks it incurs by allowing areas in addition to the Bursar's Office to collect revenues. If the Department and Colleges determine that it is to their benefit to continue to provide this service to their students, the Department and Colleges should establish reasonable control activities to mitigate that risk. Controls should include policies and procedures for the initial recording of the receipts and the application of a restrictive endorsement on all checks upon initial receipt.

4. The Department should review and consider the risk associated with its processes related to collection of Perkins Loan repayments and the continued need for the Department to operate this bank account. The Department should work with the loan servicing agent and the State Treasury to make the student loan repayment process more efficient and controlled by having the loan servicing agent make payments directly to a Treasury account, eliminating the need for, and related risk of, maintaining a separate Department account for processing loan repayments.

   The Department should institute appropriate controls over the collection and reporting of loan repayments. Appropriate control activities, including segregation of duties, and processes for monitoring those control activities, including a review and approval of account reconciliations, should be implemented.

Auditee Response:

1. We concur. The System will establish risk assessment policies and procedures. The System has begun the process in the area of campus security. We have concluded an assessment of all our facilities using a globally-recognized security firm. As a result of this system-wide assessment, we now have an extensive report detailing measures to improve the safety and security environment at our colleges.

2. We concur. The System will develop and implement a disaster recovery plan. As mentioned in No. 1 above, the System has evaluated the status of campus security and this resulting report should aid in this endeavor.

3. We concur. The ability for students to pay at various locations around the campuses at various times of the day and evening is important but the need for internal control over the receipt of cash is necessary. We will review our collection policies to ensure that revenue is recorded timely.

4. We concur. CCSNH recognizes the need for segregation of duties in this process. The Department has closed this account and the loan servicer now remits payment directly to the Treasury.

Observation No 4: Establish Effective Control Activities

Observation:

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

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

The following are examples of weaknesses noted in the Department's and Colleges' control activities.

1. **During fiscal year 2007, the Department did not perform appropriate reconciliations of revenues processed through its two primary information systems.** While the Department and Colleges accumulate and review tuition and fee revenue information using their automated information system (Banner) reports, the Department and Colleges do not reconcile revenue reported by the Banner system to revenue reported in the State's

accounting system (NHIFS). The lack of a reconciliation process for comparing tuition and fee revenue reported in the Department's two primary financial information systems, including reviewing for and resolving discrepancies in amounts reported by the two systems, results in a situation where the Department and Colleges may be delayed in detecting revenue errors or frauds that may occur. A similar finding was noted in the 1998 audit of the Department.

2. **The Department has not established policies and procedures to promote efficient, controlled, and consistent banking practices for the Colleges.** The Department has not established policies and procedures directing the Colleges to manage their deposits and bank account balances to promote efficient cash flow practices, compliance with RSA 6:11, and fulfillment of their fiduciary responsibility in maintaining custody of student and other funds. A similar finding was noted in the 1998 audit of the Department.

   In reviewing the College bank accounts for timely transfer of amounts to Treasury and to the Student Activity Accounts, we noted that the Colleges were not making daily transfers. We found the Colleges were generally timely in making deposits to the bank, but were not timely in transferring amounts from the bank accounts to the State Treasury and to the Student Activity Accounts. The timing of transfers from the College bank accounts to the Treasury and Student Activity Accounts ranged from approximately weekly to bi-monthly depending upon the College and account.

   At June 30, 2007, the book balance in the local accounts was approximately $1.4 million. This amount included approximately $80,000 held in reserves to pay for tuition refunds and other miscellaneous student expenses, $131,000 awaiting transfer to Student Activity accounts, $48,000 awaiting transfer to the Foundation for scholarships, and over $1 million awaiting allocation to NHIFS, Student Activity, or other accounts. Approximately $258,000 of the more than $1 million awaiting allocation was student wellness fees held by one College prior to transfer of the amount to the State Treasury to cover bond payments for a wellness center. The majority of the remainder was revenue collected by the Colleges that had not yet been reported in NHIFS and transferred to the State Treasury at June 30, 2007.

3. **The Department has not established policies and procedures to prohibit unauthorized changes to Department and College bank accounts.** According to the Department, it has not been made clear to its Colleges and employees that bank accounts using the Department's name and State federal tax identification number were not to be opened or modified without the Department's authorization. An employee was able to modify a control parameter within a College bank account online without authorization because the Department had not implemented controls to adequately restrict access to the Department's online money manager system.

   - The Department established a checking account with a local bank for the purpose of a "Sunshine Account", funded by employee donations and fundraisers. The Department used the account to support the purchases of gifts and flowers for employees at special occasions or times of personal loss or illness, ice cream socials, holiday parties, and other events. The Department opened the checking account in October 2001 using the

Department's name and the State's federal tax identification number. The Department did not notify the State Treasurer of the account, as the intention was to maintain the account separate from the Department's operations.

- A College financial officer made a change to the control framework of the Department's bank accounts without the knowledge of the Department's Director of Finance or State Treasury. The College financial officer used the access provided by the unauthorized change to process an otherwise unallowed transaction.
    - A College financial officer transferred $12,191 out of another College's account to the State Treasury in error. In an attempt to correct the error, the College financial officer created what was to be a temporary new transfer authority for the account. This unauthorized transfer authority was used to correct the effect of the original transfer and place money back into the College's account. When the College financial officer tried to close the temporary account transfer authority, the other College's account was accidentally closed instead. The Department's Director of Finance was contacted at this point and the accounts were corrected.

4. **Errors in the Department's preparation of information for inclusion in the State's fiscal year 2007 Schedule of Expenditures of Federal Awards (SEFA), included in the State's Single Audit of Federal Financial Assistance Programs, indicated a lack of review and approval control activities prior to the submission of the information.**

   The Department's fiscal year 2007 SEFA information contained transcription errors in two of the thirteen programs reported and omitted the reporting for one program. The Department was unaware of the errors prior to the auditor bringing the errors to the Department's attention.

5. **The timing of the Department's year-end reviews of financial aid transactions does not allow for the timely and effective correction of some noted errors.**

   The Department estimated that it may be required to reimburse the federal programs at least $107,000 in financial aid overpayments that were detected in the year-end review process that could not be recovered from students, due to the passage of time since the errors had originally occurred.

6. **The Department has not established necessary bank account reconciliation procedures to ensure Colleges are managing excessively old outstanding checks being carried on monthly reconciliations of bank accounts.** Approximately 80 checks over three years old were still being carried on College account reconciliations. One check drawn in June 1994 was carried on one College's June 30, 2007 account reconciliation.

   While the Department relies on its "Procedures for Completing the Abandoned Property Report" policy to direct Colleges to report checks outstanding after three years to the State Treasury as abandoned property, the Department relies on the information reported by the colleges and does not monitor the Colleges' reporting to ensure that all unclaimed checks that should be reported to Treasury are in fact reported.

Recommendation:

The Department and Colleges must establish reasonable and appropriate control activities for their operations.

1. The Department and Colleges must establish policies and procedures for the reconciliation of revenues reported in its information systems. Tuition and other revenues reported in the Banner system should be periodically reconciled to similar information in NHIFS. Differences noted in the reconciliations should be researched and resolved.

2. The Department must establish policies and procedures that define and describe required control activities that promote consistent, efficient, and controlled banking practices at the Colleges. In addition to depositing revenues timely, the Colleges should promptly transfer funds from the accounts of initial deposit to the State Treasury accounts or the Student Activity accounts as appropriate.

   A key component of these policies and procedures must be a regular, formal reconciliation by each College of the revenues collected to the amounts deposited and to the amounts recorded in the relevant accounting systems, including College, Department, and State accounting systems. College bank accounts should not be used to hold money that should be deposited in other State accounts. Amounts collected as deferred revenue and for bond payments should be immediately recorded as such and transferred to the State Treasury.

   The Department should review its policies for maintaining cash reserves in checking accounts. If upon review it remains appropriate for Colleges to keep reserves, additional policies and procedures should be established to provide for determining the appropriate amounts and uses of the reserves. In accordance with RSA 6:11, IV a, the Department should request the concurrence of the State Treasurer in determining reserve amounts.

3. The Department should establish policies and procedures for managing bank accounts, including controls over the opening and closing of accounts and the regular monitoring of open accounts for continued need. Authority to open and close and access accounts should be appropriately restricted to protect the assets of the Department and Colleges and reduce the risk that fraud or errors could occur.

   The Department should work with its banks to ensure that the authority to make changes to Department and College bank accounts is restricted to authorized personnel only. The Department should ensure that the authority to change the account structure is limited to those Department and College employees with that responsibility.

4. The Department should institute effective control activities, including review and approval controls, for its significant financial reporting processes.

   The Department should review the circumstances surrounding the problems it encountered in preparing the 2007 SEFA to determine whether additional policies and procedures and training are required to lessen the risk of future reporting errors.

5. The Department should consider performing file reviews of financial aid transactions on a more timely basis to provide for a more effective control process. File reviews performed earlier each semester would allow any needed corrections to be made when students are in a position to both benefit from the correction of an initial underpayment and also be available to recover overpayments.

6. The Department should establish policies and procedures for the management of its bank accounts, including the reconciliation and timely disposition of outstanding checks drawn on those accounts. The Department should work with its banks to establish a reasonable acceptance period for checks drawn on College accounts. The policies and procedures established by the Department should provide for review of outstanding checks approaching the expiration of the acceptance period and for directed attempts to contact payees to encourage the cashing of held checks and the reissue of lost checks.

   The Department should review its abandoned property policy to determine why its Colleges hold excessively old outstanding checks, contrary to the Department policy. The Department should consider whether a revision to the policy would assist in more effectively communicating its policies to the Colleges.

Auditee Response:

1. We concur. The Banner System is an accrual based financial system while the State's system is, except for revenue entries made at year end, a cash basis system. To reconcile accrued revenue to the cash transferred to the State was not feasible while the Banner Finance module was not installed. Now that we have the Banner Finance module installed we track the movement of cash to Treasury which is recorded as a transfer of funds between bank accounts.

2. We concur. We will monitor the movement of funds from the colleges to the Treasury to ensure that they are moved in a timely fashion. The colleges do need to hold back a certain amount of funds to provide the coverage for student refunds that have to be disbursed within a certain time frame.

3. We concur. The fund account has been closed. The ability to change the campus accounts has been restricted to the Director of Finance. We intend to reduce the number of accounts and to limit the activity at each campus to lower the risk associated with the revenue collection activity.

4. We concur. We have implemented a review of the SEFA in order to catch errors prior to submission.

5. We concur. During 2006-2007 an unexpected resource intensive project postponed the planned schedule for student file review. It is our intent and expectation that review by the college Financial Aid staff and by the System Financial Aid Compliance staff will occur during the award year so that adjustments can be made, appropriate underpayments paid out and overpayments recovered.

6. We concur. The System will review its bank reconciliations and take appropriate action with regard to the old outstanding checks and in the future deal with outstanding checks in a timely fashion.

Observation No. 5: Improve Information And Communication

Observation:

Lack of effective information sharing and communication within the Department and Colleges have contributed to situations where managers and other employees do not have timely access to the relevant, complete, and accurate information necessary to make informed decisions.

Information is needed at all levels of an organization to run its operations and to move toward achievement of the organization's objectives. Financial information is used not only in developing financial statements for external reporting, it is also used as a basis for operating decisions, such as monitoring performance and allocating resources. In order for information to be useful, it must be communicated and made available for use in a timeframe that allows the information to remain relevant. Information that is not communicated or is not communicated timely loses its value.

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

1. **The Department's implementation of the new financial module of its Banner information system has highlighted instances where the current Student Services modules of the information system were recognized as reporting incorrect information, yet the Department did not determine the extent of the system problems that caused the incorrect information and did not take action to correct the information system.**

   Inconsistent, unrecognized, or otherwise suspect information in certain Colleges' information systems have resulted in instances where employees and others have discounted as unreliable some of the information provided from these systems. For example, the Department uses various Banner information reports to determine total student charges and how payments on those charges are applied to the outstanding balances on the students' accounts. These reports were not fully understood, maintained, or utilized as a reliable source of information for planning or other purposes during fiscal year 2007. The Department agreed these reports had not been properly maintained and, while there are known problems with certain information in the reports, they consider the reports to be reasonably accurate and continue their use. The Department has not determined the extent of the problems with the reports nor has it notified users of the potential risk of assuming the reports are accurate.

   During fiscal year 2007 and ongoing into fiscal year 2008, the Department and the Colleges were in the midst of a conversion to a new full-accrual based general ledger accounting system (Banner Finance). During this period, it was not clear that sufficient financial management information reports were being designed and produced concurrent with the conversion to allow for a controlled understanding, review, and acceptance of information generated by the new system. Colleges reported having to produce multiple spreadsheets to allow for accumulation and reconciliation of information that should be readily available from a well-designed system. The fact these reports were not available in a timeframe to allow their use in reviewing the results of the conversion may signify problems in the controlled conversion of the system.

2. **The Department has not established controls to ensure that tuition and other course fees are accurately reflected in the Colleges' automated information systems (Banner).** The lack of effective controls over the establishment and input of fees contributed to errors noted at the Concord and Claremont campuses in lab fee amounts programmed into the financial systems, which resulted in some incorrect charges to students during fiscal year 2007.

   - At one College, the lab fee for an Addiction Counseling course was erroneously calculated and keyed into the Banner system. The Registrar stated this was a keying error that was not caught during their manual review of the lab fees. There was no effect on revenue as no students enrolled in the course.
   - At one College, a $44 lab fee was charged for a Physics course even though the course did not appear to warrant a fee based upon the Board of Trustees formula for calculating lab fees. While the campus Registrar stated it was aware charging a fee was not in line with the Trustees' formula, the Department was unable to provide any documentation to evidence having received approval for the fee. The Registrar stated that this course will be identified as an exception to the Trustee rule for 2009. Thirteen students enrolled in the course and were subject to the $44 lab fee during fiscal year 2007.
   - At one College, a lab fee was not charged for a Human Services course even though the Board of Trustees formula for calculating lab fees would suggest an $88 lab fee for the course. According to the College Registrar, the course may have been added to the Banner system late and information related to the added course was not reviewed to ensure the lab fees were properly programmed into Banner. Four students enrolled in the course.
   - At one College, a $220 lab fee for two Nursing courses was charged even though the lab fees should have been $132 for each course. Apparently, the lab fees were incorrectly calculated using obsolete credit hour information. As a result, 41 students were each overcharged $88 in lab fees.

3. **The Department's procedures for allocating costs to related organizations is not sufficiently developed to allow for fair cost sharing, revenue recovery, and financial accounting necessary to accurately report and understand the results of operations.**

   For example:

   - The Department allocates electric power costs to the Police Standards and Training Council (PSTC) based on a calculation with a charge per kilowatt-hour and a constant factor that was established in 1992. The Department reports it has used the same calculation since that time without further review. The Department has not periodically determined whether the allocation method and factors used in the allocation continue to be appropriate. The electric power costs for all other buildings on the Concord Campus are allocated based on each building's proportionate square footage. Because the Department does not review the electric power cost allocation, the Department cannot demonstrate that the allocation methods and factors used are appropriate. During fiscal year 2007, total electricity costs were $1.2 million. The Department allocated $26,388 of that amount to the PSTC.

- The Department has an agreement with the PSTC by which the PSTC pays the Department $6,552 annually for plowing and general road and other maintenance. According to the Department, the amount charged per the agreement has remained the same since at least 1987. While the agreement was most recently updated in 2006, the Department reports that the scope of services provided and the costs for those services were not reviewed to reasonably ensure that the agreed to level of services and agreement amount remains appropriate.
- The Department provides a number of services to the Christa McAuliffe Planetarium including certain grounds upkeep and snow removal services. The Department does not charge the Planetarium for these services.
- The Department charges each College an amount equal to 5.5% of their total tuition and fee revenue, with an additional 10% charged on Distance Learning revenue, in a procedure intended to recover the cost of central services provided to the Colleges including the processing of payroll and general expenditures, budgeting, and grant processing. The Department stated the 5.5% charge rate has remained unchanged since 1992 and the additional 10% Distance Learning charge rate has been unchanged since 2000. The total fiscal year 2007 Department cost allocation was $2,472,954 ($2,286,145 for general College operations and $186,809 for Distance Learning). The Department could not demonstrate that it has reviewed the continued appropriateness of these charge rates since the inception of these charges. A similar finding was noted in the 1998 audit of the Department.

4. **The Department's payroll process is not efficient.** At June 30, 2007, the Department had a payroll of 811 full-time, 256 part-time, and 1,181 adjunct faculty employees. The payroll process used by the Department included manual timesheets for many employees and redundant data entry into multiple payroll and related information systems such as payroll projection sheets, used for budgeting purposes, and employee information databases, used to track information not available in the State's payroll system, GHRS. The fact that the Department operates at seven different locations throughout the State compounds the need for efficient payroll processes that allow for efficient data input, control, and access.

5. **Two of the Department's seven Colleges did not credit the appropriate portion of the Comprehensive Student Services Fee to the General Fund during fiscal year 2007.** One of the Colleges retained the entire amount collected in the Administrative Account, resulting in a $48,671 excess credit to the Administrative Account and an equal shortage to the General Fund, and the other College credited the entire amount collected to the Student Activity Account, resulting in a $9,364 excess credit to the Student Activity Account and an equal shortage to the General Fund, contrary to the Board of Trustees' policies.

The affected Colleges indicated that their noncompliance was due to a lack of information or having received conflicting information.

6. **During fiscal year 2007, the Department had not established effective internal controls over the Colleges' accrual of accounts receivable.** Policies and procedures covering the accrual of accounts receivable were not sufficiently developed and communicated by the Department and the Colleges' accrual practices were not sufficiently monitored to allow the Department to have reasonable assurance that the Colleges were properly recording and reporting accounts receivable.

   - The Department reported approximately $1.4 million of accounts receivable at June 30, 2007 on the modified accrual basis of accounting. This amount represented the Department's accumulation of the Colleges' estimates of the amount of cash owed the Colleges that would be collected within 60 days of the fiscal year end. The Department did not review the amounts reported by the Colleges for reasonableness even though two Colleges reported no accounts receivable at June 30, 2007. The Department did not require the Colleges to report accounts receivable at June 30, 2007 on the full accrual basis, the basis of accounting necessary for the State's government-wide financial statements included in its Comprehensive Annual Financial Report.
   - The Department did not provide the Colleges with specific instructions, guidance, or other policies and procedures for estimating year-end tuition amounts receivable. The lack of direction from the Department resulted in the Colleges using inconsistent approaches in determining the amounts to report at June 30, 2007. For example, two Colleges excluded day and evening tuition receivables while other Colleges included these receivables in reporting amounts collectible within 60 days. There was no explanation for this disparate approach other than the stated assumption that the Colleges know their students best and whether or not they are likely to pay amounts owed.

7. **Controls over the application of fee exemptions to support reduced revenue collections are not consistently applied at all Colleges.** While, during fiscal year 2007, certain Colleges had established review and approval controls for the use of fee exemptions, at four of the Colleges, the appropriateness of fee exemptions applied to tuition and other fees was not formally reviewed.

   While no clear inappropriate use of fee exemptions was noted during the audit, an instance was noted where a Running Start Credit Voucher tuition waiver, recorded as a fee exemption in the accounting system, was used to reduce a tuition fee after the expiration date on the voucher. While the College reported the College President approved the use of the voucher after its expiration date, there was no documentation to support the granting of that approval.

   At one College it was also noted that accounting system access authorities for posting fee exemptions were not appropriately restricted.

8. **The Department could not demonstrate that it was in compliance with the reporting requirements of the Drug-Free Schools and Communities Act and the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (Acts) during fiscal year 2007.** A similar finding was noted in the 1998 audit of the Department.

   The Acts require that certain drug and alcohol abuse prevention and crime statistics information be provided to enrolled students, employees, and others. The Department could not demonstrate that the Colleges had provided the required information to the respective recipients in a manner that met the conditions of the Acts during fiscal year 2007. The Department did not formally communicate the Acts' requirements to the Colleges and did not establish any policies and procedures for the Colleges to follow in performing the required notifications. In addition, the Department did not monitor the performance of the Colleges in making the required notifications.

Recommendation:

The Department and Colleges must improve the effectiveness of their information and communication systems.

1. As part of its efforts to implement the financial module of the Banner information system, the Department must insist upon accurate and relevant reporting from that system. The Department should not be satisfied with systems that report information regarded as being inaccurate, incomplete, or otherwise suspect.

   The Department and Colleges must require the new information system to provide well designed and useful reports that meet the information needs of financial and operational management, other employees, oversight bodies, students, and other users. The needs of these users and the reporting necessary to meet these needs must be considered during the system's design stages to ensure that complete and accurate information is captured to provide for the efficient reporting required from the system. Reported information must be regularly and critically reviewed to detect and correct reporting errors or deficiencies.

2. The Department should review and improve its current process for implementing course fees and changes to course fees. The Department should establish formal course fee procedures which include both performance and documentation controls to reasonably ensure that course fees charged to students are accurate and as intended.

   The Department should consider centralizing the course fee process at the Department's Information Technology section to provide a system-wide and consistent, rules-based, control over this critical activity.

3. The Department should establish formal cost allocation policies and procedures to provide for an accurate and fair allocation of costs to appropriate areas of the Department. The allocation of costs should be based on a documented cost allocation plan that demonstrates a fair balance of prorated costs based on services provided and received. Once established, the cost allocation plan should be regularly reviewed to allow for adjustments and other

refinements, based on changes in level of services received and costs to provide those services.

4. The Department should review its current payroll and human resources processes and re-engineer these processes to promote greater efficiency and effectiveness. This re-engineering should include greater automation of the payroll processes, including consideration of electronic timesheets/data entry that could allow system controls over payroll data entry and approvals and increased data collection and reporting to support management's needs and minimize the need to support the payroll system with various employee information databases.

   While the Department remains on the State's GHRS, the Department should work with the Department of Administrative Services, Financial Data Management, to determine whether the Department's use of GHRS can be increased to provide management reporting that could reduce the Department's current practice of maintaining employee information on separate information systems at the Department.

5. The Department should expand its efforts to provide clear and consistent guidance to the Colleges.

   The Department should review the financial reporting requirements it places on the Colleges, including forms used and information reported by the Colleges to determine whether revisions providing additional information would allow more efficient Department oversight of financial activity of the Colleges and College compliance with Department policies and procedures.

6. The Department should establish suitable policies and procedures that promote the consistent and accurate reporting of accounts receivable by the Colleges. The Colleges should not be expected or allowed to establish what should be Department-wide common practices without Department concurrence and support. The Department should also provide sufficient guidance and training to the Colleges to promote the intended implementation of those policies and procedures. Central to these controls should be the requirement for an effective review and approval process.

7. The Department should review with all Colleges the need to establish appropriate controls over the use of fee exemptions and other adjustments to revenues collected. The Department should consider standardizing among the seven Colleges the controls for authorization, recording, documenting, and reviewing fee exemptions. The controls should be documented in policies and procedures to promote full and consistent performance of the control activities.

   Controls should include processes for authorizing, entering, and reviewing fee exemptions as well as the identification of employees authorized to enter these exemptions. The Department should periodically review the system access permissions of individuals authorized to enter fee exemptions to ensure that authorizations are appropriate for the employees' current job responsibilities.

The Department should periodically review the level of fee exemption use for appropriateness. This review should include inspection of documentation supporting the application and authorization for the fee exemptions. The review should be documented.

8. The Department, in coordination with the Colleges, should establish policies and procedures for making notifications required by the Acts. Included in the policies and procedures should be procedures for periodic communication of reminders to the Colleges for the need to make the required notifications and the communication of information back to the Department to promote the Department's monitoring of the Colleges' notifications.

Auditee Response:

1. We concur. The reports referenced in the observation were developed in house and run on data that is housed in the Student Services Database. They consist generally of two types, one type designed to track and report the application of payments so that cash receipts could be recorded as revenue, even though Banner is an accrual accounting system, and those that retrieve non financial data such as credits from the database. Before Banner Finance was implemented, the Student Services module did not feed anywhere. The information necessary to operate in NHIFS on the cash basis had to be created and the referenced reports did that based on application of payments. This was a workaround necessitated by the fact that we functioned in two different accounting systems.

   The implementation of the Banner Finance module exposed some deficiencies in the reporting but the consensus in the System was that the reports were reasonably accurate for the short term and the only ones we had to record cash as revenue. The opinion was and is that the in-house reports will be replaced by Banner baseline reporting and that is the road we are on.

   The reports delivered with the Banner Finance baseline product are accurate. And those are the ones we are using to determine the status of the System. Any spreadsheets kept by the colleges are outside of the Banner product and are for the purpose of tracking cash by revenue type as it is transferred into NHIFS.

   The second type of report dealing with non financial items has been shown to differ because of the way items are recorded in the system. We asked the consultants to run a credit report when our programmer was out for an extended time and his report differed from the in house reports mainly from the manner in which information is entered into the system. Differences such as those are identified and corrected as we move along.

2. We concur. The System will double check the fees in the system to ensure they properly reflect authorized charges.

3. We concur. The System will revisit the agreements with the Police Standards and Training Council and review the services provided to the Christa McAuliffe Planetarium to ensure that those entities are charged the correct amount. The System is in the process of reviewing the

percentage charged to the colleges to cover the cost of the System Office. Any change to the percentage will be brought before the Finance Committee of the Board of Trustees.

4. We concur. The System concurs and will analyze current payroll and human resources practices and develop processes or systems to enhance efficiency.

5. We concur. The colleges have been made aware of the requirement to send the state's portion of the comprehensive fee to the State Treasury. The System Office will monitor this revenue source to ensure compliance.

6. We concur. The System revised its accounts receivable accrual process for fiscal year 2008. The source of accruals was limited and reviewed by the System Office before sending it to Administrative Services.

7. We concur. The System will establish a system for reviewing the appropriateness of fee exemptions. The exemptions are now recorded in a contra revenue account which enables us to review them in a more direct fashion.

8. We concur. Although each college compiles and publishes crime statistics data information on an annual basis and such information is submitted to the U.S. Department of Education by October 1 annually, the matter in which this information is made available to prospective and current students and prospective and current employees varies from college to college. Therefore, the Department will establish procedures to standardize the publication, communication, and accessibility of such information.

Observation No. 6: Establish An Effective Control Monitoring Process

Observation:

The Department's control monitoring process has not been properly maintained resulting in a condition during fiscal year 2007 where control activities lost their intended effectiveness without the Department becoming aware or taking corrective action.

Monitoring is a two-step process intended to ensure that internal controls operate effectively and as intended by management. This involves: 1) assessments by appropriate personnel of the design and operation of the controls on a timely basis, and 2) taking necessary actions to ensure controls remain responsive to changes in risks and are operating effectively. Without effective monitoring of controls, a false sense of assurance can result if controls assumed to be effective prove not to be. For controls to remain effective, they must be subject to regular monitoring and maintenance. Controls that operate without such management involvement often become ineffective, as evidenced in the following instances:

1. **The Department did not complete its year-end reconciliation of fiscal year 2007 federal financial aid revenues and expenditures in its two primary information systems in a**

time frame that would provide the most utility from the reconciliation. By not completing the year-end reconciliation until August 2008, the Department increased its risk that errors in information recorded in the systems would not be detected and corrected in a timely manner and that financial reporting containing erroneous information might be utilized to make management decisions. A similar finding was noted in the 1998 audit of the Department.

The two primary financial accounting systems used by the Department - the State accounting system (NHIFS) and the Banner Financial Aid System (Banner) - each reported federal financial aid revenues and expenditures during fiscal year 2007. While the Department reports its practice is to reconcile information in the two systems three to four times a year, there are no policies and procedures addressing the reconciliation. According to the Department employee responsible for the reconciliation, the year-end reconciliations have not been completed timely for the past three or four years due to delays in the year-end closing of the Banner system.

2. **The Colleges are inconsistent in timely reporting of payments of federal Pell Grant funds to students.** A system-wide audit test noted 42% of the Pell Grant payments to students tested were reported outside the 30-day timeframe established for the federal student aid program. Instances of untimely reporting were noted in the sample at all but one of the Colleges. A similar finding was noted in the 1998 audit of the Department.

   The sample selected for testing this reporting requirement contained a total of 48 items selected from across all seven Colleges. Of the 48 items, 20 (42%) had payments that were reported outside of the 30-day reporting time frame. Delays noted ranged from a few days late to 372 days late.

   Reasons given by the Colleges for untimely reporting included lack of training, difficulties experienced related to the decoupling of the Colleges, and lack of timely resources.

3. **The lack of compliance with a required change to the Colleges' information systems was not detected until the Colleges performed their end of fiscal year review of financial aid activity.** During the fall of 2006, the Department requested each College to make a change in their respective student financial aid accounting systems revising a key date field. While all registrars were directed to update the Title IV date source by making sure that "term date" was checked and not "part-of-term dates", only three of the Colleges made the requested change. The instruction for registrars to update the system was communicated in a meeting attended by the financial aid officers and not the registrars.

   It is not clear why three of the Colleges made the correction and four did not, but it is likely a breakdown in communication where the persons required to make the change were not effectively informed that they needed to do so.

4. **Controls over changes to payroll have deteriorated, causing the intended controls to become largely ineffective.** For example:

   - A lack of appropriate segregation of duties surrounding the approval of Personnel Action Forms (PAFs) has been allowed to develop. PAFs are control documents that support changes to payroll, including hiring and terminating employees and changes in positions and pay rates. One employee, the Compensation and Benefits Supervisor, signs all PAFs as both the preparer and the approver.
   - The Department's Agency Payroll Certification (APC) control, utilized to certify/approve the biweekly payroll, has become ineffective as the employee responsible for approving and signing the APC does so without effectively reviewing the APC.

5. **The Department does not regularly monitor employee access to the State's payroll (GHRS) system for continued appropriateness.**

   The Department does not have an adequate procedure in place to ensure GHRS access levels are periodically reviewed and revised when an employee with GHRS access transfers to a position where GHRS access is no longer appropriate. We noted three employees at the Department had inappropriate access levels in GHRS during fiscal year 2007 based upon their current job responsibilities.

6. **Increased financial system risks existed at three of the Colleges during fiscal year 2007 as a result of segregation of duties conflicts that developed when certain business office responsibilities were reassigned due to vacant positions.** In addition, access permissions granted in College financial systems in all but one of the Colleges were excessive, allowing employees who reconciled bank accounts to also have access to record, change, and delete transactions. At one College, a single employee had near complete access to cash balances in a training account. A similar finding was noted in the 1998 audit of the Department.

   While no undetected errors or frauds related to the segregation of duties issues were noted at these Colleges during the audit, the risk of those problems was heightened during that period when the segregation of duties conflicts existed.

Recommendation:

The Department should implement an effective monitoring system to ensure that it and the Colleges are adhering to Department policies and procedures.

1. The Department should perform timely year-end revenue and expenditure reconciliations of their information systems and monitor the results of the reconciliations to help ensure the timely correction and detection of errors and irregularities.

   The Department should establish policies and procedures for the reconciliation of financial information recorded in NHIFS and Banner. The policies and procedures should address the timing of the reconciliations as well as procedures for addressing inconsistent and incorrect information.

2. The Department should review with the Colleges the need to report Pell Grant payment information in accordance with the federal program and Department requirements. The Department should also determine the likely causes of the delays in reporting experienced by most of the Colleges during fiscal year 2007 in order to establish appropriate additional policies and procedures and training to promote timely reporting by the Colleges.

   The Department should, as part of its internal control, implement effective monitoring of these policies to promote the detection and correction of any future instances where Colleges do not remain in compliance with federal program and Department regulations and policies.

3. The Department should improve its information and communication efforts by formalizing its communication of policies and procedures and implementing monitoring controls to increase the likelihood that the policies and procedures will be effectively communicated, understood, and put into practice. Policies and procedures and changes to policies and procedures should be communicated in writing directly to the responsible employees. The responsible employees should be required to verify that directives for changes have been received, understood, and implemented.

   Control monitoring efforts that are implemented must increase the likelihood that the Department will become more aware of the operating effectiveness of its control policies and procedures. Directives for information system changes should include turn-around documents requiring certification that directed changes have been input, satisfactorily tested, and implemented.

4. The Department should reestablish effective payroll controls, including controls over the review and approval of PAFs and APCs. The Department should establish control-monitoring procedures to promote the timely detection of changes in control performance and effectiveness.

5. Employee access to information systems should be limited to those access levels required for current job responsibilities. Access levels should be monitored, reviewed, and appropriately adjusted at every change in formal job responsibility. Access levels should also be reviewed at other regular intervals to detect the potential risk imposed by informal changes in job responsibilities that may occur without management’s direct involvement or knowledge.

6. The Department should direct Colleges to effectively segregate incompatible duties within business offices and other offices processing financial transactions. If staffing constraints or other factors do not allow effective segregation of duties, the Colleges should be encouraged to recognize and respond to the increased risk by instituting risk mitigating procedures such as increased management review and involvement in the affected procedures.

   As part of its efforts to properly segregate duties, employees’ financial system authorities and permissions should be reviewed to reasonably ensure that all employee access to financial systems is considered, including excess or unintended access to automated financial systems.

Auditee Response:

1. We concur. The CCSNH System Office reconciles between Banner, Fina [Department finance system], COD [federal Common Origination and Disbursement system], and G5 [federal Grant Administration and Payment System] monthly and between Banner and NHIFS quarterly. The System Office could not finish the final fiscal year 2007 reconciliation of the financial aid accounts until all related activity had ceased. At that time the System finished the final reconciliation and closed the aid year.

   We have requested that the Financial Aid Officers (FAO) perform their own reconciliation on a monthly basis between Banner and COD. We have also put in place a quarterly reconciliation worksheet that will be completed by the System Office and distributed to the FAOs to facilitate a quarterly reconciliation of all the funds between the two offices.

2. We concur. The Pell Grant payment reporting was delayed for a few reasons. After the separation of the combined colleges, it took some time for the Department of Education to properly set up the new college identification numbers within the federal Common Origination and Disbursement (COD) system. Also, we had some staffing changes and vacancies which required additional training.

   During 2008, we have taken measures to improve this process. In January we held a meeting of the Financial Aid User Group (FAUG) which included the Financial Aid Administrators, System Grants Administrator, System Financial Aid Accountant, and System Financial Aid Compliance Department. As a result, a worksheet was developed by the System Financial Aid Accountant to summarize the reconciliation process she was performing on a quarterly basis to ensure that all systems (Banner Financial Aid, FINA, NHIFS, COD and G5-formerly GAPS) are in balance. This worksheet is now communicated to the Financial Aid Administrators and the System Financial Aid Compliance Department. This transmittal is helping to detect any issues with Pell to COD reporting. The System Financial Aid Compliance Department will also be implementing a process to review, on a sample basis, student Pell disbursements and their associated reporting to COD to ensure compliance with federal regulations.

   At the April 2008 FAUG meeting, we provided COD training to all of the Financial Aid Administrators.

3. We concur in part. We would like to stress that the issue was discovered by our own personnel during the compliance review, so there was a control in place.

   While the directive to modify the date span was not followed at all colleges, we believe communication was clear. We will, however, add an additional control. When a request is made to process a change or implement a new procedure, we will require that documentation be submitted back to the Financial Aid Compliance Department to provide evidence of conformity.

Additionally, we have created a public folder for all System employees to access which will contain policies, procedures and minutes to Financial Aid User Group minutes.

4. We concur. In accordance with the State of NH payroll system (GHRS), the agencies are responsible for the maintenance of the data for their employees and the NH Division of Personnel and Bureau of Accounting perform the review, audit, and final approval functions that authorize the payroll process. Accordingly, the Agency applies approvals 1 & 2, and the NH Division of Personnel applies final approval 3 for the PAF document. Final approval by the NH Division of Personnel is required before any personnel action is processed.

   The auditor is correct that the Compensation and Benefits Supervisor signs all PAF's as the Agency Approval 1 and the Agency Approval 2. This approval process has been in practice since the implementation of GHRS in 1990. As the Agency approval designates the "input & maintenance of data", neither the NH Division of Personnel nor the Department of Administrative Services requires that the agency approvals be designated by two separate persons. Within the CCSNH, the Compensation and Benefits Supervisor, who has Limited Power of Attorney for payroll only, is designated to provide approvals 1 & 2 on PAF's. While we consider this practice to be in compliance with State of NH payroll procedures, we agree that a segregation of duties over these incompatible functions should be applied.

   In response to the audit observation regarding the certification/approvals of the Agency Payroll Certification (APC) for the biweekly payroll, the Department concurs with the auditor's findings. To correct this deficiency, the APC's are prepared by the designated payroll officer and then reviewed by the Compensation and Benefits Supervisor or the Director of Human Resources for final approval. Those APC's prepared by the Compensation & Benefits Supervisor are submitted to the Director of Human Resources for final approval.

5. We concur. The Department will establish procedures related to the approval and termination of GHRS access levels for designated personnel and the periodic review of such access.

6. We concur. The implementation of the Banner Finance System is changing the way transactions are processed. As part of this change we are establishing new procedures to handle transactions. These new procedures will include the reassignment of duties so that a proper segregation is maintained.

Federal Compliance Comments

Observation No. 7: Federal Financial Reporting Should Be Accurate And Timely

Observation:

Problems noted in the Colleges' completion of FISAP (Fiscal Operations Report and Application to Participate) reports, initially due on October 1, 2007, indicate the Department needs to better coordinate and control this federal reporting activity.

Each year schools participating in Student Financial Assistance programs under Title IV of the Higher Education Act must report to the federal Department of Education (DE) the fiscal year's final campus-based aid disbursed by type, as well as the number of students receiving such aid. This reporting is done through the FISAP. The Fiscal Operations Report portion of the FISAP reports activities of the Federal Perkins Loans, Federal Work Study, and Federal Supplemental Educational Opportunity Grants campus-based programs for the previous award year and the Application to Participate portion of the FISAP is used to apply for program participation in the following year.

The Department does not have adequate policies and procedures in place to ensure that the Colleges' FISAPs are accurate, complete, and present information in a consistent manner among the Colleges. The Colleges were not consistent in their completion of the FISAPs and did not sufficiently review the FISAPs prior to their submissions resulting in the FISAPs having to be resubmitted with revisions. In our review of the FISAPs originally submitted on October 1, 2007, we noted instances where reported information did not agree with supporting documentation and where the Colleges were inconsistent in the sources of data used to complete the FISAPs. According to the Department, it is not clear that all of these sources had been vetted to ensure the reported information was correct. Errors were also noted in the revised December 15, 2007 FISAPs submitted by the Colleges to amend the FISAPs previously submitted October 1, 2007.

Recommendation:

The Department should take responsibility for ensuring that the Colleges prepare the required FISAP reporting in an accurate, timely, and consistent manner that will ensure the Colleges receive proper consideration by the DE in determining program operations and calculating the Colleges' allocations for the following program year.

The Department should establish comprehensive policies and procedures for timely completion of the FISAPs by the Colleges and should establish the expectation that the Colleges prepare accurate FISAPs in time for the October 1 deadline. The Colleges should not operate with the expectation that incomplete or inaccurate reporting at October 1 is acceptable if corrected by December 15, the ultimate reporting deadline. The policies and procedures should be sufficiently detailed to ensure that accurate information is efficiently reported. Department-wide policies and procedures will promote the consistent determination of information among the Colleges allowing for greater efficiency in the preparation and review of accurate reports, and the Department's review and evaluation of the operation of the Colleges.

Auditee Response:

We concur in part.

During the review of the October 1, 2007 versions of the FISAP reports, the auditors noted inconsistent document sources have been employed by some of our colleges.

Data to fulfill FISAP reporting requirements is available from multiple sources. Some of those sources produce results that are immaterially variant. The Community College System of New Hampshire has relied on a review of these data sources for reasonableness.

We agree that the October 1st FISAP submission should be rigorously and comprehensively prepared and reviewed prior to submission. It should be noted, however, that the required data systems/sources are not always fully reconciled/available to allow for completion by October 1st.

Nevertheless, we do agree that comprehensive policies and procedures for the timely completion of the FISAP must be established. We have created a new position within the Community College System's Financial Aid Compliance Department – Financial Aid Programs and Compliance Specialist. Working with the Director of Financial Aid Compliance and the seven College Financial Aid Directors, the individual in this position will be charged with reviewing and analyzing data sources, creating procedures for FISAP preparation, and coordinating the implementation of the procedures.

These procedures will include the use of consistent data sources for all seven colleges. Additionally, an independent review will be performed prior to the October 1st and December 15th FISAP submissions.

Observation No. 8: Controls Over Changes To Financial Aid Information System Should Be Improved

Observation:

Corrections to student data resulting from the verification process were not consistently reprocessed through the U.S. Department of Education's (DE) central processing unit at three colleges, contrary to federal program requirements and Department control policy.

Federal administrative law 34 CFR 668, Subpart E, governs the verification by institutions of information submitted by applicants for student financial assistance at the institution being attended. The law is in place to ensure that financial aid is awarded based upon correct information that the applicants provide. The DE selects certain applicants who must submit certain information (U.S. Tax Returns, untaxed income, number in household, etc.) to the institution in order to verify that the information reported for determining eligibility and awards for financial aid is correct.

Notwithstanding certain inconsequential exceptions, changes in a financial aid applicant's information are required to be resubmitted through DE's Central Processing System (CPS).

We noted instances at three of the seven Colleges where unexpected discrepancies existed between data in the student's Institutional Student Information Record (ISIR) and documentation obtained through the verification process. We noted one instance in a sample of 12 (8%) verified files in Nashua, two instances in a sample of 15 (13%) verified files in Manchester, and six instances in a sample of 12 (50%) verified files in Stratham where the verified, corrected student information was not reprocessed through the CPS and errors in award amounts resulted. While the noted errors in award amounts were relatively insignificant to the Department's program and netted to approximately $200, any error in award amounts can affect a student's ability to attend a program.

According to the Department, a system override was enabled in the Banner financial aid systems at the three Colleges where the errors were noted allowing payments to be made prior to an agreement of information in the ISIR and the Banner systems. Had the override not been enabled, the likelihood that disbursements could have been made prior to the resolution of any differences would have been greatly reduced. It is not clear whether enabling the override was an intentional setting or was an oversight.

Because it was assumed the Banner system would prevent payments when amounts did not agree, there were no additional controls established to ensure amounts agreed prior to disbursement. These processing errors and the subsequent rejections of changes were detected at one College during the year-end verification file review. The problem at the other two Colleges went unnoticed until the audit.

Recommendation:

The Department should implement appropriate policies and procedures to ensure the controls in the Banner financial aid system are established and operating as intended at each of the Colleges. The policies and procedures should include establishing a centralized Department authority for making changes to the operation of the Banner systems to lessen the likelihood that individual Colleges will make unauthorized changes to the system exposing the Department to unforeseen risk.

The Department should review the circumstances that allowed the override to be engaged at the three Colleges during fiscal year 2007 to determine whether additional formal channels of communication or training are necessary to lessen the likelihood of similar problems occurring in the future.

The Department should revise its existing policies and procedures to ensure that all changes to student data that are required by the program to be reprocessed through the CPS, are in fact reprocessed in a timely manner.

Auditee Response:

We concur in part.

Verification is complete when each college has all the requested documentation. While we typically do make all changes through CPS, federal regulations do not require that all verification corrections be reprocessed through CPS. There are cases when the student can be paid without waiting for corrections to be reprocessed – for instance, if the aid amount doesn't change. According to the Federal Student Aid Handbook (Application and Verification Guide 2006-07) if the Pell Grant aid amount doesn't change or, for Campus-based and Stafford/PLUS programs, if the college bases the award on its own recalculation of the EFC, CPS corrections are not necessary. Only in the case where a data match item must be changed (non-dollar data such as household size or number in college) must a correction always be reprocessed through CPS.

The Community College System relies on the controls and edits in the SCT BANNER system, which is reviewed and reconditioned annually in accordance with federal regulation updates and modifications. Recalculations through SCT BANNER are considered to mirror those of CPS. There was no intentional disregard of CPS or SCT BANNER controls.

To minimize risk for awarding inaccurately, the System will ensure that an award is not disbursed if the ISIR and SCT BANNER are not in agreement unless special circumstances exist and the disbursement is authorized through the System Financial Aid Compliance Department. The Information Technology Department has reviewed the override capabilities and researched the circumstances that permitted the overrides noted at Stratham, Manchester, and Nashua and recommended procedural changes.

Within the CCSNH system wide process for Second Review of Verification, a procedure has been added for comparing the ISIR and SCT BANNER EFCs to ensure their agreement. This addition was effective for the 0708 review. SCT BANNER security will also be modified to eliminate the capability for system users to revise the rule forms that allowed the override. Only IT staff will be permitted to make these changes when necessary, after review by operational staff and Financial Aid Compliance. When each Financial Aid new award year set-up is completed, each college's entries will be reviewed for accuracy by Financial Aid Compliance prior to commencing the new aid year processing.

We will also adapt procedures to ensure that all CPS reprocessing is completed in an accurate and timely manner.

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Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues and Expenditures - General and Capital Projects Funds and Statement of Changes in Assets and Liabilities - Student Activity Accounts of the New Hampshire Department of Regional Community-Technical Colleges (Department) for the fiscal year ended June 30, 2007. These financial statements are the responsibility of the management of the Department. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Department are intended to present certain financial activity of only that portion of the State of New Hampshire that is attributable to the transactions of the Department. The financial statements do not purport to and do not constitute a complete financial presentation of either the Department or the State of New Hampshire in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the matter discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, certain financial activity of the Department for the fiscal year ended June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the Statement of Revenues and Expenditures - General and Capital Projects Funds and the Statement of Changes in Assets and Liabilities - Student Activity Accounts of the Department. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements except for the Prior Period Expenditures, Total Expenditures, and Unexpended Budget amounts as listed on the Schedule of Budget and Actual Expenditures - Capital Projects Fund. The Prior Period Expenditures, Total Expenditures, and Unexpended Budget amounts have not been subject to the auditing procedures applied in the audit of the financial statements and accordingly we express no opinion on them. In our opinion, except for the financial information described in the preceding sentence, the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards,* we have also issued a report dated September 11, 2008 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Office Of Legislative Budget Assistant

September 11, 2008

STATE OF NEW HAMPSHIRE
DEPARTMENT OF REGIONAL COMMUNITY-TECHNICAL COLLEGES
STATEMENT OF REVENUES AND EXPENDITURES
GENERAL AND CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Revenues	General Fund	Capital Projects Fund	Total
Tuition	$ 44,548,309	$ -0-	$ 44,548,309
Federal Funds	8,401,131	-0-	8,401,131
UNIQUE Plan Endowment (Note 6)	1,287,700	-0-	1,287,700
Miscellaneous Revenue	2,215,492	-0-	2,215,492
Center For Training And Business Development	1,085,495	-0-	1,085,495
Private And Local Funds	1,222,843	-0-	1,222,843
Other Grant Revenue	216,409	-0-	216,409
Total Revenues	**58,977,379**	**-0-**	**58,977,379**
Expenditures			
Salaries And Benefits	61,025,892	-0-	61,025,892
Grants/Loans To Students	7,892,635	-0-	7,892,635
Current Expenses	7,487,139	-0-	7,487,139
Consultants	1,668,100	-0-	1,668,100
Equipment	1,301,728	-0-	1,301,728
UNIQUE Plan Endowment (Note 6)	1,287,700	-0-	1,287,700
Buildings And Grounds	1,250,689	-0-	1,250,689
Library Support/Computers	1,211,363	-0-	1,211,363
Tuition Stabilization Expense	800,000	-0-	800,000
Other Expenditures	784,666	-0-	784,666
Debt Service	732,885	-0-	732,885
Travel	626,926	-0-	626,926
Grants To Subrecipients	430,241	-0-	430,241
Staff Development	294,041	-0-	294,041
New Buildings	-0-	10,716,505	10,716,505
Renovations/Other	-0-	5,718,321	5,718,321
Total Expenditures	**86,794,005**	**16,434,826**	**103,228,831**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**(27,816,626)**	**(16,434,826)**	**(44,251,452)**
Other Financing Sources (Uses)			
Net Appropriations	27,816,626	16,434,826	44,251,452
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	**$ -0-**	**$ -0-**	**$ -0-**

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

STATE OF NEW HAMPSHIRE
DEPARTMENT OF REGIONAL COMMUNITY-TECHNICAL COLLEGES
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUND
STUDENT ACTIVITY ACCOUNTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Student Activity Accounts				
Assets				
Cash And Cash Equivalents (Note 2):				
Concord Campus	$ 322,692	$ 856,293	$ 808,099	$ 370,886
Stratham Campus	151,700	182,262	136,826	197,136
Nashua Campus	119,708	338,471	323,421	134,758
Manchester Campus	109,786	227,129	204,493	132,422
Laconia Campus	74,897	103,753	62,538	116,112
Claremont Campus	112,515	128,479	94,288	146,706
Berlin Campus	23,128	47,402	58,579	11,951
Total Cash And Cash Equivalents	914,426	1,883,789	1,688,244	1,109,971
Total Assets	**$ 914,426**	**$ 1,883,789**	**$ 1,688,244**	**$ 1,109,971**
Liabilities				
Custodial Funds Payable:				
Concord Campus	$ 322,692	$ 856,293	$ 808,099	$ 370,886
Stratham Campus	151,700	182,262	136,826	197,136
Nashua Campus	119,708	338,471	323,421	134,758
Manchester Campus	109,786	227,129	204,493	132,422
Laconia Campus	74,897	103,753	62,538	116,112
Claremont Campus	112,515	128,479	94,288	146,706
Berlin Campus	23,128	47,402	58,579	11,951
Total Custodial Funds Payable	914,426	1,883,789	1,688,244	1,109,971
Total Liabilities	**$ 914,426**	**$ 1,883,789**	**$ 1,688,244**	**$ 1,109,971**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the New Hampshire Department of Regional Community-Technical Colleges have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The Department of Regional Community-Technical Colleges (Department) is an organizational unit of the primary government of the State of New Hampshire. The accompanying financial statements report certain financial activity of the Department excluding the Police Standards and Training Council, the Christa McAuliffe Planetarium, and the New Hampshire Community-Technical Colleges Foundation.

The financial activity of the Department is accounted for and reported in the State's General, Capital Projects, and Fiduciary Funds in the State of New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities, and fund balances are reported by fund for the State as a whole in the CAFR. The Department, as a part of the primary government, accounts for only a small portion of the General and Capital Projects Funds and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Department cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures - General and Capital Projects Funds is not intended to show the financial position of the Department or the changes in its fund balances for the General and Capital Projects Funds.

B. Financial Statement Presentation

The State of New Hampshire and the Department use funds to report on their financial position and the results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Department reports its financial activity in the funds described below:

<u>Governmental Fund Types</u>:

General Fund: The General Fund accounts for all financial transactions not specifically accounted for in any other fund. All revenues of governmental funds, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

Capital Projects Fund: The Capital Projects Fund is used to account for certain capital improvement appropriations which are or will be primarily funded by the issuance of state bonds or notes, other than bonds or notes for highway or turnpike purposes, or by the application of certain federal matching grants.

Fiduciary Fund Types:

Agency Funds: Agency funds report assets and liabilities for deposits and investments entrusted to the State as an agent for others.

C. Measurement Focus And Basis Of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, except for federal grants, the State generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgments are recorded only when payment is due.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

D. Budget Control And Reporting

General Budget Policies

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

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund. The Capital Projects Fund budget represents individual projects that extend over several fiscal years. Since the Capital Projects Fund comprises appropriations for multi-year projects, it is not included in the budget and actual comparison schedule in the State of New Hampshire CAFR.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests to meet expenditures during the current biennium. Appropriation transfers can be made within a department without the approval of the Legislature; therefore, the legal level of budgetary control is at the department level.

Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the

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

Unexpended balances of appropriations at year-end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or legally defined as non-lapsing, which means the balances are reported as reservation of fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year. Capital Projects Fund unencumbered appropriations lapse in two years unless extended or designated as non-lapsing by law.

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. The Department's unliquidated encumbrance balances in the General and Capital Projects Funds at June 30, 2007 were $3,242,377 and $13,228,271, respectively.

A Budget To Actual Schedule - General Fund and a Schedule of Budget and Expenditures - Capital Projects Fund are included as supplementary information.

E. Cash Equivalents

Cash equivalents represent short-term investments with original maturities less than three months from the date acquired by the State.

NOTE 2 - CASH AND CASH EQUIVALENTS

The Department maintains 31 demand deposits (checking accounts), 24 of which are for processing tuition payments from students made by cash, credit card, or other electronic means. The Department is also the custodian of seven Student Activity checking accounts that are maintained in an agency capacity for the deposit, retention, and disbursement of funds to various student organizations and to pay for such events as graduation ceremonies. The checking accounts are held at the individual campuses.

Deposits

The Department has not developed a policy relating to deposits that are exposed to custodial credit risk.

Custodial Credit Risk

The custodial risk for deposits is the risk that in the event of a bank failure, deposits held in an agency capacity may not be recovered.

As of June 30, 2007, the Department's carrying amount for deposits in the Student Activity accounts was $1,109,971. The table below details the Department's bank balances at June 30, 2007 in the Student Activity accounts and the College operating accounts exposed to custodial credit risk:

Demand Deposits
At June 30, 2007

	Account				Uninsured /
	Student Activity	**Operating**	**Total**	**Insured**	**Uncollateralized**
College					
Concord	$ 343,872	$ 483,137	$ 827,009	$ 100,000	$ 727,009
Stratham	198,443	206,056	404,499	100,000	304,499
Nashua	129,168	675,471	804,639	100,000	704,639
Manchester	123,599	124,685	248,284	100,000	148,284
Laconia	84,520	89,687	174,207	100,000	74,207
Claremont	77,580	203,471	281,051	100,000	181,051
Berlin	11,952	103,296	115,248	100,000	15,248
Total	**$ 969,134**	**$ 1,885,803**	**$ 2,854,937**	**$ 700,000**	**$ 2,154,937**

The difference between the carrying amount of demand deposits as reported by the Department ($1,109,971) and the bank balances in the Student Activity accounts as noted above consists of checks and deposits which have not cleared the bank as of June 30, 2007 as well as amounts collected and deposited in College accounts that have not been transferred to the State Treasury and recorded in State revenue accounts. The accompanying financial statements do not include the reported carrying amount for the College Operating accounts.

NOTE 3 - AGENCY FUNDS

The Department acts as custodian for funds of various student clubs and organizations and reports these funds on the accompanying financial statements as agency funds, a fiduciary fund type. Each College maintains a separate Student Activity checking account. Additions to the Student Activity accounts include primarily student activity fees and profits from fund raising activities. Deletions from the Student Activity accounts are controlled in part by the Student Senate and are used for student activities, such as dances or other special events.

NOTE 4 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The Department, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit pension plan and covers the majority of full-time employees of the Department. The Plan qualifies as a tax-exempt organization under Sections 401 (a) and 501 (a) of the Internal Revenue Code. RSA 100-A established the Plan and the contribution requirements. The Plan, which is a cost-sharing, multiple-employer Public Employees Retirement System (PERS), is divided into two membership groups. Group I consists of State and local employees and teachers. Group II consists of firefighters and police officers. All assets are in a single trust and are available to pay retirement benefits to all members.

Group I members at age 60 qualify for a normal service retirement allowance based on years of creditable service and average final compensation (AFC). The yearly pension amount is 1/60 (1.67%) of AFC multiplied by years of creditable service. AFC is defined as the average of the three highest salary years. At age 65, the yearly pension amount is recalculated at 1/66 (1.5%) of AFC multiplied by years of creditable service. Members in service with ten or more years of creditable service who are between ages 50 and 60 or members in service with at least 20 or more years of service, whose combination of age and service is 70 or more, are entitled to a retirement allowance with appropriate graduated reduction based on years of creditable service.

Group II members who are age 60, or members who are at least age 45 with at least 20 years of creditable service can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years.

All covered Department employees are members of Group I.

Members of both groups may qualify for vested deferred allowances, disability allowances, and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation, service, or both.

The Plan is financed by contributions from the members, the State and local employers, and investment earnings. During the fiscal year ended June 30, 2007, Group I members were required to contribute 5% and group II members were required to contribute 9.3% of gross earnings. The State funds 100% of the employer cost for all of the Department's employees enrolled in the Plan. The annual contribution required to cover any normal cost beyond the employee contribution is determined every two years based on the Plan's actuary.

The Department's payments for normal contributions for the fiscal year ended June 30, 2007 amounted to 6.81% of the covered payroll for its Group I employees. The Department's normal contributions for the fiscal year ended June 30, 2007 were $2,354,072.

A special account was established by RSA 100-A:16, II (h) for additional benefits. The account is credited with all the earnings of the account assets in the account plus the earnings of the remaining assets of the plan in excess of the assumed rate of return plus ½ of 1%.

The New Hampshire Retirement System issues a publicly available financial report that may be obtained by writing to them at 54 Regional Drive, Concord, NH 03301 or from their web site at http://www.nhrs.org.

Health Insurance For Retired Employees

In addition to providing pension benefits, RSA 21-I:30 specifies that the State provide certain health care benefits for retired employees and their spouses within the limits of the funds appropriated at each legislative session. These benefits include group hospitalization, hospital medical care, and surgical care. Substantially all of the State's employees who were hired on or before June 30, 2003 may become eligible for these benefits if they reach normal retirement age while working for the State and receive their pensions on a periodic basis rather than a lump sum. During fiscal year 2004, legislation was passed that requires State Group I employees hired after July 1, 2003 to have 20 years of State service in order to qualify for health insurance benefits. These and similar benefits for active employees are authorized by RSA 21-I:30 and provided through the Employee and Retiree Benefit Risk Management Fund, which is the State's self-insurance fund implemented in October 2003 for active State employees and retirees. The State recognizes the cost of providing these benefits on a pay-as-you-go basis by paying actuarially determined contributions into the fund. The New Hampshire Retirement System's medical premium subsidy program for Group I and Group II employees also contributes to the fund.

The cost of the health benefits for the Department's retired employees and spouses is a budgeted amount paid from an appropriation made to the administrative organization of the New Hampshire Retirement System. Accordingly, the cost of health benefits for retired Department employees and spouses is not included in the Department's financial statements.

NOTE 5 - FEDERAL FUNDS

The Schedule of Expenditures of Federal Awards (the Schedule) on page 58 is presented for the purpose of additional analysis. The expenditures presented in the Schedule are presented on the cash basis of accounting; expenditures are recorded when paid rather than when the obligation is incurred.

NOTE 6 - UNIQUE PLAN ENDOWMENT

The Department participates in the New Hampshire College Tuition Savings Plan's UNIQUE Endowment Allocation Program (Program), as described in N.H. Admin Rule, Csp 700. The Program has been designed to fulfill the statutory obligation in RSA 6:38 to provide eligible New Hampshire institutions of higher education with endowment allocations, the earnings from which shall be used to provide awards to New Hampshire residents who are attending the participating institution.

The Department records the receipt of Program allocations as Department revenue when received. In accordance with a memorandum of understanding between the Department and the New Hampshire Community Technical Colleges Foundation (Foundation), the Foundation acts as the Department's administering and fiduciary agent for the Department's participation in the Program. The Department records the subsequent payment of the Program allocation to the Foundation as a Department expenditure when paid.

NOTE 7 - SUBSEQUENT EVENT - ESTABLISHMENT OF THE COMMUNITY COLLEGE SYSTEM OF NEW HAMPSHIRE

Chapter 361:2, Laws of 2007, effective July 17, 2007, repealed and reenacted RSA 188-F:1 through RSA 188-F:21-a, reorganizing the administration and governance of the Department of Regional Community-Technical Colleges. Chapter 361 transformed the Department from a State agency to a body politic and corporate and changed the name of the Department to the Community College System of New Hampshire. Chapter 361 also delegated broad authority to the Board of Trustees of the Community College System to manage the Community College System of New Hampshire in a manner which promotes academic excellence and serves the community needs of the people of New Hampshire.

STATE OF NEW HAMPSHIRE
DEPARTMENT OF REGIONAL COMMUNITY-TECHNICAL COLLEGES
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Original Budget	Actual	Favorable (Unfavorable) Variance
Revenues			
Tuition	$ 45,090,539	$ 44,548,309	$ (542,230)
Federal Funds (Note 2)	24,673,367	8,401,131	(16,272,236)
UNIQUE Plan Endowment	-0-	1,287,700	1,287,700
Miscellaneous Revenue	1,022,882	2,215,492	1,192,610
Center For Training And Business Development	2,125,895	1,085,495	(1,040,400)
Private And Local Funds	1,970,071	1,222,843	(747,228)
Other Grant Revenue	4,050,179	216,409	(3,833,770)
Total Revenues	**78,932,933**	**58,977,379**	**(19,955,554)**
Expenditures			
Salaries And Benefits	61,294,902	61,025,892	269,010
Grants/Loans To Students (Note 2)	24,417,744	7,892,635	16,525,109
Current Expenses	7,700,614	7,487,139	213,475
Consultants	206,610	1,668,100	(1,461,490)
Equipment	1,549,211	1,301,728	247,483
UNIQUE Plan Endowment	-0-	1,287,700	(1,287,700)
Buildings And Grounds	1,638,296	1,250,689	387,607
Library Support/Computers	1,049,459	1,211,363	(161,904)
Tuition Stabilization Expense	-0-	800,000	(800,000)
Other Expenditures	4,848,533	784,666	4,063,867
Debt Service	748,598	732,885	15,713
Travel	411,849	626,926	(215,077)
Grants To Subrecipients	7,000	430,241	(423,241)
Staff Development	265,017	294,041	(29,024)
Total Expenditures	**104,137,833**	**86,794,005**	**17,343,828**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**(25,204,900)**	**(27,816,626)**	**(2,611,726)**
Other Financing Sources (Uses)			
Net Appropriations	25,204,900	27,816,626	(2,611,726)
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	**$ -0-**	**$ -0-**	**$ -0-**

The accompanying notes are an integral part of this schedule.

Notes To The Budget To Actual Schedule - General Fund
For The Fiscal Year Ended June 30, 2007

Note 1 - General Budget Policies

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

The operating budget is prepared principally on a modified cash basis and adopted for the governmental and proprietary fund types with the exception of the Capital Projects Fund.

The New Hampshire biennial budget is composed of the initial operating budget, supplemented by additional appropriations. These additional appropriations and estimated revenues from various sources are authorized by Governor and Council action, annual session laws, and existing statutes which require appropriations under certain circumstances.

The budget, as reported in the Budget To Actual Schedule, reports the initial operating budget for fiscal year 2007 as passed by the Legislature in Chapter 176, Laws of 2005.

Budgetary control is at the department level. All departments are authorized to transfer appropriations within their departments with the prior approval of the Joint Legislative Fiscal Committee and the Governor and Council. Additional fiscal control procedures are maintained by both the Executive and Legislative Branches of government. The Executive Branch, represented by the Commissioner of the Department of Administrative Services, is directed to continually monitor the State’s financial system. The Legislative Branch, represented by the Joint Legislative Fiscal Committee, the Joint Legislative Capital Budget Overview Committee, and the Office of Legislative Budget Assistant, monitors compliance with the budget and the effectiveness of budgeted programs.

Unexpended balances of appropriations at year-end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered or are legally defined as non-lapsing accounts.

Variances - Favorable/(Unfavorable)

The variance column on the Budget To Actual Schedule highlights differences between the original operating budget for fiscal year 2007 and the actual revenues and expenditures for the fiscal year ended June 30, 2007. Actual revenues exceeding budget or actual expenditures being less than budget generate a favorable variance. Actual revenues being less than budget or actual expenditures exceeding budget cause an unfavorable variance.

The unfavorable expenditure variances shown on the Budget to Actual Schedule represent the difference between the actual expenditures incurred during the fiscal year ended June 30, 2007 and the original budget in place at the beginning of fiscal year 2007. The unfavorable expenditure variances do not represent expenditures incurred in excess of appropriations because the original budget amounts do not include supplemental appropriations. The State and the Department use supplemental appropriations to add appropriations to original budget amounts to reflect changes in levels of operations not provided for in the original budget. During the fiscal year ended June 30, 2007, the Department's original expenditure budget amounts were supplemented by $5,462,818 of additional appropriations.

Note 2 - Federal Funds And Grants/Loans To Students

The Department's fiscal year 2007 budget included $13 million of federal revenues and $13 million of grants/loans to students related to the federal Workforce Investment Act cluster of programs. The responsibility for these programs was transferred to the Department of Labor in January of 2006. Because no revenues were received and no expenditures were incurred by the Department related to this cluster of programs during fiscal year 2007, the fiscal year 2007 estimated revenues and budgeted expenditures for this cluster of programs appear as unfavorable revenue variances and favorable expenditure variances on the Department's Budget To Actual Schedule - General Fund.

STATE OF NEW HAMPSHIRE
DEPARTMENT OF REGIONAL COMMUNITY-TECHNICAL COLLEGES
SCHEDULE OF BUDGET AND EXPENDITURES
CAPITAL PROJECTS FUND

		(Unaudited)			
		Expenditures			Unexpended
Chapter Law, Program	Budget	Fiscal 2007	Prior Years	Total	Budget
Chapter 202:1, IV, Laws Of 2001					
System Maintenance - Statewide	$ 705,000	$ 47,122	$ 608,460	$ 655,582	$ 49,418
New Academic Building - Laconia (Design)	600,000	4,634	543,865	548,499	51,501
Computer System Upgrades	600,000	-0-	587,048	587,048	12,952
Chapter 240:1, III, Laws Of 2003					
Library Expansion - Academic Program Support - Stratham	2,373,000	-0-	2,499	2,499	2,370,501
Library Addition - Design - Claremont	125,000	2,174	122,763	124,937	63
Ventilation - Berlin	307,000	-0-	302,476	302,476	4,524
Student Residence Hall Rehabilitation - Concord	270,000	-0-	253,820	253,820	16,180
New Academic Building - Laconia	5,500,000	192,766	5,220,371	5,413,137	86,863
Critical Repairs	1,252,000	267,717	572,607	840,324	411,676
Chapter 259:1, III, Laws Of 2005					
Critical Maintenance - Concord	965,000	424,698	16,411	441,109	523,891
Critical Maintenance - Berlin/Laconia	1,500,000	84,561	144,757	229,318	1,270,682
Critical Maintenance - Nashua/Claremont	1,200,000	577,833	339,667	917,500	282,500
Critical Maintenance - Manchester/Stratham	900,000	-0-	-0-	-0-	900,000
Nursing Education Center - Design	250,000	231,273	13,726	244,999	5,001
Library Learning Resource Center - Claremont	1,800,000	1,640,662	21,811	1,662,473	137,527
Health Education And Tech. Center - Manchester	9,100,000	7,591,978	43,825	7,635,803	1,464,197
Pease Building Renovations	2,835,000	2,369,383	106,680	2,476,063	358,937
Chapter 259:1, X, Laws Of 2005					
Information Technology:					
Single Banner Database	581,600	401,317	109,491	510,808	70,792
Classroom Networks	466,640	132,177	258,696	390,873	75,767
Campus Administrative Servers	147,500	38,465	30,739	69,204	78,296
Chapter 259:15, I, Laws Of 2005					
Renovation Of Cafeteria - Nashua	297,000	147,000	-0-	147,000	150,000
Student Wellness Center - Nashua	6,531,000	1,053,018	569	1,053,587	5,477,413
Sweeney Hall Snack Bar, Patio And Auditorium Renovations - Concord	1,007,000	913,872	23,500	937,372	69,628
Residence Hall Suites - NHTI Concord	7,259,000	-0-	-0-	-0-	7,259,000
Little Hall Dining Services Renovation - Concord	1,928,000	268,377	-0-	268,377	1,659,623
Chapter 264:1, IV, Laws Of 2007					
Information Technology - Standardize Systemwide Network Architecture	1,000,000	45,799	-0-	45,799	954,201
Total	$ 49,499,740	$ 16,434,826	$ 9,323,781	$ 25,758,607	$ 23,741,133

STATE OF NEW HAMPSHIRE
DEPARTMENT OF REGIONAL COMMUNITY-TECHNICAL COLLEGES
SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND BY LOCATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	System Office	Manchester	Stratham
Revenues			
Tuition	$ 2,997,380	$ 5,883,642	$ 4,651,568
Federal Funds	100,585	1,671,992	1,827,281
UNIQUE Plan Endowment	1,287,700	-0-	-0-
Miscellaneous Revenue	48,233	135,069	141,599
Center For Training And Business Development	-0-	92,838	471,147
Private And Local Funds	289,529	(2,378)	240,130
Other Grant Revenue	-0-	5,795	5,132
Total Revenues	**4,723,427**	**7,786,958**	**7,336,857**
Expenditures			
Salaries And Benefits	3,438,883	8,787,681	6,605,925
Grants/Loans To Students	577,819	1,237,682	879,664
Current Expenses	574,659	870,903	783,065
Consultants	511,884	105,032	253,578
Equipment	330,301	249,693	143,039
UNIQUE Plan Endowment	1,287,700	-0-	-0-
Buildings And Grounds	122,481	76,260	52,612
Library Support/Computers	-0-	393,376	115,427
Tuition Stabilization Expense	800,000	-0-	-0-
Other Expenditures	605,289	49,188	55,480
Debt Service	-0-	-0-	-0-
Travel	60,650	75,696	71,516
Grants To Subrecipients	-0-	-0-	411,320
Staff Development	26,063	9,140	144,172
Total Expenditures	**8,335,729**	**11,854,651**	**9,515,798**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**(3,612,302)**	**(4,067,693)**	**(2,178,941)**
Other Financing Sources (Uses)			
Net Appropriations	3,612,302	4,067,693	2,178,941
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	**$ -0-**	**$ -0-**	**$ -0-**

Concord	Berlin	Laconia	Claremont	Nashua	Combined Total
$ 15,285,670	$ 2,886,534	$ 3,831,679	$ 2,940,980	$ 6,070,856	$ 44,548,309
1,486,072	1,052,471	598,964	560,909	1,102,857	8,401,131
-0-	-0-	-0-	-0-	-0-	1,287,700
879,830	321,821	371,070	104,734	213,136	2,215,492
277,560	44,522	134,557	63,808	1,063	1,085,495
639,964	55,598	-0-	-0-	-0-	1,222,843
110,985	81,999	4,090	3,295	5,113	216,409
18,680,081	**4,442,945**	**4,940,360**	**3,673,726**	**7,393,025**	**58,977,379**
18,759,823	5,277,489	5,723,838	5,079,681	7,352,572	61,025,892
1,914,593	846,937	702,629	638,814	1,094,497	7,892,635
2,666,897	672,579	600,212	584,406	734,418	7,487,139
7,500	184,277	-0-	-0-	605,829	1,668,100
161,399	129,185	211,066	62,341	14,704	1,301,728
-0-	-0-	-0-	-0-	-0-	1,287,700
809,489	28,739	105,567	28,711	26,830	1,250,689
386,636	51,446	109,961	48,707	105,810	1,211,363
-0-	-0-	-0-	-0-	-0-	800,000
21,688	34,404	7,019	4,617	6,981	784,666
732,885	-0-	-0-	-0-	-0-	732,885
223,465	93,991	46,949	20,911	33,748	626,926
18,921	-0-	-0-	-0-	-0-	430,241
61,279	6,858	15,236	12,477	18,816	294,041
25,764,575	**7,325,905**	**7,522,477**	**6,480,665**	**9,994,205**	**86,794,005**
(7,084,494)	**(2,882,960)**	**(2,582,117)**	**(2,806,939)**	**(2,601,180)**	**(27,816,626)**
7,084,494	2,882,960	2,582,117	2,806,939	2,601,180	27,816,626
$ -0-	**$ -0-**	**$ -0-**	**$ -0-**	**$ -0-**	**$ -0-**

STATE OF NEW HAMPSHIRE
DEPARTMENT OF REGIONAL COMMUNITY-TECHNICAL COLLEGES
SCHEDULE OF EXPENDITURES – CAPITAL PROJECTS FUND
BY LOCATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	System Office	Manchester	Stratham	Concord
Expenditures				
New Buildings	$ -0-	$ 7,591,978	$ -0-	$ 231,273
Renovations/Other	1,594,991	-0-	2,369,383	1,606,947
Total Expenditures	**$ 1,594,991**	**$ 7,591,978**	**$ 2,369,383**	**$ 1,838,220**

Berlin	Laconia	Claremont	Nashua	Combined Total
$ -0-	$ 197,400	$ 1,642,836	$ 1,053,018	$ 10,716,505
-0-	-0-	-0-	147,000	5,718,321
$ -0-	**$ 197,400**	**$ 1,642,836**	**$ 1,200,018**	**$ 16,434,826**

STATE OF NEW HAMPSHIRE
DEPARTMENT OF REGIONAL COMMUNITY-TECHNICAL COLLEGES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Federal Catalog Number	Federal Grantor / *Federal Program Title*	Expenditures	Pass Thru Percent
	U.S. Department Of Housing And Urban Development		
14.246	*Community Development Block Grants / Brownfields Economic Development Initiative*	$ 114,986	0%
	U.S. Department Of Labor		
17.261	*WIA Pilots, Demonstrations, And Research Projects*	478,915	34%
	General Services Administration		
39.999	*Aircraft Maintenance Center For Excellence*	315,469	0%
	National Science Foundation		
47.076	*Education And Human Resources*	904,478	61%
	U.S. Department Of Education		
84.007	*Federal Supplemental Educational Opportunity Grant*	180,745	0%
84.031	*Higher Education - Institutional Aid*	484,447	0%
84.032	*Federal Family Education Loans* (Note 1)	21,892,207	0%
84.033	*Federal Work-Study Program*	256,018	0%
84.038	*Federal Perkins Loan Program* (Note 1)	231,685	0%
84.042	*TRIO - Student Support Services*	251,642	0%
84.063	*Federal Pell Grant Program*	5,182,871	0%
84.116	*Fund For The Improvement Of Postsecondary Education*	100,585	0%
84.375	*Academic Competitiveness Grants*	41,925	0%
	Total	**$30,435,973**	

The accompanying note is an integral part of this schedule.

Notes To The Schedule Of Expenditures Of Federal Awards (Cash Basis)
For The Fiscal Year Ended June 30, 2007

Note 1 - Federal Student Loan Programs

The total expenditures shown for the Federal Family Education Loans (CFDA No. 84.032) and the Federal Perkins Loan Program (CFDA No. 84.038) represent the total amount of loans made to students during the fiscal year ended June 30, 2007. Total loans outstanding as for June 30, 2007 for the Perkins Loan Program equaled $1,340,112. The total loans outstanding under the Federal Family Education Loans program are not readily available. During the fiscal year ended June 30, 2007, the Department of Regional Community-Technical Colleges processed the following amounts of new loans under the Federal Family Education Loans program.

Stafford Subsidized	$ 10,430,398
Stafford Unsubsidized	9,879,974
Parents' Loan For Undergraduate Students	1,581,835
	$ 21,892,207

According to federal program guidelines, the Schedule of Expenditures of Federal Awards reports Federal Family Education Loan guarantees as expenditures. Because the Department does not make expenditures related to guarantees, the Department's financial statements do not report the Federal Family Education Loan guarantees as Department expenditures.

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APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of September 11, 2008, of the current status of the observations contained in the audit report of the Department of Regional Community-Technical Colleges for the nine months ended March 31, 1998. A summary of the prior report can be accessed on-line at www.gencourt.state.nh.us/lba/audit.html. A copy of the prior report can be obtained from the Office of Legislative Budget Assistant, Audit Division, 107 North Main Street, State House Room 102, Concord, NH 03301-4906.

	Status
Internal Control Comments	
Material Weaknesses	
1. Significant Deficiencies In The Revenue Collection Process *(See Current Observation Nos. 3, 4, and 6)*	○ ○ ○
2. Lack of Documentation To Support Fixed Assets Valuation	● ● ○
Other Reportable Conditions	
3. Weaknesses In Department Billing Procedures	● ● ●
4. Increased Controls Needed Over The Finance System	● ● ●
5. Internal Auditor Position Not Being Utilized For Its Intended Purpose *(See Current Observation No. 2)*	● ○ ○
6. Overstatement Of Agency Fund Activity	● ● ●
7. No Written Policy Over Student Activity Account Disbursements *(See Current Observation No. 2)*	● ○ ○
8. Unwritten Agreement With SAU #36 To Reimburse Payroll Costs	● ● ●
State Compliance Comments	
9. Lack Of Records Retention Policies And Procedures	● ● ●
10. Statutorily Required Reports Not Filed Timely	● ● ○
Federal Compliance Comments	
11. Lack Of Documentation To Support Charges To Transitions/Transformations Program	● ● ●
12. Various Instances Of Noncompliance With Student Financial Aid Requirements *(See Current Observation No. 6)*	● ● ○
13. Noncompliance With Reporting Requirements Of The Campus Security Act And Drug-Free Schools And Communities Act *(See Current Observation No. 5)*	○ ○ ○
Management Issues Comments	
14. Lack Of A Disaster Contingency Plan *(See Current Observation No. 3)*	● ○ ○
15. Lack Of Support For The 5.5% Administrative Charge Calculation *(See Current Observation No. 5)*	○ ○ ○
16. Year 2000 Compliance Readiness	● ● ●

Status Key		**Count**
Fully Resolved	● ● ●	7
Substantially Resolved	● ● ○	3
Partially Resolved	● ○ ○	3
Unresolved	○ ○ ○	3

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