STATE OF NEW HAMPSHIRE
POSTSECONDARY EDUCATION COMMISSION

FINANCIAL AUDIT REPORT
FOR THE NINE MONTHS ENDED
MARCH 31, 2010

STATE OF NEW HAMPSHIRE
POSTSECONDARY EDUCATION COMMISSION

TABLE OF CONTENTS

---

* Audit comments may require legislative action.

This report can be accessed in its entirety on-line at www.gencourt.state.nh.us/lba/audit.html

STATE OF NEW HAMPSHIRE
POSTSECONDARY EDUCATION COMMISSION

Reporting Entity And Scope

The reporting entity of this audit and audit report is the New Hampshire Postsecondary Education Commission. The scope of this audit and audit report includes the financial activity of the Postsecondary Education Commission for the nine months ended March 31, 2010. Unless otherwise indicated, reference to the Agency or auditee refers to the Postsecondary Education Commission.

Organization

The Post Secondary Education Commission is established in RSA 188-D:2 as a 23 member commission.

The position of Executive Director of the Postsecondary Education Commission is established in RSA 188-D:3-a. The Executive Director is appointed by the Postsecondary Education Commission and serves for a term of four years and until a successor is appointed and qualified. The Commission is authorized by RSA 188-D:4 to employ such staff as may be necessary to carry out its work within the limits of its appropriation. At March 31, 2010, the administrative office of the Postsecondary Education Commission was staffed with one unclassified, seven full-time classified, and three part-time employees.

The Postsecondary Education Commission is located at 3 Barrell Court, Suite 300, Concord, New Hampshire.

Responsibilities

The purpose of the New Hampshire Postsecondary Education Commission, as stated in RSA 188-D:1, is to consolidate and improve the role of the State of New Hampshire in planning for the most effective use of its resources in providing adequate postsecondary education, including vocational education, for its citizens and to facilitate securing for the students and educational institutions of the State the benefits provided by the Congress.

The New Hampshire Postsecondary Education Commission is a coordinating State agency that regulates the activity of colleges, universities, and career schools in all sectors (profit and non-profit, independent and public) to protect students and promote access, administering state funds through financial aid programs. The Agency approves programs for eligible veterans utilizing their GI Bill benefits; provides copies of closed school transcripts to former students; conducts research and studies; and administers federal grants related to postsecondary education.

Significant responsibilities include the following:

Financial Aid - Administer eight State aid programs such as the New Hampshire Incentive Program, which serves over 4,000 New Hampshire students. Some administered programs have financial matches from participating institutions and federal sources.

College and University Approvals - Approve all degree-granting institutions that have a physical presence in New Hampshire. The institutions are for profit and non-profit, independent and public.

Career School Licensing - License private, postsecondary (i.e., post high school) career (i.e., job related) schools. These schools are non-degree granting. Examples of schools include: computer, massage therapy, health career/nursing, dog training, bartending, hazardous waste, midwifery, Emergency Medical Services, paramedic training, income tax preparing, modeling, etc.

Veterans State Approvals - Approve programs for eligible veterans and beneficiaries utilizing their Montgomery GI Bill benefits. Includes approvals of:

- Apprenticeships
- College and University Programs
- Post-Graduate Programs
- Flight Training
- High Schools
- On-The-Job Training

Closed School Transcripts - Provide copies of available transcripts for New Hampshire closed schools to students as requested.

Research/Studies - Coordinate collection of Integrated Postsecondary Education Data Systems (IPEDS) information used by the federal government to produce national reports and determine an institution's eligibility to participate in funding under Title IV of the Higher Education Act of 1965. Provide information to the public about postsecondary education. In addition, the Commission collaborates with others to support postsecondary education through research and studies.

Funding

The financial activity of the Postsecondary Education Commission is accounted for in the governmental and fiduciary funds of the State of New Hampshire.

A summary of the Agency's revenues and expenditures recorded in the General Fund for the nine months ended March 31, 2010 is shown in the following schedule.

Summary Of Revenues And Expenditures
For The Nine Months Ended March 31, 2010

	General Fund
Total Restricted Revenues	$ 718,570
Total Revenues	**718,570**
Total Expenditures	**4,524,295**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**$ (3,805,725)**

Prior Audit

The most recent prior financial audit of the Postsecondary Education Commission was for the nine months ended March 31, 1997. The appendix to this report on page 53 contains a summary of the current status of the observations contained in that prior report. A summary of the prior audit report can be accessed on-line at: www.gencourt.state.nh.us/lba/audit.html.

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 Postsecondary Education Commission as of and for the nine months ended March 31, 2010. 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 Agency and tested its compliance with certain provisions of applicable State and federal laws, rules, regulations, and contracts. Major accounts or areas subject to our examination included, but were not limited to, revenues and expenditures.

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 Statement of Revenues and Expenditures - General Fund for the nine months ended March 31, 2010 and the Statement of Changes in Assets and Liabilities – Agency Fund - Surety Indemnification Deposit Accounts as of and for the nine months ended March 31, 2010 of the New Hampshire Postsecondary Education Commission (Agency) and have issued our report thereon dated August 12, 2010 which was qualified as the financial statements do not constitute a complete financial presentation of the Agency in the General Fund. 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 Agency'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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in Observation No. 1 to be a material weaknesses.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Observations No. 2 through No. 19 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of the Agency's compliance with certain provisions of laws, rules, regulations, and contracts, 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. 20 through No. 22.

The Agency's response is included with each observation in this report. We did not audit the Agency'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 Postsecondary Education Commission, others within the Agency, and the Fiscal Committee of the General Court and is not intended to be and should not be used by anyone other than these specified parties.

Office Of Legislative Budget Assistant

August 12, 2010

Internal Control Comments
Material Weakness

Observation No. 1: Appropriate Business Office Structure And Functions Should Be Established

Observation:

During the nine months ended March 31, 2010, the Agency appeared organized and operated in a manner intended to promote the programmatic operations of the Agency but which had the unintended consequence of impeding the financial control and accountability of the Agency's operations.

During the audit period, the Agency did not have a formal, central business office function and had not designated an individual or group of individuals with an accounting or business background to be responsible for the Agency's accounting and financial reporting operations. Instead, the Agency designated each of its five program areas to be responsible for their related business and accounting activities. The activity of these five program areas was supported by one additional employee who performed data entry for some accounting system transactions.

While certain accounting responsibilities such as payroll, budget, and reconciliation of transactions were re-assigned during the audit period with the intention of improving accountability, adequate segregation of duties was not achieved and Agency personnel continued to appear to lack accounting and budget training and experience, as well as resources such as relevant accounting and financial reporting policies and procedures, manuals, and other resources that could be used to train and support employees in these accounting functions.

Several significant errors in recording financial transactions noted during the audit indicate weaknesses in the Agency's business structure including financial accounting and reporting controls. While certain errors likely were caused or related to employee unfamiliarity with the State's new accounting system (NHFirst), the number and significance of the errors noted is concerning.

1. The Agency, for about eight of the nine months of the audit period, erroneously recorded approximately $2.3 million in New Hampshire Incentive Program (NHIP) payments to approximately 200 schools (about 250 payments) as reductions to a revenue account, instead of correctly recording the transactions as expenditures. The Agency was unaware of the error prior to the auditor's questioning of the transactions.

2. Reconciliations of spreadsheets used to track activity in the College Access Challenge Grant (CACG) Program did not detect errors in determining federally reimbursable expenditures. Errors noted by the auditors indicated some amounts were overdrawn and others had not been requested for reimbursement. The spreadsheet indicated approximately $26,000 in additional funds the agency had not recognized as available to be drawn. While

reconciliations between the spreadsheet and the NHFirst reports were generally performed, the above noted error was not detected by the reconciliation.

3. The Agency's financial controls did not detect the incomplete recording of fiscal year 2009 cash-in-transit revenue in fiscal year 2010. On June 30, 2009, the Agency received receipts totaling $8,000 that were not deposited until the beginning of July, the first month of the new fiscal year. The Agency appropriately completed an accounts receivable document to record the revenue transaction for fiscal year 2009 but failed to record the associated fiscal year 2010 cash receipt transaction.

4. Agency personnel do not reconcile career school licenses issued to related revenues received to ensure all revenue due from those transactions is collected and deposited.

5. The Agency does not have policies and procedures for a management-level review of Agency financial and budgetary reports. Such a review, intended to detect unusual or otherwise unexpected financial activity if preformed by experienced and knowledgeable employees, can be an effective control activity.

6. Non-lapsing, restricted funds were lapsed inappropriately to the State's General Fund at the end of State fiscal year 2009 as noted in the following table.

Accounting Unit	**Account Description**	**Basis For Carry-Forward Authority**	**Amount Lapsed**
5407	Scholarships for Orphans of Veterans	RSA 193:19	$ 8,750
6077	Workforce Incentive Program	RSA 188-D:18-f	6,019
6711	Career School Licensing	RSA 188-D:25	19,075
1125	College Access Challenge Grant	Federal program	83,479
6711	Veterans Education Programs	Federal program	8,140
			$ 125,463

The Agency's problem with receiving and understanding accounting reports from the new accounting system delayed the Agency's recognition of the inappropriate lapse of the balances at June 30, 2009.

The Agency's lack of an effective business office function and acumen puts the Agency's programs at risk.

A similar comment was included in our 1997 audit of the Agency.

Recommendation:

The Agency should, with the assistance of the Department of Administrative Services, establish an appropriate business office structure and functions that would reasonably ensure efficient, effective, and accurate financial operations and controls.

Consideration should be given to the appropriate:

- Organizational structure providing for adequate segregation of duties, including effective review and authorization controls;
- Personnel, including training and expertise;
- Accounting structure for the Agency's financial operations; and
- Policies and procedures to support the accounting structure and Agency's operations.

The Agency should continue to work with the Department of Administrative Services to have the balances in the restricted dedicated accounts restored.

Auditee Response:

We concur with the observations addressing a central business office function. We had already recognized a need for increased financial management and were moving in that direction before this audit. The Department of Administrative Services, Division of Personnel, has recently approved the reclassification of a position requiring a Master's degree with six years' experience in a senior management level position with financial, supervisory, and administrative responsibilities. The request will move forward for Governor and Council approval.

We identified a staff member to pick up this responsibility on a part-time basis, however, our problems compounded with the problems of NHFirst, proved it was not enough. This staff-member was working with our business manager on the known issues and discovered new ones. Some of the issues had to be traced back a number of years, which was further complicated by the State's transition to a new accounting system. This, together with insufficient resources within the agency and the Department of Administrative Services, caused delays in resolving the issues. The demands of our agency due to federal and State legislation, and accounting systems changes, have increased over the years without a corresponding increase in staff-members.

As the auditors discovered, our agency may be small, but it is complex. We have many functions spread over eighteen accounting units (nineteen starting in fiscal year 2012) funded by the different types of monies (general, federal, and fees). The business administrator shall be put in place as soon as possible.

Other Significant Deficiencies

Observation No. 2: Operating Plan And Policies And Procedures Should Be Established For The Student Tuition Guaranty Fund

Observation:

The Agency has not established a detailed operating plan and appropriate policies and procedures for its administration of the Student Tuition Guaranty Fund.

The Student Tuition Guaranty Fund was established by Chapter 190:2, Laws of 2004. Pursuant to RSA 188-D:20-b, I.(d), "[t]he fund shall be used to reimburse students when a school has failed to faithfully perform its contractual obligations for tuition and instructional fees in the event of a school closing, and the expense of investigating and processing the claims. The owner of a school which fails to perform its contractual obligations shall be personally liable to reimburse the fund for the difference between the per student amount paid into the fund by the school and the amount paid out of the fund to a student to settle a claim made against the school." The Student Tuition Guaranty Fund was created as an alternative to the surety indemnification options established under RSA 188-D:20-a. At March 31, 2010, the Student Tuition Guaranty Fund had a reported balance of $260,450.

While the Agency has promulgated administrative rules as required by RSA 188-D:20-b, the Agency has not established a detailed operating plan supported by policies and procedures to describe certain critical aspects of the operation of the Student Tuition Guaranty Fund. Such planning is essential to determine appropriate fee schedules, balance requirements, ownership of fund balances, when and how to access the fund, and other critical information necessary to operate the Student Tuition Guaranty Fund efficiently and effectively in compliance with statute and rules.

1. The Agency has not established the appropriate operating funding level for the Student Tuition Guaranty Fund. While the Agency reported it is considering stopping additional funding when the balance reaches $300,000, the Agency could not evidence it has formally evaluated and set the optimal operating fund balance based upon the fees collected, current economic conditions, and the history of disbursements, as required by administrative rule.

2. The Agency does not have a documented plan as to when to begin to use the Fund for its intended purpose. As of March 31, 2010, the Agency had not used the Student Tuition Guaranty Fund to reimburse students that had suffered a loss through an unscheduled school closing. While several schools have closed since the establishment of the Student Tuition Guaranty Fund resulting in losses to students that were not fully covered by sureties on file with the Agency, the Agency did not access the Student Tuition Guaranty Fund to repay the students.

3. During the nine months ended March 31, 2010, the Agency collected fees from postsecondary career schools based on a fee schedule approved by the Postsecondary

Education Commission. However, the Agency could not demonstrate the fees it charged the schools were reviewed and evaluated according to criteria described in N.H. Admin. Rules, Pos 1112.02 (a), which states fees shall be reviewed on an annual basis based on amount collected, expended, current economic conditions, and the operating level of the fund.

4. N.H. Admin. Rules, Pos 1112.02 (e) and (h) also include restrictions in the amounts being charged. For example, the annual fee is to be based on a percentage of gross tuition, but not to exceed 1% of the annual gross tuition. If the school has not operated for a full year, its fee shall be initially based on estimated gross tuition for the first 12 months of operation and then subsequently adjusted. During testing, we noted four out of a randomly selected sample of ten career schools paid amounts exceeding 1% of their annual gross tuition, contrary to the limit in rule, largely due to a minimum $1,000 fee charged to schools upon their initial licensing.

   In testing licensing and Student Tuition Guaranty Fund fees, we also noted two schools paid fees that were not in accordance with the Commission-approved fee schedule. Apparently, the Agency granted fee reductions to these two schools even though there are no provisions for fee reductions in statute or rule. In these two instances noted, it would appear the schools should have paid $1,000, pursuant to the fee schedule, but instead paid $300 and $200, respectively. There was no documentation to explain the fee reductions.

5. Interest earned by the balance in the Student Tuition Guaranty Fund during the nine months ended March 31, 2010 was not credited to the Fund timely. Reportedly, due to lack of Agency notice of the account balance to the State Treasury, interest earnings for the six months ended December 31, 2009 was not posted until April 2010 and interest for the three months ended March 31, 2010 was not posted until June 2010. The Student Tuition Guaranty Fund earns interest pursuant to RSA 188-D:20-b,I (c). Interest for the nine months ended March 31, 2010 totaled $520.

Recommendation:

The Agency should prepare a detailed plan of operation for the Student Tuition Guaranty Fund. The plan should include provisions for determining appropriate fee schedules, balance requirements, ownership of fund balances, when and how to access the fund, and other critical information necessary to operate the Student Tuition Guaranty Fund.

The Agency should establish policies and procedures for the operation of the Student Tuition Guaranty Fund that incorporates provisions of statutes and administrative rules and the Agency's plan of operation for the Fund. The Agency should ensure the pertinent aspects of the operation of the Fund are well documented and communicated to employees involved with activities related to career school licensing and other relevant activities.

If, as a result of its planning for the operation of the Student Tuition Guaranty Fund, the Agency determines the current statutes or rules no longer meet the State's and Agency's needs and objectives, the Agency should request appropriate revisions to the statutes or rules.

Auditee Response:

We concur. Rules for the Student Tuition Guaranty Fund have been a work in progress for a couple of years now. Research of other states regulations, meetings with career schools, and meetings with members of the Commission have been ongoing to develop appropriate language for applicable rules. After the rules are instituted, policies and procedures will be developed.

An internal review of all audit recommendations suggested for the Career School Licensing function will be completed and a timeline for corrections established by the spring of 2011. An end date for all corrections will be no later than December 31, 2012.

Observation No. 3: Policies And Procedures Regarding Career School Surety Filings Should Be Established

Observation:

The Agency does not appear to be effectively monitoring sureties filed by postsecondary career schools.

Pursuant to statutes, before the Agency issues or renews a license, a prospective licensee shall, by providing acceptable surety indemnification, establish that the school, its officers, agents, and employees shall faithfully perform the terms and conditions of contracts for tuition and other instructional fees entered into between the school and enrolling students. According to statute, the bond amount is ten percent of gross tuition, with a $10,000 minimum. If a school licensed under RSA 188-D:20 fails to provide the services required in a contract with any entity, as determined by a court of competent jurisdiction, the bond is forfeited, and the proceeds distributed by the Executive Director of the Agency. If at any time the company that issued the bond cancels or discontinues the coverage, the school's license is revoked as a matter of law on the effective date of the cancellation or discontinuance of bond coverage, unless a replacement bond is obtained and provided to the Postsecondary Education Commission

Nine licensees in a random sample of ten postsecondary career school licenses issued or renewed during the nine months ended March 31, 2010, did not appear properly bonded. The following concerns were noted in the sample:

- **Seven of the ten licensees provided surety bonds that expired prior to the expiration date of the license to operate.** While the Agency reports it tracks bond expiration dates to ensure the schools remain bonded for the entire license period granted by the Agency, the bond for one of the schools in the sample expired prior to the license expiration and the school operated for a period without a current bond in effect.
- **Bond coverage was not in accordance with bond requirements for one of the ten tested.** One of the ten career school licensees tested did not have bond coverage sufficient to meet the requirement of RSA 188-D:20-a. The noted licensee combined its bond coverage with an affiliated licensed career school in one surety bond covering both institutions. The $35,000 bond provided was $3,000 less than the minimum bond required by the combined reported

annual gross tuition for the two schools of $380,000. Based on documents reviewed, it appears the Agency was aware of the deficiency in bond coverage but did not require the licensees to obtain the coverage required by statute.

- **Adequate bond coverage for seven of ten schools reviewed was uncertain,** as the schools did not adequately document the reported annual gross tuition upon which the bond requirement was determined. Reference Observation No. 6.

In addition, the following issues were noted regarding the application of statutes and rules related to the bonding of career schools.

- Schools submitting their initial license application generally submit a $10,000 bond, the minimum bond amount, as they have no actual tuition revenue at the time of application. The minimum bond amount may not provide appropriate bond coverage if the schools actual tuition revenue during the initial year of license exceeds $100,000. During testing of school bond coverage, we noted two instances where new career schools provided estimates of their annual gross tuition even though that information was not required. Had the bond amount been based on the greater of $10,000 or 10% of the annual estimated annual gross tuition, the schools would have been required to provide $30,000 and $15,000 in bond security, respectively.
- The Agency reported one career school closed in fiscal year 2009 with the 10% of annual tuition security amount provided by the school covering only approximately 40% of the approved student claims. The approved student claims were approximately 28% of the most recent annual gross tuition reported by the school, significantly more than the 10% security coverage provided by statute and rule. The Agency reported that only two of the five schools that failed in the last few years were able to provide 100% reimbursement to students.

A similar comment was included in our 1997 audit of the Agency.

Recommendation:

The Agency should establish appropriate policies and procedures to ensure schools meet all bonding and other necessary requirements in statute and rule prior to granting licenses to operate. Policies and procedures should include requirements for schools to document gross tuition upon which the bond amount is established and bond duration to establish bond coverage for the entire license period.

The Agency should review the bond requirements provided in statute and rule to ensure the amounts of the required bonds are sufficient to protect students. The Agency should consider whether licensees should estimate and base the required bond amount determination on their expected gross tuition in their initial year of operation if the amount of the bond would be greater than the $10,000 minimum.

Auditee Response:

We concur. This is both the most important and the most difficult area of oversight for Career School Licensing. We understand and appreciate the audit’s concern in this area and will conduct a full review of the process in an attempt to improve the overall financial protections for students.

An internal review of all audit recommendations suggested for the Career School Licensing function will be completed and a timeline for corrections established by the spring of 2011. An end date for all corrections will be no later than December 31, 2012.

Observation No. 4: Interest Should Be Paid On Surety Deposits As Required By Statute

Observation:

The Agency does not have policies and procedures to ensure interest is paid annually to schools that have posted surety in the form of term deposits with the State Treasury.

RSA 188-D:20-a, IV(b) states, "[a] term deposit account held in the state treasury, payable to the postsecondary education commission, shall be held in trust for the benefit of students entitled thereto under this section. Said account shall be maintained for the licensing period as a minimum, in an amount determined by the postsecondary education commission. Any interest shall be paid annually to the appropriate school, unless the term deposit account is activated due to a school closing." Amounts in the account are subject to adjustment based on school activity levels.

According to the Agency, at the time of the auditor's inquiry, the Agency had never disbursed accrued interest on the three accounts held by the State Treasury. Subsequent to the auditor's inquiry, the Agency disbursed the accumulated interest to each school. The amounts paid on the three accounts, representing accrued interest from the time the accounts were opened, ranged from $14 to $4,000.

Recommendation:

The Agency should establish policies and procedures for paying interest on term deposits held by the State Treasury for surety purposes.

The Agency should consider whether depositing interest into the account would be an efficient method to pay the interest to the school without incurring the inefficiency and increase risks associated with the generation of a check to issue a disbursement.

Auditee Response:

We concur. We have already made statutory changes in this regard [eliminating the requirement to pay interest annually to the schools] and will be proposing this legislation in the upcoming 2011 legislative session.

An internal review of all audit recommendations suggested for the Career School Licensing function will be completed and a timeline for corrections established by the spring of 2011. An end date for all corrections will be no later than December 31, 2012.

Observation No. 5: Adequacy And Coordination Of Statutes, Rules, And Policies Related To Career School Licensing Should Be Reviewed

Observation:

1. The career school license fee schedule in effect during the nine months ended March 31, 2010 appears to disregard certain provisions of N.H. Admin. Rules, Pos 1113, including provisions for the Commission to: 1) adjust the licensing fees on an annual basis to maintain a revenue-to-cost parity of a maximum of 120%, 2) charge a licensing fee based on a percentage of gross tuition, but not to exceed one half of one percent of the annual gross tuition, and 3) transfer excess licensing fees to the Student Tuition Guaranty Fund.

   A review of the licensing fee schedule in effect during the audit period revealed:

   - The Agency reported an analysis to ensure a revenue-to-cost parity of 120% is maintained was not performed during the annual review of licensing fees. We reviewed revenues and expenditures reported by the Agency for fiscal year 2009, the most recent complete fiscal year as of March 31, 2010, and noted that revenues were approximately 137% of costs, exceeding the revenue-to-cost parity. In addition, the Agency reported it has never transferred revenues in excess of the 120% parity to the Student Tuition Guaranty Fund. Auditor calculations indicated approximately $18,000 in excess fiscal year 2009 fees should have been transferred to the Student Tuition Guaranty Fund.
   - Per review of the licensing fee schedule during the nine months ended March 31, 2010, if a private postsecondary career school has an annual gross tuition between $0 and $199,999, the license fee charged would exceed one-half of one percent of their annual gross tuition, contrary to provisions in N.H. Admin. Rules, Pos 1113. During revenue testing, we noted eight out of a random sample of ten schools tested paid license fees in excess of the limit allowed in rule.
   - Testing of licensing fees also revealed two schools were charged fees not in accordance with the licensing fee schedule. The Agency granted reductions of fees even though the Agency's licensing rules and statutes do not appear to provide for waivers or discounts to licensing fees. The noted licensees should have paid $3,000 for their initial licensing fee and instead paid $750 and $450, respectively.

2. The significant number of entries on an Agency-maintained listing of entities that may be operating as unlicensed career schools raises questions about the Agency's ability to effectively license and monitor those schools.

   RSA 188-D:20, II states, "A private postsecondary career school maintaining a physical presence in this state shall register to obtain a license or license renewal from the postsecondary education commission. The license shall be issued or renewed pursuant to rules, adopted under RSA 541-A, by the executive director, in consultation with the postsecondary education commission. The rules shall establish minimum criteria, including but not limited to, financial stability, educational program, administrative and staff qualifications, business procedures, facilities, equipment, and ethical practices to be met by licensees, and criteria for rejecting a licensing applicant and for suspending or revoking a license."

The Agency maintains a list of entities that may be operating as an unlicensed career school to track their investigation of the licensure requirement and status of those entities. The Agency reports it has updated the list periodically since creating the list in 2006. At March 31, 2010, over 100 entities were included on the list. The Agency reports some schools on the list were new and will require further research prior to Agency action. For other entities on the list, the Agency has sent warning letters and made referrals to the Department of Justice.

The Agency cited the broad definition in statute and rule of postsecondary career school and the lack of strong sanction authority as potentially having a negative effect on schools recognizing and responding to the licensure requirement.

Recommendation:

The Agency should review its licensing statutes, rules, and supporting policies and procedures for clarity and consistency to ensure that the Agency operates as intended and there is a proper alignment between the statutes, rules, and practice.

- The Agency should establish policies and procedures to ensure that its annual review of license fees considers, and results in, fees that provide a cost parity of 120%, as provided for in administrative rules. In addition, policies and procedures should address the transfer of excess fees to the Student Tuition Guaranty Fund, also as required by rules.
- The Agency should establish policies and procedures to ensure that schools are not charged fees in excess of the one-half of one percent limit in rules.
- The Agency should not allow waivers and discounts not provided for in rules.
- The Agency should continue to work with the Department of Justice to enforce licensure upon those schools required by statute to be licensed and registered with the State of New Hampshire.

If in its review, the Agency determines that the current statutes or administrative rules no longer serve the best interests of the State and Agency, the Agency should request appropriate revisions to those statutes or rules.

Auditee Response:

We concur. The Career School Licensing function under Postsecondary Education Commission is in the process of revising its rules which should eliminate some of the problems identified in this audit section. For instance, waiver language is included in the revision and will be considered by the Joint Legislative Committee on Administrative Rules.

We will also continue to prompt our business manager to allow us to transfer excess funds and prompt the Department of Justice to enforce licensure upon those schools required by statute to be licensed and registered with the State of New Hampshire.

Policies and procedures will be established to ensure that schools are not charged fees in excess of the one-half of one percent limit in rules.

In regards to the audit comments on the number of potential unlicensed schools, we have already drafted statutory changes to narrow the definition of a private postsecondary career school. This proposed legislation will be presented as a bill in the upcoming legislative session. If passed, this definition change will decrease the number of potential schools that need to be licensed.

An internal review of all audit recommendations suggested for the Career School Licensing function will be completed and a timeline for corrections established by the spring of 2011. An end date for all corrections will be no later than December 31, 2012.

Observation No. 6: Required Career School Applicant Information Should Be Substantiated

Observation:

The Agency has not required career schools to comply with administrative rule requirements for substantiating gross tuition revenue in the career school licensing process.

Pursuant to N.H. Admin. Rules, Pos 1104.06, career school license applicants shall include audited or reviewed financial statements with their applications. For schools that are not incorporated, the owners' federal income tax returns with all attachments can be accepted in lieu of audited financial statements. The requirement serves a dual purpose: to determine and monitor the solvency of the school and to obtain support for the school's reported annual gross tuition (AGT). A school's AGT affects the schools license fee, student tuition guaranty trust fund fee, and surety requirements.

As noted in Observation No. 3, we were unable to assess the AGT for seven out a sample of ten career schools randomly selected for a review of surety amounts.

We performed detail testing on ten licensing applications for which a license was granted during the audit period and noted that seven of the ten applicants did not appear to provide reasonable adequate support for their reported AGT. While three of those seven applicants did provide audited or reviewed financial statements, the AGT reported to the Agency was not identifiable within those statements, thus deemed unreliable. Detail of those seven are as follows:

- One applicant provided audited or reviewed financial statements as well as a breakdown of tuition collected supporting the AGT on its application. However, there was no correlation made between the schedule supporting the AGT and the audited/reviewed financial statements.

- Two applicants provided audited or reviewed financial statements but there was no specific auditor assurance provided over the New Hampshire portion of the AGT on the application. It appears the Agency accepted the AGT amount on the application without further consideration.
- Three applicants did not provide audited or reviewed financial statements but did provide either a schedule detailing their AGT or unaudited financial statements.
- One applicant did not provide audited or reviewed financial statements or a schedule supporting the application amount. It appears the Agency accepted the AGT amount on the application without further consideration.

N.H. Admin. Rules, Pos 1112.02 (f), states, “"Gross tuition" means the total amount collected by the school during its most recently completed fiscal year, net of refunds, for tuition, application fees, and registration fees.” The Agency’s school license application specifies the amount to be reported as AGT is the “annual gross tuition less any corporate tuition income.” The Agency informally defines corporate tuition income as any income earned by postsecondary career schools for courses taught to other organizations and not individuals. However, the exception for corporate tuition income is not established in the Agency’s administrative rules.

Recommendation:

The Agency should not grant licenses based on applications that are not compliant with rules.

The Agency should review its rules to determine whether the current rules requiring applicant schools to substantiate submitted AGT information remain appropriate for the State’s and Agency’s needs.

If upon its review, the Agency determines an applicant’s AGT continues to be a critical component of information needed for the Agency’s effective licensing and monitoring activities, the Agency should institute policies and procedures to enforce the requirement for adequate disclosure and substantiation of that information. The Agency should consider whether revisions to its rules to further describe and define AGT and to formalize reporting requirements, would lead to greater compliance by the schools.

Auditee Response:

We concur. Although we have improved greatly over the last couple of years in regards to verifiable annual gross tuition (AGT) numbers, there is still room for improvement. We will secure reliable financials from schools substantiating AGT figures. The audit recommendation to consider revisions to its rules to further describe and define AGT and to formalize reporting requirements will be developed and implemented.

An internal review of all audit recommendations suggested for the Career School Licensing function will be completed and a timeline for corrections established by the spring of 2011. An end date for all corrections will be no later than December 31, 2012.

Observation No. 7: Operation Of Essential Functions Fund Should Be Reviewed

Observation:

The Agency's operation of the Essential Functions Fund during the audit period did not capture and report all financial activity related to the Agency's degree-granting and research and studies functions.

Pursuant to RSA 188-D:8, IX, the Commission shall "[e]stablish and collect reasonable fees related to the performance of its degree-granting and research and studies functions. Such fees shall be deposited into the essential functions fund which shall be administered by the executive director of the postsecondary education commission. Such fund shall be nonlapsing, continually appropriated, and shall be used by the postsecondary education commission for expenses relating to its degree-granting and research and studies functions."

RSA 188-D:8-a, VI directs the adoption of rules for "[t]he establishment and collection of fees for direct and indirect costs associated with in-state and out-of-state visits, reviews, and requests from institutions related to the degree-granting authority of the postsecondary education commission."

While the Agency has adopted rules, the rules as interpreted and implemented by the Agency during the nine months ended March 31, 2010 resulted in certain financial activity, integral to the Agency's degree-granting and research and studies functions, to be processed outside of the Essential Functions Fund and the Agency's and State's accounting systems. In addition, certain Agency expenses charged to the Essential Functions Fund expenditure account during this period could have been more appropriately charged to other Agency expenditure accounts. As a result, it is not clear that the Essential Functions Fund, as reported during the nine months ended March 31, 2010, completely and accurately reported the Agency's activities related to its degree-granting and research and studies functions during that period. For example:

1. N.H. Admin. Rules, POS 1009, directs institutions of higher education requesting the Agency's review of new programs offered by those institutions to pay the stipends and travel reimbursement directly to individuals hired by the Agency to perform those reviews. The Agency's administrative rules establish compensation for certain review team members. For example, a non-Agency review team chair is paid a stipend of $1,000 and a team member not affiliated with the institution is paid $750.

   During the nine months ended March 31, 2010, approximately $1,000 in stipends paid to review-team members was accounted for outside the State's accounting system. The Agency did not have a record of travel and other expenses that had been paid to review team members during this period. The Agency reports, when an employee participates in a program review, the travel is reimbursed directly to the employee and not recorded in the State accounting system. The Agency reported no travel was reimbursed directly to Agency employees during the nine months ended March 31, 2010.

2. The Agency collected approximately $6,200 of fees from institutions requesting the review of four new programs during the nine months ended March 31, 2010. These fees were deposited in the Essential Functions Fund. Expenditures reported in the Essential Functions Fund during the same period included expenditures that did not appear directly related to those or other program reviews. For example, employee travel of a general Agency nature, including the costs for an employee attending conferences and national meetings, were charged to the Fund. It is unclear whether the Essential Functions Fund was intended to fund general Agency operations in addition to the costs incurred by the Agency in its degree-granting and research and studies functions.

Recommendation:

The Agency should review the operation of the Essential Functions Fund to ensure that it is operating as intended and that it includes all revenues and expenditures of the program.

- The Agency should establish policies and procedures to account for and report the activities in the Essential Functions Fund and to ensure fees charged institutions are sufficient to recover expenses incurred by the Agency in its degree-granting and research and studies functions supported by the Fund, in accordance with RSA 188-D:8-a and RSA 188-D:8, IX.

- All expenditures incurred in fulfilling the responsibilities of the Agency should be accounted for in the State accounting system (NHFirst) to allow for the recognition of the full and actual costs incurred in the Agency's operations. The Agency may need to revise its administrative rules, as appropriate.

Auditee Response:

1. We concur. Any agency employee who participates in specific degree-granting activities or research and studies functions will be reimbursed for travel, conference fees, equipment, etc., as balance allows, from the Essential Functions Fund for expenditures other than salaries and benefits.

   Any outside evaluators who participate in specific degree-granting activities or research and studies functions will be reimbursed for expenses related to the visit, e.g., travel, meals, etc. A completed travel expense form will be forwarded from the evaluators to the Agency. The Agency will forward a completed travel expense form to the institution. The institution shall submit travel voucher/payment to the Agency who will enter it in NHFirst. Monies will be disbursed to evaluators. The process will be put in place by January 31, 2011.

2. We concur and have resolved. In September, we consulted with the Commission's legal counsel at the Department of Justice and he responded that based on the clear statutory language, this fund is to be used by the Commission for expenses relating to its degree-granting and research and studies functions. He went on to say that use of funds for attendance at conferences and meetings relating to degree-granting activity and research and studies functions would, therefore, fall under the statute's general authority, as they provide training and information that will ultimately assist the Commission in its regulatory and

research activities. Explicit activities for this function are reported quarterly to the Commission.

Observation No. 8: Agreements With Non-Agency Member Reviewers And Degree-Granting (Or Postsecondary Education) Institutions Should Be Formalized

Observation:

While the Agency has a checklist of procedures that broadly outline the scope of work and associated fees for reviews of proposed new postsecondary educational programs, the Agency does not formally document the particulars of its agreements for the performance of those reviews.

Postsecondary educational institutions that propose offering a new program must seek and receive Commission approval of the new program, prior to offering the program to students.

Upon a request, the Agency arranges for an evaluation team to perform a review of the proposed new program. Evaluation teams are typically comprised of one to six experts in the subject matter of the proposed program. The team visits the institution and performs the review on behalf of the Agency and reports a recommendation for Commission action.

- There is no formal contract or agreement prepared between the Agency and institution to support the acceptance of the request for the program review.
- There is no formal contract or other written evidence of agreement prepared between the Agency and review team members to support the scope of the program review, costs, or other aspects of the program review.

The lack of contracts or other written evidence of agreement increases the likelihood of misunderstanding between the parties to the agreement.

Recommendation:

Formal written agreements should support the Agency's review activities.

The Agency should review with the Department of Justice the appropriate form and content of contracts or other written evidence of agreements that should be prepared to document the agreements with the educational institutions requesting program reviews and also with the team members engaged to perform those reviews on behalf of the Commission.

Auditee Response:

We concur. Our College & University Evaluation Procedures outline the approval process, aligning with our administrative rules. The representative from the requesting institution will submit a written request that includes (1) approval being sought; (2) the reason therefore; (3) the process used to develop the plan/request; (4) proposed timeline; and (5) evidence of distinctions between proposed offerings and those currently offered by New Hampshire institutions. A signature will be required.

We will work with the Department of Justice to draft an appropriate agreement for team members engaged to perform those reviews on behalf of the Commission by the end of fiscal year 2011.

Observation No. 9: Monitoring Of Grants And Scholarship Expenditures Should Be Improved

Observation:

The Agency does not monitor program compliance of educational institutions participating in its New Hampshire Incentive Grant and Leverage Incentive Grant Programs (Programs).

The Agency's Programs make funding available to participating post-secondary educational institutions that assist New Hampshire resident students. The Agency largely relies upon the institutions to administer the assistance according to the Program requirements, such as student merit and need, and does not actively monitor the institutions for ongoing Program compliance. Program requirements are contained in statute, administrative rules, and Program agreement documents.

Under the New Hampshire Incentive Grant Program, the Agency determines whether a student applicant meets residency and financial need eligibility criteria. Upon confirmation by the participating institution of the student's enrollment, the Agency processes a payment to the institution, which credits the student's account. In the event a student's enrollment status changes, for example the student withdraws from school, the institution changes the student enrollment status in the New Hampshire Incentive Program system and the system indicates a refund is due to the Agency. At that point, the institution either processes a refund to the Agency or nets the amount to be refunded against future Program payment amounts. According to the Agency, it relies upon the institutions in determining what amount to refund and what amounts to offset against future Program payments. The Agency reports it typically does not perform any specific procedures to review the activities of the institutions in establishing and maintaining controls over the application of Program funds, including processing refunds to the Agency.

Institutions participating in the Leverage Incentive Grant Program agree, among other things, that awards will only go to eligible students. The institutions, in fulfillment of a Program requirement, file reports with the Agency at the end of the academic year that includes names of student recipients, grade point average (GPA) range of recipients, average award amount, and the description of criteria used to select recipients.

The Agency does not review the information reported by the institutions participating in the Leverage Incentive Grant Program to ensure awards are made to eligible New Hampshire resident students based on Program criteria. While the Agency has access to federal financial student aid data that could be used to verify the information reported by the institutions, the

Agency does not verify the information or have policies and procedures to describe a verification process.

Recommendation:

The Agency should establish controls over its Programs to reasonably ensure educational institutions are operating in accordance with Program requirements. The Agency should establish policies and procedures to review Program grant and scholarship activity reported by the institutions to determine that the activity is in compliance with relevant statutes, rules, and Program agreements.

The Agency should establish sufficient controls over the New Hampshire Incentive Program to ensure that it is able to determine refunds remitted by the schools are accurate and are received when owed or accurately netted against future payments.

Auditee Response:

We concur that "The Agency does not monitor program compliance of educational institutions participating in its New Hampshire Incentive Grant and Leverage Incentive Grant Programs (Programs)." We feel sufficient controls are in place to reasonably ensure institutions are operating appropriately because to award these grants, we only use the federal student financial aid application which the federal government closely monitors. Funds for the NHIP and LIP are only awarded to Federal Title IV eligible institutions which are subject to regular monitoring by federal Department of Education investigators and audited yearly by a third party to meet federal regulations for Title IV disbursement. However, we will review this program during our overall risk assessment.

Observation No. 10: Policies And Procedures For Controlling The Financial Activity Performed By The Agency's Contractor Should Be Established

Observation:

The Agency has not established effective policies and procedures for monitoring financial activity reported by its College Access Challenge Grant (CACG) contractors.

The Agency contracts with four "grantees" to work with the Agency and other project partners to meet the goals of the CACG project by providing one or more of the following authorized activities or services:

a. Provide information to students and families on postsecondary education benefits, opportunities, planning and career preparation;
b. Provide information on financing options, including activities that promote financial literacy and debt management among students and families;
c. Conduct outreach activities for students who may be at risk of not enrolling in or completing college;
d. Assist students in completing the Free Application for Federal Student Aid (FAFSA);

e. Offer need based grant aid to students; and
f. Implement professional development for guidance counselors at middle and secondary schools, and financial aid administrators and college admission counselors at institutions of higher education.

While the Agency reports it reviews all CACG contractor requests for reimbursements prior to payment, that review was not consistently evidenced during the audit period. Evidencing the review and approval to pay would allow the employee processing the payment to establish and ensure that only reviewed and approved invoices are processed for payment.

The Agency's CACG contractor agreement states, "The monthly financial reporting shall include a summary of monies expended during the reporting period, and to-date, broken down by federal or matching expenditures. Back-up for all expenditures should be included with the report. Invoices must include copies of bills."

- The Agency, during the nine months ended March 31, 2010, did not require one of its four CACG contractors to provide support for its expenditures submitted for reimbursement. During this period, the Agency paid the contractor approximately $27,000, largely based on printouts from the contractor's general ledger.

Recommendation:

The Agency should establish policies and procedures for controlling the financial activity of its CACG contractors.

The Agency's policies and procedures should include provisions for Agency personnel to perform a documented review and approval control over CACG contractor invoices, including a review to ensure that all expenditures submitted by CACG contractors are documented and demonstrate compliance with CACG program criteria for reimbursable program expenditures.

Auditee Response:

We concur since one of the subgrantees was not submitting consistent, detailed backup to substantiate their charges. The Commission has received the detailed backup for all expenditures from the subgrantee and since this finding was noted has supplied detailed backup with all requests for reimbursement. We concur with the statement that our reviews of the subgrantees' invoices were not consistently evidenced, since the reviewer did annotate areas with tick marks. However, since the auditor has questioned this, the reviewer now writes on each invoice that it is okay to pay and initials it. Prior to this the pay statement was on a yellow sticker. In addition, we have hired a manager for the CACG program who will provide increased oversight.

Observation No. 11: College Access Challenge Grant Contracts Should Be Updated

Observation:

As of March 31, 2010, the Agency did not have current subrecipient contracts to support its granting of program funds from the federal fiscal year 2010 College Access Challenge Grant (CACG) award.

The Agency did not have current contracts for its four CACG subrecipients for the 2010 grant, running from August 14, 2009 through August 13, 2010. The Agency's contracts with these subrecipients for the prior grant year expired on August 13, 2009 and contained no continuation clause. We also observed that the prior, expired subrecipient communications were not compliant with federal requirements as, while the contracts listed the award name, the contracts and associated communications did not include the Catalog of Federal Domestic Assistance (CFDA) number or indicate the federal awarding agency.

While the CACG program appears to allow funds from one program year to be carried forward for one additional program year, and the Agency continued to reimburse 2009 grant year expenditures through March 31, 2010, the 2009 contracts made no mention of the option or ability to extend funding beyond the contract expiration date and contractors continued operating under expired contracts, contrary to State procedure.

As noted in Observation No. 1, as federal funds for this program were inappropriately lapsed at June 30, 2009, expenditures incurred in State fiscal year 2010 related to the federal award year 2009 were funded with State fiscal year 2010 program appropriations.

Recommendation:

The Agency should ensure that approved State contracts support subrecipient awards when required by State or federal statute or rule.

The Agency's contracts with subrecipients should include consideration of carrying funding into subsequent periods if it is the intention of the Agency and federal awarding agency to allow for that process.

The Agency should notify all subrecipients of required federal disclosures including award name, CFDA number, and federal awarding agency.

As recommended in Observation No. 1, the Agency should seek to have the lapsed federal appropriation reinstated.

Auditee Response:

We concur with the observation. Since subgrantees were still expending Year 1 funds new contracts were not issued. However, now that those funds will be expended contract modifications will be prepared prior to the contract end date for approval by Governor and

Council. In addition, we have hired a manager for the CACG program who will provide increased oversight.

Observation No. 12: Comprehensive Review Of The Workforce Incentive Program Administration Should Be Performed

Observation:

The Agency does not appear to be administering its Workforce Incentive Program (WIP) in accordance with applicable statute or administrative rule.

The Agency's Workforce Incentive Program (WIP) is a State program that includes a forgivable loan component and a loan repayment component. All funds received pursuant to the forgivable loan component under RSA 188-D:18-g and the loan repayment component under RSA 188-D:18-h are non-lapsing and continually appropriated for the purposes of the program.

Financial assistance in the form of forgivable loans is provided to qualified State residents participating in education programs designated by the Postsecondary Education Commission as programs affecting workforce-shortage areas, such as nursing and teaching. Students are required to sign a promissory note and statement agreeing to the program's terms at the time of the loan. The WIP loan program includes a condition providing for forgivable loans where the student is provided the opportunity to repay the loan through employment in New Hampshire in the workforce-shortage area for an agreed upon period. At the completion of that service period, the loan is deemed forgiven and the promissory note cancelled. If the student does not complete the education program or the committed period of service, the student is required to repay the loan within two years of ending participation in the education program or from discontinuing complying employment.

- The Agency has not granted a new WIP loan with a forgivable loan component since approximately 2008, even though RSA 188-D:18-f states the workforce incentive program "…shall include a forgivable loan component and a loan repayment component." The decision not to include a forgivable loan component to the loans was made by Agency employees responsible for administering the loan program. According to the Agency, this action was not submitted to the Commission for review and approval.
- The application submission period for the WIP loan repayment component was different on the application from the submission period provided by N.H. Admin. Rules, Pos 901.04. The rule states the period "between July 1 and October 31" is considered an on-time application for the WIP Loan Repayment Program, however, the application form for the program states applicants must submit the application between July 1 and September 30.
- The Agency reported it has not actively monitored the graduation and employment status of students in its Workforce Incentive Forgivable Loan Program since approximately 2008. Loan recipients who do not complete the program or maintain the correct work status during the monitoring period could be required to repay loans to the Agency.

At the time of the audit, the Agency did not have current summary information on the status of its WIP loans and did not know whether any funds were owed to the State. At the auditor's request, the Agency created a schedule compiled from its file of promissory notes to summarize the status of loans outstanding. The list included individuals that were last monitored in 2008. The schedule included the following information on the 149 WIP loans, originally granted under the forgivable loan program, which were outstanding at March 31, 2010.

- Students were making payments on two loans. Total outstanding on these two loans was $1,000.
- 147 loans, totaling $83,534, granted under the forgivable loan program, were either loans that were being repaid through service or were loans for which the students were not paying, if in monetary payment status. Of these 147 loans:
    - 14 loans totaling $6,165 deemed in monetary payment status were not being repaid. Either students were not paying the Agency or the Agency was not able to locate the students to demand payment.
    - 36 loans totaling $20,100 were noted as being repaid through service.
    - The status of 97 loans totaling $57,269 was unclear, as the students were either in school in 2008 or their graduation date had not been confirmed by the Agency to establish the start of the repayment period.

Based on the limited verifiable information available in the schedule and the fact that loan monitoring has not occurred since 2008, the balance outstanding and the status of loans at March 31, 2010 remained unclear.

A similar comment was included in our 1997 audit of the Agency.

Recommendation:

The Agency should re-establish appropriate controls including policies and procedures for its WIP loans.

1. The Agency should establish the status of all WIP loans and appropriate information systems to assist in tracking changes in the status of those loans.

    - Collections should be pursued for all loans determined to be in monetary repayment status. If necessary, the Agency should request assistance from the Debt Collection Unit of the Department of Justice.
    - Loans in service-repayment status should require participants to provide regular evidence of that continuing compliant service.
    - Loans in continuing education status should require participants to provide regular evidence of that continuing compliant education including the planned graduation date.

2. Payment schedules required by RSA 188-D:18-h should be maintained.

3. The Agency should include a forgivable loan component in its WIP as required by statute. If the Agency determines forgivable loans are no longer in the State's or Agency's interest, the Agency should request an appropriate revision to the statute.

4. The Agency should seek to resolve the difference between the application submission periods included on its application documents and N.H. Admin. Rules, Pos 901.04.

Auditee Response:

We concur in part.

We concur that WIP needed attention and will address recommendations nos, 1, 2, and 4. Tracking students through years of college and post-graduation employment is very time-consuming, and research so often leads to a dead end, that it is easy to delegate our limited personnel hours to tasks more productive and pertinent to our mission, especially when it was obvious that the intent of this program was being substantially met – to train workers for workforce shortage areas through increased access to higher education.

Since April 2010, we have increased the hours spent on updating the status of these forgivable loans. The majority of accounts that we were able to resolve were found to already have been paid through service. We expect to close the remainder of these current accounts through service, payment, or collection, and re-establish appropriate controls by December 2011.

We do not concur with recommendation no. 3. Statute grants us the authority to establish "reasonable frequency of such loans". We have been given authority through statute to manage a number of financial aid programs that are not funded and are therefore not disbursed. We will however review our statute by December 31, 2012 to determine whether an update is necessary.

Observation No. 13: Medical And Veterinary Capitation Payment Programs Should Be Actively Managed

Observation:

The Agency has agreements with four schools that participate in the Medical Education and Veterinary Education Programs. As noted in the following table, the Agency has not regularly updated the agreements with the schools. According to the Agency, the current operation of the programs does not fully correspond to how the agreements describe the programs.

School	Program	Most Recent Contract Date	Language	Payment Provisions
Dartmouth	Medical	March 1984	**Outdated**	**Outdated**
University of New England	Medical	December 2007	**Outdated**	Current
Tufts	Veterinary	May 1989	Current	Current
Cornell	Veterinary	January 1991	**Outdated**	**Outdated**

During our review of the agreements with the schools, we noted inconsistencies with the current operations of the programs. For example:

1. The capitation payment amounts in some agreements differ from amounts currently paid under the programs.

2. The language in some agreements does not reflect current practice where the Agency will make the required certification no later than November 1, with respect to students to be enrolled in the current academic year.

3. One agreement requires certification for each subsequent academic year in which a student is enrolled. Agreements with the other schools do not have similar provisions.

4. The information provided by one school does not allow the Agency to monitor whether the payments were applied in accordance with capitation payment requirements. The Agency only requires this school to demonstrate there are at least five New Hampshire resident students in each class year. The Agency accepts without review that the school applies the capitation payments to those eligible students. Without notification of the individual students provided assistance, the Agency cannot establish compliance with statutory provisions including requirements that the capitation payments be applied to the benefit of eligible resident students, for the time specified in statue, and, that if the student's enrollment is terminated for reason other than graduation, the State is reimbursed. Other schools provide information allowing the Agency to determine to what student accounts the payments were applied.

The Agency has not promulgated rules required by RSA 200-J:2, IX. Those rules are intended to ensure program benefits are afforded only to bona fide New Hampshire residents.

A similar comment was included in our 1997 audit of the Agency.

Recommendation:

The Agency should more actively manage its Medical Education and Veterinary Education Programs, including routinely reviewing and updating its agreements with the participating schools. The agreements should provide sufficient description and structure, consistent with the laws and administrative rules, to ensure the Medical Education and Veterinary Education Programs operate as intended. The agreements should also require the schools to provide sufficient information to allow the Agency to monitor program compliance.

The Agency should promulgate rules required by RSA 200-J:2, IX.

Auditee Response:

We concur and will review our written policies for this program with the Department of Justice by December 2012.

Observation No. 14: Collected Receipts Should Be Safeguarded In Revenue Process

Observation:

The Agency's current revenue receipt process does not appropriately safeguard collected receipts. Revenue items, primarily checks, while restrictively endorsed upon receipt, are transferred from employee responsible for data entry to an employee authorized to approve transactions to an employee responsible for making the deposit at the bank. Transferring checks unnecessarily between employees increases the risk checks may be stolen or misplaced.

A similar comment was included in our 1997 audit of the Agency.

Recommendation:

The Agency should revise its revenue procedures and implement controls to ensure:

- Revenue items are removed from the revenue recording process and deposited as soon as practical.
- Checks, and copies of checks, are not transferred between employees for use as source documents for data entry. Checks and the information on checks should be safeguarded to minimize the risk of checks being misplaced or stolen as well as the risk of misusing payee account information.
- Revenue recorded in the State's accounting system is reconciled against the record of initial receipt (i.e. check log) and to other records that track the revenue being generated such as the list of licenses issued, closed school transcripts sold, etc.
- Revenue is accurately recorded and approved in accordance with State procedures.

Auditee Response:

We concur with the observation. The agency will develop procedures to better safeguard collected receipts by the end of March 2011.

Observation No. 15: Information Technology System Controls Should Be Improved

Observation:

The Agency has opportunity to improve controls over its information technology (IT) systems.

1. In 2006, the Agency partnered with another organization to implement the New Hampshire Incentive Program (NHIP) system. This web-based program is hosted on the partner organization's information system and is a service to students, financial aid officers, and the Postsecondary Education Commission. Information posted to NHIP includes highly confidential information including student and family Social Security numbers, tax, and other information. When the site was launched, the State's Department of Information Technology (DoIT) performed a review of the NHIP system network infrastructure, however the security of the NHIP system has not been reviewed since its implementation.

2. The Agency regularly receives data from the U.S. Department of Education (US DOE) including FAFSA (Free Application for Federal Student Aid) information. FAFSA information contains highly confidential data including student family tax return information and Social Security numbers. During the audit period, the Agency transferred this confidential data via an unencrypted thumb drive from its information technology systems to the partner organization's information system for loading into NHIP. The use of unencrypted thumb drives for storage or transfer of highly confidential information is a serious control risk. According to DoIT's Mobile Device Security Policy, all mobile devices should be configured with passwords, anti-virus software, and State-standard encryption. Subsequent to auditor's inquiry to its practice, the Agency began loading FAFSA files to NHIP through a secure file transfer protocol procedure.

3. The Agency has not established documented policies and procedures for the physical security of its computer equipment and data. The Agency has two servers, several desktop computers, one laptop, and as noted above, uses mobile storage devices.

4. The Agency has not performed a formal IT risk assessment to identify actual or potential IT related risks to its operations.

5. The Agency stores its IT system backup tapes on-site in a fireproof lockbox. Generally, backup media should be stored at a site sufficiently remote from the main business location to ensure that the backup media would be secure and available for use in the event of a localized disaster such as a fire or flooding event.

Recommendation:

The Agency should improve its IT system controls.

1. The Agency should ensure that information for which it is responsible is stored and used in a manner appropriate for its sensitivity.

2. The Agency should again request a security review of its partner organization's IT controls over sensitive data contained on the NHIP system.

3. The Agency should adhere to DoIT control policies regarding the availability and use of mobile storage devices. Only Agency mobile storage devices such as thumb drives should be used. All mobile storage devices should be strictly controlled and use appropriate encryption protections. Mobile security devices should only be attached to other authorized and appropriately controlled systems.

4. The Agency should prepare a formal IT risk assessment.

5. The Agency should review its options for storing its backup IT media at a reasonably remote location.

Auditee Response:

1. We concur, the NHIP process should be included in the overall IT risk review. At this time, only one employee, the Financial Aid Administrator has access to student FAFSA information.

2. We concur, the new financial aid administrator had only become aware of the thumb-drive data transfer days before the audit. As stated, we began loading FAFSA files to NHIP through a secure, password-protected, file transfer protocol procedure in March 2010.

3-5. We concur with the observations noted in paragraphs no. 3 through no. 5. DoIT has confirmed that our partner organization has a high standard of security. We intend to work with DoIT to develop policies and procedures to address physical security and determine if a formal IT risk assessment is needed. Furthermore, DoIT is willing to protect our backup tapes off site. We will strive to resolve these issues by June 30, 2011.

Observation No. 16: Formal Risk Assessment Process Should Be Implemented

Observation:

The Agency does not have a formal risk assessment process. While the Agency reports that it does consider and assess risk, the process is ad-hoc and not part of a formal internal control process.

Risk assessment is a process for identifying and responding to business risks and the results thereof. A prerequisite to an effective risk assessment is the establishment and recognition of an organization's objectives and the risks that may put achieving those objectives in jeopardy. While the Agency has experienced organizational and operational changes over time, 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.

Examples of risks that the Agency should consider include license error and fraud, including failure to recognize problems with reviewed and licensed educational facilities; misuse of student information by staff or its partner organizations; misuse of federal or State funds by subrecipients or employees; as well as the risks related to the controlled financial operations of the Agency's business office activities through error or fraud.

Recommendation:

The Agency should establish a formal and documented risk assessment process to continuously review Agency financial operations for exposure to risk and to plan for and reasonably respond to the identified risk through risk elimination or mitigation as appropriate.

Auditee Response:

We concur with the observation. We will work with our business supervisor and other agencies, as required, to assess risk as part of an overall internal control process. This should be accomplished by June 30, 2011.

Observation No. 17: Use Of The Accounts Receivable Interface Should Be Reconsidered

Observation:

The Agency's use of the accounts receivable interface in the State's new accounting system (NHFirst) to process career school license fees appears inefficient, based on the nature of the activity in that account.

Upon the implementation of NHFirst, agencies were provided two options to record revenue transactions. Agencies performing licensing activity were encouraged to use the accounts receivable interface, which allows for accruing revenue when a customer invoice is prepared. The alternative non-accounts receivable cash receipt posting interface recognizes revenue as collected from customers. The Agency's licensing unit adopted the use of the accounts receivable interface even though its business process for licensing did not reflect the process flow intended by the interface. As a result of using the accounts receivable interface to process these transactions, the licensing unit is performing unnecessary work.

During the nine months ended March 31, 2010, the Agency reported $98,573 in license fees and $23,793 in student tuition guaranty fund fees collected from approximately 100 career schools.

Recommendation:

The Agency should reconsider the use of the accounts receivable interface in recording career school license and student tuition guaranty fund revenues.

The Agency should use the revenue interface that best reflects the nature of the underlying transaction. If the Agency cannot recognize the revenue until the fees are received, it may be more efficient to process the transactions using a non-accounts receivable cash receipt process.

Auditee Response:

We concur. The Career School Licensing function under Postsecondary Education Commission will review this process to see if the recommendation suggested by the audit is appropriate.

An internal review of all audit recommendations suggested for the Career School Licensing function will be completed and a timeline for corrections established by the spring of 2011. An end date for all corrections will be no later than December 31, 2012.

Observation No. 18: Expenditures Should Be Charged To Proper Appropriations

Observation:

During fiscal year 2009 and the first nine months of fiscal year 2010, the Agency charged approximately $23,400 and $5,700, respectively, largely for employee in-state and out-of-state travel, to an account designated for Commission-member expenditures.

In September 2009, a transfer of appropriations was requested and approved to transfer appropriations to more appropriate expenditure class accounts, including out-of-state travel for employees. The transfer of $12,800 to the out-of-state travel account was not in compliance with RSA 9:17-a, which does not allow transfers into or from any out-of-state travel accounts.

Recommendation:

The Agency should charge expenditures to the proper appropriated accounts. The Agency should confer with the Department of Administrative Services to clarify and revise accounts as necessary and appropriate during the budget process to carry out and report the Agency's activities.

Auditee Response:

We concur and worked with the Department of Administrative Services to revise accounts for fiscal year 2011 by adding the appropriate classes. This task is completed.

Observation No. 19: Controls Over Reporting Federal Program Activity Need Improvement

Observation:

Errors noted in the Agency's submitted Leveraging Educational Assistance Partnership and Special Leveraging Educational Assistance Partnership (LEAP/SLEAP) federal financial report submitted for the period July 1, 2008 through June 30, 2009 indicate a lack of controls over the preparation of the report and a lack of effective review process for the report, prior to its submission.

According to the Education Department Grant Administration Requirements (EDGAR), grantees such as the Agency are required to submit an annual performance report detailing state and federal expenditures for the LEAP/SLEAP program to the U.S. Department of Education within 90 days of the end of the award year. The Agency submitted its Annual Performance Report for the grant award period ending June 30, 2009, 36 days late.

The Agency uses data from the New Hampshire Incentive Program (NHIP) information system to complete the annual report. The Agency compiles NHIP data using computer spreadsheets and then manually copies relevant information into the Annual Performance Report. We reviewed the Annual Performance Report for the LEAP/SLEAP program year ending June 30, 2009 and noted the following:

- Over $481,000 in expenditures on the supporting reports were not included on the Annual Performance Report, apparently due to manual error in copying the amounts from the spreadsheet to the actual report.

It is likely that more robust controls over the preparation of the LEAP/SLEAP report would have detected and corrected the errors prior to the submission of the year ended June 30, 2009 report.

Recommendation:

The Agency should develop controls over its preparation and submittal of is federal financial reporting, including the annual LEAP/SLEAP Performance Reports to ensure information reported to the U.S. Department of Education is complete, accurate, and submitted timely.

Auditee Response:

We concur that the report contained errors. We continue to review and increase accuracy and overall understanding of the elements affecting our data.

State Compliance Comments

Observation No. 20: Allocation Of Leveraged Incentive Grant Program Funds Should Comply With Applicable Statute And Rules

Observation:

The Agency's allocation of Leverage Incentive Grant Program (LIGP) funds to eligible institutions does not comply with statute and administrative rule.

RSA 188-D:35, I, provides the distribution of LIGP funds to institutions shall be made on a fair and equitable basis by the Postsecondary Education Commission in accordance with a formula developed by the Commission.

N.H. Admin. Rules, Pos 801.04 provides the distribution of LIGP funds shall be based on a formula reflecting the relationship of the enrollment of the institution's undergraduate students who have completed their freshmen year to the total enrollment of those undergraduate students in all accredited institutions in the state.

During the 2009-2010 academic year, $274,000 of LIGP funds were allocated by the Agency to 23 institutions in amounts ranging from $1,000 to $80,000 per school.

The 2009-2010 academic year allocations were initially calculated based on the formula in administrative rule and then judgmentally adjusted. The result of the adjustment reduced the amount paid to colleges outside of the Community College System of New Hampshire, typically by $1,000, and increased the amount paid to each college in the System by $3,000 to $5,000. According to the Agency, this adjustment favoring the colleges in the Community College System of New Hampshire has been in place for a number of years.

Recommendation:

The Agency should comply with statutory and administrative rules directives in allocating Leveraged Incentive Grant Program funds to colleges.

If the Agency determines it is to the benefit of the State and Agency to change the allocation methodology or formula, the Agency should request an appropriate change in statute and rule.

Auditee Response:

We concur. We will review our policies and respond to these recommendations appropriately by December 2014.

Observation No. 21: Agency Responsibilities Outlined In Statute Should Be Reviewed

Observation:

The Agency is out of compliance with certain State statutes. According to the Agency, certain of the statutes appear to be outdated and should be considered for revision.

RSA 200-A, The New England Higher Education Compact, charges the Postsecondary Education Commission (Commission) with several responsibilities which are not currently performed.

- The Compact requires the Commission to: 1) examine and audit accounts showing the payments made by the New England Board of Higher Education (NEBHE) to participating institutions on behalf of qualifying students, 2) submit the examinations report as part of the budget request, 3) enforce collection of accounts due by New Hampshire students not complying with requirements of the program, and 4) prepare a note for signature of any medical student who is a recipient of such financial assistance. The Agency reports it is not currently performing these functions.

RSA 188-D:12, with respect to the loan component of the New Hampshire Incentive Program states, "[t]he postsecondary education commission shall pay eligible lenders under the New Hampshire Higher Education Assistance Foundation's Higher Education Loan Program (HELP) a 5 percent incentive for loans made to residents of the state in a given year on that amount loaned which exceeds the average of such loans made in the 3 previous years, within the limits of available funds and under rules and regulations established by the postsecondary education commission. From funds appropriated for the New Hampshire incentive program, the postsecondary education commission shall pay to the New Hampshire Higher Education Assistance Foundation a sum necessary to increase its loan guarantee capacity in keeping with the incentive provided by this subdivision and according to schedules established by the postsecondary education commission."

- The Agency reports the loan component of the New Hampshire Incentive Program has never been funded and the HELP program described in RSA 188-D:12, while in place years ago, is currently inactive.

Recommendation:

The Agency should perform a thorough review of its applicable statutes to ensure it has a knowledge and understanding of its statutory responsibilities and to determine whether action is needed either to come into compliance or whether revisions to statutes deemed to be no longer of benefit to the State and Agency should be requested.

Auditee Response:

We concur and will perform a thorough review of related statutes and, as appropriate, in the 2012 Legislative Session will secure interest from a legislator to revise current statutes.

Federal Compliance Comment

Observation No. 22: Procedures Related To Federal Suspension And Debarment Requirements Should Be Strengthened

Observation:

The Agency may not be making sufficient efforts to ensure that it is not awarding any federal program funds to suspended or debarred subgrantees.

Title 34, Code of Federal Regulations, Part 80, Uniform Administrative Requirements For Grants and Cooperative Agreements to State and Local Governments (Common Rule), Section 35 states, "Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, 'Debarment and Suspension'."

The Agency awards the majority of its College Access Challenge Grant funds to four subrecipient organizations to fund and expand existing programs that serve the State-identified underrepresented population. The Agency distributes funds on a monthly reimbursement basis pursuant to annual contracts between the Commission and the subrecipient organizations. The contract documents do not contain suspended or debarment criteria or certifications.

The Agency does not perform any procedure to ensure that College Access Challenge Grant subrecipients are neither suspended nor debarred from receiving federal funds. Subrecipients are not required to sign statements certifying that they are neither suspended nor debarred from receiving federal funds. The Agency does not make use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to ensure it does not award assistance to listed parties in violation of the Executive Order. According to the Agency, it relies on the fact that the subrecipients receive federal funding from other sources as evidence that they are not suspended from receiving federal funds.

Recommendation:

The Agency should include appropriate federal suspension and debarment procedures in its expenditures of federal program funds.

The Agency should also make use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to assure that it does not award assistance to listed parties in violation of the Executive Order.

Auditee Response:

We concur with the observation; we were not aware of the requirement since it was not addressed in the grant. Commission staff will verify all new subgrantees are not on the Excluded

Parties List System within thirty days and reference the Federal Acquisition Regulation (FAR) 52.209-5 in future subcontracts. Staff will verify, as it has in the past, that all subgrantees, where applicable, are eligible to participate in the receipt of Title IV [of the Higher Education Act of 1965] funds from the Department of Education. We have a staff-member who is familiar with the Federal Acquisition Regulations (FAR) and will help put this in place when the contracts are next modified. In addition, we have hired a manager for the CACG program who will provide increased oversight.

Independent Auditor's Report

To The Fiscal Committee Of The General Court:

We have audited the accompanying Statement of Revenues and Expenditures - General Fund for the nine months ended March 31, 2010 and Statement of Changes in Assets and Liabilities - Agency Fund - Surety Indemnification Deposit Accounts as of and for the nine months ended March 31, 2010 of the New Hampshire Postsecondary Education Commission (Agency). The financial statements are the responsibility of the management of the Agency. 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 Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 referred to above do not purport to and do not constitute a complete financial presentation of the Agency in the General Fund 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 Agency as of and for the nine months ended March 31, 2010, 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 financial statements referred to above, of the Agency. 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. In our opinion, 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 August 12, 2010 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, 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

August 12, 2010

STATE OF NEW HAMPSHIRE
POSTSECONDARY EDUCATION COMMISSION
STATEMENT OF REVENUES AND EXPENDITURES – GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2010

Revenues	
Restricted Revenues	
New Hampshire Incentive Program	$ 249,120
College Access Challenge	205,189
Veterans Education Services	116,776
Career School Licensing	98,573
Tuition Guaranty Fund	23,793
Transcripts Fees	11,032
Essential Functions Fund	8,159
Douglas Scholarship Repayment	5,290
Workforce Incentive Program	638
Total Restricted Revenues	718,570
Total Revenues	**718,570**
Expenditures	
Scholarships And Grants	3,742,449
Salaries And Benefits	515,959
Contracts For Programs Services	167,498
Remunerations	32,900
Rents And Leases	16,755
Information Technology	14,479
Current Expenses	13,608
Travel	12,020
Organizational Dues	5,110
Consultants	2,033
Other Expenditures	1,484
Total Expenditures	**4,524,295**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**(3,805,725)**
Other Financing Sources (Uses)	
Net General Fund Appropriations (Note 2)	3,805,725
Total Other Financing Sources (Uses)	**3,805,725**
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Financing Uses	**$ -0-**

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

STATE OF NEW HAMPSHIRE
POSTSECONDARY EDUCATION COMMISSION
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUND
SURETY INDEMNIFICATION DEPOSIT ACCOUNTS
FOR THE NINE MONTHS ENDED MARCH 31, 2010

	Balance July 1, 2009	Additions	Deletions	Balance March 31, 2010
Assets:				
Cash And Cash Equivalents	$ 64,825	$ 10,177	$ 32,900	$ 42,102
Liabilities:				
Custodial Funds Payable	$ 64,825	$ 10,177	$ 32,900	$ 42,102

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

STATE OF NEW HAMPSHIRE
POSTSECONDARY EDUCATION COMMISSION

NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MARCH 31, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Postsecondary Education Commission 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 reporting entity of this audit and audit report is the New Hampshire Postsecondary Education Commission (Agency). The Agency is an organization of the primary government of the State of New Hampshire. The accompanying financial statements report certain financial activity of the Agency.

The governmental fund type financial activity of the Agency is accounted for and reported in the General Fund 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 Agency, as an organization of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities, and fund balances as reported in the CAFR that are attributable to the Agency cannot be determined. Accordingly, the accompanying Statement of Revenues and Expenditures - General Fund is not intended to show the financial position or fund balance of the Postsecondary Education Commission in the General Fund.

B. Financial Statement Presentation

The State of New Hampshire and the Agency 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 Agency reports its financial activity in the fund described below.

Governmental Fund Type:

General Fund: The General Fund is the State's primary operating fund and 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.

Fiduciary Fund Type:

Agency Fund: The Statement of Changes in Assets and Liabilities - Surety Indemnification Deposit Accounts reports 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow.

D. Revenues And Expenditures

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either “general purpose” or “restricted”. General purpose revenues are available to fund any activity accounted for in the fund. Restricted revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused restricted revenues at year end are recorded as reservations of fund balance. When both general purpose and restricted funds are available, it is the State’s policy to use restricted revenues first. In the governmental fund financial statements, expenditures are reported by function.

E. 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. Fiduciary Funds are not budgeted.

In addition to the enacted biennial operating budget, the Governor may submit to the Legislature supplemental budget requests necessary to meet expenditures during the current biennium. Budgetary control is at the department level. In accordance with RSA 9:16-a, notwithstanding any other provision of law, every department is authorized to transfer funds within and among all program appropriation units within said department, provided any transfer of $2,500 or more shall require prior approval of the Joint Legislative Fiscal Committee and the Governor and Council.

Both the Executive and Legislative Branches of government maintain additional fiscal control procedures. 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 lapse at year end to undesignated fund balance 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.

A Budget To Actual Schedule, General Fund, is included as supplementary information.

NOTE 2 - NET APPROPRIATIONS

Net appropriations reflect appropriations for expenditures in excess of restricted revenues not otherwise used.

NOTE 3 - SURETY INDEMNIFICATION DEPOSIT ACCOUNTS

Pursuant to RSA 188-D:20-a, postsecondary career schools provide surety indemnification in the form of a bond, letter of credit, or term deposit to be used to reimburse students if the school fails to faithfully perform its contractual obligations. Surety indemnification received in the form of term deposits are held by the State Treasurer in trust for the time the school maintains a license to operate in the State as a postsecondary career school and has not failed in its contractual obligations with students.

At March 31, 2010 the State Treasury held term deposits from two postsecondary career schools totaling $42,102 in a money-market mutual fund.

NOTE 4 - EMPLOYEE BENEFIT PLANS

New Hampshire Retirement System

The Postsecondary Education Commission, as an organization of the State government, participates in the New Hampshire Retirement System (Plan). The Plan is a contributory defined-benefit plan and covers all full-time employees of the Agency. 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 its members and beneficiaries.

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 Agency 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 nine months ended March 31, 2010, Group I members were required to contribute 5%, except for state employees whose employment began on or after July 1, 2009, contribute 7% 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 Agency'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 Agency's payments for normal contributions for the nine months ended March 31, 2010 amounted to 9.09% of the covered payroll for its Group I employees. The Agency's normal contributions for the nine months ended March 31, 2010 were $30,224.

A special account was established by RSA 100-A:16, II (h) for additional benefits. During fiscal year 2007, legislation was passed that permits the transfer of assets into the special account for earnings in excess of 10.5% as long as the actuary determines the funded ratio of the retirement system to be at least 85%. If the funded ratio of the system is less than 85%, no assets will be transferred to the special account.

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.

Other Postemployment Benefits

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 and have 10 years of service, 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 Agency's Medical Subsidy normal contribution rate for the nine months ended March 31, 2010 was 1.96% of the covered payroll for its Group I employees. The Agency's normal contributions for the Medical Subsidy for the nine months ended March 31, 2010 were $6,517.

The State Legislature currently plans to only partially fund (on a pay-as-you-go basis) the annual required contribution (ARC), an actuarially determined rate in accordance with the parameters of Governmental Accounting Standard Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The ARC and contributions are reported for the State as a whole and are not separately reported for the Agency.

STATE OF NEW HAMPSHIRE
POSTSECONDARY EDUCATION COMMISSION
BUDGET TO ACTUAL SCHEDULE - GENERAL FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2010

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Restricted Revenues			
New Hampshire Incentive Program	$ 120,038	$ 249,120	$ 129,082
College Access Challenge	330,000	205,189	(124,811)
Veterans Education Services	204,668	116,776	(87,892)
Career School Licensing	134,873	98,573	(36,300)
Tuition Guaranty Fund	1	23,793	23,792
Transcripts Fees	27,995	11,032	(16,963)
Essential Functions Fund	15,009	8,159	(6,850)
Douglas Scholarship Repayment	10,000	5,290	(4,710)
Workforce Incentive Program	2,000	638	(1,362)
Total Restricted Revenues	844,584	718,570	(126,014)
Total Revenues	**844,584**	**718,570**	**(126,014)**
Expenditures			
Scholarships And Grants	4,087,587	3,742,449	345,138
Salaries And Benefits	734,051	515,959	218,092
Contracts For Programs Services	246,400	167,498	78,902
Remunerations	10,000	32,900	(22,900)
Rents And Leases	25,613	16,755	8,858
Information Technology	48,734	14,479	34,255
Current Expenses	50,144	13,608	36,536
Travel	29,239	12,020	17,219
Organizational Dues	3,561	5,110	(1,549)
Consultants	3	2,033	(2,030)
Other Expenditures	43,665	1,484	42,181
Total Expenditures	**5,278,997**	**4,524,295**	**754,702**
Excess (Deficiency) Of Revenues Over (Under) Expenditures	**(4,434,413)**	**(3,805,725)**	**628,688**
Other Financing Sources (Uses)			
Net General Fund Appropriations (Note 2)	4,434,413	3,805,725	628,688
Total Other Financing Sources (Uses)	**4,434,413**	**3,805,725**	**628,688**
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 Nine Months Ended March 31, 2010

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 2010 as passed by the Legislature in Chapter 143, Laws of 2009.

Budgetary control is at the department level. In accordance with RSA 9:16-a, notwithstanding any other provision of law, every department is authorized to transfer funds within and among all program appropriation units within said department, provided any transfer of $2,500 or more shall require 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 2010 and the actual revenues and expenditures for the nine months ended March 31, 2010. 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.

Unfavorable variances are expected for revenues and favorable variances are expected for expenditures when comparing nine months of actual revenues and expenditures to an annual budget.

Note 2 - Net Appropriations

Net appropriations reflects appropriations for expenditures in excess of restricted revenue not otherwise used.

STATE OF NEW HAMPSHIRE
POSTSECONDARY EDUCATION COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CASH BASIS)
FOR THE NINE MONTHS ENDED MARCH 31, 2010

Federal Catalog Number	Federal Grantor *Federal Program Title*	Expenditures	Pass Thru Percent
	U.S. Department Of Veterans Affairs		
64.124	*All-Volunteer Force Educational Assistance*	$ 101,499	0%
	U.S. Department Of Education		
84.069	*Leveraging Educational Assistance Partnership*	249,120	0%
84.378	*College Access Challenge Grant Program*	205,189	74%
	Total	$ 555,808	

The accompanying notes are an integral part of this schedule.

Notes To The Schedule Of Expenditures Of Federal Awards
For The Nine Months Ended March 31, 2010

Note 1 - Purpose Of Schedule And Summary Of Significant Accounting Policies

A. Purpose Of Schedule

The accompanying Schedule Of Expenditures Of Federal Awards (Schedule) is a supplementary schedule to the Postsecondary Education Commission's (Agency) financial statements and is presented for purposes of additional analysis.

B. Reporting Entity

The reporting entity is defined in the Notes to the Agency's financial statements presented in this report. The accompanying Schedule includes all federal awards of the Agency for the nine months ended March 31, 2010.

C. Basis Of Presentation

The information in the Schedule presents the Agency's federal award activity.

a. *Federal Awards* - Federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities.

b. *Pass Thru Percent* - The amount of federal funds, expressed as a percentage of expenditures, passed through by State agencies to various subrecipients.

D. Basis Of Accounting

Expenditures are presented in the Schedule on the cash basis of accounting. Expenditures are recorded when paid rather than when the obligation is incurred. The Schedule reflects expenditures for all programs that were active during the nine months ended March 31, 2010.

Note 2 - Categorization Of Expenditures

The categorization of expenditures by program is based upon the Catalog of Federal Domestic Assistance (CFDA). Changes in categorization of expenditures occur based upon revisions to the CFDA, which is issued in June and December of each year. The Schedule reflects CFDA changes issued through December of 2009.

APPENDIX - CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of March 31, 2010, of the current status of the observations contained in the financial audit report of the Postsecondary Education Commission for the nine months ended March 31, 1997. A summary of the prior report can be accessed at the Office of Legislative Budget Assistant website at: www.gencourt.state.nh.us/lba/audit.html.

	Status		
Internal Control Comments			
Reportable Conditions			
1. No Written Policies For Collecting Loan Repayments And The Writing Off Of Uncollectible Accounts *(See Current Observation No. 12)*	○	○	○
2. Loan Receivable Records *(See Current Observation No. 12)*	○	○	○
3. Loan Receivable Balances Not Properly Recorded *(See Current Observation No. 12)*	○	○	○
4. Understatement Of Fiscal Year 1996 Accounts Receivable	●	●	●
5. Controls Over Revenue Processing *(See Current Observation No. 14)*	●	○	○
6. Lack Of Documentation Supporting Performance Bond Amounts For Proprietary Schools *(See Current Observation No. 3)*	○	○	○
7. Lack Of Segregation Of Duties - Expenditures *(See Current Observation No. 1)*	○	○	○
Compliance Comments			
State Compliance			
8. Noncompliance With Rules Governing The Nursing Scholarship And Nursing Leveraged Scholarship Programs	●	●	●
9. New Hampshire Residency Requirement For The Dartmouth Medical Program Not Properly Verified *(See Current Observation No. 13)*	●	○	○
10. Untimely Repayment Of Nursing Loans	●	●	●
11. Statements Of Financial Interests	●	●	○
12. Out-Of-State Student Incentive Committee	●	●	●
13. Educational Opportunity Plan Not Filed	●	●	●
14. Annual Report To The State Treasurer Not Submitted	●	●	●
Federal Compliance			
15. Noncompliance With Rules Governing The Paul Douglas Teacher Scholarship Program	●	●	○
Management Issue Comment			
16. Shortfall Of Annual Payments For NEBHE Assessment	●	●	●

Status Key				**Count**
Fully Resolved	●	●	●	7
Substantially Resolved	●	●	○	2
Partially Resolved	●	○	○	2
Unresolved	○	○	○	5

THIS PAGE INTENTIONALLY LEFT BLANK