

October 22, 2018

To the Audit Committee  
Henry Ford College

We have audited the financial statements of Henry Ford College (the "College") as of and for the year ended June 30, 2018 and have issued our report thereon dated October 22, 2018. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Other Recommendations and Related Information

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the board of trustees of the College.

Section II presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the College in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

We would like to take this opportunity to thank the College's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the audit committee and management of the College and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications, and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Dana M. Coomes  
Partner

## **Section I - Required Communications with Those Charged with Governance**

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated March 1, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the College. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the College's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the College, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 18, 2018.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the College are described in Note 1 to the financial statements.

As described in Note 1, the College adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. In accordance with Statement No. 75, the College is now recognizing its unfunded net other postemployment benefits (OPEB) liability and deferred OPEB outflows (inflows) within the statement of net position for the first time. This statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).

We noted no transactions entered into by the College during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

## **Section I - Required Communications with Those Charged with Governance (Continued)**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were as follows:

- The College records an allowance for uncollectible student and other receivables. This represents management's estimate of uncollectible receivable accounts and is based on past collection experience.
- The College is self-insured or partially self-insured for various risks, including property, general liability, dental, and workers' compensation claims. As a result, management has made estimates of incurred but not reported (IBNR) claims and recorded a liability.
- Management estimates the College's proportionate share of the net pension and Other Postemployment Benefits (OPEB) liability in the Michigan Public School Employees' Retirement System (MPERS) with a plan measurement date of September 30, 2017. Management also estimates pension and OPEB expense and deferred inflows and outflows related to the plan. We compared the amounts recorded to information provided by the Office of Retirement Services, if applicable, and evaluated the key factors and assumptions used to develop the estimates to determine the amounts recorded are reasonable in relation to the financial statements taken as a whole.

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

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

### ***Difficulties Encountered in Performing the Audit***

We encountered no difficulties in dealing with management in performing and completing our audit.

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

### ***Significant Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the College, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the College's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

**Section I - Required Communications with Those Charged with Governance  
(Continued)**

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 22, 2018.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the College’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the entity’s financial statements and report does not extend beyond the financial statements. We do not have an obligation to determine whether or not such other information is properly stated. However, we read management’s discussion and analysis, and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

This information is intended solely for the use of audit committee and management of Henry Ford College and is not intended to be and should not be used by anyone other than these specified parties.

## Section II - Other Recommendations and Related Information

During our audit, we noted areas where we believe there are opportunities for the College to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented below for your consideration:

**Information Technology** - In support of our audit of the financial statements, we reviewed certain general controls over the College's information systems. Based on our procedures and discussion with your information technology (IT) staff, we offer the following observations and comments for your consideration:

- **User Access Review** - While tools exist to allow supervisors to review access levels assigned to their staff, a formal process does not exist to require such a review on a periodic basis. A formal quarterly review should be conducted to assess user access levels by supervisors. Exceptions should be documented, and IT should make and document the necessary changes.
- **Change Management Controls** - We noted internal controls related to source code change management were not in operation, including an overall approval or review of changes made to source code. In order to prevent an improper change to the IT system's source code, we recommend a formal approval process and review of all source code changes made be implemented.
- **Timely Access Management** - We noted controls related to timely termination of user access to the College's information systems were not operating effectively. The College's current access termination procedures do not terminate user access until the former employees receive their final paychecks. We recommend a formal review process to ensure employee access to the College's information systems is revoked upon termination of employment.

**Segregation of Duties** - We noted that two employees who have access to cash receipts also have the ability to post journal entries in the College's general ledger. We also noted five other employees who have access to both modify the chart of accounts and post journal entries in the College's general ledger. The College has detective controls designed to detect potential errors. We suggest that the College review these controls and implement preventive controls to restrict access to post journal entries.

In addition to the matters discussed above, there are a number of financial reporting and recent legislative changes that may impact the College in future years. Please find a summary of these matters below.

**Leases (Lessee)** - In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. Public institutions will report the following in the financial statements for all leases that exceed 12 months in duration or if it transfers ownership of the underlying asset:

- Lease liability should be measured at the present value of payments expected to be made during the lease term
- Lease asset should be measured at the amount of the initial measurement of the lease liability
- Amortization expense related to the lease asset (recognizing the asset amount as an expense over the term of the lease)
- Interest expense related to the lease liability

## **Section II - Other Recommendations and Related Information (Continued)**

If the lease transfers ownership of the underlying asset, the institution will record the transaction as a financed purchase (asset and long-term debt). The notes to the financial statements would include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made. The effective date is for reporting periods beginning after December 15, 2019 or for the fiscal year ending June 30, 2021.

**Leases (Lessor)** - In addition to changes to lessee, an institution lessor should recognize a lease receivable and a deferred inflow of resources. The institution will not derecognize the asset. The lease receivable and deferred inflow will essentially be calculated at present value of the lease payments to be received. The lessor will recognize interest revenue on the receivable, as well as revenue from amortizing the deferred inflow. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases. The statement is effective for periods beginning after December 15, 2019 or for the fiscal year ending June 30, 2021.

**Fiduciary Activities** - In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments (including institutions of higher education). The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. The College should review the criteria and consider the impact of the standard to student activity funds (clubs), funds held for other organizations, and other agency-type activity. The statement is effective beginning with December 31, 2019 year ends or for the fiscal year ending June 30, 2020.

**Safeguards Rule of the Gramm-Leach Bliley Act** - Higher education institutions have been required to comply with the provisions of the Safeguards Rule of the Gramm-Leach Bliley Act (GLBA) for more than a decade. The DOE recently made it clear to institutions that it expects the proper controls and processes in place and will begin monitoring compliance in the near future through the annual single audits performed on Title IV student financial aid funds received. This means that the institution's external auditors will be required to conduct expanded audit testing and report significant noncompliance findings if the required security is not in place. The Safeguards Rule is not currently tested as part of the federal compliance audit (or single audit) of Title IV funds. However, communications from the DoE consistently indicate it will become part of this testing in the near future. Currently, testing steps are expected to be included in the 2019 release of the Office of Management and Budget Compliance Supplement for external auditors to follow when testing the Student Financial Assistance cluster. Plante & Moran, PLLC has a cybersecurity team with years of experience assisting organizations with GLBA Safeguards Rule concerns. Please contact our team if you have any questions about the Safeguards Rule expectations.

## **Section II - Other Recommendations and Related Information (Continued)**

**Cybersecurity Risk and Network Security Assessment** - Institutions are not exempt from cyberattacks in which systems and critical data are compromised. Institution systems store personal information of staff, students, and students' parents in addition to other confidential data. It is important that institutions protect themselves from both external and internal threats, whether they are intentional or accidental threats. For example, ransomware attacks are on the rise and gain media attention with their ability to cripple an organization, including institutions of higher education. It may be the hacks of large, multimillion dollar companies that we see exposed on the evening news, but institutions can be an enticing target with the amount of data and limited budget to protect themselves.

Here are some questions for management to think about regarding cybersecurity issues:

- Do you receive a lot of junk email?
- Are you allowed to access risky or unsafe websites?
- Have you attended any security awareness trainings?
- In the event of an incident, are you familiar with who should be contacted?
- Is there a plan in place in the event of a breach and student records are lost?

Because of the many access points within an institution's IT environment, continued assessment of cybersecurity issues is an essential part of the institution's overall data security assessment.