

October 30, 2020

To the Audit Committee  
Henry Ford College

We have audited the financial statements of Henry Ford College (the "College"), as the business-type activities for Dearborn Public Schools, as of and for the year ended June 30, 2020 and have issued our report thereon dated October 30, 2020. 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 audit committee 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 these or any other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "Dana M. Coomes".

Dana M. Coomes

## **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 June 1, 2020, 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, and 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. Toward this end, we issued a separate letter dated October 30, 2020 regarding our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

### **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 August 24, 2020.

### **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 2 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2020.

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 the following:

- 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) liabilities in the Michigan Public School Employees' Retirement System (MPERS) with a plan measurement date of September 30, 2018. Management also estimates pension and OPEB expense and deferred inflows and outflows related to the plan.

We compared the amounts recorded to key information, 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.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was in Note 17 related to the impact of the COVID-19 pandemic on the College. To assist with the economic impact of the pandemic, the College was awarded Higher Education Emergency Relief Fund (HEERF) grants of \$9.6 million, of which \$4.6 million is required to be given to students as emergency grants. As of June 30, 2020, the College recognized HEERF grant revenue totaling \$3.6 million. Subsequent to June 30, 2020, the College's August state appropriation payment was adjusted, and the College received Coronavirus Relief Funds (CRF) of \$2.5 million, which must be spent by December 30, 2020 on expenditures related to COVID-19.

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

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

We encountered no significant 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.

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

### ***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.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 30, 2020.

### ***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 College'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 the 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.

## 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 implementation of a formal approval process and review of all source code changes made.

**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 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.

**Impact of COVID-19 on Operations** - During March 2020, the World Health Organization declared a global pandemic due to COVID-19. As a result, the College had to quickly shift to fully incorporate online learning, with most faculty and staff working remotely. This has created additional risks that can include cybersecurity threats, changes to internal controls that increase fraud risks, increasing automated processes, and optimizing ERP systems, among many others. Plante & Moran, PLLC has put together a series of webinars to help you stay on top of these emerging issues while navigating the impact of working in a remote environment, which can be found at this [link](#).

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

**Fiduciary Activities** - GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of a public institution. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The statement was issued because it was determined by the GASB that there was divergence in practice between governments in what was being reported in a fiduciary fund. The College will have to apply the new principles-based rules from this statement to determine if more reporting will be required related to fiduciary activities that may exist upon implementation of this standard. In June 2020, the GASB issued Statement No. 97, which further clarifies guidance provided in GASB 84 for many defined contribution plans, providing exceptions for including these plans as fiduciary component units. Additionally, in May 2020, the GASB issued Statement No. 95, delaying the effective date for this new standard by one year. This delayed effective date is as of July 1, 2020, and, therefore, the College is required to work through implementing the various process and reporting changes prior to June 30, 2021. The GASB also issued an extensive implementation guide in June 2019 with several examples.

**Leases (Lessee)** - GASB Statement No. 87, *Leases*, will result in reporting the following in the financial statements for all leases that exceed 12 months in duration or leases that transfer ownership of the underlying asset:

- The lease liability should be measured at the present value of payments expected to be made during the lease term.
- The 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

If a 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. In May 2020, the GASB issued Statement No. 95, delaying the effective date for this new standard. The delayed effective date is for reporting periods beginning after June 15, 2020 (FY 2022). The GASB also issued an extensive implementation guide in August 2019 with several helpful examples.

**Subscription-based Information Technology Arrangements** - GASB Statement No. 96 is effective for the year ending June 30, 2023. The standard provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (institutions). Under this standard, institutions in SBITAs are required to recognize a right-to-use subscription asset and a corresponding subscription liability.

**Parking Tax Repealed** - The Taxpayer Certainty and Disaster Tax Relief Act, passed on December 20, 2019, retroactively repealed the parking tax on exempt employers.

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

Congress had originally enacted the parking tax (section 512(a)(7)) as a part of the Tax Cuts and Jobs Act. The legislation was effective for qualified transportation fringe benefit amounts paid or incurred after December 31, 2017.

As noted by the IRS, tax-exempt organizations that paid unrelated business income tax on expenses for qualified transportation fringe benefits, including employee parking, may claim a refund, which the College has already done.