Howard Community College

Memorandum Regarding Internal Control and Accounting Procedures
For the Year Ended June 30, 2013
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October 1, 2013

To the Board of Trustees
   and Audit and Finance Committee
Howard Community College
Columbia, Maryland

During the course of our audit of Howard Community College's (the “College”) financial statements for the year ended June 30, 2013, we observed the College’s significant accounting policies and procedures and certain business, financial, and administrative practices.

In planning and performing our audit of the financial statements of the College as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the College's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College’s internal control. Accordingly, we do not express an opinion on the effectiveness of the College’s internal control.

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 significant deficiency is a deficiency, or a 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. 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 College’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the second paragraph of this letter and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

As a result of our observations, we suggest you consider the following:

Cycle: Information Technology

During the current audit period, changes were introduced into production that caused data integrity errors. AIS management elected to use an Ellucian utility, in the production environment, to fix the errors without taking the key applications out of service. This solution compounded and accelerated the impact of data integrity errors on customer accounts and financial reporting. Communication to the College’s executives, and the finance organization was not clear and complete to ensure that all stakeholders understood the potential impact and severity of the situation. We also observed that the IT function may have insufficient resources to perform at an optimum level.
Information Technology staff should review internal governance protocols and the recommended solution made by Ellucian, which resulted in a data integrity issue within the Colleague production environment. Although a software resolution was recommended by Ellucian, IT staff must ensure delivered solutions are thoroughly assessed and reviewed, and that proposed vendor changes are vetted and communicated among all stakeholders to minimize potential risks. Additionally, staff and management should review existing change management and communication plans to ensure processes are in place that facilitate the communication among all stakeholders, including finance, and coordination of system changes that may impact campus business processes. In addition, management should consider an IT risk assessment be conducted.

Management Response

The Information Technology unit will address the recommendations made by the auditors to minimize risks of data integrity to the administrative computing system. This will include a review of the existing change management processes used to assess and review the impact of vendor-provided system changes prior to implementation by the technical staff. Additionally, the current communication processes being used to inform stakeholders of new applications, system updates and fixes will be reviewed to improve the flow of information. The Information Technology unit is also in the process of defining the scope and identifying a vendor to conduct an IT risk assessment. The assessment would complete a review of IT processes and resources to assure that the college’s strategic application and support of technology is meeting the business needs of the college effectively and efficiently.

Cycle: Payroll

Review of pay rate set-up/changes

Set-up/changing of payroll information in the payroll system such as salary rate and benefits information is handled by the Human Resource Department (“HR”). Review of payroll changes is performed by different personnel prior to payroll processing to ensure accuracy and completeness of data. During our walkthrough, we noted there is no evidence of review maintained to show the review of payroll changes was performed to verify the accuracy and completeness of data prior to processing.

An effective system of internal control should include procedures for such review on a timely basis by an employee not responsible for the function. We recommend the College evidence its adherence to existing policy and ensure appropriate HR personnel document the payroll changes and maintain sign-offs as an audit trail.

Management Response

The HR department currently inputs payroll changes into the payroll system prior to each pay period. Currently, changes are reviewed by human resources staff to ensure accuracy and completeness of data prior to payroll being run and reviewed by the payroll department. The “hire a temporary” form used to set-up new employees and request wage changes are signed off by the person who verifies the input of that information in the system, however, it was noted that the review process for stipends was not signed by the staff members performing the review. HR will take responsibility to maintain signed evidence for each payroll until after the annual college audit.
**Payroll processing**

The payroll specialist generates a preliminary payroll report from the payroll system and performs comparative analytical review to identify material changes from the last payroll report. The payroll manager performs review of the payroll processing and approves the payroll report before the actual payroll is processed. During our walkthrough, we noted no evidence of actual payroll review prior to processing on the pay period selected (January 31, 2013 pay period).

We recommend the College adhere to its existing policy and evidence the appropriate review. We also suggest that documentation of the review of these reports be made on the reports and maintained.

**Management Response**

Material changes from the prior pay period to the current pay period are analyzed by the payroll specialist and reviewed by the payroll manager. During the processing of the pay period of January 31, 2013, the review of material changes was completed by the payroll specialist because the analysis was done under her direction by another employee. This change in processes resulted in the oversight of the sign off being done on the reviewed documents. The payroll manager will be responsible to maintain the signed review after each pay period.

**Cycle: Revenue**

**Review of account reconciliation**

The accounts receivable (“AR”) supervisor performs a monthly reconciliation of AR to general ledger (“GL”) balances. Variances are investigated and reviewed by the Associate Vice President of Finance. During our walkthrough, we noted an immaterial variance in the sampled reconciliation (April 2013), however, we did not note evidence of actual review and disposition of the variance.

We understand the College is performing electronic reviews on some of its processes, however, we recommend the College develop a control measure such as a financial reporting close process checklist to serve as documentation that the review is being done.

**Management Response**

During the course of the year, the accounts receivable supervisor performs a monthly AR to GL reconciliation. Due to the director of business services position being vacant, the review of this reconciliation is currently being done by the associate vice-president of finance (AVP). While the review occurred, actual signatures on the reviewed were not obtained. The immaterial variance between the AR and GL was brought to the attention of the AVP. This variance was ongoing throughout the spring and was brought to the attention of the software vendor for assistance in balancing the systems, but was not able to be identified. An adjustment, which was reviewed and approved verbally by the AVP, was done at year-end. The AVP will sign off on all future reconciliations and they will be maintained with the audit files.
Deferred revenue analysis

We noted that the deferred revenue control account is being reconciled to the GL in a timely manner; however, the College did not have available details to support the deferred revenue account. We recommend the College develop and implement a report that will allow for effective tracking of deferred revenue. This would help the College report reliable financial information.

Management Response

The accounting system currently defers revenue for terms that take place in the next fiscal year, with the exception of part of the summer term, which is manually deferred. At year-end, the deferred revenue account is manually netted against the outstanding accounts receivable for the terms deferred. Due to the manual adjustments in the account, the college does not currently have a report available to identify deferred revenue balances by student. The college is currently working with a new reporting tool in order to provide the requested detail by student of the deferred revenue at year-end. The goal is to have the report available for the FY14 audit.

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This communication is intended solely for the information and use of management, the Board of Trustees, Audit and Finance Committee, and others within the College, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the College’s financial statements.

Very truly yours,

BDO USA, LLP