

Board of Education of Howard County, Maryland  
Howard County Public School System  
10910 Clarksville Pike  
Ellicott City, Maryland 21042

## HCPSS RESPONSES TO MANAGEMENT LETTER

In planning and performing our audit of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Howard County Public School System ("HCPSS"), a component unit of Howard County, Maryland, as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered HCPSS's internal control over financial reporting ("internal control") as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HCPSS's internal control. Accordingly, we do not express an opinion on the effectiveness of HCPSS's internal control. We refer you to our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated October 31, 2019.

During our audit, we became aware of the following matters, which we believe represent opportunities for strengthening internal controls and operating efficiency:

### Resource Management

During the fiscal year and up through our report date, the finance department experienced turnover or maintained vacant positions at the Chief Business and Technology Officer, Accounting Manager, Executive Director - Budget, Coordinator - Financial Planning and Analysis, and Business Process Specialist positions. Due to the loss of key personnel mentioned above and their institutional knowledge, as well as a lack of formalized standard operating procedures in several internal control processes, we observed several challenges in obtaining timely and accurate information related to our audit; specifically, accurate final adjusted trial balances, supporting schedules, and draft financial statements.

### *Recommendations*

To minimize impacts from any future turnover and to help with continued job satisfaction, we recommend that the finance department management consider the following:

- Cross train roles and duties;
- Reassess and/or implement formalized standard operating procedures to make sure all areas of the finance department are operating at an optimal level. Ensure that the documented policies and procedures include all key processes, roles and responsibilities as well as how each process incorporates the use of HCPSS's financial system, WorkDay;
- Consider a post-implementation review of the recently implemented enterprise management system, WorkDay, to ensure that the expected benefits of implementing the new system are achieved, maintained, and codified and opportunities for further improvement are identified and implemented. Without a post-implementation review, it can be difficult to demonstrate that the investment in the project was worthwhile and whether there are any additional opportunities to enhance the use of the system in a cost-effective manner.

### *Management Response*

Management concurs with the recommendations. In August 2019, the Superintendent reorganized the business functions of the school system to begin strengthening the fiscal management environment with a focus to improve accountability and to build sustainability in the system's business operations. First, a comprehensive organizational restructuring was implemented for the budget and finance functions. This restructuring aims to establish clearer alignment of the budget and finance work programs. The goal is to enhance the District's budget planning, accounting, fiscal oversight, and financial stewardship. To that end, the technology function, which was with the Finance function, has been reassigned to a different management team. In addition, a Chief Administrative Officer (CAO) position was created. This position reports directly to the Superintendent and has oversight of the budget and finance teams. The budget neutral reorganization enabled the CAO to add capacity within the budget and finance positions, including filling two separate leadership roles – one to oversee budget and one to oversee accounting and payroll.

Additionally, HCPSS will undertake a fundamental review of the budget and finance work processes, policies, and procedures. Expertise in the area of public school financial management will be sought to guide the District's process improvement according to national best practices and accounting standards. The objective is to ensure the necessary work programs, staffing levels, designation of duties, and policies and procedures are in place for sound fiscal management, use of generally accepted accounting principles, and effective staff training.

A post-implementation review for WorkDay is a sound practice. At the appropriate time, management will conduct a review.

### Grant Management

We noted that reimbursement/funding requests related to grants were not submitted by HCPSS timely, including, in at least one instance, for over three months. Infrequent submissions result in extended delays in receiving monies, less cash available for expenditure, and results in a loss of interest income.

### *Recommendations*

We recommend that HCPSS develop formal procedures related to grant management that, at a minimum, includes:

- Roles and responsibilities for preparing funding requests and recording related receivables in the financial reporting system;
- Formal review process that is distinct from the person who prepares the request and the person who records the request into the financial reporting system;
- Frequency of funding requests, which we believe should be no less than monthly;
- Maintains documentation that supports the request amount and is reconciled to the financial reporting system at that point in time;
- Procedures to reconcile receipts of grant funding to initial requests;
- Procedures for identifying and acting on receivables that are not received from agencies timely;
- Identification of alternative procedures in the absence of personnel that are key to the process.

### *Management Response*

Management concurs with the recommendations. HCPSS is undertaking a fundamental review of the budget and finance work processes, policies, and procedures. Expertise in the area of public school financial management will be sought for the Finance Coordinator position to guide the District's process improvement according to national best practices and accounting standards. The objective is to ensure the necessary work programs, staffing levels, designation of duties, and policies and procedures are in place for sound fiscal management, use of generally accepted accounting principles, and effective staff training. This fundamental review will give specific attention to Grants Management.

### Management Estimates

We noted that management did not have established procedures to sufficiently support its estimates for Incurred but not Reported ("IBNR") claims liabilities. Management utilized estimates provided by third party administrators and historically used a third-party actuary to provide estimates every third year. No documentation was available to support management's consideration of the validity of these estimates.

### *Recommendations*

We recommend that HCPSS review accounting principles related to management estimates and the use of third party experts, and that HCPSS establish procedures to document its comfort with the estimates recorded. This could include, but would not be limited to, reviewing actual experiences to the prior methods to gain comfort over methodologies being used. It would also be prudent to utilize the same methodology annually, assuming it continues to produce reasonable estimates.

### *Management Response*

Management concurs with the recommendation. The recommendation specifically relates to the methodologies used for worker's compensation insurance IBNR. HCPSS will review current policies and procedures to ensure accounting best practices are adhered to.

### External Reporting

HCPSS has various financial reporting requirements with the Maryland State Department of Education (MSDE). During the course of our audit we were made aware of various reports for which the historical submissions to MSDE may have improperly excluded internal service fund activity. The impact of including this activity could result in the "Current Expense Fund" (as defined by MSDE's Financial Reporting Manual for Maryland Public Schools) showing a deficit net position on the reports to MSDE. The historical reports do not reflect a deficit net position.

### *Recommendations*

We recommend HCPSS management review the reporting requirements for each submission required by MSDE and document their understanding of how to properly report internal service fund activity, whether it has been done properly historically, and if not, how it should be corrected.

### *Management Response*

All financial reports submitted to MSDE have been accepted by MSDE and HCPSS understands that these reports are consistent with MSDE reporting requirements as outlined in the Financial Reporting Manual for Public Schools. For clarification on this recommendation, management reached out to MSDE staff to confirm that financial reports are being submitted properly. MSDE gave no indication to the contrary. That stated, HCPSS intends to be abundantly clear that it is meeting all reporting requirements. Therefore, this matter will be given further review as recommended.

### Information Technology

We noted several matters and areas of improvement related to the Information Technology design and controls which have been communicated directly to management.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with HCPSS personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Board of Education of Howard County and management of Howard County Public School System, and the Maryland State Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Baltimore, Maryland  
October 31, 2019