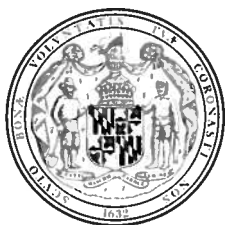

Review of Community College Audit Reports

Fiscal Year Ending June 30, 2013



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

October 2, 2014

Thomas J. Barnickel III, CPA
Legislative Auditor

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Members of Joint Audit Committee
Annapolis, Maryland

Mr. Anwer Hasan, Chair
Maryland Higher Education Commission

Mr. Karl S. Aro, Executive Director
Department of Legislative Services

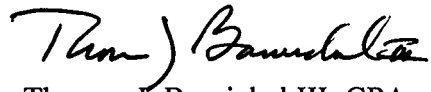
Ladies and Gentlemen:

In accordance with the provisions of the Education Article, Section 16-315(h) of the Annotated Code of Maryland, we have reviewed the audit reports that must be filed by 15 of the State's community colleges with the Maryland Higher Education Commission (MHEC) for the fiscal year ended June 30, 2013.

Our review disclosed that the community colleges and their independent auditors substantially complied with the applicable statutes and the guidelines promulgated by MHEC. Specifically, our review disclosed that all opinions expressed by the colleges' independent auditors stated that the applicable financial statements were fairly presented in conformity with accounting principles generally accepted in the United States of America. However, we did identify three audit reports with instances of noncompliance with generally accepted auditing standards and/or accounting principles. Furthermore, we noted two colleges with deficit balances in unrestricted net position as of June 30, 2013. Additionally, for one college, the applicable auditor reported three material weaknesses related to certain compliance requirements for fiscal year 2013. In this instance, MHEC evaluated the adequacy of the college's response to the material weaknesses and concluded that appropriate corrective actions were indicated.

A draft copy of this report was provided to MHEC for review and comment. Since there are no recommendations in this report, a written response was not necessary.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tom J. Barnickel III". The signature is fluid and cursive, with the first name "Tom" being more prominent.

Thomas J. Barnickel III, CPA
Legislative Auditor

Purpose of Review and Background Information

In accordance with the provisions of the Education Article, Section 16-315(h) of the Annotated Code of Maryland, we have reviewed the audit reports that must be filed by 15 of the State's community colleges with the Maryland Higher Education Commission (MHEC) for the fiscal year ended June 30, 2013. We reviewed these audit reports to determine compliance with the applicable statutes and the guidelines promulgated by MHEC. We also reviewed the reports to determine if any of the community colleges had deficit balances in unrestricted net assets, or uninsured/uncollateralized bank deposits. This report contains the results of that review.

According to the State's records, State aid totaling approximately \$272 million was granted to 15 of Maryland's 16 community colleges for the fiscal year ended June 30, 2013. This aid primarily consisted of funding based on cost and student enrollment data. In addition, it included certain retirement benefits and various other grants. The remaining college (Baltimore City Community College) is a budgetary unit of the State and receives an annual State appropriation. Baltimore City Community College is not subject to the Education Article, Section 16-315(h) of the Annotated Code of Maryland; however, it obtains annual financial statement audits that are conducted by a certified public accounting firm. The College is also subject to fiscal compliance audits by the Office of Legislative Audits for which separate audit reports are issued.

The Education Article, Section 16-315(a) of the Annotated Code of Maryland requires MHEC to adopt guidelines for the preparation of annual audit reports on the colleges. The guidelines promulgated by MHEC require independent auditors to express opinions as to the fairness of presentation of the colleges' financial statements as well as of the cost and student enrollment data used for calculating the State aid to the colleges. The guidelines also require the auditors to issue management letters containing all material weaknesses in the colleges' systems of internal controls. While not required, many of the auditors issue management letters that contain additional recommendations that were not considered material weaknesses.

Results of Review

Audit Reports

All 15 audit reports for fiscal year 2013 were filed timely.

Our review disclosed that all 15 community college audit reports were filed timely with the Maryland Higher Education Commission (MHEC) for the fiscal year ended June 30, 2013.

The State's community colleges are required by law to file annual audit reports within 90 days of the fiscal year end (June 30) unless an extension is granted.

All audit reports expressed unqualified opinions; however, two reports were not presented in accordance with generally accepted auditing standards.

Our review disclosed that all 15 community college audit reports for the fiscal year ended June 30, 2013 contained unqualified opinions from their auditors. An unqualified opinion is issued when the auditor states that the applicable financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

However, 2 of the 15 community colleges' audit reports reviewed for fiscal year 2013 were not presented in accordance with certain generally accepted auditing standards. Specifically, Carroll and Prince George's Community Colleges' audit reports did not describe the degree of responsibility taken for required supplementary and other supplementary information that accompanied these Colleges' basic financial statements. In this regard, the independent auditors' reports did not describe the degree of responsibility taken regarding Carroll Community College's "Schedule of Funding Progress for Other Postemployment Benefits" and Prince George's Community College's "Schedule of Expenditures of Federal Awards and Notes to the Schedule of Expenditures of Federal Awards." MHEC advised us that it would notify these Colleges of the deficiencies and ensure that the deficiencies are corrected in future audits.

MHEC's audit guidelines require the auditors to express opinions as to the fairness of the presentation of the colleges' financial statements and that the audits be performed in accordance with generally accepted auditing standards.

Financial Statements

Two community colleges' financial statements disclosed deficit balances in the unrestricted portion of their net position at June 30, 2013.

Our review disclosed two colleges with deficit balances in the unrestricted component of their net position as of June 30, 2013. Specifically, Anne Arundel and Carroll Community Colleges had unrestricted net position deficits of \$13,858,704 and \$8,289,706, respectively. Furthermore, this situation was also noted in the financial statements for Anne Arundel and Carroll Community Colleges' for each fiscal year since 2011 and 2009, respectively. For these two colleges, the unrestricted net position deficits increased during fiscal year 2013. An unrestricted net position deficit balance represents the costs of current or past services that will need to be financed in future periods and could indicate a potential financial problem.

We did not perform a detailed analysis to determine the cause of these deficits; nevertheless, the Colleges' financial statements and accompanying notes contained certain pertinent information relative to the deficits. Specifically, both Colleges' financial statements disclosed that the decreases in net position experienced during fiscal year 2013 were due, in part, to increases in the other post employment benefit liabilities which increased by \$4.6 million (to \$26.4 million) for Anne Arundel Community College and \$2.0 million (to \$12.7 million) for Carroll Community College.

Generally accepted accounting principles specify that liabilities for post employment benefits (such as healthcare benefits), which are deferred until retirement or another future event, be recognized in the years in which the employee provides services rather than during the postemployment period when payments are made.

The financial statements of one community college disclosed bank deposits that were not fully collateralized, or otherwise insured, as required by State law.

The financial statements of Wor-Wic Community College disclosed that bank deposits were not fully collateralized, or otherwise insured, as required by State law. Specifically, these financial statements disclosed that cash deposits totaling \$554,048 were secured by collateral which was not one of the types authorized by State laws.

The Local Government Article, Section 17-101 of the Annotated Code of Maryland requires that deposits with financial institutions by local government units (including community colleges) be fully collateralized. In addition, this Section of the law requires that collateral be of the types specified in the State Finance and Procurement Article, Section 6-202 of the Code. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution.

Two community colleges' financial statements did not meet certain requirements of generally accepted accounting principles.

Our review disclosed two colleges' did not meet certain requirements of generally accepted accounting principles. Specifically, the Hagerstown Community College "Statement of Net Position" did not display the assets, deferred outflow of resources, liabilities, and deferred inflow of resources for fiscal years 2013 and 2012 in accordance with the provisions established by the Governmental Accounting Standards Board's (GASB) Statement No. 65 entitled *Items Previously Reported as Assets and Liabilities*. Specifically, we noted the statement presented a "Deferred Inflow of Resources – Deferred student tuition revenue" totaling \$4,571,255 and \$4,925,786 for fiscal years 2013 and 2012, respectively. However, this unearned revenue does not meet the definition of a deferred inflow of resources. Section 1600 of the *Codification of Governmental Accounting and Financial Reporting Standards* published by the GASB states that material revenues received prior to normal time of receipt should be recorded as liabilities.

The Prince George's Community College financial statements were not presented in accordance with the requirements as established by GASB Statement No. 63 entitled *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Specifically, the basic financial statements (business-type financial statements and fiduciary fund financial statements) did not use the terminology established by GASB Statement No. 63 and codified primarily in Section 2200 of the *Codification of Governmental Accounting and Financial Reporting Standards* published by the GASB. For example, the Statement of Net Position was entitled "Statement of Net Assets."

MHEC advised us that it would notify the Colleges of the deficiencies and ensure the deficiencies are corrected in future audits.

Management Letters

Management letters for fiscal year 2013 included a total of 13 recommendations for improvement, including 3 recommendations considered to be material weaknesses related to one college's compliance with requirements.

We reviewed the management letters applicable to the audits of the community colleges that were filed with MHEC for the fiscal year ended June 30, 2013. Our review disclosed that 7 of the community colleges did not receive any recommendations; the remaining 8 community colleges received a total of 13 recommendations, 3 of which were considered material weaknesses related to student financial aid compliance requirements. The material weaknesses were found at Prince George's Community College and resulted in a qualified opinion on the student financial aid cluster in the College's *Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in accordance With OMB Circular A-133*.

As required by the Education Article, Section 16-315(c) of the Annotated Code of Maryland, MHEC evaluated the adequacy of the College's response to the material weaknesses and determined that appropriate corrective actions were indicated.

MHEC did not formally evaluate the adequacy of the colleges' responses to the 10 other recommendations since, in accordance with MHEC's guidelines, comments and suggestions related to these deficiencies are not required. When auditors include such items in the letters, the colleges' follow-up actions are subject to the auditors' review during subsequent audits.

The following schedule provides a summary of the fiscal year 2013 recommendations by fiscal area. Five of the 13 recommendations were repeated from the preceding year.

Fiscal Area of Recommendation	Number of Recommendations
Financial aid	10
Accounting and financial reporting	1
Student enrollment and residency	1
Grants and contracts	1
Total	13

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