

---

## **Review of Community College Audit Reports**

Fiscal Year Ending June 30, 2017

---



**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

**For further information concerning this report contact:**

**Department of Legislative Services  
Office of Legislative Audits**

301 West Preston Street, Room 1202  
Baltimore, Maryland 21201

Phone: 410-946-5900 · 301-970-5900

Toll Free in Maryland: 1-877-486-9964

Maryland Relay: 711

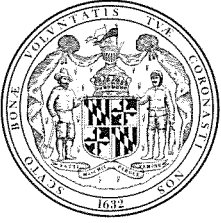
TTY: 410-946-5401 · 301-970-5401

E-mail: [OLAWebmaster@ola.state.md.us](mailto:OLAWebmaster@ola.state.md.us)

Website: [www.ola.state.md.us](http://www.ola.state.md.us)

**The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.**

*The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.*



DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber  
Executive Director

Thomas J. Barnickel III, CPA  
Legislative Auditor

October 22, 2018

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee  
Delegate C. William Frick, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Mr. Anwer J. Hasan, Chair  
Maryland Higher Education Commission

Ms. Victoria L. Gruber, Executive Director  
Department of Legislative Services

Ladies and Gentlemen:

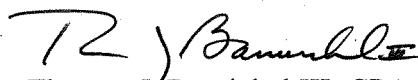
In accordance with the provisions of the Education Article, Section 16-315(h) of the Annotated Code of Maryland, we have reviewed the audit reports that must be filed by 15 of the State's community colleges with the Maryland Higher Education Commission (MHEC) for the fiscal year ended June 30, 2017.

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. Furthermore, we noted three colleges had deficit balances in unrestricted net position as of June 30, 2017.

Additionally, for one college, the applicable auditor reported a material weakness related to certain compliance requirements for fiscal year 2017. In this instance, MHEC evaluated the adequacy of the college's response to the material weakness 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 "TJ Barnickel III". The signature is stylized with a large "T" and "J" and a cursive "Barnickel III".

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, 2017. 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 position, or uninsured/uncollateralized bank deposits. This report contains the results of that review.

According to the State's records, State aid totaling approximately \$313.5 million was granted to 15 of Maryland's 16 community colleges for the fiscal year ended June 30, 2017. 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 2017 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, 2017.

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, three 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, 2017 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, two community colleges' audit reports reviewed for fiscal year 2017 did not express opinions on all opinion units included in the colleges' basic financial statements as required by generally accepted auditing standards. Specifically, the independent auditor's report for Chesapeake College and Wor-Wic Community College did not express an opinion regarding the college's aggregate remaining fund information (that is, the college's Fiduciary Funds). This situation was also noted during our preceding year's review for Chesapeake College. One other community college's audit report (Prince George's Community College) did not report on prior-period financial information presented in the financial statements.

MHEC advised us that it would notify the colleges of these 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

**Three community colleges' financial statements disclosed deficit balances in the unrestricted portion of their net position at June 30, 2017.**

Our review disclosed three colleges with deficit balances in the unrestricted component of their net position as of June 30, 2017.

Colleges with Deficit Unrestricted Balances as of June 30, 2017	
College	Unrestricted Net Position Deficit
Anne Arundel Community College	\$28,357,785
Community College of Baltimore County	\$7,203,963
Carroll Community College	\$18,306,495

This situation was also noted in the financial statements for Anne Arundel Community College, Community College of Baltimore County, and Carroll Community College for each fiscal year since 2011, 2016, and 2009, respectively. Anne Arundel and Carroll Community Colleges' unrestricted net position deficits increased during fiscal year 2017, while the Community College of Baltimore County's deficit decreased. 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, review of the colleges' financial statements disclosed that the unrestricted net position could be attributed to other postemployment benefit liabilities which at June 30, 2017 totaled \$36.2 million for Anne Arundel Community College and \$22.8 million for Carroll Community College. For the Community College of Baltimore County, the other postemployment benefit liability totaled \$3.5 million, and the College also had a net pension liability of \$5.6 million.

Generally accepted accounting principles specify that liabilities for postemployment benefits (such as healthcare benefits) and pensions, 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.

## **Management Letters**

**Management letters for fiscal year 2017 included a total of 14 recommendations for improvement related to a college's compliance with requirements. One of these recommendations was considered a material weakness.**

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, 2017. Our review disclosed that 9 of the community colleges did not receive any recommendations; the remaining 6 community colleges received a total of 14 recommendations. One of these recommendations was considered a material weakness. The material weakness existed at Montgomery College and was related to accounting and financial reporting.

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 weakness and determined that appropriate corrective action was indicated.

MHEC was not required to formally evaluate the adequacy of the colleges' responses to the 13 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 2017 recommendations by fiscal area. Seven of the 14 recommendations were repeated from the preceding year.



**Management Letter Recommendations for Fiscal Year 2017**

<b>Fiscal Area of Recommendation</b>	<b>Number of Recommendations</b>
Student enrollment and residency	6
Accounting and financial reporting	4
Financial aid	2
Grants and contracts	2
<b>Total</b>	<b>14</b>

AUDIT TEAM

**Bekana Edossa, CPA, CFE**  
Audit Manager

**Catherine M. Easter**  
Senior Auditor

**Lindsay M. Fertig, CPA**  
Staff Auditor