
Review of Community College Audit Reports

Fiscal Year Ending June 30, 2019



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
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Gregory A. Hook, CPA
Legislative Auditor

September 11, 2020

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Mr. Ian D. MacFarlane, 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, 2019.

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 one audit report with an instance of noncompliance with generally accepted auditing standards. Furthermore, we noted six colleges had deficit balances in unrestricted net position as of June 30, 2019.

Additionally, for one college, the independent auditor reported a material weakness related to certain compliance requirements for fiscal year 2019. In this instance, MHEC evaluated the adequacy of the college's response to the material weakness and concluded that appropriate corrective actions were indicated, and stated that it would continue to monitor corrective actions taken by the college.

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 that reads "Gregory A. Hook". The signature is written in a cursive style with a large, stylized 'G' and 'H'.

Gregory A. Hook, 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, 2019. 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 \$322.9 million was granted to 15 of Maryland's 16 community colleges for the fiscal year ended June 30, 2019. 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 as State regulations 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

Thirteen of the 15 audit reports for fiscal year 2019 were filed timely.

Our review disclosed that 13 of the 15 community college audit reports were filed timely with the Maryland Higher Education Commission (MHEC) for the fiscal year ended June 30, 2019. The two community college that submitted audit reports after the required filing date were Allegany College and Garrett College, both of which filed later than the extension dates granted.

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, one report was 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, 2019 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, one community college's audit report reviewed for fiscal year 2019 was not presented in accordance with certain generally accepted auditing standards. Specifically, the College of Southern Maryland's audit report did not describe the degree of responsibility taken for certain required supplementary information that accompanied the College's basic financial statements. In this regard, the independent auditor's report did not describe the degree of responsibility taken for the "Schedule of the College's Proportionate Share of the Net Pension Liability."

MHEC advised us that it would notify the college of this deficiency and ensure that the deficiency is 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

Six community colleges' financial statements disclosed deficit balances in the unrestricted portion of their net position at June 30, 2019.

Our review disclosed six colleges with deficit balances in the unrestricted component of their net position as of June 30, 2019.

Colleges with Deficit Unrestricted Balances as of June 30, 2019	
College	Unrestricted Net Position Deficit
Anne Arundel Community College	\$54,089,774
Community College of Baltimore County	\$82,950,996
Carroll Community College	\$13,964,025
Howard Community College	\$5,188,059
Montgomery College	\$33,452,922
Prince George's Community College	\$49,695,002

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. Howard Community College, Montgomery College, and Prince George's Community College have had a deficit unrestricted balance since fiscal year 2018. An unrestricted net position deficit balance represents the cost of current or past services that will need to be financed in the 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, our review of the colleges' financial statements disclosed that the unrestricted net position could be attributed at least in part to other postemployment benefit

liabilities, which at June 30, 2019 totaled \$38.0 million for Anne Arundel Community College; \$110.1 million for the Community College of Baltimore County; \$19.4 million for Carroll Community College; \$34.2 million for Howard Community College; \$9.2 million for Montgomery College; and \$84.8 million for Prince George's Community College.

Generally accepted accounting principles specify that liabilities for postemployment 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.

Management Letters and Compliance

Management letters for fiscal year 2019 included a total of 11 recommendations for improvement related to 5 colleges' 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, 2019. Our review disclosed that 10 of the community colleges did not receive any recommendations; the remaining 5 community colleges received a total of 11 recommendations. One of these recommendations was considered a material weakness. The material weakness existed at Prince George's Community College and was related to accounting and financial reporting. Specifically, the College duplicated the recording of certain payables resulting in the overstatement of accounts payable and capital assets.

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, determined that appropriate corrective action was indicated, and stated that it would continue to monitor corrective actions taken by the College.

MHEC was not required to 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 non-material 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 2019 recommendations by fiscal area. Two of the 11 recommendations were repeated from the preceding year.

Management Letter Recommendations for Fiscal Year 2019	
Fiscal Area of Recommendation	Number of Recommendations
Financial aid	4
Accounting and financial reporting	3
Student enrollment and residency	2
Grants and contracts	2
Total	11

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