
Review of Community College Audit Reports

Fiscal Year Ending June 30, 2006



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

October 16, 2007

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Mr. Kevin M. O'Keefe, Chairman
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, 2006. We are herein summarizing the results of such audits.

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. Additionally, none of the College's had a deficit net assets balance as of June 30, 2006. However, there was one college for which the applicable auditor reported one material weakness in internal control for fiscal year 2006. In this instance, MHEC evaluated the adequacy of the college's response to the material weakness noted, and concluded that appropriate follow-up action had been taken.

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

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Background Information and Purpose of Review

According to the State's records, State aid totaling approximately \$192 million for the fiscal year ended June 30, 2006 was granted to 15 of Maryland's 16 community colleges. 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 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. We issue separate reports on the College, which contain information regarding the results of these audits.

The Education Article, Section 16-315(a) of the Annotated Code of Maryland requires the Maryland Higher Education Commission (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 to 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 non-material weaknesses.

We reviewed the audit reports of the State's community colleges for the fiscal year ended June 30, 2006 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 net asset balances, or uninsured/uncollateralized bank deposits. This report contains the results of that review.

Results of Review

Audit Reports

Thirteen of the 15 audit reports for fiscal year 2006 were filed timely.

Our review disclosed that 13 of the 15 community college audit reports were filed timely with MHEC for the fiscal year ended June 30, 2006. The two community college reports submitted after the required filing date were those of Chesapeake College and the College of Southern Maryland. These two reports were submitted 17 days and 49 days, respectively, after the required filing date, and no extensions were 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, six 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, 2006 contained unqualified opinions from their auditors. However, 6 of the 15 community college audit reports reviewed for fiscal year 2006 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 reports for Allegany College, Chesapeake College, College of Southern Maryland, Montgomery College, Prince George's Community College, and Wor-Wic Community College did not express separate opinions on the colleges' business-type activities and discretely presented component units (for example, college foundations). MHEC advised us that it would notify the community colleges of the 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. 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.

Financial Statements

None of the community colleges had a deficit net assets balance as of June 30, 2006, and college bank deposits were adequately insured or collateralized at June 30, 2006.

There were no deficit net assets balances reported for any of the 15 colleges as of June 30, 2006. A deficit net assets balance would indicate that the college had more liabilities than assets and could indicate a potential financial problem.

Additionally, all college bank deposits were adequately insured or collateralized at June 30, 2006. Article 95, Section 22 of the Annotated Code of Maryland requires that deposits with financial institutions by local government units (including community colleges) be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution.

Management Letters

Management letters for fiscal year 2006 included a total of 19 recommendations for improvement, including one recommendation considered to be a material weakness in one college's system of internal controls.

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, 2006. Our review disclosed that 7 of the community colleges did not receive any recommendations, while the remaining 8 community colleges received a total of 19 recommendations, one of which was considered to be a material weakness in the college's system of internal control. The material weakness was found to exist at Garrett College and was related to student loan proceeds from lenders not being reconciled to the College's records in order to verify that proper loan disbursements were made to student accounts. 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 follow-up action had been taken.

MHEC did not formally evaluate the adequacy of the colleges' responses to the 18 non-material recommendations since, in accordance with MHEC's guidelines, comments and suggestions related to non-material weaknesses 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 2006 recommendations by fiscal area. None of the 19 recommendations were repeated from the preceding year.

Fiscal Area of Recommendation	Number of Recommendations
Financial aid	7
Fixed assets, inventory	4
Payroll	2
Cash receipts and disbursements	2
Other (for example, policy development)	4
Total	19

AUDIT TEAM

Robert A. Garman, CPA
Assistant Director

Nadine L. Forgenie
Senior Auditor