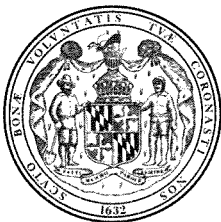

Review of Community College Audit Reports

Fiscal Year Ending June 30, 2011



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

November 1, 2012

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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, 2011.

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, two colleges had deficit balances in unrestricted net assets as of June 30, 2011. Additionally, there were two colleges for which the applicable auditors reported a total of five material weaknesses in internal control for fiscal year 2011. In these instances, MHEC evaluated the adequacy of the colleges' responses to the material weaknesses and concluded that appropriate follow-up actions 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,

Thomas J. Barnickel III, CPA
Acting 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, 2011. 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 \$258.1 million for the fiscal year ended June 30, 2011 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 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. 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 additional recommendations that were not considered material weaknesses.

Results of Review

Audit Reports

All 15 audit reports for fiscal year 2011 were filed timely.

Our review disclosed that all 15 community college audit reports were filed timely with MHEC for the fiscal year ended June 30, 2011.

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, 2011 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 2011 were not presented in accordance with certain generally accepted auditing standards. Specifically, one community college's audit report (Wor-Wic Community College) did not express opinions on all opinion units included in the College's basic financial statements. In this regard, the independent auditor's report did not express an opinion regarding the College's aggregate remaining fund information (that is, the College's Fiduciary Fund financial statements). In addition, one other community college's audit report (Frederick Community College) did not describe the degree of responsibility assumed in relation to prior-period financial information presented in the College's basic financial statements, which were audited by a different certified public accounting firm. MHEC advised us that it would notify the community 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 college's financial statements disclosed deficit balances in the unrestricted portion of their net assets at June 30, 2011.

Our review disclosed two colleges with deficit balances in the unrestricted component of their net assets as of June 30, 2011. Specifically, Anne Arundel and Carroll Community Colleges had unrestricted net assets deficits of \$5,735,738 and \$4,769,815, respectively. Furthermore, this situation has been noted in regard to the financial statements for Carroll Community College for each fiscal year since 2009. An unrestricted net assets 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 decrease in net assets experienced during fiscal year 2011 was due in part to the other post employment benefit liability which increased by \$3.8 million for Anne Arundel Community College and \$2.4 million for Carroll Community College during fiscal year 2011. Anne Arundel Community College's financial statements also identified a \$10.4 million transfer made to the County (to offset a budget shortfall) as the primary reason for the decrease in unrestricted net assets.

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.

Management Letters

Management letters for fiscal year 2011 included a total of 22 recommendations for improvement, including a total of 5 recommendations considered to be material weaknesses in two colleges' systems of internal control.

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, 2011. Our

review disclosed that 7 of the community colleges did not receive any recommendations, while the remaining 8 community colleges received a total of 22 recommendations, 5 of which were considered material weaknesses in the colleges' systems of internal control. The material weaknesses were found to exist at the College of Southern Maryland and Garrett College and were related to the colleges' grants, financial reporting, and fixed assets.

As required by the Education Article, Section 16-315(c) of the Annotated Code of Maryland, MHEC evaluated the adequacy of the colleges' responses to the material weaknesses and determined that appropriate follow-up action had been taken.

MHEC did not formally evaluate the adequacy of the colleges' responses to the 17 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 2011 recommendations by fiscal area. Nine of the 22 recommendations (3 of which were also considered material weaknesses in 2010, with 1 of these 3 having been repeated since 2008) were repeated from the preceding year.

Fiscal Area of Recommendation	Number of Recommendations
Financial aid	13
Grants and contracts	3
Accounting and financial reporting	3
Fixed assets, inventory	2
Student enrollment and residency	1
Total	22

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