
Review of Community College Audit Reports

Fiscal Year Ending June 30, 2022



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
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

December 6, 2023

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

Ms. Catherine J. Motz, 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, 2022.

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 note that four colleges had deficit balances in unrestricted net position as of June 30, 2022.

Additionally, for two colleges the independent auditors reported one material weakness, each related to certain compliance requirements for fiscal year 2022. In these cases, MHEC evaluated the adequacy of each college's response to the material weakness and concluded that appropriate corrective actions were proposed, 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, 2022. 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 \$386 million was granted to 15 of Maryland's 16 community colleges for the fiscal year ended June 30, 2022. 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 sixteenth and 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

All 15 audit reports for fiscal year 2022 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, 2022.

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 and were 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, 2022 contained unqualified opinions from their independent auditors and were presented in accordance with generally accepted auditing standards.

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

Four community colleges' financial statements disclosed deficit balances in the unrestricted portion of their net position at June 30, 2022.

Our review disclosed four colleges with deficit balances in the unrestricted component of their net position as of June 30, 2022.

Colleges with Deficit Unrestricted Balances as of June 30, 2022

College	Unrestricted Net Position Deficit
Anne Arundel Community College	\$43,134,966
Community College of Baltimore County	\$93,055,918
Carroll Community College	\$14,164,899
Montgomery College	\$5,873,511

This situation was also noted in the financial statements for Anne Arundel Community College, Community College of Baltimore County, Carroll Community College, and Montgomery College for each fiscal year since 2011, 2016, 2009, and 2018, respectively. 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 (OPEB) liabilities, which at June 30, 2022 totaled \$88.5 million for Anne Arundel Community College; \$148.7 million for Community College of Baltimore County; \$29.4 million for Carroll Community College; and \$42.3 million for Montgomery 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 2022 included a total of 11 recommendations for improvement related to 7 colleges' compliance with requirements. Two of these recommendations were considered material weaknesses by the independent auditors.

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, 2022. Our review disclosed that 8 of the community colleges did not receive any recommendations and that the remaining 7 community colleges received a total of 11 recommendations. Of these 11 recommendations, 2 were considered material weaknesses by the respective independent auditors. Specifically, Hagerstown Community College restated its financial statements for fiscal year 2021 due to an error in the calculation of the College's OPEB assets and related deferred inflows and outflows. In addition, Montgomery College used incorrect plan benefit information when preparing the OPEB liability valuation.

As required by the Education Article, Section 16-315(c) of the Annotated Code of Maryland, MHEC evaluated the adequacy of the each college's responses to the material weaknesses, 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 remaining 9 recommendations since, in accordance with MHEC's guidelines, comments and suggestions related to these non-material deficiencies are not required. When an independent auditor includes such items in the letter, the college's follow-up actions are subject to the auditor's review during subsequent audits.

The following schedule provides a summary of the fiscal year 2022 recommendations by fiscal area. Four of the 11 recommendations were repeated from the preceding year.

Management Letter Recommendations for Fiscal Year 2022

Fiscal Area of Recommendation	Number of Recommendations
Financial aid	2
Student enrollment and residency	2
Accounting and financial reporting	7
Total	11

AUDIT TEAM

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