
Review of Community College Audit Reports

Fiscal Year Ending June 30, 2016



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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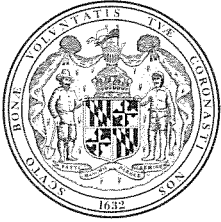
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
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Executive Director

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Legislative Auditor

December 19, 2017

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

Mr. Warren G. Deschenaux, 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, 2016.

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 instances of noncompliance with generally accepted auditing standards and accounting principles. Furthermore, we noted three colleges had deficit balances in unrestricted net position as of June 30, 2016.

Additionally, for two colleges, the applicable auditors reported a total of three material weaknesses related to certain compliance requirements for fiscal year 2016. In these instances, MHEC evaluated the adequacy of the colleges' responses to the material weaknesses 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', with a stylized flourish at the end.

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, 2016. 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 \$302 million was granted to 15 of Maryland's 16 community colleges for the fiscal year ended June 30, 2016. 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 2016 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, 2016.

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, 2016 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 audit report reviewed for fiscal year 2016 did not express opinions on all opinion units included in the college's basic financial statements as required by generally accepted auditing standards. Specifically, the independent auditor's report for Chesapeake 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. MHEC advised us that it would notify the College of this deficiency and ensure that it 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

Three community colleges' financial statements disclosed deficit balances in the unrestricted portion of their net position at June 30, 2016.

Our review disclosed three colleges with deficit balances in the unrestricted component of their net position as of June 30, 2016.

Colleges with Deficit Unrestricted Balances as of June 30, 2016	
College	Unrestricted Net Position Deficit
Anne Arundel Community College	\$24,515,440
Community College of Baltimore County	\$8,707,879
Carroll Community College	\$15,865,765

This situation was also noted in the financial statements for Anne Arundel and Carroll Community Colleges for each fiscal year since 2011 and 2009, respectively. For these two colleges, the unrestricted net position deficits increased during fiscal year 2016. 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, 2016 totaled \$32.8 million for Anne Arundel Community College and \$20.2 million for Carroll Community College. For the Community College of Baltimore County, the other postemployment benefit liability totaled \$2.6 million, and the College also had a net pension liability of \$6.8 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.

The financial statements of one community college disclosed bank deposits that were not fully collateralized, or otherwise insured, as required by State law.

The financial statements of Wor-Wic Community College disclosed that bank deposits were not fully collateralized, or otherwise insured, as required by State law. Specifically, these financial statements disclosed that at June 30, 2016, cash deposits totaling \$268,593 were not adequately collateralized, or otherwise insured, as required by State law.

The Local Government Article, Section 17-101 of the Annotated Code of Maryland requires that deposits with financial institutions by local government units (including community colleges) be fully collateralized. In addition, this Section of the law requires that collateral be of the types specified in the State Finance and Procurement Article, Section 6-202 of the Code. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution.

One community college's financial statements did not meet certain requirements of generally accepted accounting principles.

Our review disclosed one college did not meet certain requirements of generally accepted accounting principles. Specifically, Chesapeake College's Net Investment in Capital Assets net position component for business-type activities (\$72,873,249) presented on the Statement of Net Position was not calculated as required by Section 2200 of the Codification of Governmental Accounting and Financial Standards published by Government Accounting Standards Board.

MHEC advised us that it would notify the College of the deficiency and ensure it is corrected in future audits.

Management Letters

Management letters for fiscal year 2016 included a total of 22 recommendations for improvement related to a college's compliance with requirements. Three of these recommendations were considered material weaknesses.

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, 2016. Our review disclosed that 6 of the community colleges did not receive any recommendations; the remaining 9 community colleges received a total of 22 recommendations. Three of these recommendations were considered material weaknesses. The material weaknesses were found to exist at Montgomery College and Prince George's Community College and were 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 Colleges' responses to the material weaknesses and determined that appropriate corrective actions were indicated.

MHEC was not required to formally evaluate the adequacy of the colleges' responses to the 19 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 2016 recommendations by fiscal area. Seven of the 22 recommendations were repeated from the preceding year.

Management Letter Recommendations for Fiscal Year 2016	
Fiscal Area of Recommendation	Number of Recommendations
Student enrollment and residency	10
Financial aid	6
Accounting and financial reporting	5
Grants and contracts	1
Total	22

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