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## **Review of Community College Audit Reports**

Fiscal Year Ending June 30, 2018

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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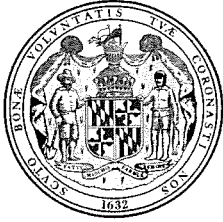
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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber  
Executive Director

Gregory A. Hook, CPA  
Legislative Auditor

October 28, 2019

Senator Craig J. Zucker, Co-Chair, Joint Audit and Evaluation Committee  
Delegate Shelly L. Hettleman, Co-Chair, Joint Audit and Evaluation Committee  
Members of Joint Audit and Evaluation Committee  
Annapolis, Maryland

Mr. Anwer J. Hasan, 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, 2018.

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 two audit reports with instances of noncompliance with generally accepted auditing standards. Furthermore, we noted six colleges had deficit balances in unrestricted net position as of June 30, 2018.

Additionally, for one college, the independent auditors' report on compliance contained a qualified opinion related to certain compliance requirements applicable to a major federal program for fiscal year 2018. MHEC followed up with the college regarding its response to the auditors' report, determined that

appropriate corrective action was 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, 2018. 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 \$317.0 million was granted to 15 of Maryland's 16 community colleges for the fiscal year ended June 30, 2018. 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 2018 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, 2018.

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, 2018 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 2018 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 Wor-Wic Community 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.

One other community college's audit report (Garrett College) did not include the appropriate emphasis-of-matter paragraph related to the change in the accounting principle implemented in fiscal year 2018. In this regard, the College implemented Government Accounting Standards Board Statement No. 75 entitled *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* effective for fiscal year ended June 30, 2018. The implementation of Statement No. 75 resulted in a number of changes to the College's financial statements, including the restatement of beginning net position.

MHEC advised us that it would notify the colleges of these 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

**Six community colleges' financial statements disclosed deficit balances in the unrestricted portion of their net position at June 30, 2018.**

Our review disclosed six colleges with deficit balances in the unrestricted component of their net position as of June 30, 2018.

Colleges with Deficit Unrestricted Balances as of June 30, 2018	
College	Unrestricted Net Position Deficit
Anne Arundel Community College	\$54,689,617
Community College of Baltimore County	\$71,228,444
Carroll Community College	\$27,374,023
Howard Community College	\$9,253,201
Montgomery College	\$31,339,713
Prince George's Community College	\$44,904,070

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. The unrestricted net position deficits increased during fiscal year 2018 for each of the three community colleges. 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, 2018 totaled \$58.3 million for Anne Arundel Community College; \$71.9 million for the Community College of Baltimore County; \$31.5 million for Carroll Community College; \$33.3 million for Howard Community College; \$64.4 million for Montgomery College; and \$80.9 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 2018 included a total of 11 recommendations for improvement related to a college's compliance with requirements. Two 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, 2018. Our review disclosed that 9 of the community colleges did not receive any recommendations; the remaining 6 community colleges received a total of 11 recommendations. Two of these recommendations were considered material weaknesses. The material weaknesses existed at Prince George's Community College related to accounting and financial reporting and grants and contracts.

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 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 9 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 2018 recommendations by fiscal area. Two of the 11 recommendations were repeated from the preceding year.

<b>Management Letter Recommendations for Fiscal Year 2018</b>	
<b>Fiscal Area of Recommendation</b>	<b>Number of Recommendations</b>
Student enrollment and residency	4
Accounting and financial reporting	3
Financial aid	2
Grants and contracts	2
<b>Total</b>	<b>11</b>

**The auditors' report for one community college contained a qualified opinion related to compliance with requirements applicable to a major federal program.**

The Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance for the Prince George's Community College contained a qualified opinion related to compliance with the requirements of a major federal program. A qualified opinion is a statement that, except for the noncompliance described, the college complied, in all material respects, with the types of compliance requirements contained in the Federal Office of Management and Budget's *Compliance Supplement* that could have a direct and material effect on the major federal programs. According to the report, as reported in one of the aforementioned material weaknesses, the College did not maintain documentation to support the eligibility of certain participants in the related federal program.

AUDIT TEAM

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