

# Audit Report

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

Fiscal Year Ending June 30, 2015

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

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October 4, 2016

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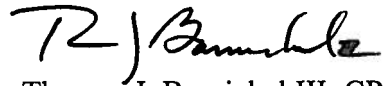
Ladies and Gentlemen:

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, 2015.

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 an instance of noncompliance with generally accepted auditing standards. Furthermore, we noted two colleges had deficit balances in unrestricted net position as of June 30, 2015.

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".

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, 2015. 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 \$290 million was granted to 15 of Maryland's 16 community colleges for the fiscal year ended June 30, 2015. 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 2015 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, 2015.

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, 2015 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 2015 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 report for Chesapeake College did not express an opinion regarding the College's aggregate remaining fund information (that is, the College's Fiduciary Funds). MHEC advised us that it would notify the College of this 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.

## Financial Statements

**Two community colleges' financial statements disclosed deficit balances in the unrestricted portion of their net position at June 30, 2015.**

Our review disclosed two colleges with deficit balances in the unrestricted component of their net position as of June 30, 2015. Specifically, Anne Arundel and Carroll Community Colleges had unrestricted net position deficits of \$20,970,520 and \$13,440,787, respectively. Furthermore, 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 2015. 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, both Colleges' financial statements disclosed that the decreases in net position experienced during fiscal year 2015 were due, in part, to increases in the other post employment benefit liabilities which increased by \$3.9 million (to \$33.8 million) for Anne Arundel Community College and \$2.5 million (to \$17.5 million) for Carroll Community College.

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 2015 included a total of 15 recommendations for improvement related to a college's compliance with requirements. None 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, 2015. Our

review disclosed that 9 of the community colleges did not receive any recommendations; the remaining 6 community colleges received a total of 15 recommendations. None of these recommendations were considered material weaknesses.

MHEC did not formally evaluate the adequacy of the colleges' responses to the 15 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 2015 recommendations by fiscal area. Two of the 15 recommendations were repeated from the preceding year.

**Management Letter Recommendations for Fiscal Year 2015**

<b>Fiscal Area of Recommendation</b>	<b>Number of Recommendations</b>
Financial aid	6
Student enrollment and residency	6
Accounting and financial reporting	3
<b>Total</b>	<b>15</b>



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