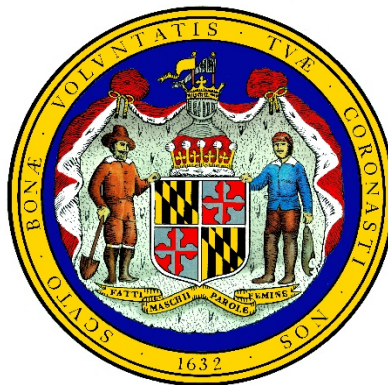

Review of Community College Audit Reports

Fiscal Year Ending June 30, 2023



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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To Obtain Further Information

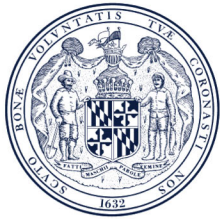
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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Brian S. Tanen, CPA, CFE
Legislative Auditor

February 4, 2025

Senator Shelly L. Hettleman, 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 with the Maryland Higher Education Commission (MHEC) by 15 of the State's community colleges for the fiscal year ended June 30, 2023.

Our review disclosed that the community colleges and their independent auditors substantially complied with the applicable statutes and the guidelines promulgated by MHEC. Specifically, 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. We did note that three colleges had deficit balances in unrestricted net position as of June 30, 2023.

Additionally, the independent auditor report for one college noted a material weakness related to certain compliance requirements for fiscal year 2023. MHEC evaluated the adequacy of the college's response to the material weakness and concluded that appropriate corrective actions were proposed.

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,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
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 with the Maryland Higher Education Commission (MHEC) by 15 of the State's community colleges¹ for the fiscal year ended June 30, 2023. 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 \$457 million was granted to 15 of Maryland's 16 community colleges for the fiscal year ended June 30, 2023. This aid primarily consisted of funding based on cost and student enrollment data as well as certain retirement benefits and various grants.

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.

¹ The sixteenth college is Baltimore City Community College (BCCC), which is a budgetary unit of the State and receives an annual State appropriation. BCCC is not subject to the Education Article, Section 16-315(h) of the Annotated Code of Maryland, but obtains annual financial statement audits conducted by a certified public accounting firm. BCCC is also subject to fiscal compliance audits by the Office of Legislative Audits for which a separate audit report is issued.

Results of Review

Audit Reports

All 15 audit reports for fiscal year 2023 were filed timely.

Our review disclosed that all 15 community college audit reports for the fiscal year ended June 30, 2023 were filed timely with the Maryland Higher Education Commission (MHEC). 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 15 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, 2023, 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

Three community colleges' financial statements disclosed deficit balances in the unrestricted portion of their net position as of June 30, 2023.

Our review disclosed three colleges with deficit balances in the unrestricted component of their net position as of June 30, 2023, a condition noted for several years at each of these colleges (see Figure 1 on the following page). An unrestricted net position deficit balance represents expenses for current or past services that will need to be financed with funds related to future periods and could indicate a potential financial problem.

Figure 1
Colleges with Deficit Unrestricted Balances as of June 30, 2023

College	Deficit	Condition Repeated Since Fiscal Year
Anne Arundel Community College	\$41,826,321	2011
Community College of Baltimore County	\$86,270,341	2016
Carroll Community College	\$14,717,522	2009

Our review of the colleges' financial statements disclosed that the unrestricted net position deficits could be attributed at least in part to other postemployment benefit (OPEB) liabilities, which as of June 30, 2023, totaled \$61.4 million for Anne Arundel Community College; \$116.0 million for Community College of Baltimore County; and \$16.5 million for Carroll 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

Independent auditor management letters for 7 colleges included 8 recommendations for improvement, including one that was considered a material weakness.

Our review of the independent auditors' management letters disclosed that 7 community colleges received a total of 8 recommendations (see Figure 2 on the following page) including one resulting from a material weakness and one repeated from the preceding year. Specifically, the independent auditor's management letter for Montgomery College noted a material weakness that the College reported incorrect enrollment status, program begin dates, and effective withdraw dates to the U.S. Department of Education. As required by the Education Article, Section 16-315(c) of the Annotated Code of Maryland, MHEC

evaluated the adequacy of Montgomery College's response to the material weakness and determined that appropriate corrective action was indicated.

Figure 2
Management Letter Recommendations for
Fiscal Year 2023

Fiscal Area of Recommendation	Number of Recommendations
Financial aid	5
Grants and contracts	1
Accounting and financial reporting	2
Total	8

MHEC was not required to formally evaluate the adequacy of the colleges' responses to the remaining 7 recommendations since, in accordance with MHEC's guidelines, comments and suggestions related to non-material deficiencies are not required. However, the colleges' follow-up actions are subject to the auditors' reviews during subsequent audits.

AUDIT TEAM

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