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

Fiscal Year Ending June 30, 2008

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

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

November 24, 2009

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Executive Director

**Bruce A. Myers, CPA**  
Legislative Auditor

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee  
Senator Verna L. Jones, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Mr. Kevin M. O'Keefe, Chairman  
Maryland Higher Education Commission

Mr. Karl S. Aro, 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, 2008. We are herein summarizing the results of such audits.

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. Additionally, none of the colleges had a deficit net assets balance as of June 30, 2008. However, there were four colleges for which the applicable auditors reported a total of nine material weaknesses in internal control for fiscal year 2008. In these instances, MHEC evaluated the adequacy of the colleges' responses to the material weaknesses noted, and concluded that appropriate follow-up actions had been taken.

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,

Bruce A. Myers, CPA  
Legislative Auditor



## **Background Information and Purpose of Review**

According to the State's records, State aid totaling approximately \$242 million for the fiscal year ended June 30, 2008 was granted to 15 of Maryland's 16 community colleges. 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 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. We issue separate reports on the College, which contain information regarding the results of these audits.

The Education Article, Section 16-315(a) of the Annotated Code of Maryland requires the Maryland Higher Education Commission (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 to 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 non-material weaknesses.

We reviewed the audit reports of the State's community colleges for the fiscal year ended June 30, 2008 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 net asset balances, or uninsured/uncollateralized bank deposits. This report contains the results of that review.

## Results of Review

### Audit Reports

**Eleven of the 15 audit reports for fiscal year 2008 were filed timely.**

Our review disclosed that 11 of the 15 community college audit reports were filed timely with the Maryland Higher Education Commission (MHEC) for the fiscal year ended June 30, 2008. The four community college audit reports submitted after the required filing date were for the College of Southern Maryland, Frederick Community College, Garrett College, and Hagerstown Community College; no extensions of the filing date had been granted to these four colleges.

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, four 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, 2008 contained unqualified opinions from their auditors. However, 3 of the 15 community college audit reports reviewed for fiscal year 2008 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 reports for the College of Southern Maryland, Montgomery College, and Prince George's Community College did not express separate opinions on the colleges' business-type activities and discretely presented component units (for example, college foundations).

In addition, we noted that one community college's audit report (Community College of Baltimore County) was not appropriately modified to properly reflect that the opinions were based, in part, on the report of another auditor. In this regard, the audit report's introductory paragraph stated that the community college's discretely presented component unit had been audited, in part, by other auditors and that the independent auditor's opinions, as related to this portion of the discretely presented component unit, was based solely on the report of other auditors. However, related modifications were not made to the scope or opinion paragraphs of the Independent Auditors' Report.

Similar conditions in which these audit reports were not presented in accordance with generally accepted auditing standards were also noted during our preceding review. MHEC notified the community colleges of these deficiencies to help 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. 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**

**None of the community colleges had a deficit net assets balance as of June 30, 2008.**

There were no deficit net assets balances reported for any of the 15 colleges as of June 30, 2008. A deficit net assets balance would indicate that the college had more liabilities than assets and could indicate a potential financial problem.

**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 cash deposits totaling \$707,107 either were collateralized by out-of-state bonds (\$704,508) or were uninsured and uncollateralized (\$2,599).

Article 95, Section 22 of the Annotated Code of Maryland requires that deposits with financial institutions by community colleges be fully collateralized, and establishes the types of acceptable collateral (generally, federal obligations or obligations of Maryland governmental entities). Full collateralization minimizes the risk of loss of deposits in the event the financial institution defaults.

## Management Letters

**Management letters for fiscal year 2008 included a total of 24 recommendations for improvement, including a total of nine recommendations considered to be material weaknesses in the systems of internal control for four colleges.**

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, 2008. Our review disclosed that eight of the community colleges did not receive any recommendations, while the remaining seven community colleges received a total of 24 recommendations, 9 of which were considered to be material weaknesses in the colleges' systems of internal control. The material weaknesses were found to exist at Allegany College, College of Southern Maryland, Garrett College, and Prince George's Community College, and were related to the colleges' financial reporting, fixed assets, automated information systems, and payroll.

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 follow-up action had been taken.

MHEC did not formally evaluate the adequacy of the colleges' responses to the 15 non-material recommendations since, in accordance with MHEC's guidelines, comments and suggestions related to non-material weaknesses 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 2008 recommendations by fiscal area. Five of the 24 recommendations (all related to non-material weaknesses) were repeated from the preceding year.

<b>Fiscal Area of Recommendation</b>	<b>Number of Recommendations</b>
Accounting and financial reporting	7
Financial aid	6
Cash receipts and disbursements	3
Fixed assets, inventory	2
Payroll	2
Other (for example, automated information systems)	4
<b>Total</b>	<b>24</b>



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