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

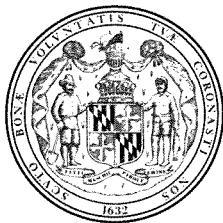
Fiscal Year Ending June 30, 2010

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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

December 2, 2011

Karl S. Aro  
Executive Director

Bruce A. Myers, CPA  
Legislative Auditor

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee  
Senator James C. Rosapepe, Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Mr. Anwer Hasan, Chair  
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, 2010. 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. However, one of the colleges had a deficit net assets balance as of June 30, 2010. Additionally, there were five colleges for which the applicable auditors reported a total of 11 material weaknesses in internal control for fiscal year 2010. In these instances, MHEC evaluated the adequacy of the colleges' responses to the material weaknesses and concluded that appropriate follow-up actions had been taken.

A draft copy of this report was provided to the MHEC for review and comment. Since there are no recommendations in this report, a written response was not necessary.

Respectfully submitted,

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



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

According to the State's records, State aid totaling approximately \$256.2 million for the fiscal year ended June 30, 2010 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, 2010 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**

**All 15 audit reports for fiscal year 2010 were filed timely.**

Our review disclosed that all 15 community college audit reports were filed timely with MHEC for the fiscal year ended June 30, 2010.

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 and were in accordance with generally accepted auditing standards.**

Our review disclosed that all 15 community college audit reports for the fiscal year ended June 30, 2010 contained unqualified opinions from their 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**

**One community college disclosed a deficit balance in the unrestricted portion of its net assets at June 30, 2010.**

Our review disclosed one college with a deficit balance in the unrestricted component of its net assets as of June 30, 2010. Specifically, Carroll Community College had an unrestricted net assets deficit of \$3,505,324. Since the College's invested in capital assets component had a balance of \$1,732,423, which offsets the unrestricted net assets deficit, the total net assets deficit was \$1,772,901 as of

June 30, 2010. Furthermore, this situation was also noted in regard to the financial statements for this College in fiscal year 2009. A deficit net assets balance indicates that a college has more liabilities than assets and could indicate a potential financial problem.

We did not perform a detailed analysis to determine the cause of this deficit; nevertheless, the College's financial statements and accompanying notes contained certain pertinent information relative to the deficit. Specifically, the College's financial statements disclosed that the decrease in net assets in fiscal year 2010 of approximately \$1.4 million was due primarily to the other post employment benefit liability which increased by \$2.3 million during fiscal year 2010.

Generally accepted accounting principles specify that liabilities for post employment 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 2010 included a total of 30 recommendations for improvement, including a total of 11 recommendations considered to be material weaknesses in five colleges' systems of internal control.**

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, 2010. Our review disclosed that six of the community colleges did not receive any recommendations, while the remaining nine community colleges received a total of 30 recommendations, 11 of which were considered material weaknesses in the colleges' systems of internal control. The material weaknesses were found to exist at Community College of Baltimore County, College of Southern Maryland, Garrett College, Montgomery Community College, and Prince George's Community College and were related to the colleges' grants, financial reporting, financial aid, fixed assets, student enrollment reporting, and information systems.

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 19 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 2010 recommendations by fiscal area. Seven of the 30 recommendations (4 of which were also considered material weaknesses in 2009) were repeated from the preceding year.

<b>Fiscal Area of Recommendation</b>	<b>Number of Recommendations</b>
Financial aid	10
Grants and contracts	8
Accounting and financial reporting	4
Student enrollment and residency	3
Fixed assets, inventory	2
Information systems	2
Accounts receivable	1
<b>Total</b>	<b>30</b>



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