Review of Community College Audit Reports

Fiscal Year Ending June 30, 2012

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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MARYLAND GENERAL ASSEMBLY

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October 11, 2013

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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, 2012.

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, three colleges had deficit balances in unrestricted net assets as of June 30, 2012. Additionally, for one college, the applicable auditor reported a material weakness in internal controls for fiscal year 2012. In this instance, MHEC evaluated the adequacy of the college's response to the material weakness and concluded that no further action was required.

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,

Thomas J. Barnickel III, CPA
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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, 2012. 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 assets, or uninsured/uncollateralized bank deposits. This report contains the results of that review.

According to the State's records, State aid totaling approximately $264 million was granted to 15 of Maryland's 16 community colleges for the fiscal year ended June 30, 2012. 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 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 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 2012 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, 2012.

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 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, 2012 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

Three community colleges' financial statements disclosed deficit balances in the unrestricted portion of their net assets at June 30, 2012.

Our review disclosed three colleges with deficit balances in the unrestricted component of their net assets as of June 30, 2012. Specifically, Anne Arundel and Carroll Community Colleges and the Community College of Baltimore County had unrestricted net assets deficits of $12,390,918, $6,218,363, and $1,836,601, respectively. Furthermore, this situation was also noted in the 2011 financial statements for Anne Arundel Community College and in the financial statements for Carroll Community College for each fiscal year since 2009. For these two colleges, the unrestricted net assets deficits increased during fiscal year

2012. An unrestricted net assets 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, these Colleges' financial statements disclosed that the decreases in net assets experienced during fiscal year 2012 that contributed to these deficits were due, in part, to increases in the other post employment benefit liabilities. During fiscal year 2012, these post employment benefit liabilities increased by $4.3 million for Anne Arundel Community College, $6.9 million for the Community College of Baltimore County, and $1.9 million for Carroll Community College. Additionally, according to Anne Arundel Community College's financial statements, the decrease in unrestricted net assets in fiscal year 2012 primarily related to funding reductions by Anne Arundel County and the planned utilization of net assets to fund operating costs.

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.

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 $295,262 exceeded collateralization and insurance at June 30, 2012 and, therefore, subjected these deposits to custodial credit risk.

Article 95, Section 22 of the Annotated Code of Maryland requires that deposits with financial institutions by local government units (including community colleges) be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution.

Management Letters

Management letters for fiscal year 2012 included a total of 19 recommendations for improvement, including 1 recommendation considered to be a material weakness in a college's system of internal controls.

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, 2012. Our review disclosed that 8 of the community colleges did not receive any recommendations; the remaining 7 community colleges received a total of 19 recommendations, 1 of which was considered a material weakness in the college's system of internal controls. The material weakness, which has been reported since 2008, was found at Garrett College and was related to the college's financial reporting.

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 weakness and determined that no further action was required.

MHEC did not formally evaluate the adequacy of the colleges' responses to the 18 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 2012 recommendations by fiscal area. Six of the 19 recommendations (including the aforementioned material weakness) were repeated from the preceding year.

Fiscal Area of Recommendation	Number of Recommendations
Financial aid	16
Accounting and financial reporting	3
Total	**19**

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