Review of Community College Audit Reports

Fiscal Year Ending June 30, 2009

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 1, 2010

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Maryland Higher Education Commission

Mr. Karl S. Aro, Executive Director
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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, 2009. 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, 2009. Additionally, there were three colleges for which the applicable auditors reported a total of 14 material weaknesses in internal control for fiscal year 2009. 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, CPA
Legislative Auditor

Background Information and Purpose of Review

According to the State's records, State aid totaling approximately $255 million for the fiscal year ended June 30, 2009 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, 2009 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

Fourteen of the 15 audit reports for fiscal year 2009 were filed timely.

Our review disclosed that 14 of the 15 community college audit reports were filed timely with MHEC for the fiscal year ended June 30, 2009. The Garrett College audit report was submitted after the required filing date, including the extension to file that had been granted to the College. The College's audit report was also filed late in fiscal year 2008.

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 also disclosed that all 15 community college audit reports for the fiscal year ended June 30, 2009 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, 2009.

Our review disclosed one college with a deficit balance in the unresticted portion of its net assets as of June 30, 2009. Specifically, Carroll Community College had an unrestricted net assets deficit of $2,219,166. Since the College's invested in capital assets component had a balance of $1,836,519, which offsets the unrestricted net assets deficit, the total net assets deficit was $382,647 as of June

30, 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 2009 of approximately $2.2 million was due primarily to the Other Post Employment Benefit obligation which accounted for fiscal year 2009 expenses of $2.1 million.

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 2009 included a total of 33 recommendations for improvement, including a total of 14 recommendations considered to be material weaknesses in three 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, 2009. Our review disclosed that 7 of the community colleges did not receive any recommendations, while the remaining 8 community colleges received a total of 33 recommendations, 14 of which were considered material weaknesses in the colleges' systems of internal control. The material weaknesses were found to exist at College of Southern Maryland, Garrett College, and Prince George's Community College and were related to the colleges' grants, financial reporting, financial aid, fixed assets, and accounts receivable.

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 2009 recommendations by fiscal area. Nine of the 33 recommendations (6 of which were also considered material weaknesses in 2008) were repeated from the preceding year.

Fiscal Area of Recommendation	Number of Recommendations
Financial aid	9
Grants and contracts	9
Accounting and financial reporting	5
Fixed assets, inventory	3
Cash receipts and disbursements	2
Electronic data processing systems	2
Student enrollment and residency	2
Accounts receivable	1
Total	**33**

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