
Review of Community College Audit Reports

Fiscal Year Ending June 30, 2007



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

November 12, 2008

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., 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, 2007. 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, 2007. However, there were two colleges for which the applicable auditors reported a total of five material weaknesses in internal control for fiscal year 2007. 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 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 \$206 million for the fiscal year ended June 30, 2007 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, 2007 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 2007 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, 2007. The Prince George's Community College audit report was submitted 21 days after the required filing date, and no extension was granted.

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, 2007 contained unqualified opinions from their auditors. However, 3 of the 15 community college audit reports reviewed for fiscal year 2007 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 by other auditors and that the independent auditor's opinions as related to 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.

MHEC advised us that it would notify the community colleges of these deficiencies and 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, 2007.

There were no deficit net assets balances reported for any of the 15 colleges as of June 30, 2007. 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 for one community college disclosed uninsured/uncollateralized bank deposits.

The financial statements of Frederick Community College disclosed uninsured/uncollateralized bank deposits. Specifically, these financial statements disclosed that cash deposits totaling \$788,567 exceeded collateralization and insurance at June 30, 2007, therefore subjecting 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 2007 included a total of 18 recommendations for improvement, including a total of five recommendations considered to be material weaknesses in two 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, 2007. Our

review disclosed that 8 of the community colleges did not receive any recommendations, while the remaining 7 community colleges received a total of 18 recommendations, 5 of which were considered material weaknesses in the colleges' systems of internal control. The material weaknesses were found to exist at Garrett College and Prince George's Community College and all were related to the colleges' federal student financial aid programs. One of these material weaknesses was also cited as a material weakness during fiscal year 2006. This one material weakness (found at Garrett College) related to student loan proceeds from lenders not being reconciled to the College's records in order to verify that proper loan disbursements were made to student accounts.

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 13 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 2007 recommendations by fiscal area. Two of the 18 recommendations (one material and one non-material) were repeated from the preceding year.

| Fiscal Area of Recommendation | Number of Recommendations |
|--|----------------------------------|
| Financial aid | 11 |
| Accounting and financial reporting | 5 |
| Other (for example, accounts receivable) | 2 |
| Total | 18 |

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