



FREDERICK COUNTY GOVERNMENT

Jan H. Gardner
County Executive

INTERAGENCY INTERNAL AUDIT AUTHORITY

Tricia Griffis, Director of Internal Audit

Memorandum

To: Interagency Internal Audit Authority – Board Members

From: Tricia A. Griffis, CPA
Director, Internal Audit Division

Date: April 6, 2016

Subject: Annual review of Frederick County, Frederick County Public Schools & Frederick Community College financial reports

The annual financial audits of Frederick County, Maryland, Frederick County Public Schools, and Frederick Community College have been completed by SB & Company, LLC for fiscal year 2015 as contracted by the County Council, Board of Education and Board of Trustees, respectively. Below is a breakdown of each report presented by SB & Company along with my review of the results.

The following is a summary of the results of each report for **Frederick County, Maryland** (FCG):

- Comprehensive Annual Financial Report (CAFR)
 - Unmodified opinion
 - Restated net position at the beginning of the year as shown on page 31 due to a Change in Accounting Principle for GASB 68. This is reflected in the emphasis of matter paragraph in the report letter as well as in Note 4 (H).
 - Noted subsequent events
 - Lawsuit concerning the sale of Citizens Care & Rehabilitation Center and Montevue Assisted Living facilities (the facilities). The County is currently involved in extensive negotiations in effort to resolve all litigation surrounding retracting the sale of the facilities. A tentative settlement of all matter was reached on October 9, 2015, however the finalization of settlement is still on-going. The subsequent event footnotes mentions that if this settlement draws to completion the amount would not be considered material to the basic financial statements as a whole.
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
 - No material weaknesses or significant deficiencies noted
 - No paragraph noting control deficiencies noted
 - No noted instances of non-compliance with laws, regulations, contracts, grant agreements, etc noted.

Frederick County: Rich History, Bright Future

- Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133
 - Unmodified opinion
 - No material weaknesses or significant deficiencies noted
 - No paragraph noting control deficiencies noted.
 - No noted instances of non-compliance with federal grant programs.
- Single Audit report
 - Unmodified opinion
 - Low risk auditee
 - Total federal expenditures \$17,013,221
 - Total major programs tested \$11,474,860
 - No current year or prior year findings or deficiencies noted
 - Filed timely with the Federal Audit Clearinghouse
- Annual required communications from the auditor
 - Nothing noted and no separate management letter presented.
- Legal letter response
 - Matter relating to Citizens Care & Rehabilitation Center noted.
 - Other matters noted which fall under materiality or are covered by insurance.
- Management representation letter
 - No special representations or items outside of the normal scope of the audit noted
- 911 Trust Fund Audit of Revenue and Expenditures
 - Unmodified opinion, no issues noted
- Office for Children & Families audit of Revenue and Expenditures
 - Unmodified opinion, no issues noted
- Bell Court Apartments annual financial audit (as regulated by DHCD)
 - Annual audited financial statement report
 - Unmodified opinion
 - No prior period adjustments or restatements
 - No subsequent events noted
 - Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
 - No material weaknesses or significant deficiencies noted
 - No paragraph noting communication to management regarding control deficiencies noted
 - No non-compliance noted
 - Department of Housing and Community Development (DHCD) report on compliance with specific requirements
 - No issued noted, complied in all material respects
 - Electronic Filing to DHCD
 - Completed and accepted by DHCD

The following is a summary of the results of each report for **Frederick County Public Schools, Maryland (FCPS)**:

- CAFR
 - Unmodified opinion
 - Restated net position at the beginning of the year as shown on page 24 due to a Change in Accounting Principle for GASB 68. This is reflected in the emphasis of matter paragraph in the report letter as well as in Note 4 (E).
 - Noted subsequent events
 - None noted
 - No passed adjustments noted
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

- No material weaknesses or significant deficiencies noted
- No paragraph noting control deficiencies noted
- No noted instances of non-compliance with laws, regulations, contracts, grant agreements, etc.
- Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133
 - Unmodified opinion
 - No material weaknesses or significant deficiencies noted
 - No paragraph noting control deficiencies noted.
 - No noted instances of non-compliance with federal grant programs.
- Single Audit report
 - Unmodified opinion
 - Low risk auditee
 - Total federal expenditures \$21,349,341
 - Total major programs tested \$9,546,349
 - No current year or prior year findings or deficiencies noted
 - Filed timely with the Federal Audit Clearinghouse
- Annual required communications from the auditor
 - No passed adjustments noted
 - No issues noted during the audit
 - Controls appear to be running effectively
 - No instances of fraud or illegal acts noted
- Legal letter response
 - No matters noted as probable or likely for disclosure or as a contingent liability on the books of FCPS.
- Management representation letter
 - No special representations or items outside of the normal scope of the audit noted

The following is a summary of the results of each report for **Frederick Community College, Maryland (FCC)** and the **Frederick Community College Foundation Inc.**

- Annual audited financial statement report (FCC)
 - Unmodified opinion
 - No noted prior period adjustments or restatements (GASB 68 does not apply to FCC due to a special funding situation with the Maryland Higher Education Commission)
 - No subsequent events noted
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
 - No material weaknesses or significant deficiencies noted. However, a management letter was released that stated a significant deficiency:
 - During the audit it was noted that inventory reports generated from the bookstore's perpetual inventory system at year end did not reconcile to the general ledger as of 6/30/15. It was found that the report the finance department utilized for booking inventory from the bookstore did not represent the cost of inventory but instead was cost with a retail markup. This resulted in a net decrease to change in net assets of \$188,000 and a decrease in inventory. The amount related to FY 14 and 15. Correction was made in FY15.
 - In speaking with SB & Company, they erroneously released this letter with the above noted item as a significant deficiency. The items should have been noted as a control deficiency instead.
 - No paragraph noting control deficiencies noted, however a management letter was released that stated a control deficiency:

- It was noted that FCC does not have an established formalized policy for calculating an allowance for doubtful accounts related to student, grant and other receivables.
 - No noted instances of non-compliance with laws, regulations, contracts, grant agreements, etc.
- Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133
 - No material weaknesses or significant deficiencies noted
 - No paragraph noting control deficiencies noted.
 - No noted instances of non-compliance with federal grant programs.
- Single Audit report
 - Unmodified opinion
 - Low risk auditee
 - Total federal expenditures \$10,361,040
 - Total major programs tested \$9,278,046
 - No current year or prior year findings or deficiencies noted, however, as seen on the management letter there was a significant deficiency in which the single audit reflects no significant deficiencies erroneously.
 - Filed timely with the Federal Audit Clearinghouse
- Annual required communications from the auditor
 - No passed adjustments noted
 - No issued noted during the audit
 - However, I believe this communication should have spelled out the fact that a management letter was released and it did not.
 - Controls appear to be running effectively
 - No instances of fraud or illegal acts noted
- FCC Foundation- annual audited financial statement report
 - GAAP based financial statements
 - Unmodified opinion
 - No noted prior period adjustments or restatements
 - No subsequent events noted
- Legal letter response
 - No matters noted as probable or likely for disclosure or as a contingent liability on the books of the College.
- Management representation letter
 - No special representations or items outside of the normal scope of the audit noted

I have reviewed each of the above listed reports (from management) and opinions from SB & Company. It appears that the reports were appropriately formulated and that the CAFRs have all necessary sections to obtain the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting. New accounting pronouncements appear to have been properly implemented and noted. Overall each entity received a “clean” unmodified audit opinion and no material weaknesses or significant deficiencies were noted. Additionally, no compliance findings were noted on any of the single audit reports.

Finally, it was noted that none of the entities other than FCC received any control deficiencies that required communication to management in the required communications letter or a management style letter. FCC received two control deficiencies noted within a management letter to those charged with governance. One deficiency was erroneously noted as a significant deficiency in which SB & Company will re-release the management letter so that it shows the

deficiency in proper form. Also, the report on internal control over financial reporting for FCC erroneously omitted the sentence referencing a released management letter. SB & Company has been contacted about this error.

Some matters that were investigated by the Internal Audit Division during the fiscal year were brought to the attention of SB & Company, however it appears that SB & Company in using their judgment did not determine that communication of those deficiencies was necessary or rose to a level in which they determined communication was necessary based on their calculated materiality levels.

Please let me know if you have any specific questions to the above mentioned reports.

Pc: Dawn Reed, Administrative Coordinator, Internal Audit