



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 12, 2017

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 2016 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
 - Noted subsequent events
 - Lawsuit concerning the sale of Citizens Care & Rehabilitation Center and Montevue Assisted Living facilities (the facilities).

The final Settlement agreements were signed by the county and Aurora on May 12, 2016 and the asset purchase closed on September 1, 2016. The Settlement ended all of the outstanding lawsuits between Aurora and the County. Aurora is committed to annual profits of \$2.5 million to the County while it continues to manage the facility for 18 months. If the commitment is not met, the County has the right to terminate the management agreement. The County will also pay Aurora a management fee of 4.5% of gross revenues. As part of the purchase and sale agreement the County agreed to pay \$7.85 million to Aurora for their rights and property interests. The entire \$7.85 million was recorded and

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- accrued in the General Fund financial statements as of June 30, 2016.
- New Governmental Accounting Standards Board (GASB) Standard
 - The County adopted GASB 72 (Fair Value Measurement and Application); GASB 73 (Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68); GASB amendment statements 67 and 68; GASB 76 (The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments) and GASB 79 (Certain External Investment Pools and Pool Participants). The adoption of these standards did not have a material effect on the financial statements.
 - 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.
 - Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance in Accordance With the Uniform Guidance
 - 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 \$23,430,216
 - Total major programs tested \$7,913,703
 - 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



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- 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 issues 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
 - 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 the Uniform Guidance
 - 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 \$21,640,836
 - Total major programs tested \$7,655,424



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- 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 responses
 - 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
 - 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 control deficiencies noted. However, a management recommendations letter was released by SB & Company on September 23, 2016 noting that there were control deficiencies (as noted below under annual required communications by the auditor). SB & Company should have noted with a single sentence paragraph that management has been made aware of control deficiencies in a separate communication.
 - 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 the Uniform Guidance
 - 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 \$9,808,272
 - Total major programs tested \$8,485,716
 - No current year or prior year findings or deficiencies noted.



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- Filed timely with the Federal Audit Clearinghouse
- Annual required communications from the auditor
 - No passed adjustments noted
 - Approved audit adjustment to depreciation expense & accumulated depreciation of \$1,035,242
 - No issues noted during the audit other than the control deficiencies communicated in the management recommendations letter.
 - Controls appear to be running effectively
 - No instances of fraud or illegal acts noted
 - A separate Management Recommendation letter was released on September 23, 2016. This letter notes the following control deficiencies:
 - Identify an interface software that provides for electronic interface between PeopleSoft and Lumens
 - Implement proper segregation of duties for cash receipts and account posting in the Continuing Education department.
- 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.



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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
