



# FREDERICK COUNTY GOVERNMENT

## INTERAGENCY INTERNAL AUDIT AUTHORITY

Tricia Griffis, Director of Internal Audit

### Memorandum

**To:** Interagency Internal Audit Authority - Members

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

**Date:** March 12, 2018

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

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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:

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

- Comprehensive Annual Financial Report (CAFR)
  - Unmodified opinion, dated November 17, 2017
  - No prior period adjustments
  - Restatement due to change in accounting principle
    - The County adopted GASB 73 "Accounting and Financial Reporting for Pensions and Related Assets That are not Within the Scope of GASB statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68". Under this provision the County must reflect a liability for the value of future benefit payments for the Length of Service Award Program (LOSAP). Therefore, net position of governmental activities was restated by (\$11,946,675).

- Risk management/ legal liabilities
  - No items noted which would result in settled claims over and above what is covered by the County insurance policies or that would have a material adverse effect on the financial statements at this time.
- Noted subsequent events
  - Settlement Agreement concerning Citizens Care & Rehabilitation Center and Montevue Assisted Living 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. Aurora has committed \$2.5 million to the County while it continues to manage the facilities for 18 months. If the commitment is not met, the County may terminate the management agreement. The County will pay Aurora a management fee of 4.5 percent of gross revenues under the management agreement.
- New accounting pronouncements
  - GASB 73 (as noted above); GASB 74 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"; GASB 77 "Tax Abatement Disclosures; GASB 78 "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans; GASB 79 "Certain External Investment Pools and Pool Participants"; GASB 80 "Blending Requirements for Certain Component Units"; & GASB 82 "Pension Issues"
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
  - Dated November 17, 2017
  - 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, dated November 17, 2017
  - 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, dated November 17, 2017
  - Low risk auditee
  - Total federal expenditures \$19,460,306
  - Total major programs tested \$4,103,503
  - No current year or prior year findings or deficiencies noted
  - Filed timely with the Federal Audit Clearinghouse

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- Annual required communications from the auditor
    - Nothing noted and no separate management letter presented.
  - 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 dated December 1, 2017, no issues noted
  - Office for Children & Families audit of Revenue and Expenditures
    - Unmodified opinion dated December 1, 2017, no issues noted
  - Bell Court Apartments annual financial audit (as regulated by DHCD)
    - Annual audited financial statement report
      - Unmodified opinion, dated September 19, 2017
      - No prior period adjustments or restatements
      - No noted legal contingencies
      - No subsequent events noted
    - Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
      - Dated September 19, 2017
      - 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
      - Dated September 19, 2017
      - 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, dated September 27, 2017
  - Noted subsequent events
    - None noted
  - No passed adjustments noted

- New accounting pronouncements
  - GASB 73 “Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB 68 and Amendments to certain Provisions of GASB Statements 67 and 68”; GASB 74 “Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans”; & GASB 75 is an upcoming standard titled “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”. This standard will be implemented in fiscal year 2018 and is expected to have a negative impact on net position by approximately \$400 million.
- Risk management/legal liabilities:
  - No items noted which would result in settled claims over and above what is covered by FCPS or that would have a material adverse effect on the financial statements at this time.
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
  - Dated September 27, 2017
  - 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, dated December 11, 2017
  - 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, dated September 27, 2017
  - Low risk auditee
  - Total federal expenditures \$22,118,088
  - Total major programs tested \$4,796,958
  - 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
- Management representation letter
  - No special representations or items outside of the normal scope of the audit noted

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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, dated September 29, 2017
  - No noted prior period adjustments or restatements
  - New accounting pronouncements:
    - GASB 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions; GASB 80 “Blending Requirements for Certain Component Units – and amendment of GASB Statement 14”; GASB 81 “Irrevocable Split-Interest Agreements”; GASB 82 “Pension Issues”; GASB 83 “Certain Asset Retirement Obligations”; GASB 84 “Fiduciary Activities; GASB 85 “Omnibus 2017”; GASB 86 “Certain Debt Extinguishment Issues”; & GASB 87 “Leases”
  - No subsequent events noted
  - Risk Management/legal liabilities:
    - No items noted which would result in settled claims over and above what is covered by FCC or that would have a material adverse effect on the financial statements at this time.
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
  - Report dated September 29, 2017
  - 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
  - Report dated November 9, 2017
  - 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, dated September 29, 2017
  - Low risk auditee
  - Total federal expenditures \$9,185,670
  - Total major programs tested \$7,772,977
  - No current year or prior year findings or deficiencies noted.
  - Filed timely with the Federal Audit Clearinghouse

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- 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
    - No current year Management Recommendation letter
    - Prior year Management Recommendation letter was released on September 23, 2016. The letter noted the following control deficiencies in which status was follow up with in the current year:
      - Identify an interface software that provides for electronic interface between PeopleSoft and Lumens; In Process
      - Implement proper segregation of duties for cash receipts and account posting in the Continuing Education department. Implemented
  - FCC Foundation- annual audited financial statement report
    - GAAP based financial statements, dated September 29, 2017
    - Unmodified opinion
    - No noted prior period adjustments or restatements
    - New accounting pronouncements:
      - FASB ASU 2016-14: "Presentation of Financial Statements of Not-for-Profit Entities" effective for FY19 and ASU No. 2016-15 "Classification of Certain Cash Receipts and Cash Payments" effective for FY20.
      - ASU 2015-07 simplification of "Fair Value Measurements and Disclosures" effective for FY18
      - ASU 2014-15 "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" effective for FY17 and implemented (no disclosures were required).
      - ASU 2014-09 "Revenue from Contracts with Customers" effective for FY19.
    - No subsequent events noted
    - 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
  - Annual required communications from the auditor
    - No special representations or items outside of the normal scope of the audit noted

RE: Annual Review of Frederick County, Frederick County Public Schools & Frederick  
Community College Financial Reports

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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 received any control deficiencies that required communication to management in the required communications letter or a management style letter.

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

Pc: Dawn Reed, Administrative Coordinator, Internal Audit