



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 20, 2019

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 2018 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 15, 2018
 - No prior period adjustments
 - Restatement due to change in accounting principle
 - The County adopted GASB 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”. Under this provision the County must reflect an OPEB liability, deferred inflows of resources, deferred outflows of resources and the recognition of OPEB expense in accordance with the provisions of the Statement. Therefore, net position of governmental activities was restated by (\$68,543,537). (CAFR pg. 123)
 - 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. (CAFR pg. 100)
 - Noted subsequent events

Frederick County: Rich History, Bright Future

- On November 16, 2018, the County issued its Tax -Exempt Fiscal Year 2019 Capital Lease in the amount of \$7,220,003. Debt service payments on the lease will continue until October 1, 2025. (CAFR pg. 123)
- The County entered into three Installment Purchase Agreements to purchase easements of the development rights of agricultural land. These are 20 year obligations with interest paid annually and final maturities on May 15, 2039. The amount of easements totals \$1,697,237 and total liability of \$1,355,965. (CAFR pg. 123)
- New accounting pronouncements
 - The County has adopted GASB Statement 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"; Statement 81 "Irrevocable Split-Interest Agreements; Statement 85 "Omnibus"; and Statement 86 "Certain Debt Extinguishment Issues"
 - The County will evaluate the effects of and adopt by effective dates: Statement 83 "Certain Asset Retirement Obligations"; Statement 84 "Fiduciary Activities"; Statement 87 "Leases"; Statement 88 "Certain Disclosures Related to Debt, including Direct borrowings and Direct Placements"; and Statement 89 "Accounting for Interest Cost Incurred before the End of a Construction Period".
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
 - Dated November 15, 2018
 - 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 January 16, 2019
 - 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 January 16, 2019
 - Low risk auditee
 - Total federal expenditures \$22,644,670
 - Total major programs tested \$10,849,529
 - 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.
 - 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 18, 2018, no issues noted
 - Office for Children & Families audit of Revenue and Expenditures
 - Unmodified opinion dated January 16, 2019, no issues noted
 - Bell Court Apartments annual financial audit (as regulated by DHCD)
 - Annual audited financial statement report
 - Unmodified opinion, dated September 28, 2018
 - 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 28, 2018
 - 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 28, 2018
 - 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 26, 2018
 - Noted subsequent events
 - None noted
 - No passed adjustments noted
 - Change in accounting principle/restatement
 - FCPS adopted GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions during FY18. The implementation required FCPS to restate the beginning net OPEB liability. The Net position restatement for governmental activities decreased by \$327,659,844.

- New accounting pronouncements
 - FCPS has adopted GASB Statement 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”; Statement 81 “Irrevocable Split-Interest Agreements”; Statement 85 “Omnibus 2017”; and Statement 86 “Certain Debt Extinguishment Issues”
 - FCPS will evaluate the effects of and adopt by effective dates: Statement 83 “Certain Asset Retirement Obligations”; Statement 84 “Fiduciary Activities”; Statement 87 “Leases”; Statement 88 “Certain Disclosures Related to Debt, including Direct borrowings and Direct Placements”; and Statement 89 “Accounting for Interest Cost Incurred before the End of a Construction Period”.
- 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 26, 2018
 - 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 September 26, 2018
 - 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 26, 2018
 - Low risk auditee
 - Total federal expenditures \$22,038,892
 - Total major programs tested \$7,861,794
 - 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

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 28, 2018
 - No noted prior period adjustments or restatements
 - New accounting pronouncements:
 - FCC will evaluate the effects of and adopt by effective dates: Statement 88 "Certain Disclosures Related to Debt, including Direct borrowings and Direct Placements"; and Statement 89 "Accounting for Interest Cost Incurred before the End of a Construction Period".
 - 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 28, 2018
 - 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 October 2, 2018
 - Low risk auditee
 - Total federal expenditures \$8,808,354
 - Total major programs tested \$7,329,386
 - 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
 - Current year Management Recommendation letter
 - The College receives merchandise credits from certain returns made from the Bookstore inventory. The merchandise credits are recorded as accounts payable. The credit is tracked by the Finance Department and the Bookstore but many of the credits have remained unused. Status: Finance should develop a plan to timely utilize the available credit.
 - Prior year Management Recommendation letter was released on September 29, 2017. 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; Implemented
- FCC Foundation- annual audited financial statement report
 - GAAP based financial statements, dated September 28, 2018
 - Unmodified opinion
 - No noted prior period adjustments or restatements
 - New accounting pronouncements:
 - FASB ASU 2018-08: "Not-for-Profit entities" "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made" effective for FY20.
 - FASB ASU 2016-15: "Statement of Cash Flows: classification of Certain Cash Receipts and Cash Payments" effective for FY20.
 - FASB ASU 2016-14: "Presentation of Financial Statements of Not-for-Profit Entities" effective for FY19
 - FASB ASU No. 2016-15 "Classification of Certain Cash Receipts and Cash Payments" effective for FY20.
 - FASB ASU 2015-07 simplification of "Fair Value Measurements and Disclosures" effective for FY18
 - FASB 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

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 FCC had one control deficiency or management letter item submitted in the required communication to management in a management style letter. That items is noted above in the FCC section.

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

Pc: Dawn Reed, Administrative Coordinator, Internal Audit