



# FREDERICK COUNTY GOVERNMENT

## INTERAGENCY INTERNAL AUDIT AUTHORITY

Tricia Reaver, Director of Internal Audit

### Memorandum

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

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

**Date:** September 8, 2021

**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 2020 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 23, 2020
  - No noted prior period adjustments or restatements
  - Noted subsequent events
    - On March 6, 2020, the County entered into a forward bond purchase agreement with DNT Asset Trust regarding the forward purchase of the County's General Obligation Public Facilities Refunding Bond, Series 2022A, expected to be issued on May 3, 2022 in the amount of \$21,565,000 to refund certain maturities of the General Obligation Public Facilities Refunding Bonds, Series 2012. (CAFR pg. 127)
    - On June 9, 2020, the County adopted Bill 20-06 authorizing the issuance of up to \$100 million of general obligation debt to fund short-term working capital needs. On July 16, 2020 entered into a short-term credit agreement with JPMorgan Chase Bank, NA in the amount of \$75 million. (CAFR pg. 127)

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- On September 24, 2020, Frederick County issued its Tax-Exempt General Obligation Public Facility Bond, Series 2020B, in the amount of \$7,830,000. (CAFR pg. 127)
- On October 28, 2020, The County issued Special Obligation Bonds for the Urbana Community Development Authority, which included a Series A Senior Refunding Bond of \$65,355,000, a subordinate Series B Refunding Bond of \$1,410,000 and a subordinate Series C Bond of \$25,505,000. (CAFR pg. 128)
- On July 15, 2020, the County Executive approved Letters of Intent between the County and the bond holders of the existing Jefferson Technology Park Special Obligation Bonds, Series 2013A and Series 2013B. The letters memorialized the terms by which the existing bond holder would sell their holding in these securities so that the bonds could be refunded. (CAFR pg. 128)
- On September 17, 2020, the County issued Special Tax A Limited Obligation Refunding Bonds (Jefferson Technology Park Project), Series A and Special Tax B Limited Obligation Refunding Bonds (Jefferson Technology Park Project), Series B in the amounts of \$7,040,000 and \$37,330,000 respectively. (CAFR pg. 128)
- New accounting pronouncements
  - The County has adopted GASB Statement 89 “Accounting for Interest Cost Incurred before the End of a Construction Period”, statement 84 “Fiduciary Activities” and Statement 95 “Postponement of the Effective Dates of Certain Authoritative Guidance”. (CAFR pg. 129)
  - The County will evaluate the effects of and adopt by effective dates: Statement 87 “Leases”; Statement 90 “Majority Equity Interests”; Statement 91 “Conduit Lease Obligations”; Statement 92 “Omnibus 2020”; Statement 93 “Replacement of Interbank Offered Rates”; Statement 94 “Public-Private Partnerships and Availability Payment Arrangements”; Statement 96 “Subscription-Based Information Technology Arrangements” and Statement 97 “Certain Component Unit Criteria and Financial Reporting for Internal Revenue Code Section 457 “. (CAFR pg. 129)
- 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. 103)
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
  - Dated November 23, 2020
  - 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 May 21, 2021
  - 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 May 21, 2021
  - Low risk auditee
  - Total federal expenditures \$25,561,732
  - Total major programs tested \$10,250,802
  - No current year or prior year findings or deficiencies noted
  - Filed timely with the Federal Audit Clearinghouse (filed on May 27, 2021; audit report date May 21, 2021)
- 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
- Statement of Client Attendance Days and Client Fees of Frederick County, Maryland examination
  - For the year ended June 30, 2020
  - Unmodified opinion dated December 22, 2020
- 911 Trust Fund Audit of Revenue and Expenditures
  - Unmodified opinion dated December 4, 2020, no issues noted
- Bell Court Apartments annual financial audit (as regulated by DHCD)
  - Annual audited financial statement report
    - Unmodified opinion, dated September 17, 2020
    - 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 17, 2020
    - 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 17, 2020
- No issued noted, complied in all material respects
- Electronic filing to DHCD
  - Completed and accepted by DHCD timely

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

- CAFR
  - Unmodified opinion, dated September 28, 2020
  - No noted prior period adjustments or restatements
  - Noted subsequent events
    - As of September 15, 2020, FCPS had been awarded \$11.3 million in CARES Act funding. (CAFR pg. 62)
    - The central office lease was refinanced on June 25, 2020 in order to take advantage of early payoff benefits which will save FCPS \$9.2 million of a reduced capital lease liability. (CAFR pg. 63)
  - New accounting pronouncements
    - FCPS has adopted GASB Statement 90 "Majority Equity Interests" and Statement 95 "Postponement of the Effective Dates of Certain Authoritative Guidance". (CAFR pg. 63)
    - FCPS will evaluate the effects of and adopt by effective dates: Statement 84 "Fiduciary Activities"; Statement 87 "Leases"; and Statement 91 "Conduit Debt Obligations". (CAFR pg. 63)
  - 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. (CAFR pg. 62)
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
  - Dated September 28, 2020
  - 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 28, 2020
  - 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 28, 2020

- Low risk auditee
- Total federal expenditures \$23,004,648
- Total major programs tested \$5,930,737
- No current year or prior year findings or deficiencies noted
- Prior year finding 2019-001 has been cleared
- Filed timely with the Federal Audit Clearinghouse (Filed on November, 11, 2020; released via Board meeting on October 21, 2020)
- 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 recommendation letter
    - None 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 25, 2020
  - No noted prior period adjustments or restatements
  - Subsequent events noted
    - Coronavirus pandemic standard note
  - New accounting pronouncements:
    - FCC will evaluate the effects of and adopt by effective dates: Statement 84 "Fiduciary Activities"; Statement 87 "Leases"; Statement 88 "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements"; Statement 89 "Accounting for Interest Cost Incurred before the End of a Construction Period"; Statement 90 "Majority Equity Interests"; Statement 91 "Conduit Debt Obligations"; Statement 92 "Omnibus 92"; Statement 94 "Public-Private and Public-Public Partnerships and Availability Payment Arrangements"; Statement 95 "Postponement of the Effective Dates of Certain Authoritative Guidance"; Statement 96 "Subscription-Based Information Technology"; and Statement 97 "Certain Component Unit Criteria, and Financial Reporting for Internal Revenue Code Section 457". (CAFR pg. 21)
  - 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 25, 2020
  - 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 September 25, 2020
  - No material weaknesses or significant deficiencies noted
  - No paragraph noting control deficiencies noted
  - No current year or prior year findings or deficiencies noted
- Single Audit report
  - Unmodified opinion, dated September 25, 2020
  - Low risk auditee
  - Total federal expenditures \$8,424,417
  - Total major programs tested \$7,195,577
  - No current year or prior year findings or deficiencies noted
  - Filed timely with the Federal Audit Clearinghouse (Filed on October 8, 2020; report dated September 25, 2020)
- Annual required communications from the auditor
  - Nothing noted and no separate management letter presented
- FCC Foundation- annual audited financial statement report
  - GAAP based financial statements, dated September 17, 2020
  - Unmodified opinion
  - No noted prior period adjustments or restatements
  - New accounting pronouncements:
    - FASB ASU 2014-09 “Revenue from Contracts with Customers” effective for FY21
    - FASB ASU 2020-01 “Investments Equity Securities (Topic 321), Investments-Equity Method and joint Venture (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323 and Topic 815” effective for FY23
  - Subsequent events
    - Coronavirus pandemic standard note
  - 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 noncompliance was noted on the FCG, FCPS or FCC single audit reports.

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

Pc: Dawn Reed, Administrative Coordinator, Internal Audit