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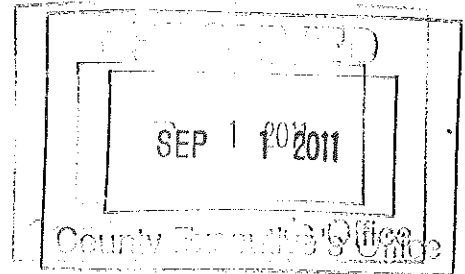
SEP 01 2011

COUNTY COUNCIL

**ANNE ARUNDEL COUNTY  
OFFICE OF THE COUNTY AUDITOR**

September 1, 2011

The Honorable Members of the County Council  
The Honorable County Executive John R. Leopold  
Anne Arundel County  
44 Calvert Street  
Annapolis, Maryland 21401



Dear Members and Mr. Leopold.

In accordance with Section 311 of the County Charter, I am calling to your attention and taking exception to the following improper procedure.

The Annotated Code of Maryland, Education Article, § 16-304(b) requires the County governing body to appropriate funds to a community college by the major functions established by the Maryland Higher Education Commission. The major functions are Instruction, Academic Support, Student Services, Plant Operations, Institutional Support, Debt Service, and Auxiliary and Other. Section 16-304(c)(1) states that "a community college may not spend more on any major function than the amount appropriated for it."

In fiscal year 2010, the Anne Arundel Community College (AACC) failed to comply with the limitations imposed by § 16-304(c)(1). Specifically, the Council appropriated \$32,096,300, and AACC spent \$34,582,223, exceeding its appropriations by \$2,485,923. AACC never disclosed this overexpenditure and noncompliance with State law to the County Council. I derived the information last week by comparing the fiscal year 2010 actual expenditures first disclosed in the fiscal year 2012 budget book to the budget adopted by the County Council for fiscal year 2010.

Attached is Vice President Melissa Beardmore's explanation of the overexpenditure. According to Ms. Beardmore, the expenditures were paid for with unanticipated revenue from the college's auxiliary and other operations, so the overexpenditure did not result in any deficit. Regardless, it was improper for AACC to allow its expenditures to exceed its appropriations for this major function. If AACC had revenue that was not anticipated in the budget, the Board of Trustees should have asked the County Executive to introduce an ordinance to increase the appropriation from unanticipated revenues, and the County Council could have exercised its authority to approve or deny the increase.

In what I suspect is simply a failure of State law to keep up with generally accepted accounting principles, AACC is not required to disclose to the State or to the County a comparison of its actual expenditures to its budget appropriations. The College prepares its financial statements in accordance with Government Accounting Standards Board Statement No. 35: Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities. Under that pronouncement, AACC may and does present its financial statements as an enterprise fund. Accordingly, they are required to have a Statement of Net Assets (Balance Sheet), a Statement of Revenues, Expenses, and Changes in Net Assets, a Statement of Cash Flows, and Notes to the Financial Statements. (This differs from the Board Of Education, who presents its audited financial statements following GASB 34, and they are required to present a budget to actual comparison by major category on which their auditor gives an opinion.)

Members of the County Council  
Mr. Leopold  
September 1, 2011  
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To ensure timely disclosure of noncompliance in the future, the County Executive and/or County Council may wish to seek a change in State law to require AACC to submit an audited Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual when the College submits its audited financial statements to the County annually.

Please call if you have any questions.

Sincerely,



Teresa Sutherland, CPA  
County Auditor

c: Victoria Fretwell, President, Board of Trustees of Anne Arundel Community College  
Martha A. Smith, President, Anne Arundel Community College

**Teresa Sutherland - RE: FY10 budget vs. actual - Auxiliary and Other**

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**From:** "Beardmore, Melissa A." [REDACTED]  
**To:** "Teresa Sutherland" [REDACTED]  
**Date:** 8/26/2011 5:14 PM  
**Subject:** RE: FY10 budget vs. actual - Auxiliary and Other  
**Attachments:** August 26 2011 Question.docx

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this is aacc

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**From:** Teresa Sutherland [mailto:[REDACTED]]  
**Sent:** Wednesday, August 24, 2011 3:30 PM  
**To:** Beardmore, Melissa A.  
**Subject:** FY10 budget vs. actual - Auxiliary and Other

Hi, Melissa. Could you confirm for me whether AACC's expenditures exceeded its legally adopted budget appropriations for "Auxiliary and Other" in FY10? I have a budget of \$32,096,300 vs. expenditures of \$34,582,223. I got the \$34,582,223 from the County's FY12 budget book.

Thanks.

Teresa

Teresa Sutherland, CPA  
County Auditor  
Anne Arundel County, MD  
P.O. Box 1768  
Annapolis, MD 21404  
(410) 222-1138  
[REDACTED]

**Anne Arundel Community College**

August 26, 2011

Response to Anne Arundel County Auditor Question Dated August 24, 2011

**Question:** Can you confirm whether AACC's expenditures exceeded its legally adopted budget appropriations for "Auxiliary and Other" in FY10? I have a budget of \$32,096,300 vs. expenditures of \$34,582,223. I got the \$34,582,223 from the County's FY12 budget book.

**Answer:** In FY 2010 the college received higher than anticipated Restricted Fund revenues thanks to the college's ability to deliver federal financial aid to AACC students. In fact the college received \$7.3 million, or 130%, more in federal financial aid than anticipated.

The college had planned to deliver \$32 million in revenue in the Auxiliary and Other operations during FY 2010 but we exceeded these revenue estimates by \$2.49 million. It is important to note that the financial aid funds are pass-through funds from the federal government for the benefit of the student receiving the aid disbursement, and the college received federally appropriated revenue equal to the expenditure amounts preventing any deficits as a result of the expenditures.

Below is a schedule with additional information.

	FY 2010 Budget	FY 2010 Actual	% CHANGE Budget/Actual	\$ CHANGE Budget/Actual
Auxiliary Fund Expenditures	\$ 9,672,617	\$ 10,265,736	6%	\$ 593,119
Enterprise Fund Expenditures	10,789,800	6,872,112	-36%	(3,917,688)
Restricted Fund Expenditures	11,633,883	17,444,375	50%	5,810,492
<b>Total Auxiliary &amp; Other Expenses</b>	<b>\$ 32,096,300</b>	<b>\$ 34,582,223</b>	<b>8%</b>	<b>\$ 2,485,923</b>

The Restricted Fund expenditures can be further broken down as follows:

Fund	FY10	FY10	Budget to Actual	
	Budget	Actual	% Change	\$ Change
Federal	\$ 2,070,600	\$ 2,063,454	-0.35%	\$ (7,146)
State	1,006,425	1,003,827	-0.26%	(2,598)
Other	26,250	56,522	115.32%	30,272
Scholarships	2,447,528	1,263,511	-48.38%	(1,184,017)
Restricted Gifts	431,034	69,324	-83.92%	(361,710)
Financial Aid	5,652,046	12,987,737	129.79%	7,335,691
<b>Total Restricted Funds</b>	<b>\$ 11,633,883</b>	<b>\$ 17,444,375</b>	<b>49.94%</b>	<b>\$ 5,810,492</b>

Going forward we have implemented procedures to ensure that the council is aware of this in the future. In fact, we came to the county council, and received approval for, a similar increase in the fourth quarter of 2011.