



Frederick Community College Board of Trustees

President's Baseline Insight Report

EL 4 – Financial Conditions and Activities

Report Date: 11/20/2024

Compliance Status: F/P/N Compliant

Note: Board Policy is indicated in bold typeface throughout the report.

I am submitting this monitoring report to the Frederick Community College Board of Trustees, focusing on the Board's Executive Limitation Policy: "EL-4 Financial Conditions and Activities." This report is submitted for your review. I confirm that the information provided is accurate and establishes a baseline for compliance with the policy as approved by the Board, unless noted otherwise.

 11/20/2024

Annesa Cheek, Ed.D.
President

Date

With respect to the actual, ongoing financial conditions and activities, the President shall not cause, or allow, the development of fiscal jeopardy, or actual expenditures, that are not aligned with achievement of the Board's Ends.

Accordingly, the President shall not:

- 1. Expend more funds than have been approved by the Board in the fiscal year unless there has been Board approval to do otherwise.**

INTERPRETATION:

EVIDENCE:

Compliance will be demonstrated when:

- a. A review of the College's quarterly financial statements over the previous fiscal year and the audited annual financial statement do not indicate that annual expenses exceeded annual revenues.

The Chief Financial Officer and Vice President for Administration (CFO/VPA) confirmed on 11/5/24 the following:

- a. The FY 2024 quarterly financial statements were presented to the Board of Trustees and confirmed that annual expenses did not exceed annual revenues as follows:
 - The 1st quarter ending 9/30/23, was presented to the Board on 11/15/23.
 - The 2nd quarter ending 12/31/23, was presented to the Board on 2/21/24.
 - The 3rd quarter ending 3/31/24, was presented to the Board on 5/22/24.
 - The 4th quarter ending 6/30/24, was presented to the Board on 9/18/24.
 - The Fiscal Year 2024 Audited Annual Financial Report was presented to the Board of Trustees on 10/16/24.

This interpretation is reasonable because quarterly statements provide a clear view of expenditure patterns of the institution on a regular basis and ultimately conclude with the year-end financial status report which occurs following June 30th of each year wherein the Board can compare revenues to expenditures directly. Furthermore, these quarterly statements are eventually subject to audit by the Board's selected auditor for review and ultimate audit report, which would further indicate if there was an excess of expenditures over revenues.

2. Incur debt in an amount greater than can be repaid by certain, otherwise unencumbered revenues within the current fiscal year or that can be repaid to accounts previously established by the Board for that purpose.

INTERPRETATION:

EVIDENCE:

Compliance will be demonstrated when:

- a. The previous fiscal year's debt service schedule of all annual obligations is not greater than that which can be repaid within the year.

The CFO/VPA confirmed on 11/5/24 the following:

- a. The following reports confirmed that annual obligations did not exceed that which can be repaid each year.
- The FY 2024 Audited Annual Financial Report was presented to the Board of Trustees on 10/16/24 and included the long-term liabilities schedule for FY 2023 and FY 2024.
 - The CFO/VPA confirmed on 10/23/24 that debt obligations were paid in accordance with the debt service schedule for FY 2024.
 - The Board of Trustees approved the FY 2024 budget on 6/14/23, which included the debt service obligations for the fiscal year.

This interpretation is reasonable because the Board reviews the long-term liabilities schedule as part of the annual financial audit, and reviews and approves each fiscal year's budget.

3. Jeopardize fiscal integrity by expending College funds in a manner that will result in a negative fund balance at the close of the fiscal year unless approved by the Board.

INTERPRETATION:

EVIDENCE:

Compliance will be demonstrated when:

- a. The College's annual operating expenditures do not exceed annual operating revenues unless the Board of Trustees has approved the use of the Strategic Reserve fund balance as part of the annual budget approval process.
- b. The College received Board approval for using the Strategic Reserve fund to cover unforeseen expenses not included in the annual budget.

The CFO/VPA confirmed on 11/5/24 the following:

- a. The FY 2024 Audited Annual Financial Report was presented to the Board of Trustees on 10/16/24 and confirmed annual operating expenditures did not exceed annual operating revenues.
- b. The Strategic Reserve fund was not in existence during FY24, therefore there is no applicable evidence for this reporting period.

This interpretation is reasonable because the Board reviews and approves the annual budget, which would include any planned use of fund balances as part of the adopted budget. In addition, the Board reviews and approves any requests for emergency funding (not included in the approved annual operating budget).

4. Use funds from restricted or designated accounts for purposes other than that for which the account was established.

INTERPRETATION:

EVIDENCE:

Compliance will be demonstrated when:

- a. A review of the quarterly financial statements and the annual audited financial statements confirm that balances for the designated funds do not indicate allocations for purposes other than that for which the funds had been designated.
- b. An external review of restricted fund use as part of the annual financial audit is conducted and confirms use has been limited to intended use.

The CFO/VPA confirmed on 11/5/24 the following:

- a. The FY 2024 quarterly financial statements were presented to the Board of Trustees and confirmed no funds were used for purposes other than that for which they were designated:
 - The 1st quarter ending 9/30/23, was presented to the Board on 11/15/23.
 - The 2nd quarter ending 12/31/23, was presented to the Board on 2/21/24.
 - The 3rd quarter ending 3/31/24, was presented to the Board on 5/22/24.
 - The 4th quarter ending 6/30/24, was presented to the Board on 9/18/24.
- b. The FY 2024 Audited Annual Financial Report, including the Single Audit, presented to the Board of Trustees on 10/16/24 confirmed that fund use has been limited to intended purpose.

This interpretation is reasonable because the College's financial statements are the vehicle by which all financial transactions are summarized, within a reporting period.

5. Allow the College's cash position in any month to be less than is needed to satisfy obligations in that month.

5.1. Allow a combined operating fund balance reserve to be less than the Government Finance Officers Association recommended minimum of 16.6% (two months) of annual operating expenses.

INTERPRETATION:

EVIDENCE:

Compliance will be demonstrated when:

- a. A review of the College's quarterly financial reports confirms that an amount equal to, or greater than 2/12ths or 16.6% of average annual expenses, is held in reserve.

The CFO/VPA confirmed on 11/5/24 the following:

- a. The FY 2024 quarterly financial statements were presented to the Board of Trustees and confirmed the amount held in reserve was in compliance with the 16.6% as follows:
- The 1st quarter ending 9/30/23, was presented to the Board on 11/15/23.
 - The 2nd quarter ending 12/31/23, was presented to the Board on 2/21/24.
 - The 3rd quarter ending 3/31/24, was presented to the Board on 5/22/24.
 - The 4th quarter ending 6/30/24, was presented to the Board on 9/18/24.

This interpretation is reasonable because a Board review of quarterly financial statements will demonstrate the College's current fund balances.

6. Allow the untimely payment of payroll and debts.INTERPRETATION:EVIDENCE:

Compliance will be demonstrated when:

- a. Audited payroll records verify payment of employees is consistent with written Human Resources employment and collective bargaining agreements.
- b. Accounts payable show no material amounts outstanding beyond the agreed terms with the vendor unless a payment obligation is in dispute. Additionally, the College is not in collections with vendors regarding the lack of payment for goods and services provided.

The CFO/VPA confirmed on 11/5/24 the following:

- a. The FY 2024 Annual Audited Financial Report was presented to the Board of Trustees on 10/16/24. This audit verified that payment of employees is consistent with written Human Resources employment agreements. There is no collective bargaining agreement in place.
- b. As part of the College's annual audit, on 8/19/24, the external auditors reviewed accounts payable detail and confirmed that suppliers have been paid according to contract terms, all payables are current and FCC maintains a healthy and efficient payment process. The College is not in collections with any vendors regarding lack of payment for goods or services provided.

This interpretation is reasonable because it meets contractual agreements and commitments to employees and vendors and minimizes payment of interest.

7. Allow tax payments or other government-ordered payments or filings to be overdue.INTERPRETATION:EVIDENCE:

Compliance will be demonstrated when:

- a. The year-end informational reports, required by the IRS and the states where employees live (e.g. MD, PA, VA, WV, and DC), are submitted by the required due dates and with no penalties;
- b. Sales Use taxes are submitted monthly by the required deadline;
- c. Federal 941 Reports have been submitted to the IRS by the required deadline;
- d. MD unemployment quarterly filings have been submitted by the due date;

The CFO/VPA confirmed on 11/5/24 the following:

- a. The annual 2023 W2 information was submitted to the IRS on 1/24/24 prior to the required due date of 1/31/24. All state (MD, PA, VA, WV and DC) year-end information was submitted and confirmed accurate by the 1/31/24 due date.
- b. The monthly Sales and Use Tax returns for each month of the prior year were submitted timely as follows:
 - October 2023 completed by 11/30/2023.
 - November 2023 completed by 12/29/23.
 - December 2023 completed by 1/30/24.
 - January 2024 completed by 2/29/24.
 - February 2024 completed by 3/29/24.
 - March 2024 completed by 4/30/24.
 - April 2024 completed by 5/30/24.
 - May 2024 completed by 6/28/24.
 - June 2024 completed by 7/30/24.
 - July 2024 completed by 8/30/24.
 - August 2024 completed by 9/30/24.
 - September 2024 completed by 10/30/24.
- c. The quarterly Federal 941 Reports were submitted to the IRS by the required deadlines as follows:
 - 4th QTR 2023 941 submitted on 1/25/24 before 1/31/24 due date.
 - 1st QTR 2024 941 submitted on 4/15/24 before 4/30/24 due date.
 - 2nd QTR 2024 941 submitted on 7/24/24 before 7/31/24 due date.
 - 3rd QTR 2024 941 submitted on 10/23/24 before 10/31/24 due date.
- d. The MD quarterly unemployment reports were submitted by the due date as follows:
 - 4th QTR 2023 MDUI submitted on 1/22/24 before 1/31/24 due date.

7. Allow tax payments or other government-ordered payments or filings to be overdue.INTERPRETATION:EVIDENCE:

e. Department of Commerce annual survey has been completed;

f. MHEC monthly retirement filing and the MD annual retirement report have been submitted; and all

g. Payroll withholding taxes are submitted on a semi-monthly or monthly basis as required by regulatory authorities and in alignment with the payroll schedule.

- 1st QTR 2024 MDUI submitted on 4/8/24 before 4/30/24 due date.
- 2nd QTR 2024 MDUI submitted on 7/8/24 before 7/31/24 due date.
- 3rd QTR 941 2024 MDUI submitted on 10/3/24 before 10/31/24 due date.

e. The Department of Commerce annual survey was submitted on 5/2/24 before 5/9/24 due date.

f. MHEC retirement filings have been submitted monthly in alignment with the required due dates.

- July 2023 completed by 7/31/2023.
- August 2023 completed by 8/31/23.
- September 2023 completed by 9/30/23.
- October 2023 completed by 10/31/23.
- November 2023 completed by 11/30/23.
- December 2023 completed by 12/31/23.
- January 2024 completed by 1/31/24.
- February 2024 completed by 2/29/24.
- March 2024 completed by 3/31/24.
- April 2024 completed by 4/30/24.
- May 2024 completed by 5/31/24.
- June 2024 completed by 6/30/24.

The MSRA annual report was filed on 1/17/24 before the 1/31/24 due date.

g. YTD payroll withholding taxes were submitted on a semi-monthly basis required by the regulatory guidelines and in alignment with the pay schedule for Federal taxes withheld and state taxes withheld for Maryland, Pennsylvania, and Virginia. YTD payroll withholding taxes were submitted on a monthly basis required by the regulatory guidelines and in alignment with the pay schedule for West Virginia and DC.

- July 2023 completed by 7/15/23 and 7/31/23.

7. Allow tax payments or other government-ordered payments or filings to be overdue.INTERPRETATION:EVIDENCE:

- August 2023 completed by 8/15/23 and 8/31/23.
- September 2023 completed by 9/15/23 and 9/30/23.
- October 2023 completed by 10/15/23 and 10/31/23.
- November 2023 completed by 11/15/23 and 11/30/23.
- December 2023 completed by 12/15/23 and 12/31/23.
- January 2024 completed by 1/15/24 and 1/31/24.
- February 2024 completed by 2/15/24 and 2/29/24.
- March 2024 completed by 3/15/24 and 3/31/24.
- April 2024 completed by 4/15/24 and 4/30/24.
- May 2024 completed by 5/15/24 and 5/31/24.
- June 2024 completed by 6/15/24 and 6/30/24

This interpretation is reasonable because it addresses all required federal and state reporting requirements, timelines, and provides for verification of submissions. Failure to take the aforementioned steps would prompt a letter of concern to the College by the respective authority.

8. Purchase, lease, condemn, or otherwise acquire any real property without Board approval.

INTERPRETATION:

EVIDENCE:

Compliance will be demonstrated when:

- a. There has been no acquisition, encumbrance, or disposal of land or buildings without receiving prior Board approval.

- a. The CFO/VPA confirmed on 11/5/24 that for the prior FY 2024 and to-date, no acquisition, encumbrance, or disposal of land or buildings has occurred outside the ten-year master plan that was approved by the Board on June 14, 2023.

This is a reasonable interpretation because it aligns with industry best practices.

10. Fail to provide to the Board, at their designated frequency, reports on the College's current financial condition that will continually enhance the Board's ability to meet its fiduciary responsibility.

INTERPRETATION:

EVIDENCE:

Compliance will be demonstrated when:

- a. The College's Chief Financial Officer/VP for Administration provides reports following the close of each financial quarter to the Board of Trustees for review.

The CFO/VPA confirmed on 11/5/24 the following:

- a. The FY 2024 quarterly financial statements were presented to the Board of Trustees for review as follows:
- The 1st quarter ending 9/30/23, was presented to the Board on 11/15/23.
 - The 2nd quarter ending 12/31/23, was presented to the Board on 2/21/24.
 - The 3rd quarter ending 3/31/24, was presented to the Board on 5/22/24.
 - The 4th quarter ending 6/30/24, was presented to the Board on 9/18/24.

This interpretation is reasonable because it aligns with industry best practices.

11. Fail to present to the Board of Trustees an annual budget for its review and approval, and which adheres to intergovernmental submission timelines.

INTERPRETATION:

EVIDENCE:

Compliance will be demonstrated when:

- a. The College Administration presented the annual budget to the Board of Trustees in adherence to the submission timelines of Frederick County.

The CFO/VPA confirmed on 11/5/24 the following:

- a. The FY 2025 proposed operating budget was presented and approved by the Board of Trustees on 2/21/24. The final FY 2025 annual operating budget was presented and approved by the Board of Trustees on 6/4/24, was sent to Frederick County on 6/5/24, and ratified by the Frederick County Council on 6/18/24.

This interpretation is reasonable because preparing and finalizing an annual budget in advance of a new fiscal year is an industry best practice, and it addresses all requirements to submit an approved budget to intergovernmental agencies.

12. Fail to meet requirements for annual financial audits, or to respond in a timely manner to any findings from financial or operational audits, reviews, or assessments.

INTERPRETATION:

EVIDENCE:

Compliance will be demonstrated when:

- a. The College Administration provided needed information and cooperation to external auditors to meet requirements for Board review of year-end financial statements and submitted final statements to required intergovernmental agencies.
- b. The College has a written plan to address any findings from financial or operational reviews or assessments.

The CFO/VPA confirmed on 11/5/24 the following:

- a. On 10/16/24, SB & Company, LLC (the College's external auditors), presented the FY 2024 Annual Audited Financial Report to the Board of Trustees,. The auditors confirmed that the College was cooperative and had provided all information required for completing the annual financial statement audit. The FY 2024 Audited Financial and CC4 Reports were submitted to MHEC on 9/26/24, before the 9/30/24 due date. The submission of the FY 2024 Single Audit of Federal Awards to the Federal Clearinghouse was submitted by the due date of 10/31/24.
- b. Although there were no findings related to the FY 2024 Audited Financial Report the College developed a written plan to implement recommendations for an Accounts Payable operational assessment that was requested by FCC and performed by the Frederick County Interagency Internal Audit Authority (IIAA) in FY 2024. The College is not fully compliant with Board policy as we do not currently have a system in place to document and track operational assessments and related plans for improvement. A centralized system for monitoring all operational assessments by the College will be developed during FY 2026.

This interpretation is reasonable because Maryland law requires completion and submission of community college annual financial audits to state agencies within 90 days of June 30 (the end of a fiscal year) unless an extension is granted. The Maryland Higher Education Commission requires that community colleges respond to any material audit findings. The Interagency Internal Audit Authority (IIAA) also requires the College to respond to any audit findings. It is a best practice to document/track operational audits or assessments and to subsequently develop a written improvement plan.

13. Fail to recommend on an annual basis, as appropriate, other Strategic Reserves at levels approved by the Board. Strategic Reserves are over and above the operating fund balance reserve (16.6% of operating expenses). Strategic Reserves are for one-time expenses or projects, and provide for such items as:

- a. Emergencies - Reserve to provide for unforeseen natural or manmade disasters to support business continuity and recovery actions.**
- b. Student Success and Completion Initiatives - Investments to enhance the student experience and remove obstacles to student success and completion.**
- c. Academic Program Initiatives - Investments to provide start-up funding for innovative new programs which serve the College's educational mission.**
- d. Talent Cultivation - Investments to provide professional development opportunities and to promote continuous learning among faculty and staff.**
- e. Unplanned Capital Repair & Replacement - Reserve to cover critical system or component failure that might occur outside of the annual capital improvement budget approval cycle.**
- f. Technology Projects - Reserve to provide for technology upgrades or system replacements not covered by other funding sources.**
- g. Strategic Planning and Future-Proofing – Future-oriented investments to strengthen the College's value, relevance, responsiveness and adaptability to emerging trends and protect the long-term viability of the institution.**

INTERPRETATION:

EVIDENCE:

Compliance will be demonstrated when:

- a. The College Administration has determined if there are available reserves over and above the required 16.6% operating fund balance reserve, and if so, has recommended to the Board how balances may be segmented to meet future strategic, one-time needs.

The CFO/VPA confirmed on 11/5/24 the following:

- a. The FY 2025 operating budget approved by the Board on 6/4/24, included the use of Strategic Reserves totaling \$2,442,000 that was above the required 16.6% operating fund balance reserve. These funds were made available for projects in the categories of Student Success and Completion, Unplanned Capital Repair and Replacement, Technology Projects, and Strategic Planning and Futureproofing.

This interpretation is reasonable because the practice of planning for and investing in one-time projects using accumulated reserves is a means by which the College may advance larger projects while still ensuring that adequate cash reserves are available to address cashflow or emergency needs and maintain the College's fiscal strength.