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Chapter: Fiscal and Administrative Affairs

Modification No. 003

Subject: **Internal Audit**

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I. Purpose

- A. The Internal Audit function is an independent, objective assurance and consulting activity, within Montgomery College, designed to add value and improve a department's operation. It is a managerial control that helps departments accomplish their objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- B. Internal Audit is intended to assist members of management in the effective discharge of their duties and responsibilities by furnishing them with analyses, appraisals, recommendations, and pertinent comments concerning the activities reviewed.

II. Authority

- A. Internal Audit is authorized to direct a broad, comprehensive program of internal auditing within the College.
- B. Internal Audit may be concerned with any phase of College activity that may be of service to management, a responsibility that involves going beyond the accounting and financial records, and policies and procedures, to obtain a full understanding of the operations under review.
- C. In order to carry out assigned responsibilities, the Chief Compliance, Risk and Ethics Officer will ensure the internal audit function is authorized with full, free, and unrestricted access to all College activities, records, property, and personnel.

III. Responsibilities

Internal Audit is responsible for:

- A. Establishing policies for the auditing activity and directing its technical and administrative functions.
- B. Developing and executing a comprehensive audit program/plan for the evaluation of management controls provided over College activities.
- C. Examining the effectiveness of all levels of management in their stewardship of College resources in compliance with established plans, policies, and procedures, and sound management approaches.
- D. Recommending improvement of management controls designed to safeguard College resources, promote achievement of College goals and objectives, and ensure compliance with governmental laws, regulations, and Board of Trustees policies.

- E. Authorizing the publication and distribution of reports on the results of audit examinations, including recommendations for improvement.
  - F. Appraising the adequacy of the action taken by management to correct reported deficient conditions, acknowledging adequate corrective action, and continuing reviews with appropriate management personnel on action considered inadequate until the matter has been satisfactorily resolved.
  - G. Conducting special reviews at the request of management.
  - H. Responding to reports of suspected fraud or financial irregularities through the established reporting line.
- IV. Audit Reporting
- The Board shall consider the auditor's findings and recommendations, the responses to the findings and recommendations, and the President's recommendations in the matter.
- V. The President is authorized and directed to establish procedures to implement this policy.

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Board Approval: May 16, 2005; February 25, 2014; May 15, 2017.

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Chapter: Fiscal and Administrative Affairs

Modification No. 007

Subject: **Internal Control & Audit**

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I. Internal Auditing

Internal auditing is a staff function which serves College management as an independent, objective assurance and consulting activity designed to add value and improve Montgomery College management systems. Internal audits are conducted by the Internal Auditor who is directed by the Chief Compliance, Risk and Ethics Officer who reports directly to the President. Functioning under an annual audit plan approved by the President, the internal audit function supplements the annual external audit that is required by State law and conducted in accordance with prescribed requirements of the Maryland Higher Education Commission. The external audit is normally conducted by an independent certified public accountant of the College's selection (see policy on "Appointment of External Auditor").

II. Internal Audit Objectives

The Chief Compliance, Risk and Ethics Officer will ensure the development of an annual risk based audit plan. Audits will be conducted in areas relative to their strategic value to the institution. Audits that evaluate the College's general operational processes to assure they are properly designed and operating effectively, evaluate control mechanisms to reduce the risk of loss or waste, and offer recommendations for areas of improvement to increase the opportunity to meet institutional goals.

The objectives of each internal audit will be to provide:

- A. An independent review of the College's compliance with policies, procedures, laws and regulations.
- B. An independent appraisal of the business and operating controls and systems with the principal objectives of eliminating waste and minimizing the potential for improprieties and/or mismanagement.
- C. A determination as to whether resources are acquired economically, used efficiently and effectively and protected adequately.
- D. An objective evaluation of and a written report on the internal controls and processes over, and the support for, the collection, control, and disbursement of College funds and the safeguarding of the College's assets and its records.
- E. Recommendations, where applicable, for improving management control and the overall effectiveness of the areas audited.

III. Internal and External Audit Reports

- A. The internal audit report represents the formalization of those audit findings and related recommendations which the Internal Auditor believes warrant management consideration, evaluation and action as appropriate to the circumstances. From the management point of view, an audit report should be

considered as a management tool and be utilized as such to the fullest extent applicable.

- B. The internal audit report will usually consist of sections titled: Introduction, Scope, Findings, Conclusions and Recommendations. The Introduction and Scope sections will be brief and give general descriptions as to the activity audited and the extent of the audit. The internal audit report will be reviewed by the Chief Compliance, Risk and Ethics Officer and distributed through the Office of Compliance, Risk and Ethics.
- C. The internal audit report will typically be addressed to the person directly responsible for the supervision of the audited area or activity and their immediate administrator.
- D. In the case of any external audits, including those completed as part of the College audit plan, the auditor's findings and recommendations, if any, would be addressed to the Board of Trustees through the President who will forward as appropriate to those responsible persons for a response. The initial response to the recommendations will be by an appropriate administrator designated by Chief Compliance, Risk and Ethics Officer. In each instance, that person is responsible for carefully considering each finding and recommendation, evaluating same in the context of how the particular activity could benefit, and then thoughtfully deciding on a proper course of management action as appropriate to the circumstances.

IV. Management Follow-Up on Reports

- A. Within 10 calendar days after the date of receipt of an internal audit report or an external audit report containing findings and recommendations, the addressee will direct a memorandum of response to the Internal Auditor with a copy to the Chief Compliance, Risk and Ethics Officer outlining as concisely as possible:
  - 1. Whether there is general agreement with the overall report findings and recommendations.
  - 2. Any lack of agreement and the reason why.
  - 3. The management action taken or contemplated on each finding and/or recommendation (or a brief reference to the fact, if the report correctly summarizes such actions taken up to the report date), including estimated timelines for planned actions.
  - 4. Any specific finding or recommendation which may involve matters beyond the addressee's authority to correct.
- B. The response will copy the appropriate direct administrator (if not the addressee) for review and concurrence, and be marked for prompt handling.
- C. When additional time to consider a report or individual recommendation is necessary, an extension of time should be requested of the Chief Compliance, Risk and Ethics Officer by the appropriate administrator responsible for the audited area.

- D. When received, responses to reports of the external auditor will be promptly reviewed by the Internal Auditor and the Chief Compliance, Risk and Ethics Officer and then submitted to the President for transmittal to the Board of Trustees, with recommendations as appropriate to the circumstances.

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Administrative Approval: July 27, 1976; February 3, 1978; September 20, 1978; June 4, 1980; November 7, 1984; August 30, 1994; January 10, 2003; February 25, 2014; May 31, 2017.