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Chapter: Fiscal and Administrative Affairs

Modification No. 007

Subject: **External Audit**

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I. Legal Authority

In accordance with the legal requirement imposed on community colleges by the State of Maryland, The Annotated Code of the Public General Laws of Maryland, State Finance and Procurement Article, Title 16, §16-315, *Fiscal Matters, Audits*, each community college shall have an annual audit of its books of accounts, accounting procedures and principles. The audit will be conducted by an independent certified public accountant unless arrangements have been made prior to the fiscal year for the audit to be conducted by the Legislative Auditor of the State of Maryland.

II. Annual Audit Results

It shall be the College's intent to comply fully with the required report filing dates specified in the State audit regulations. Any delay, whether anticipated or unforeseen, that would cause noncompliance with the filing dates must be promptly brought to the attention of the President in writing by the Vice President of Finance/Chief Financial Officer. Such prompt notification shall be for the purpose of resolving the anticipated delay or proposing to the President that an extension of filing time be requested of the Maryland Higher Education Commission.

On or before September 30<sup>th</sup>, or within three months after the close of the College's fiscal year, the External Auditor shall submit the audited financial statements to the Board of Trustees.

III. Annual Audit Report Certification

The final audited report shall contain a statement from College management attesting to the completeness and accuracy of the report. This statement shall be signed by the President and the Senior Vice President for Administrative and Fiscal Services.

IV. Selection of Audit Firm

A. On a periodic basis, but not less than every five (5) years, the College will issue a Request for Proposal (RFP) for a certified public accounting firm to perform annual financial audits. College staff will use due diligence in evaluating firms submitting proposals, and a recommendation for firm selection shall be brought to the Board of Trustees for action.

B. The Board, by resolution, will award the contract for three fiscal years and will authorize the President to extend the contract one fiscal year at a time for two additional fiscal years provided that funds have been authorized, the quality of past services has been acceptable to the College, and the fee for the extended contract is considered reasonable by the College.

V. Meetings

Meetings between the Board of Trustees and the audit firm representative(s) shall be held in accordance with 11001 Board of Trustees Bylaws.

VI. Audit Reporting

The Board shall consider the External Auditor's findings and recommendations, the responses to the findings and recommendations, and the President's recommendations in the matter.

VII. Non-Audit-Related Services

Independent auditors are prohibited from providing services that are barred by the Sarbanes-Oxley Act or their statement of ethics. These prohibited services are listed in College Procedure 64001CP.

VIII. Full and Fair Disclosure

College employees are prohibited from improperly influencing, or attempting to influence, the audit process and shall comply with this process by providing full and accurate disclosure of College information.

IX. Responsibility

The President is authorized and directed to establish procedures to implement this policy.

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Board Approval: November 17, 1975; October 16, 1978; April 21, 1980; October 16, 1989; October 17, 1994; May 16, 2005; February 25, 2014.

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I. A qualified independent auditor will perform an annual audit of the College books of accounts, accounting procedures, and principles. Consistent with the Board Policy and given the critical nature of external auditing, the selection, award, and management of the external audit should be undertaken in such a manner that:

- A. Clearly identifies the scope of the engagement, the services desired, and sufficient, relevant information about the institution.
- B. Provides for open and fair competition consistent with the procurement policies.
- C. Establishes appropriate criteria related to cost, service, and experience for the evaluation of audit service providers' proposals and qualifications.
- D. Outlines agreed-upon terms of the audit engagement in a written document.
- E. Provides opportunities to assess the Auditor's performance and communicate that assessment before the next audit cycle.

II. Selection and Award

- A. The company retained to perform the annual audit of the College's records and financial statements will be selected based on competitive bidding practices and public advertisement, together with consideration of the amount of experience which each responding firm has had in auditing educational institutions. Solicitations and advertising will specify that the audit is to be in conformity with the auditing requirements set forth by the Maryland Higher Education Commission; the lead partner on the audit rotate at least every five (5) years; and if applicable, the selected firm would be expected to comply with the rules for auditor professional conduct to be established by the Public Accounting Oversight Board. The quotations of the non-selected firms will remain confidential.
- B. The normal term for a contract with any one firm is considered three years, after which the President will either invite bids for a new contract or extend the existing contract for one or two additional years.

III. Written Agreement/Contract

- A. The written agreement entered into between the College and the auditing firm shall make allowance for the completion of the field work, the preparation of the required reports and appropriate responses thereto by the College, and the audit will be conducted in full conformity with the audit requirements of the Maryland Higher Education Commission including the filing of such reports (and responses) by the dates specified in the audit guidelines. This agreement will be developed by the Auditor after appropriate consultation with representatives of the selected firm, the Vice President for Audit/Internal Audit and Business Process Management, the Vice President of Finance/Chief Financial Officer, the Senior Vice President for Administrative and Fiscal Services, and the General Counsel for legal sufficiency.
- B. The purchase of additional non-audit-related services from the College's External Auditor is prohibited. A listing of prohibited services follows:

- (1) Bookkeeping or other services related to the accounting records or financial statements
- (2) Financial information systems design and implementation
- (3) Appraisal or valuation services
- (4) Actuarial services
- (5) Internal audit outsource services
- (6) Management functions or human resources
- (7) Broker or dealer, investment adviser, or investment banking services
- (8) Legal services and expert services unrelated to the audit
- (9) Any other service that the Public Accounting Oversight Board determines by regulation is impermissible

The College may, with appropriate College approvals, engage the External Auditor in any non-audit service not listed above.

IV. Audit Reporting

The Auditor's findings and recommendations (Management Letter), if any, should be addressed to the Board of Trustees through the President; however, initial response to the recommendations will be by an appropriate administrator designated by the Senior Vice President for Administrative and Fiscal Services. 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 the College, and then thoughtfully deciding on a proper course of management action appropriate for the circumstances. When received, responses to reports of the External Auditor will be promptly reviewed by the General Counsel and Senior Vice President for Administrative and Fiscal Services and then submitted to the President for transmittal to the Board of Trustees, with recommendations appropriate for the circumstances.

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Administrative Approval: October 17, 1978; November 7, 1984; August 30, 1994; January 14, 2003; May 16, 2005; February 25, 2014