

# REGULATION

## MONTGOMERY COUNTY PUBLIC SCHOOLS

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**Related Entries:****Responsible Office:** Chief Operating Officer**Related Sources:** *The Annotated Code of Maryland*, Education Article (ED) 5-109, 5-110

### External Audits Requiring Board of Education Approval

#### I. PURPOSE

To establish an audit request review process to make a determination on the type of audit being proposed and, if the determination is that the requested audit is a performance audit, whether to authorize an audit by the audit requester.

#### II. BACKGROUND

*The Annotated Code of Maryland*, Education Article (ED) 5-109 allows an external agency to perform a financial audit of the Board of Education and for the Board of Education to cooperate with the financial audit. ED 5-109 does not provide authority to a county government or any external agency to require the Board of Education to submit to a performance audit. A performance audit focuses on processes and inherent efficiencies. An external agency must receive Board of Education authorization to perform a performance audit. If the Board of Education does not authorize the performance audit, ED 5-110 allows the Maryland State Department of Education, at the request of a county government, and in the absence of an agreement between the county government and the Board of Education, to contract for a performance audit of the Board of Education.

#### III. DEFINITIONS

A. A *financial audit* is concerned with the accuracy of financial data generally in the context of financial statements. A financial audit is performed in accordance with generally accepted auditing standards for field work and reporting. The American Institute of Certified Public Accountants has four generally accepted standards for reporting :

1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.

2. The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
  3. Information disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
  4. The report shall contain either an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. The report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.
- B. A *performance audit* generally involves “an assessment of an entity’s practices to determine whether it is operating economically and efficiently” (ED 5-110) and achieving its objectives, “and whether corrective actions for improving its performance are needed.” (ED 5-110) A performance audit is focused on processes and their inherent efficiency.
- C. *Audit objectives* are broad statements developed by auditors and define intended audit accomplishments.
- D. *Audit scope* refers to the activities covered by an audit.

#### IV. PROCESS

- A. The external agency must submit written notification of a proposal to audit to either the Board of Education, the superintendent of schools, or the chief operating officer (COO). If a department is notified directly, this department should notify the COO of the request.
1. The COO determines the legislative authority of the requester to perform the proposed audit.
  2. If the COO determines that the requester has full legislative authority to perform the proposed audit, the Board of Education is informed by the COO of the proposed audit and its legislative authorization. The final audit report, along with Montgomery County Public Schools (MCPS) responses to audit findings, is shared with the Board of Education.
  3. When the requester has not adequately established the legislative authority to perform the proposed audit, the COO sends acknowledgement of receipt and a request for information packet to the agency asking for:

- a) Proposed area(s) of audit and period(s) covered
  - b) Audit objective(s)
  - c) Audit scope
  - d) Timeframe and audit hours
  - e) Anticipated benefits
  - f) Proposed report distribution
  - g) General audit procedures to be performed
  - h) External audit requester's oversight authority and to whom it is accountable
4. The external audit requester must notify the COO of a change in audit objectives or a change in audit scope prior to implementing a proposed change.
- a) A change in audit objectives would occur when the external audit requester redefines the original audit objectives or proposes to add objectives not included in the original audit proposal. A change in audit objectives would require the external audit requester to submit an amended proposed audit request.
  - b) A change in audit scope would occur when the external audit requester proposes to materially alter either the period or the volume of activity subject to audit. The external audit requester must provide reasonable justification to support a change in audit scope.
- B. An audit review group convened by the COO will review requests from external agencies that do not have inherent legislative authority to audit a specific area within MCPS. Members of the audit review group include the COO, chief financial officer, controller, internal audit supervisor, MCPS' external auditor, and any other persons appointed by the COO.
- C. The audit review group will apply specified guidelines below to review the external agency's written proposed audit notification, responses to the request for information about the proposed audit, and other information obtained from the external agency

that it deems necessary to determine if the requested audit is a financial audit or a performance audit. The audit review group will ask the following questions:

1. Are the audit objectives, audit scope, anticipated audit procedures, and anticipated benefits consistent with the external agency's characterization of the audit as financial or performance? Can any inconsistencies and any remediation that would remove identified inconsistencies be documented?
  2. Is the audit scope clearly defined? Are audit boundaries clearly understandable? Does the audit scope avoid open-ended statements that could result in scope expansion?
  3. Are the audit procedures clearly defined? Are they consistent with the audit objectives? Will the audit procedures likely support the ability to draw conclusions consistent with stated audit benefits? Are audit procedures consistent with generally accepted auditing standards?
  4. Are there incongruities between the audit requestor and the audit objectives and anticipated benefits? Can these incongruities be reconciled?
  5. Is there a recent relevant audit report that reviewed substantially the same area that addressed similar audit objectives as the proposed audit? Has the external agency accepted the audit report in lieu of the proposed audit?
- D. The audit review group will advise the Audit Committee of the Board of Education whether or not to accept a proposal from the external agency to audit MCPS. The Audit Committee will, in turn, advise the Board of Education concerning acceptance of the audit proposal.
- E. The MCPS external auditor will review the audit work papers and draft audit report to determine if they are consistent with the original audit objectives and scope and that the report findings and recommendations are fully supported by the work papers.
- F. If the audit was identified as a financial audit, the audit findings will be reviewed to determine if any recommendations are more consistent with a performance audit than a financial audit.
- G. The COO will determine if there is agreement with the report findings and recommendations and whether any differences can be resolved.
- H. The COO will prepare responses to the audit findings.

- I. The audit requester will make the draft audit report and related audit work papers available for review, prior to publication, by the Board of Education's auditor. The audit requester must agree in advance to address and remediate findings from the review.
- J. The audit requester will be asked to include in the final published audit report the COO's responses, in their entirety, to audit report findings.

*Regulation History:* New regulation June 11, 2008.