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|  | INTERAGENCY INTERNAL AUDIT AUTHORITY | AUDIT MANUAL | |
| | INTRODUCTION | SUBJECT: FORWARD AND APPROVALS | INDEX: 1 OF 2 |
| | | | DATE: 7/09 |

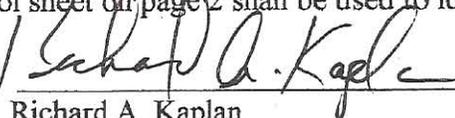
Forward: This revision to the Interagency Internal Authority Audit (IIAA) Manual implements the July 2007 revision to the *Government Auditing Standards* issued by the Comptroller General of the United States. These standards are commonly referred to as generally accepted government auditing standards (GAGAS). GAGAS revisions were effective for financial audits and attestation engagements for periods beginning on or after January 1, 2008, and for performance audits beginning on or after January 1, 2008. The Internal Audit Division's Operating Procedure Memorandum (OPM) 08-08 issued December 21, 2007 contained guidance for complying with the revised standards until this manual was revised.

The Internal Audit Division is required to follow GAGAS in conducting audits as authorized by Frederick County Resolution No. 99-05 issued April 27, 1999. Auditors shall comply with this audit manual, which includes supplemental OPMs issued by the Director.

The prior audit manual was revised not only to implement the new standards, but also to identify how the Division achieves audit quality and manages the audit process. Sections G and H of the Association of Local Government Auditors' (ALGA) Peer Review Guide (2008) were used in developing the manual to ensure that the Internal Audit Division's Quality Control System adequately addressed GAGAS. (See Appendix D for cross-references from Sections G and H to specific sections of this manual) This manual also includes revisions suggested in the ALGA External Quality Control Review Report issued on May 1, 2008.

Each staff member shall be provided with a manual in a binder and any subsequent revisions and OPMs. Staff shall read and understand the requirements contained in the manual and are encouraged to identify any changes as needed. To be a useful tool, this manual must reflect current policies and procedures and provide clear guidance for each auditor to follow and refer to as needed. An electronic version of the manual will be maintained. Minor changes to forms will be made electronically for the staff's use and will not require a change to the manual.

Staff members shall remove old policies and procedures and place them in the back of the manual. The control sheet on page 2 shall be used to identify new policies and rescinded policies.

Approval: 
 Richard A. Kaplan
 Director, Internal Audit Division

Date: 6-17-09

Approval:  CHAIR
 Interagency Internal Audit Authority

Date: 6-17-09

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| | CHAPTER IA | SUBJECT: STATEMENT OF AUTHORITY AND RESPONSIBILITY | INDEX: 1 OF 2 |
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Authority: The Interagency Internal Audit Authority (IAAA) is authorized by the Board of County Commissioners of Frederick County, Maryland, Resolution No. 99-05 to direct a broad comprehensive program of internal auditing within Frederick County Government (the County), the Board of Education and Frederick Community College. In accomplishing its activities, the IAAA and the Internal Audit Division are authorized to order the production of all records and materials necessary to perform audits of any commission or agency that receives County funds. (See Appendix C, Frederick County Code Sections 2-7-69 and 2-7-70).

Responsibility: The IAAA is responsible for:

- Providing for the establishment of an internal audit staff.
- Approving an annual budget request for the Internal Audit Division for submission to the Board of County Commissioners.
- Approving an annual strategic plan outlining major risk areas and a five-year plan to provide audit coverage of those areas.
- Approving a detailed annual work plan reflecting each audit planned and corresponding budgeted hours.
- Establishing policies for the auditing activity and providing counsel and direction regarding its technical and administrative functions.
- Authorizing the distribution of reports on the results of audit examinations, including recommendations for improvement of management controls.
- Appraising the adequacy of the action proposed or taken by management to correct deficient conditions.
- Reviewing and approving/disapproving special requests for audit services received from the Board of County Commissioners or the other government officials.

In carrying out the above responsibilities, it shall be the policy of the IAAA that:

- Organizations within the County are reviewed at appropriate intervals to determine whether they are effectively carrying out their functions of planning, accounting, custody, and control in accordance with management instructions, policies, and procedures and in a manner that is consonant both with County objectives and with high standards of administrative practice.

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- The results of the examination made by the internal auditors and the recommendations they make are promptly reported to management personnel for appropriate action.
- Further discussions be held with the auditee to achieve satisfactory disposition if the auditee refuses to take corrective action or actions taken or planned are not considered to be satisfactory. In the event that such disposition cannot be achieved, the IIAA shall bring the matter to the highest level of management capable of taking corrective action. If such management accepts the risk of not taking adequate corrective action, no further action is required by the IIAA.
- Requests for audits deemed to be politically motivated, not within the scope as previously described or, due to their technical nature, are considered to be beyond the expertise of the internal audit staff will not be approved for performance.
- IIAA members shall recuse themselves from voting on reports, plans, or other matters if they cannot be independent in fact or appearance. If an IIAA member cannot perform the duties required of a Board member because of an overarching independence impairment, the member shall promptly notify the IIAA and eliminate the impairment or resign.

The Internal Audit Division is responsible for administration of the internal audit function under the direction of the IIAA which includes:

- Preparing the annual budget request, Annual Audit Work Plan, and Strategic 5-year Plan,
- Performing audits in accordance with the work plan approved by the IIAA and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States,
- Preparing audit reports including findings and recommendations for corrective action, and preparing management letters,
- Conducting non-audit services that do not impair independence, such as following-up on prior audit recommendation; investigating allegations of fraud, waste, or abuse; and providing limited technical advice.

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II. FREDERICK COUNTY RESOLUTION NO. 99-05

THE EFFECTIVE DATE OF THIS RESOLUTION IS April 29, 1999
RESOLUTION NO. 99-65

RESOLUTION OF
THE BOARD OF COUNTY COMMISSIONERS
OF FREDERICK COUNTY, MARYLAND

A RESOLUTION TO RESCIND RESOLUTION NO. 86-26 AND
ENACT A NEW RESOLUTION REGARDING
THE INTERAGENCY INTERNAL AUDIT AUTHORITY

RECITALS

In Resolution 78-8, the Board of County Commissioners established the Interagency Internal Audit Authority (IIAA) which advises the Board of Education, Frederick Community College Board of Trustees and the Board of County Commissioners and its related agencies of the effectiveness of internal controls in the operations of the various organizations.

By Resolution 79-7, the Board of County Commissioners modified Resolution 78-8 to increase the number of members in the IIAA.

By Resolution 86-26, the Board of County Commissioners made certain changes to Resolution 79-7 concerning the membership and meetings categories.

To implement a recommendation from the June 5, 1998 External Quality Control Review, the IIAA has requested that Resolution 86-26 be amended to reflect current practices and certain terminology and compliance requirements of *Government Auditing Standards* issued by the Comptroller General of the United States.

pc: Bucc, C. acty., IIAA

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NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF FREDERICK COUNTY, MARYLAND, that Resolution No. 86-26 is hereby rescinded, and this Resolution is adopted in its stead to read as follows:

1. PURPOSE - First, the Interagency Internal Audit Authority (IIAA) shall plan, coordinate, direct and supervise the establishment and operation of an internal audit staff to provide the Board of Education, the Frederick Community College Board of Trustees and the Board of County Commissioners a constant review and appraisal of their many operations. Second, the IIAA shall act as an advisory body on all internal auditing needs and services to the Board of County Commissioners.

2. REPORTING RESPONSIBILITIES - The IIAA shall be responsible for the establishment of a reporting procedure that maintains the independence of the audit staff from the functions and departments that it reviews and evaluates.

3. SCOPE OF AUDITS - Audits shall be conducted in accordance with *Government Auditing Standards*. Audit staff shall have authority to conduct financial and performance audits as defined below:

FINANCIAL

A. Financial statement audits provide reasonable assurance as to whether financial statements are fairly presented in accordance with generally accepted accounting principles or other prescribed basis of accounting.

B. Financial related audits involve determining whether (1) financial information is presented in accordance with certain criteria, (2) the entity has adhered to specific financial compliance requirements, or (3) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve control objectives.

PERFORMANCE

A. Economy and efficiency audits include determining (1) whether the entity is acquiring,

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protecting and using its resources economically and efficiently, (2) the causes of inefficiencies or uneconomical practices, and (3) whether the entity has complied with laws and regulations relating to economy and efficiency.

B. Program audits determine (1) the extent to which the desired results or benefits established by the authorizing body are being achieved, (2) the effectiveness of organizations, programs, activities or functions, and (3) whether the entity has complied with significant laws and regulations applicable to the program.

4. MEMBERSHIP, MEETINGS ORGANIZATION - The IIAA shall be composed of seven members: a member of the Board of Education, a member of the Community College Board of Trustees, a member of the Board of County Commissioners, and four members of the public who possess expertise in accounting, auditing and internal control to be recommended by the existing Authority members for four year terms commencing on a staggered basis. Members are eligible to serve two consecutive four-year terms and are subsequently eligible for reappointment if at least one year has elapsed since the end of their last term. Members who are appointed to partial terms are eligible to serve two additional consecutive terms. All appointments shall be approved by the Board of County Commissioners. The Board of Education and Community College Board of Trustees shall make recommendations to the Board of County Commissioners concerning the appointment of their representatives. Members shall serve at the pleasure of their recommending body with the approval of the Board of County Commissioners.

A. MEETINGS - The IIAA shall hold a minimum of four meetings during each fiscal year and additional meetings as deemed necessary. Minutes shall be kept and reflect topics of discussion as well as all decisions and recommendations. In addition to the members of the IIAA, a representative of the external auditor for the County, the Board of Education, and the Community College shall be required to attend the meetings of the IIAA.

B. ORGANIZATION. - The IIAA shall elect a chairman and vice-chairman yearly. Election of these two officials shall be held each April.

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5. BUDGETS, PERSONNEL - The IIAA shall prepare an annual budget request to be submitted to the Board of County Commissioners under the County's budgeting procedures.

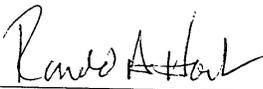
The IIAA shall be responsible for the employment and discharge of qualified personnel necessary for its operations within the limitation of the approved budget with the approval of the Board of County Commissioners.

6. AUDIT PLAN - Annually, the audit director shall submit to the IIAA a strategic plan outlining the major risk areas within Frederick County government, Frederick County Public Schools and Frederick Community College and a five-year plan to provide audit coverage of those areas. In addition, prior to the beginning of each fiscal year, a detailed work plan reflecting each audit planned for the year and the corresponding budgeted hours shall be presented to the IIAA for approval.

7. EXTERNAL QUALITY CONTROL REVIEW - The audit activities of the internal audit office shall be subject to a quality control review at least once every three years by an organization not affiliated with any agency or function of Frederick County government, Frederick County Public Schools or Frederick Community College. The review shall be conducted utilizing guidelines endorsed by the National Association of Local Government Auditors or the General Accounting Office and shall determine whether an adequate internal quality control system is in place and is operating effectively to provide for compliance with *Government Auditing Standards*.

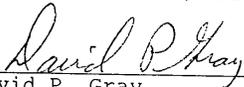
The undersigned hereby certifies that the foregoing Resolution was approved and adopted on the 27th day of April, 1999.

ATTEST:



 Ronald A. Hart
 County Manager

BOARD OF COUNTY COMMISSIONERS
OF FREDERICK COUNTY, MARYLAND

By:  (SEAL)

 David P. Gray
 President

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Appointment of IIAA Members: Members are eligible to serve two consecutive four-year terms and are subsequently eligible for reappointment if at least one year has elapsed since the end of their last term. Members who are appointed to partial terms are eligible to serve two additional consecutive terms.

Vacancies (including expired terms) of public member positions on the Authority will be advertised by the Board of County Commissioners' County Manager in the local newspaper and on the County's website. Any member who is eligible and desires to serve an additional term should notify the County Manager in writing.

Names of applicants are presented to the Authority for review and then forwarded to the County Commissioners with a recommendation for the appointment. The Commissioners notify the applicants of their appointment in writing.

Removal of IIAA Members: It shall be the policy of the IIAA that IIAA members may be recommended for removal from the IIAA only for the following reasons:

- a. Dereliction of duty in the carrying out of the responsibilities of an IIAA member as set forth by the enabling legislation or County resolution creating the IIAA;
- b. Declaration of being of unsound mind or an incompetent by final order of a court of competent jurisdiction;
- c. Conviction of a felony while a member;
- d. Failure to attend three consecutive meetings or absence from one-third of the meetings during the fiscal year;
- e. Termination of membership in the class which the member was selected to represent; or
- f. Termination of residence in Frederick County.

The decision to recommend a member for removal to the Board of County Commissioners shall be decided by a two-thirds majority vote of those present and voting at a legally constituted meeting.

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IIAA Meetings: Requirements to hold IIAA meetings are contained in Paragraph 4A of Frederick County Resolution 99-05, adopted April 27, 1999. (See Chapter 1B, Legal Basis). The requirements include holding a minimum of four meetings during each fiscal year and keeping minutes that reflect topics of discussion and decisions and recommendations.

➤ Date, Purpose, and Attendance

-Generally, the IIAA meets on the third Wednesday of each month. The approval of the Chair is required to cancel a meeting in the event of a probable lack of quorum or other reason as deemed appropriate. The primary purpose of IIAA meetings is to approve proposed final reports on audits or attestation engagements for issuance, and to provide technical advice to the Internal Audit Division. IIAA meetings are also held to approve the proposed budget for the Internal Audit Division prior to submission of the budget to the Board of County Commissioners, and to approve the Division’s Annual Audit and Strategic 5-Year Work Plans as required by County Resolution 99-05. At each meeting, the Internal Audit Division also discusses the status of assignments and any issues deemed necessary by the Director.

-Although it is expected that IIAA members will attend all IIAA meetings, there may be unexpected emergencies or conflicts, which prevent attendance. In such cases the Chair of the IIAA or the Director of Internal Audit should be notified as soon as it is known that the member will be unable to attend the IIAA meeting. It is the policy of the Board of County Commissioners to monitor the attendance of persons appointed by the County Commissioners. The Internal Audit Division’s Administrative Coordinator shall submit an attendance record of the IIAA members to the Board of County Commissioners’ Administrative Officer by December 31 of each year.

➤ Notification of Meetings

- IIAA meetings are subject to the Maryland Open Meetings Act, which is codified as Subtitle 5 of Title 10 of the State Government Article, Maryland Code. Chapters 1 through 5 of the Open Meetings Act Manual at <http://www.oag.state.md.us/Opengov/Openmeetings/support.htm> describe all requirements of the Act, which is included in the Manual as Appendix A. IIAA meetings are also subject to the open meetings policy adopted by the County Commissioners on July 7, 1992 as Resolution 92-12 (See Appendix A), which complies with the State law.

-The Internal Audit Division’s Administrative Coordinator is responsible for ensuring that reasonable advance notification of upcoming meetings is placed on Frederick County Government’s, Board of County Commissioners’, Schedule and Public Meetings webpage in compliance with the Maryland Open Meetings Act. §10-506(a) Notice of the meeting is required even if the session may be closed under one of the Act’s exceptions. The written notification shall

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include the date, time, and place of its meeting and whether all or a part of its meeting is in closed session. §10-506(b)

-The Administrative Coordinator is also responsible for providing an agenda and materials, approved by the Director, at least several days before the upcoming meeting and for inviting guests, as appropriate. The Internal Audit Division invites officials responsible for the program, activity, or function being audited, if the proposed final audit report is being discussed.

➤ **Justification for Holding Closed Meetings**

-IIAA meetings are open, unless the meeting relates to one of the fourteen exceptions provided for in State Government Article §10-508(a), Appendix A of the Open Meetings Act Manual. The Act entitles members of the public to observe open sessions of public bodies, but it does not afford the public any right to participate in the discussion unless invited to do so (See County Resolution 92-12 Section 1.02.b.).

-Also, with the exception of certain provisions dealing with minutes, the Open Meetings Act does not regulate access to documents. Instead, the Maryland Public Information Act governs public access to State and local records. <http://www.oag.state.md.us/Opengov/pia.htm> Therefore, even if certain documents are referred to at an IIAA open meeting, the Open Meetings Act does not require that the documents themselves be made public. The status of the documents would be determined by the Maryland Public Information Act or other law.

Several reasons that the IIAA may have a closed session are to:

- Discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation, or performance evaluation of appointees, employees, or officials over whom it has jurisdiction; or any other personnel matter that affects one or more specific individuals, or
- Consult with counsel to obtain legal advice on a legal matter, or
- Conduct or discuss an investigative proceeding on actual or possible criminal conduct.

-The IIAA Chair is responsible for ensuring that a written statement is prepared setting out the reason for closing the meeting, the specific provision of the Open Meetings Act that allows the meeting to be closed, and the topics to be discussed at the closed session. §10-508(d) (2) (ii). All justification for closing a meeting must be presented at this time. If there are questions regarding the authority to hold a closed meeting, the Internal Audit Division shall consult with the County Attorney.

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➤ Voting

-In general, the Open Meetings Act does not lay out rules of parliamentary procedure. It is not intended to supplant or substitute for a public body’s own rules or guidelines, such as Robert’s Rules of Order, for the conduct of meetings. In particular, the Act does not dictate how a public body organizes its consideration of issues that are permitted in closed session; it may meet for a closed session unconnected with an open session, or it may hold a closed session before or after an open session.

-The Act requires certain formal steps before a public body may meet in closed session. First, the presiding officer, the IIAA Chair, must “conduct a recorded vote on the closing of the session.” §10-508(d) (2) (i). In accordance with customary parliamentary procedures, this vote would occur on a motion, properly seconded, to close the meeting. The motion should state the legal basis for the proposed closing. The body may hold the closed session only if the motion is supported by a majority of the members present and voting. §10-508(d) (1). This vote must take place in an open session immediately before the closed session.

➤ Minutes

-The Internal Audit Division Administrative Coordinator is responsible for preparing written minutes of all IIAA meetings, open and closed, in accordance with the Open Meetings Act. §10-509(b). The minutes shall be promptly prepared and, after approval of the Internal Audit Director, distributed to IIAA members in ample time prior to the next meeting. The minutes and any tape recording of a closed session are generally not open to public inspection, unless the majority of the public body votes in favor of disclosing them. §10-509(c) (4) (iii).

-In accordance with the Open Meetings Act §10-509(e), minutes of the IIAA meetings and any tape recordings made must be kept for at least a year after the date of the session. The Internal Audit Division will maintain all meeting minutes approved by the IIAA. Audio tapes of the meetings shall be held a year after the date of the meeting, unless a complaint is made to the Open Meetings Compliance Board about possible violation of the Open Meetings Act. If such a complaint is made, the tape recording will be kept until the complaint is resolved.

-To comply with the Open Meetings Act, the minutes of the next open meeting must include “a statement of the time, place, and purpose of the [previous] closed session,” a record of how the members voted on the motion to close the session, a citation of the provision of the Act that allowed the meeting to be closed, and “a listing of the topics of discussion, persons present, and each action taken during the session.” §10-509(c) (2).



**INTERAGENCY
INTERNAL AUDIT
AUTHORITY**

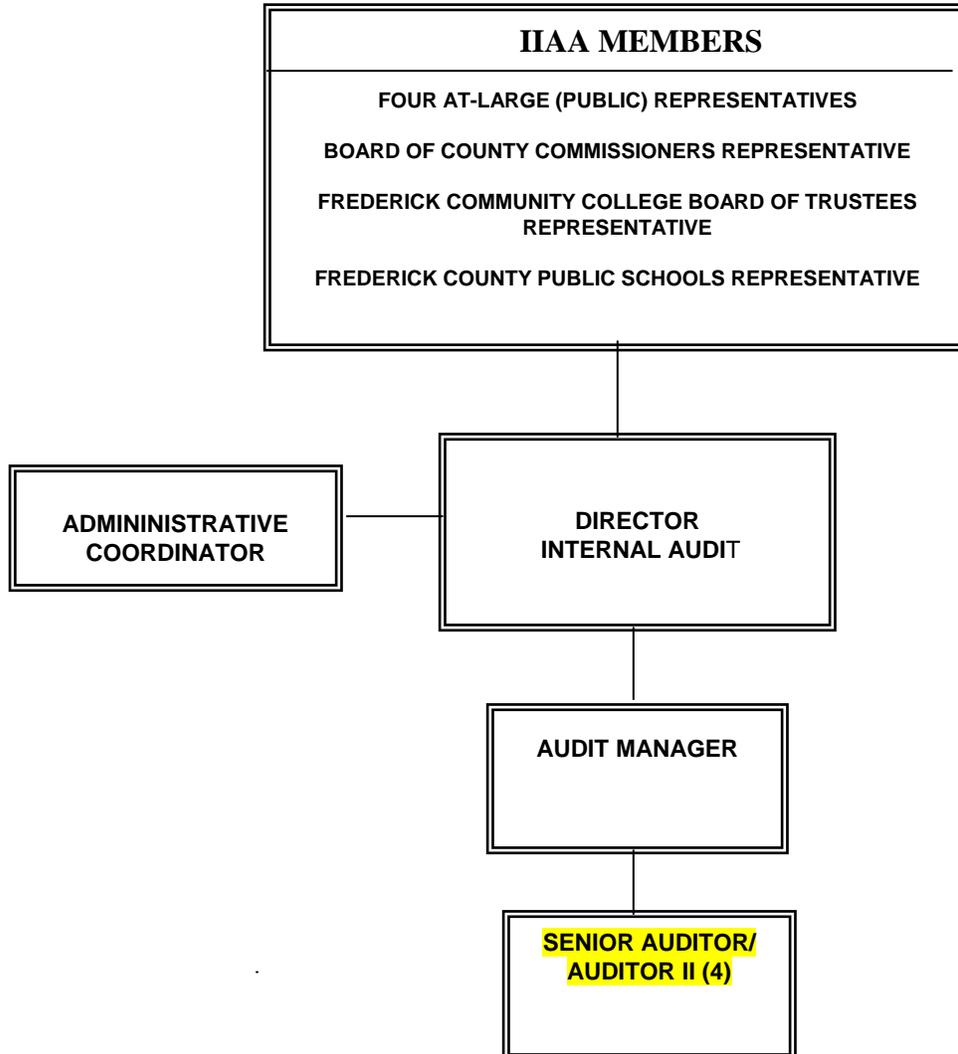
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Fraud Hotline: The Internal Audit Division operates a Fraud Hotline to allow County employees to report their concerns regarding fraud, waste, and abuse within the County Government confidentially and anonymously, if they so choose. County employees can submit a Hotline complaint through the Fraud Hotline, which can be accessed through the County’s Intranet, or by mail, fax, or hand-delivery to the Internal Audit Division.

Employees should use the Hotline to report apparent unlawful or wasteful acts committed by County employees or acts of others, such as vendors, contractors, or other parties against the good of the County. The Fraud Hotline is meant to be used for instances when a County employee has reasonable suspicions of fraud, misuse of property or theft. If it is feasible, the employee should first attempt to resolve these issues by notifying his or her supervisor. No identifying information is captured when someone submits an online form or fax.

The Internal Audit Division will review:

- Illegal acts, such as theft, fraud, kickbacks, price fixing, or conflict of interest by County employees and its vendors/contractors,
- Misuse or abuse of County property, including County buildings, vehicles, equipment or County time by County employees, and
- Gross misconduct, incompetence, or inefficiency by County employees.

The Internal Audit Division will not review improper activities by City, State or Federal employees or entities or improper activities by private parties not related to County Government. Also, if a complaint involves a management/personnel issue such as attendance or time reporting, the Internal Audit Division will forward the complaint to the appropriate Division Director or Department head asking for an investigation and response in writing within 30 business days.