

MEMORANDUM

June 7, 2012

To: Audit Committee

From: Leslie Rubin, Audit Contract Administrator 
Office of Legislative Oversight

SUBJECT: Amendment to CliftonLarsonAllen Contract

On June 11th, the Committee will discuss a proposed amendment to the Council's contract with CliftonLarsonAllen (Contract #8031000103AB) that would affect five changes to the contract. CliftonLarsonAllen concurs with the changes in the proposed contract amendment. This memo describes these changes and is organized as follows:

- **Section A** summarizes a request from CliftonLarsonAllen for additional fees related to its FY11 audit work;
- **Section B** summarizes a request from Department of Finance to continue to engage CLA staff in the Department of Finance and to remove certain restrictions on the work of this staff;
- **Section C** describes the Office of the Inspector General's request to engage CliftonLarsonAllen to perform work under the Council's contract; and
- **Section D** describes the Department of Finance's and the Office of the Inspector General's request to extend the term of the contract.

Staff Recommendation: The Audit Committee recommends that the Council:

1. Approve an additional \$144,600 in fees for CliftonLarsonAllen related to its FY11 audit work;
2. Approve retaining CliftonLarsonAllen staff in the Department of Finance for work related to the preparation of the FY12 CAFR;
3. Remove certain restrictions on the work CLA staff are authorized to perform;
4. Approve additional work to allow the Office of the Inspector General to engage CliftonLarsonAllen to conduct a performance audit; and
5. Extend the term of the contract through June 30, 2013.

The following individuals are scheduled to attend today's meeting.

Department of Finance	Rob Hagedoorn, Acting Director Beryl Feinberg
Office of the Inspector General	Edward Blansitt, Inspector General John Hummel, Deputy Inspector General
CliftonLarsonAllen LLP	Bill Early, Partner

Background

In November 2011, the Council amended its contract with CliftonLarsonAllen (CLA) in Contract Amendment #7 at the request of the Department of Finance (Finance). The amendment allowed Finance to hire additional CLA staff to assist with completing the closing of the County Government's FY11 books, compiling the annual Comprehensive Annual Financial Report (CAFR), and performing other related accounting services.

Finance's request to hire additional CLA staff stemmed from problems related to the July 2010 implementation of Oracle business software, the County Government's Enterprise Resource Planning (ERP) system, and because of staff turnover. These problems significantly delayed Finance's schedule for closing the County Government's FY11 books and compiling the FY11 CAFR. With the assistance of the additional CLA staff, the Department of Finance completed this work in March 2012.

A. CliftonLarsonAllen Request for Additional Fees Related to its FY11 Audit Work

CliftonLarsonAllen has requested additional fees related to its already-completed audit work for the fiscal year ended June 30, 2011. With respect to this audit work, Keith Novak, the lead CliftonLarsonAllen partner on the County Government audit work, indicated in an April 27, 2012 letter that CLA staff expended 1,218 more hours than it would have expected to in order to complete the audit work, when compared to hours work on the audit in the two prior years. (See ©7-8) This additional time needed to complete the FY11 audit work was a direct result of the Department of Finance's difficulties related to ERP implementation, described above.

CliftonLarsonAllen has requested an additional \$144,600 in fees related to its FY11 audit work. CLA's request would result in an hourly rate for its FY11 work that is an average of the hourly rate that it earned in the prior two years. The Department of Finance has agreed to pay for these additional fees out of its FY12 operating budget. (See ©10)

B. Department of Finance Request to Continue to Engage CLA Staff and to Remove Certain Restrictions on This Staff

The Department of Finance has requested an amendment to the contract to achieve two goals, described below.

1. Retaining CLA staff in the Department of Finance Throughout the Preparation of the County Government's FY12 CAFR

The Department of Finance has requested that the Council amend the contract to authorize it to retain CLA staff currently working in Finance throughout the process of preparing the FY12 CAFR. Joseph Beach, the Director of the Department of Finance, stated in a memorandum to the Council President and the Chair of the Audit Committee that:

The end date for the CLA contract is July 23, 2012. Due to delays in producing the FY11 CAFR, the work traditionally performed during the year in preparation for year-end CAFR related activities was started significantly later than normal. Furthermore, DOF continues to work to resolve remaining challenges associated with the implementation of the new financial management system. Therefore, DOF will continue to need the additional CLA staffing assistance beyond July 23, 2012. DOF is requesting an additional amendment to the contract to allow the continuation of the CLA staffing assistance through June 30, 2013.

See ©14.

The Department of Finance will negotiate a hourly rate for the work under this contract amendment that will be at or below \$140 per hour – the composite hourly rate specified in the original contract. Finance has budgeted up to \$350,000 for this contract work and that amount is specified as the maximum amount for this work in the contract amendment. See ©14.

2. Remove Certain Restrictions on CLA Staff

In Contract Amendment #7 to the Council’s contract with CliftonLarsonAllen, the agreement contained restrictions on how CLA staff would perform work to ensure that the additional CLA staff working in the Department of Finance did not impair CLA’s independence in its ability to perform its audit work – a requirement under Generally Accepted Government Auditing Standards established by the U.S. Government Accountability Office. One restriction prohibited CLA staff working in the Department of Finance from entering “any information into or chang[ing] information in the County Government’s financial software.”

Because CLA staff have completed their work related to the FY11 audit (removing the possibility of compromising CLA’s independence) and because the Department of Finance seeks to retain CLA staff throughout the development of the FY12 CAFR, Finance has requested an amendment to the contract to remove certain restrictions currently limiting CLA staff’s work for the department. The restriction state that:

- CLA personnel would have only read access to the County’s computer system; and
- All journal entries are to be prepared and reviewed by County personnel.

This contract amendment would remove these restrictions. See ©10.

C. Office of the Inspector General Request to Engage CliftonLarsonAllen to Perform Work Under the Council’s Contract

The Office of the Inspector General has requested that the Council amend Contract No. 8031000103AB under the Contract provision in Article I, “Scope of Work”, Section C, allowing the Council to amend the contract to add additional work that falls “within the general scope” of the Contract. The Office of the Inspector General (OIG) seeks to engage CliftonLarsonAllen to conduct work addressed in its FY 2012-2013 Work Plan. The OIG would engage CLA to conduct a performance audit of transactions in a County Government department “to identify anomalous transactions and balances” that, when researched, may represent fraud or non-compliance with laws and regulations. (See ©15-16 for a more detailed description of this work).

The Office of the Inspector General and CliftonLarsonAllen have agreed to a fee of \$100,000 for this work, payable in four installments of \$20,000, \$20,000, \$30,000 and \$30,000 – and timed to the completion of specific tasks described in the Office of the Inspector General’s description of this work (©16) and in the contract amendment (©4). The Office of the Inspector General would be responsible for paying CLA for this work and the Office plans to fund this work from its FY12 operating budget.

D. Department of Finance and Office of the Inspector General Request to Extend the Contract Date

CliftonLarsonAllen's current contract with the Council expires on July 23, 2012. Based on the Department of Finance's request to retain CliftonLarsonAllen staff throughout the process of creating the FY12 CAFR and on the Office of the Inspector General's request to engage CLA to perform work on behalf of his Office, these County Government staff have requested that the Council extend the term of CliftonLarsonAllen's contract through June 30, 2013.

The following documents are attached:

Document	At ©
Contract Amendment # 9 to Council Contract # 8031000103AB with CliftonLarsonAllen	1
April 27, 2012 Memo from Keith Novak, Partner at CliftonLarsonAllen, to Leslie Rubin, Audit Contract Administrator - re: request for additional fees for FY11 audit work	7
May 11, 2012 Memo from Joseph Beach, Director of the Department of Finance, to Council President Berliner and Council Vice President Navarro - re: removal of restrictions on CLA staff and CLA additional fee request	9
June 5, 2012 Memo from Joseph Beach, Director of the Department of Finance, to Council President Berliner and Council Vice President Navarro - re: continuation of CLA staff engagement through June 30, 2013	13
June 2012 Proposed Scope of Work and Fixed Fee for Additional Work from the Office of the Inspector General	15

CONTRACT AMENDMENT #9
CONTRACT NUMBER 8031000103AB

This Amendment is entered into between Montgomery County, Maryland, on behalf of the County Council for Montgomery County, Maryland ("Council"), and CliftonLarsonAllen LLP, 11710 Beltsville Drive, Suite 300, Calverton, MD 20705 ("Contractor," "Auditor" or "CLA").

BACKGROUND

1. The Council and CliftonLarsonAllen entered into Contract No. 8031000103AB on April 24, 2008. Contract No. 8031000103AB was extended through Contract Amendment #6 on April 19, 2011. The current contract term expires on July 23, 2012.
2. This contract amendment effects five changes to Contract No. 8031000103AB. It: 1) authorizes the payment of an additional \$144,600 to CliftonLarsonAllen for work related to the FY11 audit; 2) authorizes the Department of Finance to retain CliftonLarsonAllen staff for an additional period; 3) removes certain restrictions on the work CliftonLarsonAllen staff are authorized to perform; and 4) authorizes work by CliftonLarsonAllen on behalf of the Office of the Inspector General; and 5) extends the term of Contract No. 8031000103AB through June 30, 2013.

CHANGE

1. Additional Payment to CLA for Work on the Audit for the Fiscal Year Ended June 30, 2011

- A. In a letter dated April 27, 2012 to the Audit Contract Administrator, CliftonLarsonAllen documented that it incurred 1,218 additional hours of work on the audit for the fiscal year ended June 30, 2011 (compared to hours incurred for work on the audits for the two prior years) due to the County Government's challenges stemming from Enterprise Resource Planning implementation.
- B. Article V, Payments, Paragraph C provides for payments in excess of the firm fixed fee. It states:

If the Contractor reasonably determines that the hours to complete the Scope of Services will exceed the originally estimated amount, the Contractor must submit a written request for additional fees to the Contract Administrator for approval by the Council. The Contractor's written request must include all reasons for the additional time, as well as the new estimate of hours to complete the task. Any additional hours and fees approved by the Council must be authorized by a contract amendment. There is no guarantee that the Council will authorize additional hours or fees.
- C. Based on the additional hours that it incurred, CLA has requested an additional fee of \$144,600 for its work related to the FY11 audit. Payment of this additional fee would result in CLA realizing an hourly rate for its work on the FY11 audit that would be an average of the hourly rate it realized for its audit work for the two prior years (the audits for the years ended June 30, 2009 and 2010).
- D. As detailed in this "Changes" section, Paragraph 6, the Department of Finance will pay the additional \$144,600 fee requested by CLA from funds in its FY12 operating budget.

2. Authorizing CLA Staff to Perform Additional Tasks

- A. In November 2011, the Council approved CLA Contract Amendment #7 and authorized the County's Department of Finance to engage additional CLA personnel to assist with the completion of the County's FY11 Comprehensive Annual Financial Report (CAFR), provide assistance with closing the County's books, to provide accounting analysis and research, prepare draft schedules to support the financial statements, and provide accounting research, analysis, and reconciliations and complex technical accounting assistance.
- B. The Department of Finance and CliftonLarsonAllen outlined CLA's work in Contract Amendment #7 to ensure that the additional work would not jeopardize Clifton Gunderson's independence in performing its audit work, including a restriction on CliftonLarsonAllen staff entering data into the County Government's computer system. CliftonLarsonAllen staff were only given "read access" to the County Government's computer system.
- C. Because CliftonLarsonAllen has completed its fiscal year 2011 audit work and will not perform the County Government's financial statement audit of fiscal year 2012, the Department of Finance has requested lifting the restriction on the ability of CliftonLarsonAllen staff to enter data into the County Government's computer system. At the same time, in a May 11, 2012 memorandum to the Council President and the Chair of the Audit Committee, the Director of the Department of Finance has indicated that "[o]ther restrictions ... will remain in place such as County management oversight and County review and approval of all journal entries prepared by CLA."

3. Work on Behalf of the Office of the Inspector General

- A. Under Article I, Section C of Contract No. 8031000103AB, the Council may amend the contract to add additional work that falls "within the general scope" of the Contract. The Office of the Inspector General (OIG) seeks to engage CliftonLarsonAllen to conduct a performance audit of transactions in a County Government department "to identify anomalous transactions and balances" that, when researched, may represent fraud or non-compliance with laws and regulations.

4. Extending Contract No. 8031000103AB

- A. The Department of Finance has requested that the Council extend Contract No. 8031000103AB to allow the CLA staff currently working in the Department of Finance to continue through the Department's creation of the FY12 CAFR. The Office of the Inspector General has also requested that the Council extend this contract to allow it to engage CliftonLarsonAllen to perform work on its behalf that will extend into FY13.
- B. Based on the above, the Department of Finance and the Office of the Inspector General have asked that this contract be extended until June 30, 2013 to allow CliftonLarsonAllen staff to complete the additional work described above and the Council President has agreed to such an extension.

5. Article I. "Scope of Work," Paragraph A., Basic Work, is amended by adding the following Subparagraphs 14 and 15:

- 14) **Work Related to the Completion of the County Government's FY12 Comprehensive Annual Financial Report and Other Work** – The Contractor must provide Contractor personnel to the County's Department of Finance to assist with the completion of the County's FY12 Comprehensive Annual Financial Report, to provide assistance with closing the County's books, to provide accounting analysis and research, to prepare draft schedules to support the financial statements, and to provide complex technical accounting assistance.

If the Director of the Department of Finance or his designee raises a question about the quality of work performed by a Contractor staff member after the staff member has performed services under this contract, the Contractor will replace the Contractor staff member at a request made in good faith and based on articulable reasons by the Director or his designee.

- 15) **Work on Behalf of the Office of the Inspector General** – the Contractor must complete, in coordination with the Office of the Inspector General, the following work:
- a. Identify a County department (the Department), tentatively the Department of Liquor Control, where an analysis of risk of loss or inefficient use of taxpayer funds might be beneficial.
 - b. Conduct an entrance conference with the Department.
 - c. At the Department, identify and become familiar with its various operating cycles (e.g., procurement, warehousing, retail sales, licensing, etc.).
 - d. Perform a general risk analysis of all operating cycles using available management reports, existing procedure manuals, and discussions with management. Provide this written risk analysis to the OIG for review.
 - e. Select two operating cycles to document, analyze, and test at least two years' transactions and balances. Use either the OIG's or CLA's IDEA software to identify anomalous transactions and balances. Document each such transaction or series of transactions and the resolution of each, to the OIG's satisfaction.
 - f. If CLA uses its own IDEA software, provide a copy of the IDEA instructions and programming to the OIG for possible future use.
 - g. Prepare a discussion draft report, referenced to the supporting working papers, for OIG review.
 - h. Conduct an exit conference where CLA addresses the issues in the discussion draft report.
 - i. Prepare and issue a final draft report, requesting the Department's response.
 - j. Change the final draft report, if appropriate, in reaction to the Department's response, and prepare and issue the final report.

6. **Article V. "Payments", Paragraph A., is amended by adding the following subparagraphs 8, 9 and 10:**

- 8) **Payment for Work Related to the Completion of the County Government's FY11 Comprehensive Annual Financial Report** – The County will pay the Contractor an additional fixed fee of \$144,600 for the Contractor's work already completed related to the completion of the County Government's FY11 Comprehensive Annual Financial Report. The Department of Finance's FY 2012 operating budget is the source of funds.
- 9) **Payment for Work Related to the Completion of the County Government's FY12 Comprehensive Annual Financial Report and Other Work** – The County will pay the Contractor an hourly rate to be mutually agreed upon by CliftonLarsonAllen and the Director of the Department of Finance for the services described in the new Article I. "Scope of Work", Paragraph A., Subparagraph 14. The hourly rate will be no more than the Alternate Composite Rate of \$140 per person per hour set out in Article V. "Payments", Paragraph B, Subparagraph 1 of this contract, with a maximum amount not to exceed \$350,000. The Department of Finance will pay the Contractor on a monthly basis for work completed during the month, on the condition that the Director of the Department of Finance or his designee determines that the Contractor is making satisfactory progress toward completing these services. The Department of Finance's FY 2013 operating budget is the source of funds. The Director of the Department of Finance or his designee is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.
- 10) **Payment for Work on Behalf of the Office of the Inspector General** – The County will pay the Contractor a fixed fee not to exceed \$100,000 for professional services performed to complete the services described in the new Article I. "Scope of Work", Paragraph A., Subparagraph 15. The County will pay CLA upon receipt of proper invoices as provided in the Contract, as follows. The County will pay \$20,000 upon the receipt of a satisfactory written risk analysis cited in Article I, Paragraph A, Subparagraph 15(d) above; \$20,000 upon receipt of the IDEA instructions and programming cited in Article I, Paragraph A, Subparagraph 15(f) above, or upon completion of the programming of the IDEA software using the OIG's IDEA software; \$30,000 upon receipt of a satisfactory discussion draft report cited in Article I, Paragraph A, Subparagraph 15(g) above; and the remainder upon issuance of the final report cited in Article I, Paragraph A, Subparagraph 15(j) above. The Office of the Inspector General's FY 2012 operating budget is the source of funds.

CLA must notify the OIG when CLA has expended 70% of the effort anticipated on this task. CLA must at that time indicate whether the task will be completed within budget. If CLA states that it will exceed the fixed fee, the County will proceed in accordance with the Contract ARTICLE V. PAYMENTS, Section C. "Payment in Excess of the Firm Fixed Fee."

7. **Article VIII, Contract Documents and Priority of Documents is amended to include new items 9, 10, and 11 as follows:** "(9) May 11, 2012 Memorandum from Joseph Beach, Director, Department of Finance, to Council President Roger Berliner and Council Vice President Nancy Navarro, Chair, Audit Committee (Attachment I), (10) June 5, 2012 Memorandum from Joseph Beach, Director, Department of Finance, to Council President Roger Berliner and Council Vice President Nancy Navarro, Chair, Audit Committee (Attachment J), (11) Proposed Scope of Work and Fixed Fee for Additional Work, June, 2012" (Attachment K).

8. The following conditions contained in Attachment H to this contract, November 7, 2011 Letter to Leslie Rubin, Office of Legislative Oversight, are null and void and are stricken from this contract:

- CG personnel would have only read access to the County's computer system; and
- All journal entries are to be prepared and reviewed by County personnel.

9. This contract is extended for an additional term from July 24, 2012 through June 30, 2013.

EFFECT

1. Existing Contract terms remain in effect unless specifically changed by this Amendment.
2. This Amendment is entered into prior to the expiration of the Contract.
3. This Amendment is entered into on the date of signature by the President of the County Council for Montgomery County, Maryland.
4. No goods or services are to be provided pursuant to this Amendment until it is signed by the President of the County Council for Montgomery County, Maryland.

(Signature Page Follows)

WITNESS

CliftonLarsonAllen LLP

BY: _____
Keith Novak, Partner
CliftonLarsonAllen LLP

DATE _____

Montgomery County, Maryland

BY: _____
Roger Berliner, President
Montgomery County Council

DATE _____

Approved to as to form and legality:

BY: _____
Walter Wilson
Assistant County Attorney

DATE _____



CliftonLarsonAllen

CliftonLarsonAllen LLP
Timonium Corporate Center
9515 Deereco Road, Suite 500
Timonium, MD 21093
410-453-0900 | fax 410-453-0914
www.cliftonlarsonallen.com

April 27, 2012

Ms. Leslie Rubin, Legislative Analyst
Montgomery County, Maryland
Office of Legislative Oversight
100 Maryland Avenue, Room 509
Rockville, MD 20850

Dear Ms. Rubin:

As per our conversations and the fee adjustment supporting schedule which I have previously provided (copy attached), I am writing to request an adjustment of the audit fee as of and for the year ended June 30, 2011 as it relates to the audit of Montgomery County, Maryland (the County). In November 2011 it was determined that the County was having difficulties in preparing for the audit and providing the required schedules in order to start and complete the audit. The difficulties were primarily the result of the implementation of a new ERP computer system. We were finally notified in December 2011 that the County was ready to start the audit. At that time a completion date of January 31, 2012 was established by the County finance personnel. This was an aggressive deadline based on the amount of work to be performed; however, we staffed the job to meet that deadline. We also began having weekly status meetings, which you attended, in order to monitor progress and impediments to meeting the newly imposed deadlines as they were continually revised. It was determined that the County was having difficulty attaining their schedule and we adjusted our staffing accordingly; however, we needed to maintain a certain staff level in order to complete audit sections as they became available from the County finance department in order to ultimately meet a final, immovable deadline of March 31, 2012. Among the issues which occurred were, not having certain major accounts (e.g. cash) being reconciled until late February - early March 2012, noting numerous mistakes/errors in the funds and work provided, and a general failure by the County to meet interim deadlines. These issues were communicated with the County staff throughout the process and culminated in the identification and reporting of material weaknesses, significant deficiencies and a matter for additional consideration. These issues also resulted in an additional staffing requirement and other matters which were outside of the scope of the audit. I indicated throughout the process that we were incurring additional time and would seek a contract adjustment, but could not determine the extent until completion due to the inability to accurately forecast the actual completion of the audit. I indicated that I would make you aware of the additional work and related cost once I could accurately determine the effects.

The effect of the miscues, delays, staffing issues resulting from missed deadlines by the County and difficulties encountered during the audit resulted in our incurring 1,218 additional hours as

Ms. Leslie Rubin, Legislative Analyst
Office of Legislative Oversight
Montgomery County, Maryland
April 27, 2012
Page 2

indicated in the attached schedule. This additional time is supported by comparing the actual hours this year with the actual hours from the prior 2 years. The number of hours for 2009 has been normalized for the effect of the additional single audit time. Additionally, the fee adjustment is set to provide a set hourly rate which represents the average of the past 2 years. As such, I am requesting a fee adjustment of \$144,600.

If you have any questions or would like to discuss this further, I would be glad to take the time to meet with you or any others within the County who you may designate.

Very truly yours,

A handwritten signature in black ink, appearing to read "Keith F. Novak". The signature is fluid and cursive, with a large initial "K" and "N".

Keith F. Novak
Partner



DEPARTMENT OF FINANCE

Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

May 11, 2012

TO: Roger Berliner, President, County Council
Nancy Navarro, Chair, Audit Committee

FROM: Joseph F. Beach, Director
Department of Finance

SUBJECT: Request to Amend Clifton Gunderson LLP, Contract Number 80130003AB and Agreement to Fund Additional FY11 Audit Fees

The Department of Finance (DOF) seeks approval to enter into an amendment with Clifton Gunderson LLP in accordance with Contract Number 8031000103AB, executed between the County Council and Clifton Gunderson LLP. The current contract provides for an independent audit of the basic financial statements of the County; of the Montgomery County Employee Retirement Plans; and additional services related to reviews, tests, and certifications. Under Article I. Scope of Work, Section B. Optional Work, "the County's Department of Finance may request consulting services on specific financial reporting requirements."

This section continues to define optional work to include, but not be limited to, auditing and accounting services. Additionally, Section C., Article I. authorizes the council, via a contract amendment, for additional work within the general scope of the contract. The original contract envisioned the vendor's services could be utilized to assist with the close of the County's books, with preparation of draft schedules for the County's financial statements and provide other related professional services.

The DOF requested on November 4, 2011, and you approved, an amendment (Amendment #7) to the contract to allow staff from Clifton Larson Allen (CLA, formerly Clifton Gunderson) to provide assistance with closing the books, accounting analysis and research, and preparing draft schedules to support the financial statements. Furthermore, the amendment permitted that "following the transmittal of the CAFR, Contractor personnel [would] provide accounting research, analysis, and reconciliations and complex technical accounting assistance."

Office of the Director

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Roger Berliner, President, County Council
Nancy Navarro, Chair, Audit Committee
May 11, 2012
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The initial phase of this work was to occur during the same period in which CLA was performing the FY11 audit. Therefore, the amendment included certain restrictions to ensure the independence of the audit. Since the audit is complete, one such restriction needs to be lifted so that CLA staff can effectively assist County personnel in post CAFR work in accordance with Amendment #7. In a November 7, 2011 letter from CLA to Council Legislative Analyst, Leslie Rubin, which was incorporated in the contract amendment by reference, CLA stated that "CLA personnel would have only read-only access to the County's computer system." This restriction needs to be lifted to ensure CLA resources are used more efficiently and effectively. Other restrictions detailed in the letter will remain in place such as County management oversight and County review and approval of all journal entries prepared by CLA. But, CLA will be allowed to enter journal entries into the system.

The amendment is expected to have no cost. However, DOF understands that because of the delays and problems with the FY11 audit, CLA has requested additional audit fees of \$144,600. DOF agrees to fund the cost of the additional audit fees through current appropriations.

JFB: kem

Enclosure



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April 27, 2012

Ms. Leslie Rubin, Legislative Analyst
Montgomery County, Maryland
Office of Legislative Oversight
100 Maryland Avenue, Room 509
Rockville, MD 20850
Dear Ms. Rubin:

As per our conversations and the fee adjustment supporting schedule which I have previously provided (copy attached), I am writing to request an adjustment of the audit fee as of and for the year ended June 30, 2011 as it relates to the audit of Montgomery County, Maryland (the County). In November 2011 it was determined that the County was having difficulties in preparing for the audit and providing the required schedules in order to start and complete the audit. The difficulties were primarily the result of the implementation of a new ERP computer system. We were finally notified in December 2011 that the County was ready to start the audit. At that time a completion date of January 31, 2012 was established by the County finance personnel. This was an aggressive deadline based on the amount of work to be performed; however, we staffed the job to meet that deadline. We also began having weekly status meetings, which you attended, in order to monitor progress and impediments to meeting the newly imposed deadlines as they were continually revised. It was determined that the County was having difficulty attaining their schedule and we adjusted our staffing accordingly; however, we needed to maintain a certain staff level in order to complete audit sections as they became available from the County finance department in order to ultimately meet a final, immovable deadline of March 31, 2012. Among the issues which occurred were, not having certain major accounts (e.g. cash) being reconciled until late February - early March 2012, noting numerous mistakes/errors in the funds and work provided, and a general failure by the County to meet interim deadlines. These issues were communicated with the County staff throughout the process and culminated in the identification and reporting of material weaknesses, significant deficiencies and a matter for additional consideration. These issues also resulted in an additional staffing requirement and other matters which were outside of the scope of the audit. I indicated throughout the process that we were incurring additional time and would seek a contract adjustment, but could not determine the extent until completion due to the inability to accurately forecast the actual completion of the audit. I indicated that I would make you aware of the additional work and related cost once I could accurately determine the effects.

The effect of the miscues, delays, staffing issues resulting from missed deadlines by the County and difficulties encountered during the audit resulted in our incurring 1,218 additional hours as

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Montgomery County, Maryland
April 27, 2012
Page 2

indicated in the attached schedule. This additional time is supported by comparing the actual hours this year with the actual hours from the prior 2 years. The number of hours for 2009 has been normalized for the effect of the additional single audit time. Additionally, the fee adjustment is set to provide a set hourly rate which represents the average of the past 2 years. As such, I am requesting a fee adjustment of \$144,600.

If you have any questions or would like to discuss this further, I would be glad to take the time to meet with you or any others within the County who you may designate.

Very truly yours,

A handwritten signature in black ink, appearing to read "Keith F. Novak". The signature is fluid and cursive, with the first name "Keith" being the most prominent part.

Keith F. Novak
Partner



DEPARTMENT OF FINANCE

Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

June 5, 2012

TO: Roger Berliner, President, County Council
Nancy Navarro, Chair, Audit Committee

FROM: Joseph F. Beach, Director, Department of Finance 

SUBJECT: Request to Amend Clifton Gunderson **LLP** Contract Number #
8031000103AB

The Department of Finance (DOF) seeks approval to enter into an amendment with Clifton Gunderson **LLP** in accordance with Contract Number 8031000103AB, executed between the County Council and Clifton Gunderson **LLP**. The current contract provides for an independent audit of the basic financial statements of the County; of the Montgomery County Employee Retirement Plans; and additional services related to reviews, tests, and certifications. Under Article I. Scope of Work, Section B. Optional Work, "the County's Department of Finance may request consulting services on specific financial reporting requirements."

This section continues to define optional work to include, but not be limited to, auditing and accounting services. Additionally, Section C., Article I. authorizes the council, via a contract amendment, for additional work within the general scope of the contract. The original contract envisioned the vendor's services could be utilized to assist with the close of the County's books, with preparation of draft schedules for the County's financial statements and provide other related professional services.

The DOF requested on November 4, 2011, and the Council approved, an amendment (Amendment #7) to the contract to allow staff from Clifton Larson Allen (CLA, formerly Clifton Gunderson) to provide assistance with closing the books, accounting analysis and research, and preparing draft schedules to support the financial statements. Furthermore, the amendment permitted that "following the transmittal of the CAFR, Contractor personnel [would] provide accounting research, analysis, and reconciliations and complex technical accounting assistance."

Division of the Controller

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The end date for the CLA contract is July 23, 2012. Due to delays in producing the FY11 CAFR, the work traditionally performed during the year in preparation for year-end CAFR related activities was started significantly later than normal. Furthermore, DOF continues to work to resolve remaining challenges associated with the implementation of the new financial management system. Therefore, DOF will continue to need the additional CLA staffing assistance beyond July 23, 2012. DOF is requesting an additional amendment to the contract to allow the continuation of the CLA staffing assistance through June 30, 2013. DOF is also requesting that the amendment incorporate by reference the range of hourly rates specified in the contract including the hourly rate specified in Amendment #7. The additional CLA staffing will be used to provide accounting research, analysis, reconciliations, and complex technical accounting assistance, consistent with contract Amendment #7, towards the preparation and issuance of the FY12 CAFR and for FY13 financial and accounting activity.

The amendment is expected to cost an additional \$350,000. DOF will fund the cost of the amendment through current appropriations.

PROPOSED SCOPE OF WORK AND FIXED FEE FOR

ADDITIONAL WORK

JUNE, 2012

Contract 8031000103AB (the Contract) between Montgomery County (County) and Clifton Gunderson (now CliftonLarsonAllen) (CLA), which was signed April 2008, provides for CLA to conduct the annual audit of the County's Comprehensive Annual Financial Report and certain other audits for fiscal year 2008. The contract has been amended to extend to the annual audits through fiscal year 2011.

The Contract provides in ARTICLE I. SCOPE OF WORK, Section C, Additional Work, the following:

The Council may authorize by contract amendment additional work within the general scope of this Contract. The Contractor should not perform any additional work without first signing a contract amendment and receiving a notice-to-proceed from the Contract Administrator.

The County's Office of the Inspector General (OIG) Fiscal Year 2012-2013 Work Plan (the Plan), submitted to the County's Government Operations and Fiscal Policy Committee, includes two items of a similar nature: Implementation of Technology Initiatives; and Selected Payments, Possible Improper Payments, and Related Controls.ⁱ The OIG hereby requests permission to use CLA to conduct a performance audit that will address both of these items.

The Proposed Scope of Work, which follows, is supportive of a new OIG technology initiative. The OIG recently procured IDEA software. IDEA software permits the ready analysis of automated data and transaction files for audit purposes. Professionals in the audit and investigation arenas often use IDEA to identify anomalies that, when researched, represent fraud or non-compliance with laws and regulations.ⁱⁱ The OIG's procurement includes staff training in the use of IDEA.

PROPOSED SCOPE OF WORK

CLA must complete, in coordination with the OIG, the following work upon signing the contract amendment and receiving a notice-to-proceed from the Contract Administrator:

1. Identify a County department (the Department), tentatively the Department of Liquor Control, where an analysis of risk of loss or inefficient use of taxpayer funds might be beneficial.
2. Conduct an entrance conference with the Department.
3. At the Department, identify and become familiar with its various operating cycles (e.g., procurement, warehousing, retail sales, licensing, etc.).

4. Perform a general risk analysis of all operating cycles using available management reports, existing procedure manuals, and discussions with management. Provide this written risk analysis to the OIG for review.
5. Select two operating cycles to document, analyze, and test at least two years' transactions and balances. Use either the OIG's or CLA's IDEA software to identify anomalous transactions and balances. Document each such transaction or series of transactions and the resolution of each, to the OIG's satisfaction.
6. If CLA uses its own IDEA software, provide a copy of the IDEA instructions and programming to the OIG for possible future use.
7. Prepare a discussion draft report, referenced to the supporting working papers, for OIG review.
8. Conduct an exit conference where CLA addresses the issues in the discussion draft report.
9. Prepare and issue a final draft report, requesting the Department's response.
10. Change the final draft report, if appropriate, in reaction to the Department's response, and prepare and issue the final report.

FIXED FEE

The County will pay CLA a fixed fee not to exceed \$100,000 for these professional services. The County will pay CLA upon receipt of proper invoices as provided in the Contract, as follows. The County will pay \$20,000 upon the receipt of a satisfactory written risk analysis cited in # 4 above; \$20,000 upon receipt of the IDEA instructions and programming cited in # 6 above, or upon completion of the programming of the IDEA software using the OIG's IDEA software; \$30,000 upon receipt of a satisfactory discussion draft report cited in # 7 above; and the remainder upon issuance of the final report.

CLA must notify the OIG when CLA has expended 70% of the effort anticipated on this task. CLA must at that time indicate whether the task will be completed within budget. If CLA states that it will exceed the fixed fee, the County will proceed in accordance with the Contract ARTICLE V. PAYMENTS, Section C. Payment in Excess of the Firm Fixed Fee.

ⁱ The Plan also contemplates the use of contract audit support, on page 3, saying, "*Use contract audit support to conduct specific performance audits. As necessary and cost effective, we will supplement staff with qualified external audit contractors where specific expertise is required or where additional resources are needed in order to address urgent matters.*"

ⁱⁱ The identification of anomalies is often referred to as Data Mining or Data Analytics. Such tests might include, for example, searching for transactions consistently approved during off-hours or on non-business days; duplicate payment amounts or clustering of payments around unusual values; discounts not taken; or unauthorized users.