

MEMORANDUM

February 26, 2010

To: County Council

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

Subject: Action – Amendment #2 to County Council’s Contract for Audit Services with Rager, Lehman & Houck P.C. to Add Additional Work

Staff Recommendation:

Approve Contract Amendment #2 to the Council’s Audit Contract with Rager, Lehman & Houck P.C. and authorize the Council President to execute the Amendment on behalf of the Council.

Rager, Lehman & Houck (“Rager”) is the audit firm under contract with the Council that performs the annual audits of the financial statements of the County local fire and rescue departments. While performing the audit of Bethesda Fire Department’s FY09 financial statements, the Auditors encountered “many obstacles.”

Specifically, “[r]equested documents were unavailable and could not be located by the staff, and inquiries could not be answered in sufficient detail.” Due to these obstacles, the Auditor concluded that they could not express an opinion on Bethesda’s FY09 financial statements.

Subsequently, staff from the Bethesda Fire Department staff located some of the necessary documents and have committed to obtaining the rest through County Government records – to allow Rager staff to finish the audit and express an opinion on the fire department’s FY09 financial statements. Finishing this work will require the Auditor to re-perform work that had already been performed. Authorizing this work requires an amendment to the Council’s contract with Rager, Lehman & Houck (draft attached at ©1).

Rager has agreed to do this work for an additional \$4,670. See ©4 for a letter from Rager summarizing the basis for this additional work. The Bethesda Fire Department has committed to paying these additional fees.

Members of the MFP Committee sitting as the Audit Committee were polled and agree that the Council should approve the proposed contract amendment.

Fiscal Impact: \$4,670, to be paid by the Bethesda Fire Department

Attachment	Located at:
Rager, Lehman & Houck Contract Amendment #2	©1
February 17, 2010 Letter from Harriet Gillan of Rager, Lehman & Houck	©4

CONTRACT AMENDMENT #2
CONTRACT NUMBER 8031000103BB

This Amendment is entered into between Montgomery County, Maryland on behalf of the County Council for Montgomery County, Maryland (“Council”) and Rager, Lehman & Houck, P.C., 205 East Main Street, Westminster, Maryland 21157 (“Contractor” or “Auditor”).

BACKGROUND

1. The Council and the Auditor entered into Contract No. 8031000103BB on May 29, 2008. The current contract expires on August 28, 2010.
2. While performing field work to complete the audit of the FY09 financial statements of the Bethesda Fire Department, Inc. (“fire department”), staff from the subcontractor, Key & Associates, report that they encountered many obstacles, including inability of fire department staff to locate necessary documents or provide sufficiently detailed responses to questions. Consequently, the Auditor concluded that it would not be able to provide an opinion on the fire department’s FY09 financial statements.
3. Subsequently, fire department staff informed the Auditor that they had found missing documentation and would obtain the remaining documentation needed for the audit work from County Government records.
4. In order to complete the audit of the fire department’s FY09 financial statements, the Auditor will be required to re-perform procedures and testing and update findings and documentation.
5. Under Article I, Paragraph C, Additional Work, of Contract No. 8031000103BB, the Council may amend the contract to add additional work within the general scope of the contract. To facilitate the completion of the audit of the FY09 financial statements of the Bethesda Fire Department, Office of Legislative Oversight staff acting as the designated audit contract administrator on behalf of the Council, asked Rager, Lehman & Houck to submit a proposal outlining the time and cost to complete the audit of the fire department’s FY09 financial statements. The Auditor submitted a letter proposal on February 17, 2010.
6. The additional work is within the general scope of the contract.

CHANGE

1. Article I. “Scope of Work”, Paragraph A., Basic Work is amended by adding the following subparagraph 5:
 - 5) **FY09 Financial Statements Audit of the Financial Statements of the Bethesda Fire Department, Inc.** – The Contractor must perform additional work necessary to complete the work specified in Article I. “Scope of Work”, Paragraph A., subparagraph I, Local Fire and Rescue Department Financial Statements Audits with respect to the FY09 Financial Statements Audit of the Financial Statements of the Bethesda Fire Department, Inc.

2. Article V. "Payments", Paragraph A., is amended by adding the following subparagraph 1:
 - 1) **Payment for Article I. "Scope of Work," Paragraph A. Basic Work, Subparagraph 5, FY09 Financial Statements Audit of the Financial Statements of the Bethesda Fire Department, Inc.** – The County will pay the Contractor a fixed fee not to exceed \$4,670 for audit services performed under this portion of the Contract. The County will pay the Contractor on a monthly basis for work completed during the month, on the condition that the Contract Administrator determines, in his or her sole discretion, that the Contractor is making satisfactory progress toward completing all auditing services. The Bethesda Fire Department, Inc. is the source of funds. The Contractor's fixed fee for this service is set forth in the Contractor's February 17, 2010 Letter to Leslie Rubin, Audit Contract Administrator. The Contractor's February 17, 2010 Letter is made a part of this contract as Attachment E to this Contract. The Contract Administrator is responsible for approving invoices for services satisfactorily performed under this portion of the Contract and the Board of Directors of the Bethesda Fire Department, Inc. is responsible for paying the Contractor.
3. Article VIII, Contract Documents and Priority of Documents is amended to include a new item 4 as follows: "(4) February 17, 2010 Letter to Leslie Rubin, Audit Contract Administrator (Attachment E).

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

Rager, Lehman & Houck, P.C.

BY: _____
Karl Lehman, Managing Partner
Rager, Lehman & Houck, P.C.

DATE _____

Montgomery County, Maryland

BY: _____
Nancy Floreen, President
Montgomery County Council

DATE _____

Approved to as to form and legality:

BY: _____
Walter Wilson
Assistant County Attorney

DATE _____



RAGER, LEHMAN & HOUCK, P.C.
Opportunity Innovation Excellence

February 17, 2010

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

Dear Leslie:

Per our discussions, we are requesting an amendment to our contract for the June 30, 2009 audits of the fire and rescue corporations. We have encountered unusual issues at the Bethesda VFD, as follows:

Key & Associates encountered many obstacles when they performed fieldwork procedures at the Bethesda VFD in December. They continued through the audit programs in each area in an attempt to gather enough audit evidence to provide an opinion. Requested documents were unavailable and could not be located by the staff, and inquiries could not be answered in sufficient detail. We concluded that due to these scope limitations, we were unable to opine on this audit.

At a subsequent meeting with Grant Davies and Janeth Mora, they assured us that many of the missing items had been found and the others would be obtained from County records. It will be necessary to re-perform procedures and testing with these items, as well as updating the findings and documentation in our workpapers.

Estimated costs are as follows:

Liz Brogan – 24 hours x \$175 / hr = \$4200 – document issues, retesting, meeting
Bea Key – 2 hours x \$235 = \$470 – meeting

Total cost = \$4670

Please let me know if you need any additional information. Thank you.

Sincerely,

Harriet L. Gillan, CPA, CFE

www.rlhcpa.com

195 STOCK STREET SUITE 311 HANOVER, PA 17331 TEL: 717-637-7300 FAX: 717-632-3141
7120 HAYWARD ROAD SUITE 101 FREDERICK, MD 21702 TEL: 301-696-9419 FAX: 301-694-8428
205 E. MAIN STREET WESTMINSTER, MD 21157 TEL: 410-848-3636 TEL: 410-876-3990 FAX: 410-876-0978

RSM McGladrey Network An independently owned Member