



Montgomery County Government

M E M O R A N D U M

April 1, 1986

TO: County Council

FROM: Deborah J. Snead, Program Evaluator, Office of Legislative Oversight

SUBJECT: Contracts for Internal Audit Services

Purpose. To provide the Council with information on the Department of Finance's approach to providing internal audit services through contracts with certified public accounting (CPA) firms.

Background. When approving the FY 84 operating budget for the Department of Finance, the Council added an additional \$50,000 to the Executive's recommended \$100,000 for contracting for internal audit services. During FY 84, the Department of Finance prepared and processed the numerous documents required for solicitation. After reviewing and evaluating responses from 14 certified public accounting (CPA) firms, the Department of Finance, in September 1984, awarded 10 contracts to four separate CPA firms.

These contracts provided for (1) fiscal audits, (2) operational audits, (3) computer security audits of County government agencies and (4) audits of the financial records of contractors doing business with the County. Each contract awarded to a CPA firm was for a period of one year or 500 hours of audit services, whichever occurred first; and permitted the Department of Finance to renew the contract for two additional years, one year at a time, with the 500 hour limitation. In June 1985, the Department of Finance exercised its option to renew all 10 contracts for FY 86. The chart at EXHIBIT A identifies the four CPA firms, the type of audit service and the maximum dollar value to be paid to each firm for each year of the contract.

Discussion. The Chief, Auditing Section has responsibility for the overall management of the Auditing Section to include monitoring the 10 contracts for internal audit services and providing overall policy guidance for each audit assigned to a CPA firm. As the contract administrator for these 10 contracts, he assigns each audit, approves the scope of each audit assignment, participates in conferences with County departments, reviews draft audit reports, accepts and distributes the final audit reports, and approves and processes payments to the CPA firms. When distributing the audit reports to the appropriate departments, the Chief, Auditing Section highlights specific audit

findings and recommendations and requests responses from the appropriate department.

During the first fiscal year of contracting for internal audit services (FY 85), twenty-one audit reports were issued. A list of those audit reports, by type of audit, is at EXHIBIT B. The total dollar expenditure for the first year of the contracts was \$121,882.

The Office of Legislative Oversight reviewed all 21 audit reports, interviewed representatives of the departments which received the audits, and reviewed the department's written responses to the audits' findings and recommendations. In most instances, the audit reports were well written and easy to understand; they were factual and contained sufficient supporting information; and their overall content and tone evoked acceptance and action. The majority of the representatives from the various departments indicated satisfaction with the extent of the audit effort and quality of the audit reports; with some representatives indicating their intention to request additional audits. Our review of the departments' written responses showed that the majority of the departments intend to implement actions recommended in the audit reports.

Since the Council has had a continued interest in the County's procurement process, it is important to note that nine of the audit reports specifically addressed contracts. For example, the purpose of one of the operational audits was to determine whether County contract procedures had been circumvented. The subject of this audit was FY 85 Health Department contracts under \$10,000. Although the audit found that certain Administrative Procedures were not followed, the audit concluded that all contracts were properly executed and payments were properly approved and charged against the appropriate accounts.

The remaining eight contract audits included an examination and review of 32 individual contracts with a total dollar value of \$13,964,023. The purpose of those audits was to determine any possible irregularities in payments or instances of noncompliance with contract provisions. After a thorough review of the findings from these audits; the Executive branch initiated several actions to strengthen adherence to contract administration procedures.

The value of these internal audits was highlighted in the Management Letter of the Council's independent auditor, Touche Ross & Company. That letter, which accompanied the FY 85 Audit of Montgomery County, stated that supplementing the County's Auditing Section's work program with contracts for internal audit services had worked well.

SUMMARY. In September 1984, ten contracts were awarded to four separate CPA firms to provide a total of 5,000 hours of internal audit services. During the first fiscal year of these contracts for internal audit services (FY 85), twenty-one audit reports were issued. The total dollar expenditure was \$121,882.

The Office of Legislative Oversight reviewed the audit reports, interviewed representatives of departments and reviewed the departments' written responses to the audit findings and recommendations. The fine quality of the audit reports and positive response by Executive branch departments support the continuation of this approach. Additionally, the Council's independent auditor commented that the arrangement has worked well.

The current Office of Legislative Oversight work program for calendar year 1986 continues the evaluation of the internal audit activities of the Department of Finance and expands that evaluation to include internal audit activities of the other County and bi-county agencies.

DJS:csb

cc: Max Bohnstedt, Director, Department of Finance
John Bastress, Chief, Auditing Section
Jacqueline Rogers, Director, OMB
Robert Kendal, Asst CAO
Arthur Spengler, Staff Director, County Council
Jennifer Andrews, Legislative Analyst

Department of Finance
 Contracts for Internal Audit Services
 FY 1985 through 1987

<u>Firm</u>	<u>Type of Audit Service</u>	<u>FY 1985 Maximum Audit Fee</u>	<u>FY 1986 Maximum Audit Fee</u>	<u>FY 1987 Maximum Audit Fee</u>
Brown & Company	Fiscal	\$ 11,195	\$ 11,865	\$ 12,575
	Contract	11,405	12,090	12,815
	Operational	12,040	12,760	13,525
Keller, Zanger & Company	Fiscal	15,000	16,000	17,000
	Contract	16,500	17,500	18,500
Price Waterhouse	EDP	23,100	28,243	31,067
	Operational	28,100	29,500	30,975
Wooden & Benson	Fiscal	17,500	18,500	19,500
	Contract	17,500	18,500	19,500
	Operational	20,000	21,000	22,000
	TOTAL	<u>\$172,340</u>	<u>\$185,958</u>	<u>\$197,457</u>

Department of Finance
Contracts for Internal Audit Services
Audit Reports
FY 1985

Fiscal Audits

- Office of Landlord-Tenant Affairs - Schedules of Revenue, Cash Received and Accounts Receivable
- Rock Creek Foundation
- Pre-Release Center - Escrow Account
- Detention Center - Inmate Canteen Fund
- Fire & Rescue Corporations - Payroll System Review
- Department of Housing and Community Development - Rehabilitation and Reconstruction Loan Fund
- Community Development Block Grant - Rehabilitation Loan Program.

Contract Audits

- Contracts with St. Luke's House, Inc.
- Contracts with Community Psychiatric Clinic, Inc.
- Contracts with Community Services for Autistic Adults and Children
- Contracts with the Housing Opportunities Commission
- Contracts for Refuse Collection
- Contract with Bus Industries of America
- Contract with Brandywine Sand & Gravel
- Contract with Boyd's Learning Tree

Operational Audits

- Finance Department - Cash and Investment Section
- Department of Transportation - Equipment Management Division
- Health Department - Health Services Contracts under \$10,000

EDP Audits

- Review of Selected Decentralized Data Processing Sites
- Application Control Review of Accounts Payable and Check Writing System
- Pre-Implementation Control Review of the ISI Payroll System