

**MEMORANDUM**

July 10, 2018

**TO:** Audit Committee

**FROM:** Blaise DeFazio, Legislative Analyst *BD*  
Office of Legislative Oversight

**SUBJECT:** Updates from the Office of the Inspector General and the Office of Internal Audit & Review of CliftonLarsonAllen Contract Amendment

On July 12<sup>th</sup>, the Audit Committee will receive briefings from the Office of the Inspector General and the Office of Internal Audit about their ongoing activities and reports. The Committee will also review a contract amendment to clarify language and costs for other post-employment benefits (OPEB) as part of CliftonLarsonAllen's audit contract. The participants expected to attend the worksession and the location of the supporting materials for each item are listed below.

Item #	Topic/Representatives	Materials on © page
1	<b>Update from the Office of the Inspector General</b> <ul style="list-style-type: none"><li>• Edward L. Blansitt III, Inspector General</li></ul> <b>Update from the Office of Internal Audit</b> <ul style="list-style-type: none"><li>• Fariba Kassiri, Assistant Chief Administrative Officer</li><li>• William Broglie, Manager, Office of Internal Audit</li></ul>	© 1
2	<b>Audit Contract Amendment</b> <ul style="list-style-type: none"><li>• Sean Walker, Principal, CliftonLarsonAllen LLP</li><li>• Linda Herman, Executive Director, Montgomery County Employee Retirement Plans</li></ul>	© 7

**Item #1: Updates from the Inspector General & Office of Internal Audit**

Inspector General

The Inspector General, Edward L. Blansitt III, will update the Committee on the activities of the Office. Mr. Blansitt provided a handout, attached beginning at ©1, that summarizes the OIG's progress and highlights

from his 2018 Work Plan. The Work Plan and published reports are found on the OIG's website, at <http://www.montgomerycountymd.gov/OIG/igproduct.html>. Items of note from the handout include:

- The OIG issued six reports and one preliminary inquiry memorandum (PIM) in FY2018:
  - Urban Districts – Improper Procurement of Gateway Signage by the Wheaton Urban District
  - Department of Correction and Rehabilitation – Personnel Complaints and Allegations
  - Department of Technology Services – Allegation of Improperly Handled Computer System Data Breach (PIM)
  - Office of the Inspector General – Fiscal Year 2018 Mid-Year Report
  - Montgomery County Employee Retirement Plans– Disability Retirement and Long-Term Disability Programs
  - Disposal of Surplus Scrap Metal by Montgomery County Offices
  - One additional Confidential Investigative Report was provided to the Ethics Commission because of investigative work the OIG completed at the Commission's request
  
- The OIG is currently working on 33 cases, including 6 referrals outstanding.

### Office of Internal Audit

Assistant Chief Administrative Officer Fariba Kassiri and William Broglie, Manager of the Office of Internal Audit, will update the Committee on the activities of the Office. Ms. Kassiri provided a summary of the Office's recently released and ongoing audits, attached beginning at ©5. Published reports for the Office of Internal Audit can be found at [http://www.montgomerycountymd.gov/exec/internal\\_audit.html](http://www.montgomerycountymd.gov/exec/internal_audit.html). Items of note from the summary include:

- One report has been released since they were last before the Audit Committee in December 2017: Internal Control Review: Procure to Pay – Specific Functions (MCIA-18-1).
  
- The Office of Internal Audit has six ongoing reviews:
  - Testing Phase: Review of Procurement-Exempt County Programs
  - DGS Construction Contract Management: Field Orders and Change Orders
  - ID Badge System and Operations -- Internal Control Review
  - Cost of Service Study – Fire and Rescue Service
  - Testing Phase: DHHS Management of Grants Operations
  - Testing Phase: Audit of Department of Finance Cashiering Operations

### **Item #2: Audit Contract Amendment**

**Staff Recommendation: Recommend approval of a resolution authorizing an amendment to the contract with CliftonLarsonAllen LLP**

CliftonLarsonAllen is the audit firm under contract with the Council that performs the annual audits of the financial statements of the County Government, the County retirement plans, and the Unions' deferred compensation plan. CliftonLarsonAllen's letter summarizing the basis for additional costs that were not included in the original contract is attached (©7).

**Background.** The County's Retiree Health Benefits Trust accumulates funds to pay for the County's primary post-employment benefit – health insurance. The plan is a cost-sharing multiple employer one with several agencies that participate and the trust is included in the County's basic financial statement.

Under the Council's contract with CliftonLarsonAllen, the Contractor must perform all testing and other procedures related to OPEB and the Retiree Health Benefits Trust in accordance with Generally Accepted Accounting Principles (GAAP) and Generally Accepted Auditing Standards (GAAS) including any additional testing and procedures recommended by the American Institute of Certified Public Accountants or required because of new accounting standards issued by the Government Accounting Standards Board.

**Audit Requirements Related to Other Post-Employment Benefits.** Before the audit of the FY17 financial statements, CliftonLarsonAllen was required to perform OPEB work as a component of the County Government Basic Financial Statements Audit. Starting with the FY17 financial statements audit, a new requirement from the Government Accounting Standards Board requires a standalone report related to OPEB.

**Additional Costs and Clarification.** Although the contract requirements include the stand-alone OPEB report, associated fees for performing the work were inadvertently not included in the contract. CliftonLarsonAllen has requested additional fees related to this work. CliftonLarsonAllen estimates that the cost for the OPEB-related work will be \$8,000. The fee would be paid from the Independent Audit Non-Departmental Account (NDA). The FY19 Independent Audit NDA has sufficient funds for this additional cost; no special appropriation is needed.

In addition to the added costs, the contract amendment includes clarifying language to separate the payment for OPEB-related work from payment for the audit work related to the County Government's financial statements.

**Amendment and Resolution.** The County Attorney's Office reviewed the amendment for form and legality (© 8). A Council resolution to authorize the Council President to enter into the contract amendment is attached at ©12. If approved by this Committee, the Council is scheduled to introduce the resolution on July 17, 2018.

## Inspector General Update

To the Montgomery County Council  
Audit Committee

July 12, 2018



MONTGOMERY COUNTY MARYLAND

**OFFICE OF THE INSPECTOR GENERAL**

Inspector General Update to Council Audit Committee - July 2018

## Areas of Discussion

- OIG Activity during FY 2018
- Progress vs 2018 Work Plan
- Current Ongoing Work
- Future Directions
- Oversight within the County

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Inspector General Update to Council Audit Committee - July 2018

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## OIG Activity in FY 2018

During Fiscal Year 2018\*, we:

- Recorded 106 new complaints – more than any other year during my service as IG
- Opened 37 Preliminary Inquiries
- Referred 13 items to management or other oversight authorities
- Issued six reports plus one Preliminary Inquiry Memorandum (PIM)

Recently the OIG has seen an increase both in the complexity of issues and the number of complaints brought to our office.

The *Office of Inspector General Fiscal Year 2018 Annual Report of Activity* will contain additional details regarding our work performed during this fiscal year and our associated performance metrics.

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\*Statistics reported as of June 26, 2018.

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Inspector General Update to Council Audit Committee - July 2018

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## FY 2018 OIG Work Products

- Report: *Urban Districts – Improper Procurement of Gateway Signage by the Wheaton Urban District*
- Advisory Memorandum: *Department of Correction and Rehabilitation – Personnel Complaints and Allegations*
- Preliminary Inquiry Memorandum: *Department of Technology Services – Allegation of Improperly Handled Computer System Data Breach*
- Report: *Office of the Inspector General – Fiscal Year 2018 Mid-Year Report*
- Report: *Montgomery County Employee Retirement Plans– Disability Retirement and Long-Term Disability Programs*
- Report: *Disposal of Surplus Scrap Metal by Montgomery County Offices*
- One additional Confidential Investigative Report was provided to the Ethics Commission as a result of investigative work the OIG completed at the Commission’s request.

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**OFFICE OF THE INSPECTOR GENERAL**

Inspector General Update to Council Audit Committee - July 2018

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## FY 2018 Work Plan Progress

**The Work Plan states that our highest priority each year is to promptly review each complaint and respond to the complainant.**

**Specific Planned Reviews:**  
The Inspector General's *Work Plan and Projected Budget for Fiscal Years (FY) 2018-2019* identified eight specific reviews that we expected to complete during FY 2018 or FY 2019.

Four of the eight specific planned reviews identified in the work plan have been completed. All but one of the remaining reviews are currently in progress.

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**OFFICE OF THE INSPECTOR GENERAL**

Inspector General Update to Council Audit Committee - July 2018

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## Ongoing Work

**We are currently working on 33 cases (including 6 outstanding referrals).**

Significant ongoing work includes:

- A investigation of a significant erroneous receipt of pension benefits by an employee of a Participating Agency in the County Employee Retirement Plans.
- A review of the Montgomery County Public Schools Telework Program
- A review of the Montgomery County Public Schools Worker's Compensation Program.
- A review of the Business Innovation Network Incubator Program Funding Sources and Use.
- A review of Office of Human Resources practices

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**OFFICE OF THE INSPECTOR GENERAL**

Inspector General Update to Council Audit Committee - July 2018

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## FY 2019 - FY 2020 Priorities

In addition to the current work in progress, the OIG has identified the following priorities which we expect to complete during FY 2019 and FY 2020:

- An audit of County-wide administration of Worker's Compensation claims.
- Selected reviews of County departmental spending/staffing as compared to approved budgets.
- Review of selected Department of Environmental Protection Water Restoration projects or practices.
- Selected reviews of Capital project funding.

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MONTGOMERY COUNTY MARYLAND  
**OFFICE OF THE INSPECTOR GENERAL**

Inspector General Update to Council Audit Committee - July 2018

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## New Oversight Agencies in the County

- This fiscal year legislation established Offices of Inspector General at two independent County agencies:
  - Maryland- National Capital Park and Planning Commission (MNCPPC)
  - Washington Suburban Sanitary Commission (WSSC)
- We have been supportive of the establishment of both of these new oversight agencies and look forward to working with them.

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**Office of the County Executive**  
**Office of Internal Audit Status Report to the Audit Committee**  
**July 12, 2018**

**Audit Report Issued Since Last Appearance before the Audit Committee on December 7, 2017:**

53. 5/9/2018 - Internal Control Review: Procure to Pay – Specific Functions (MCIA-18-1)

All issued reports are on: [http://www.montgomerycountymd.gov/exec/internal\\_audit.html](http://www.montgomerycountymd.gov/exec/internal_audit.html)

**Ongoing Reviews**

- **Testing Phase: Review of Procurement-Exempt County Programs.** The objective of this review is to conduct further testing on procurement-exempt transactions identified during scoping phase. The review will assess the risk for potential misappropriation of County funds or other opportunities for improvement in internal controls or processes. STATUS: *Task awarded April 26, 2018. Entrance meeting conducted May 16.*
- **DGS Construction Contract Management: Field Orders and Change Orders.** This review will assess whether DGS' use of field orders for construction projects complies with County Procurement Regulations. This review focuses on an area identified as high risk in the 2016 Countywide risk assessment: Building Design and Construction. STATUS: *Task awarded April 26, 2018. Entrance meeting conducted May 7.*
- **ID Badge System and Operations -- Internal Control Review.** This review follows up on a recent OLO report (OLO Draft Report 2018-7: Montgomery County Government Contracting Analysis: Wages, Staffing and Service Contract Trends) that identified potential gaps in the County's ID Card (Badge) security system and operations. STATUS: *Task awarded May 16, 2018. Entrance meeting conducted May 31, 2018.*
- **Cost of Service Study – Fire and Rescue Service.** The objective of this review is to document the costs of MCFRS operations over the last three (3) years (FYs 2016, 2017, and 2018), and the factors (both causal and contributing) for increases in these costs, and whether cost trends are likely to continue in the future. The audit firm will also attempt to identify opportunities for efficiencies and cost savings and make appropriate recommendations to the County. STATUS: *Task awarded May 16, 2018. Entrance meeting conducted May 31, 2018.*
- **Testing Phase: DHHS Management of Grants Operations.** This review will involve focused testing on areas identified from the planning phase of the County's management of Grants Funds within the Department of Health and Human Services (DHHS). STATUS: *Task awarded May 16, 2018.*

- **Testing Phase: Audit of Department of Finance Cashiering Operations.** This review will involve focused testing on areas identified from the planning phase of the County's Cashiering function within the Department of Finance. STATUS: *Task awarded May 16, 2018.*

**Progress on Implementing Recommendations**

<b>CUMULATIVE RECOMMENDATION TRACKING: MCIA, OLO, OIG</b>			
	<b>Total Recommendations</b>	<b>Fully Implemented</b>	<b>Partially Implemented (In Process)</b>
<b>MCIA Audits</b>	<b>395</b>	<b>328</b>	<b>67</b>
Percent	79%	83%	17%
<b>OIG &amp; OLO Reports</b>	<b>107</b>	<b>94</b>	<b>13</b>
Percent	21%	88%	12%
<b>Total Recommendations</b>	<b>502</b>	<b>422</b>	<b>80</b>
Percent	100%	84%	16%

[NOTE: Status as of March 2018.]



**CliftonLarsonAllen**

CliftonLarsonAllen LLP  
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Timonium, MD 21093  
410-453-0900 | fax 410-453-0914  
CLAconnect.com

June 6, 2018

Blaise DeFazio  
Office of Legislative Oversight  
100 Maryland Avenue, Room 509  
Rockville, MD 20850

Dear Mr. DeFazio:

I am requesting an additional fee related to the increased scope of services. We have been asked to perform an audit of Montgomery County's Consolidated Retiree Health Benefit Trust's Schedules of Employer Allocations and OPEB Amount by Employer and the related notes, prepared to comply with the requirements of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. All audit work shall be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United.

We anticipate the effort to be 65 to 80 hours at a fee of \$8,000.

If you have any questions or would like to discuss this further, please contact me.

Best wishes,

**CliftonLarsonAllen LLP**

Sean M. Walker, CPA, CFE, CGFM, CGMS  
Principal

**CONTRACT AMENDMENT #3**  
**CONTRACT NUMBER 425820958**

This Amendment is entered into between Montgomery County, Maryland, on behalf of the County Council for Montgomery County, Maryland ("Council"), and CliftonLarsonAllen LLP, 1966 Greenspring Drive, Suite 300, Timonium, MD 21093 ("Contractor" or "Auditor").

**BACKGROUND**

1. The Council and the Contractor entered into Contract No. 425820958 on May 17, 2016. The current contract expires on August 16, 2018.
2. The purpose of this Contract is to provide for auditing services as required by Section 315 of the Montgomery County Charter.
3. The County's Consolidated Retiree Health Benefits Trust (CRHBT) accumulates funds to pay for the County's primary post-employment benefit – health insurance. The Trust includes activity for the cost-sharing multiple employer plan, in which several participating agencies participate, and the trust is included in the County's basic financial statement. Under Article I, Paragraph A, Subparagraph 9, Other Post-Employment Benefits (OPEB) of the Council's contract with CliftonLarsonAllen, the Contractor must perform all testing and other procedures related to OPEB and the CRHBT in accordance with Generally Accepted Accounting Principles (GAAP) and Generally Accepted Auditing Standards (GAAS) including any additional testing and procedures recommended by the AICPA or required because of new accounting standards issued by the Government Accounting Standards Board.
4. In the Request for Proposal (RFP) for the auditing services described in Contract No. 425820958, the Council requested auditing services related to OPEB and the CRHBT. In CliftonLarsonAllen LLP's November 12, 2015 proposal in response to the Council's RFP, the Contractor noted in a footnote on Page 72 – the price sheet related to work for the Montgomery County Employee Retirement Plans – that its proposal and cost estimate did not include the price for an OPEB-related report requested in the RFP because:

[!]mplementation would be in 2017. Our estimated costs would range from \$8,000 to \$10,000 depending on the anticipated effort of 65 to 85 hours.

While the contract does include the OPEB-related report as a required deliverable in Article II. Deliverables, Paragraph B, Subparagraph 4, the associated costs related to producing the report were not included in the contract. This amendment adds the \$8,000 in costs for the OPEB report and separates the language related to the payment for the OPEB-related work from payment for the basic audit work.

**CHANGE**

1. Article I. "Scope of Work", Paragraph A, is amended by adding the following to the end of subparagraph 9:

The Contractor must prepare:

- An Independent Auditor's Report to express opinions on the financial statements for the Consolidated Retiree Health Benefits Trust, and
  - An Independent Auditor's Report expressing an opinion as to whether schedules allocating the County's net liability for other post-employment benefits among participating employers prepared by the Montgomery County Employee Retirement Plans fairly present in all material aspects the allocation of the County's net OPEB liability as well as related components of that liability and annual OPEB expense.
2. Article V. "Payments", Paragraph A, subparagraph 1 is amended by deleting reference to payments for subparagraph 9 and reference to Other Post-Employment Benefits, and modifying subsection b), as follows:

**1) Payment for Subparagraphs 1, 2, 3, 4, 9, 11a, and 12a:**

- **County Government Basic Financial Statements Audit**
- **Single Audit**
- **Maryland State Uniform Financial Report**
- **Fiscal Year Closing**
- ~~Other Post-Employment Benefits~~
- **Management Letter**
- **Assistance with GFOA Certificate of Achievement for Excellence in Financial Reporting**

b) The County will pay the Contractor a fixed fee not to exceed \$221,220 for Fiscal Year 2018 audit services performed under this portion of the Contract. The Council 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 Independent Audit Non-Departmental Account is the source of funds. The Contract Administrator is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

3. Article V. "Payments", Paragraph A, is amended by adding the following subparagraph 7:

**7) Payment for Subparagraph 9:**

- **Other Post-Employment Benefits**

a) The County will pay the Contractor a fixed fee not to exceed \$28,000 for Fiscal Year 2018 audit services performed under this portion of the Contract. The Council will pay the Contractor on a monthly basis for work completed during the month, on the condition that the Contract Administrator and Board of Trustees' determines, in their sole discretion, that the Contractor is making satisfactory progress toward completing all auditing services. The Independent Audit Non-Departmental Account is the source of funds for \$20,000 and the Consolidated Retiree Health Benefits Trust is the source of funds for \$8,000. The Contract Administrator and the Board of Trustees' designee are responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

4. Article VIII, Contract Documents and Priority of Documents is amended to include a new item 9 as follows: "(9) June 6, 2018 Letter to Mr. Blaise DeFazio (Attachment F).

**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: \_\_\_\_\_  
Sean Walker, Partner  
CliftonLarsonAllen LLP

DATE \_\_\_\_\_

**Montgomery County, Maryland**

BY: \_\_\_\_\_  
Hans Riemer, President  
Montgomery County Council

DATE \_\_\_\_\_

**Approved to as to form and legality:**

BY: \_\_\_\_\_  
Walter Wilson  
Assistant County Attorney

DATE \_\_\_\_\_

Resolution No.: \_\_\_\_\_  
Introduced: \_\_\_\_\_  
Adopted: \_\_\_\_\_

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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Lead Sponsor: Audit Committee

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**SUBJECT:** Amend Council Contract for Audit Services

**Background**

1. Section 315 of the Montgomery County Charter states that: "The Council shall contract with, or otherwise employ, a certified public accountant to make annually an independent post audit of all financial records and actions of the County, its officials and employees."

The Montgomery County Code (Section 33-51(c)) indicates that: "An independent audit of the retirement system will be completed annually by the firm of certified public accountants under contract with the Council."

The Montgomery County Code (Section 21-24(d)) states that: "Financial transactions involving County fire tax funds must be included in the annual audit required by the Charter."

2. Council Resolution No. 16-326, adopted October 2, 2007, established Council procedures for the selection of the independent auditor. The procedures direct the Council's Management and Fiscal Policy Committee to perform the functions of the Contractor Qualification and Selection Committee, including reviewing and evaluating proposals and recommending independent auditors to the County Council.
3. Council Resolution No. 16-826, adopted January 27, 2009, established a Council Audit Committee consisting of the members of the Management and Fiscal Policy Committee (currently known as the Government Operations and Fiscal Policy Committee) and the Council President and Council Vice President as ex officio members. The Audit Committee is charged with providing oversight of, among other things, County audit activities and fulfills the functions of the Management and Fiscal Policy Committee established in Council Resolution No. 16-326.

4. The procedures in Council Resolution No. 16-326 indicate that the final selection of the independent auditor will be made by the County Council.
5. The Audit Committee unanimously recommends that the Council amend the contract with the firm of CliftonLarsonAllen LLP to include associated fees related to a stand-alone other post-employment benefits (OPEB) report and clarifying language to separate the payment for OPEB-related work from the payment for the audit work related to the County Government's financial statements. The Council may renew the contract with CliftonLarsonAllen LLP to complete the audit for fiscal year ending June 30, 2019 and the calendar year ending December 31, 2019.

**Action**

The County Council for Montgomery County, Maryland approves the following resolution:

The County Council for Montgomery County, Maryland authorizes the Council President to amend the contract with the firm of CliftonLarsonAllen LLP to include associated fees related to a stand-alone other post-employment benefits (OPEB) report and clarifying language to separate the payment for OPEB-related work from the payment for the audit work related to the County Government's financial statements.

This is a correct copy of Council action.

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Megan Davey Limarzi, Esq.  
Clerk of the Council