

**AUDIT PROPOSAL  
TO  
COTTAGE CITY**

**Lindsey & Associates, LLC**  
Certified Public Accountants  
110 West Road, Suite 217  
Towson, Maryland 21204  
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May 29, 2026

Mr. John Hoatson, Town Manager  
Town of Cottage City  
3820 40<sup>th</sup> Avenue  
Cottage City, MD 20722

**1 – TRANSMITTAL LETTER**

RE: AUDIT PROPOSAL

Dear Mr. Hoatson:

Enclosed is our proposal for independent auditing services.

**Our Understanding of the Required Services**

Lindsey + Associates, LLC (“L+A”) will for the years ended June 30, 2026 through 2028: (1) conduct an audit in accordance with auditing standards generally accepted in the United States of America as set forth by the American Institute of Certified Public Accountants, (2) prepare the financial statements and applicable footnotes from the trial balance prepared by the Town, (3) issue all reports and letters required by the applicable auditing standards, (3) prepare the Uniform Financial Report, and (4) present the audit and required reports to the Town Council as requested.

This proposal is a firm and irrevocable offer for one hundred twenty (120) days. As President and owner of Lindsey + Associates, LLC, I am authorized to make representations for the firm.

Our firm is both committed to and capable of completing the audit on a timely basis because our firm has more experience auditing Maryland municipalities than any other firm, and because we have been the Town’s auditor for several years. In addition, the engagement team will be available throughout the year to assist the Town on an as needed basis. We are uniquely qualified to provide the services which are described in this transmittal letter because:

- Our firm's primary specialty is providing services to municipal entities. Our firm is well-known in the municipal arena, and we are currently the auditors for approximately two dozen municipalities, including most of your neighbors.
- Bob Diss, the Managing Partner, has conducted or managed hundreds of governmental audits, including the audit of the Howard County government.
- Unlike many public accounting firms, our auditors perform audits or other attestation engagements year-round. Our tax department is separate so that both our audit and tax personnel are specialists.
- We have experience with a wide variety of governmental entities at all levels, including conducting financial statement audits, Single Audits, fraud investigations, and other attestation engagements.
- We use state-of-the art audit software. Our audits are completely paperless, which allows us to be more efficient both in conducting the audit and in preparing financial statements.
- Lindsey + Associates is a **100% veteran-owned firm**, and is certified by the VA as a Veteran Owned Small Business.

Please contact me at (410) 825-1994 or [rdiss@acpafirm.com](mailto:rdiss@acpafirm.com) should you have any questions or need additional information.

Very truly yours,



Robert P. Diss, CPA



**Lindsey + Associates, LLC**  
**Audit Proposal to the Town of Cottage City, MD**

**2 – Profile of the Firm**

Our firm has been operating in the State of Maryland and issuing governmental financial statement opinions since 1995. Lindsey + Associates, LLC, founded in 1994, is located in Towson, Maryland and has earned a reputation as one of the Mid-Atlantic region's premier CPA and consulting firms.

Our firm's primary specialty is providing services to governmental entities, with **over half of our audit clients being municipal entities**. We are currently the auditors for approximately two dozen municipalities – more than any other firm in Maryland. Our Maryland governmental clients range from the Eastern Shore to the far western counties, and encompass all types of governmental and business-type activities.

Our professional staff includes 3 CPAs, 2 accountants, and 1 IT consultant, all based from our Towson, MD office. Our audit staff consists of 3 CPAs and 1 staff auditor, **all of whom spend the majority of their time working on governmental audits**.

Our audit department is unique in that our auditors spend 100% of their time year-round on audit and other attestation services – not part time on taxes, as many public accountants do. Our tax department works full time on tax and accounting, so that our auditors are *specialists* in their field. We anticipate between one and two full-time auditors and no part-time auditors working on this engagement.

As full-time auditors, our staff is keenly aware of due dates. We are committed to meeting deadlines on or ahead of schedule. Our standard procedures include accomplishing as much of the audit as possible during interim testing so that less is left to do during year end fieldwork.

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**3 – Narrative of Qualifications**

Lindsey & Associates is well-known for and has extremely broad experience in municipal auditing. We currently audit more municipalities than any other firm. The following is a partial list of our most recent audit clients:

|                            | <u>From</u> | <u>Through</u> |
|----------------------------|-------------|----------------|
| Berwyn Heights             | 2002        | present        |
| Bladensburg                | 2011        | 2019           |
| Brentwood                  | 2000        | present        |
| Capitol Heights            | 2022        | present        |
| Chestertown                | 2012        | present        |
| Cheverly                   | 2022        | present        |
| Chevy Chase Section 5      | 2009        | present        |
| Chevy Chase View           | 2009        | present        |
| Chevy Chase Village        | 2009        | present        |
| College Park               | 2018        | 2021           |
| <b><i>Cottage City</i></b> | 2000        | 2025           |
| Edmonston                  | 2000        | present        |
| Fairmount Heights          | 2006        | present        |
| Friendship Heights         | 2005        | present        |
| Greensboro                 | 2022        | present        |
| Highland Beach             | 2001        | present        |
| Landover Hills             | 1998        | present        |
| Laurel                     | 2005        | present        |
| Laytonsville               | 2001        | present        |
| North Brentwood            | 2008        | present        |
| Riverdale Park             | 2003        | present        |
| Seat Pleasant              | 2020        | present        |
| Somerset                   | 2001        | present        |
| Union Bridge               | 2008        | present        |
| University Park            | 2000        | 2021           |
| Upper Marlboro             | 2019        | present        |
| Washington Grove           | 2000        | present        |

**Independence**

L+A is independent with respect to the Town and the Town’s potential component units as defined by generally accepted auditing standards and *Government Auditing Standards*. We will give written notice to the Town should we provide services to any entity that may impair L+A’s independence as it pertains to the Town.

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**Professional Relationships with Town in Last 5 Years**

L+A has audited the Town's financial statements for many years. As such, we are extremely familiar with the Town, and have developed a strong relationship with Town personnel.

**License to Practice in Maryland**

L+A and all assigned key personnel are properly licensed to practice public accountancy in Maryland.

**Peer Review**

L+A is enrolled in the AICPA peer review program, and is committed to both the peer review program and maintaining a top-notch internal quality review program.

Our most recent external quality control review letter is included as Exhibit 1 to this proposal, and shows that we received the highest opinion – pass with no letter of comments. The external quality control review included a review of governmental audit engagements.

**Quality and Continuity**

Professional staff is encouraged to complete approximately 40 hours of continuing professional education annually. In addition, their professional development and performance is continually monitored. We endeavor to maintain the same professional staff on engagements to maximize our effectiveness and minimize client interruptions throughout the years of the audit engagement. **However, we believe it is important to rotate staff auditors periodically to avoid complacency. We will replace Jake Askin, the previous staff auditor, with Alexxa Espiritu for FY2026.**

L+A strives to keep the quality of its staff high by:

- Creating an environment that balances personal and professional lives
- Offering a challenging and rewarding career path to all employees
- Continuing to recruit the best available employees
- Providing competitive salaries and fringe benefit packages
- Encouraging employees to develop the proper balance between work and home
- Requiring accountants and auditors to participate in 40 hours of CPE annually – even before they become CPAs

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**Partner, Supervisory and Staff Qualifications and Experience**

The following key professionals will be assigned to this engagement:

Robert Diss, CPA, Engagement Partner  
Aliesha Scarlett, CPA, CFE, Audit Supervisor

Both Bob and Aliesha work on audits of municipalities for the majority of their time, and both have significant professional education in governmental accounting and auditing. Their resumes appear on the following pages.

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**Robert P. Diss, CPA**  
*Managing Partner*

Bob Diss, the engagement partner, holds a Bachelor's degree in Math from the University of Maryland. He joined Lindsey + Associates in 2000 as a staff auditor and has since risen to partner; as such he is responsible for our audit and assurance practice. He has managed audits of all sizes, ranging from the smallest nonprofits to governmental entities with over two billion dollars in assets. In addition, he has worked closely with the Town since FY2000.

While working for a regional firm, he managed the audit of the Howard County government, which included the audit for the *Timbers at Troy* golf course and the Howard County Library and 911 systems. He oversaw all phases of the audit, including internal control testing, year-end fieldwork, ACFR and UFR review, and workpaper review.

Prior to joining Lindsey + Associates he served for 11 years as an Arabic linguist in the Air Force and his awards include the Defense Meritorious Service Medal. He was also an internal auditor for several years with a local government contracting firm, managed the accounting functions for a multi-million dollar out-of-state contract and was the on-site manager of a quality control project for the Nuclear Regulatory Commission.

A partial list of recent relevant governmental experience includes conducting audits and/or attestation engagements or consulting engagements at the following clients:

**State and Regional Governments**

Maryland Aviation Administration  
Maryland Developmental Disabilities Administration  
Maryland Transit Administration

**County and Other Governments**

Baltimore County Revenue Authority  
City of Glenarden Housing Authority  
Wicomico County Housing Authority

**Local Governments**

Chevy Chase Village  
City of College Park  
City of Hyattsville  
City of Laurel  
City of Seat Pleasant  
City of Takoma Park  
**Cottage City**  
Town of Bladensburg  
Town of Brentwood  
Town of Riverdale Park  
Town of University Park

Bob is a member of the Maryland Association of CPAs, the American Institute of CPAs, and the Association of Government Accountants.

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**Aliesha Scarlett, CPA, CFE, CGMA**  
*Audit Supervisor*

Aliesha Scarlett, CPA, graduated from SUNY in 2001 cum laude. Prior to joining Lindsey + Associates in 2007, she worked for Ulster Savings Bank in New York State and Ryan Insurance Company, an affiliated company to Ulster Savings Bank. She has extensive experience in accounting and compliance matters pertaining to commercial insurance, including workers' compensation insurance. Since joining L+A in 2007, she has become our audit manager, overseeing all aspects of fieldwork for our audits, *including nearly two dozen municipalities annually*. In 2015, she earned her Certified Fraud Examiner designation. Aliesha is a member of the Association of Certified Fraud Examiners, the MDGFOA, the MACPA and the AICPA.

**State and Regional Governments**

Maryland Aviation Administration  
Maryland Transit Administration  
American Recovery and Reinvestment Act Projects  
Amtrak Commuter Rail Contract Service Revenues and Costs Claimed  
BWI Parking Garage Agreement  
Revenues and Costs Claimed by CSXT Transportation (CSXT)  
Review of Passenger Vehicle Utilization  
Symphony Center Parking Garage Agreement

**County and Other Governments**

Baltimore County Revenue Authority  
City of Glenarden Housing Authority

**Local Governments**

Chevy Chase Village  
City of College Park  
City of Hyattsville  
City of Laurel  
**Cottage City**  
Town of Bladensburg  
Town of Brentwood  
Town of Edmonston  
Town of Laytonsville  
Town of North Brentwood  
Town of Union Bridge  
Town of Washington Grove

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**Alexxa Espiritu, CPA**  
***Senior Auditor***

Alexxa Espiritu earned her Accounting degree with honors in 2022 and is a Certified Public Accountant, licensed in another jurisdiction. At Lindsey + Associates, LLC, her work primarily focuses on providing audit and accounting services to local governments and nonprofit organizations. A list of her audit clients follows:

**County and Other Governments**

Allegheny County Library System

**Local Governments**

Town of North Brentwood  
Town of Brentwood  
Town of Washington Grove  
Town of Edmonston  
Town of Laytonsville  
Town of Lonaconing  
Town of Westernport  
Town of Fairmount Heights  
Village of Chevy Chase Section 5

**Others**

Montgomery Municipal Cable Inc.  
Prince George's County Memorial Library System Foundation

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**4 – Work Plan and Timeline for Completion of Audits**

Typically, we start the audit process in May or June – by that time, most of the year has gone by and we can test nearly everything. That way, when we return after June 30 (in August or September), we are primarily testing balance sheet items, e.g., bank reconciliations, accounts receivable and payable, etc. This allows us to complete most of the audit ahead of time, leaving less to do closer to the deadline.

For this engagement, we intend to adhere to the following schedule:

|                                     |                  |
|-------------------------------------|------------------|
| Receipt/analysis of TB/GL           | June             |
| Sample selection                    | June             |
| Tests of controls (interim testing) | June/July        |
| Preliminary drafting of F/S         | July             |
| Substantive testing                 | August/September |
| MD&A                                | September        |
| Final drafts                        | Early October    |
| Submit financial statements and UFR | NLT October 25   |

Following this schedule will be dependent upon the Town being able to provide audit documentation according to the above timetable.

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**5 – Technical Approach**

**A very detailed audit program will be developed for each component of this engagement; however, a detailed summary follows.**

Financial Statements

*Planning and Preliminary Fieldwork*

1. Conduct entrance conference
2. Complete acceptance form for a local government audit
3. Prepare the following correspondence on an as needed basis:
  - Audit engagement letter
  - Request for predecessor auditor to release information to successor auditor
  - Standard form to confirm account balance information with financial institutions
  - Confirmation of authorized signatures
  - Request for cutoff statements
  - Positive and/or negative accounts receivable confirmation
  - Confirmation of accounts payable, loans and other debt
  - Confirmation of any contingent liabilities
  - Confirmation of grant or contract payments and receivables
  - Confirmation of grant entitlements and drawdowns
  - Request for pension plan information
  - Confirmation of insurance coverage
  - Request for legal representation
  - Management representation - standard form
  - Related party questionnaire
4. Complete governmental accounting system documentation form
5. Complete the checklist for evaluating potential component units and determine major funds
6. Prepare detailed audit time budget
7. – 9. N/A
10. Prepare the planning materiality worksheet
11. Document an understanding of the information system relevant to financial reporting including:
  - Relative significance of the account or related transactions to the overall financial statements
  - Volume of transactions

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Susceptibility of related assets to theft or similar loss  
Accounts or transaction classes that have traditionally required significant adjustments

12. Describe the extent to which the computer is used (either internally or by a service organization) in significant audit areas
13. List the significant computer applications run on the system, identify the source of the software used, and indicate whether the client has access to the source code included for each software used
14. Complete the governmental internal controls procedures forms including for
  - Budgeting
  - Cash
  - Petty cash
  - Investments
  - Revenue and receivables - governmental funds
  - Service revenue and receivables - proprietary fund types
  - Contributions - pension trust funds
  - Expenditures for goods and services and accounts payable
  - Payroll and related liabilities
  - Property, equipment and capital expenditures
  - Debt and debt service expenditures
  - Fiduciary fund types
15. Complete the computer controls questionnaire - general controls, including:
  - Organization controls
  - Access controls
  - Systems and program development controls
  - Operational controls
  - Disaster recovery/contingency planning
16. Complete the planning worksheet to determine the extent of substantive tests
17. Prepare the sampling and evaluation form for substantive tests
18. Complete the sampling worksheet for testing account coding and classification
19. Complete the inherent risk assessment form
20. Complete the test of controls form
21. Complete the tests of controls sampling form
22. Initiate the confirmation summary form

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23. Initiate the governmental accounts receivable statistics form
24. Prepare the following forms for use during the fieldwork:
  - Closing entry and audit adjustment form
  - Audit difference evaluation form
  - Reportable control condition and management point development worksheet
  - Governmental audit supervision, review and approval form

*Fieldwork*

Analytical Procedures

25. Perform preliminary analytical procedure by comparing account balance for the current period to similar amounts in the prior period

Trial Balance

26. For trial balance and other schedule prepared by Town personnel, perform the following:
  - Trace amounts to the general ledger
  - Foot and crossfoot totals
  - Trace opening balance to the closing balances in the prior period

Budget

27. Review the minutes of the meeting of the Board adopting the budget and those adopting amendments, if any, and compare adopted budget to the budget figures supplied by Town personnel, and reconcile any differences

Commitments and Contingencies

28. Perform a search for commitments and contingencies
29. Review the Town's files concerning litigation, including invoices from lawyers
30. Request the Town's attorney to report, as of the balance sheet date and a cutoff date near the end of the audit
31. Inquire of responsible officials concerning the existence and amount of contingent liabilities

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32. Review cash disbursements for unusual transactions and nonstandard entries

Subsequent Events

33. Perform a review for subsequent events from the date of the balance sheet to the date of the auditors' report
34. Inquire of responsible officials about the existence of material subsequent events or transactions
35. Scan cash receipts and cash disbursements for unusual transactions and nonstandard entries

Related Party Transactions

36. At the start of the engagement, update the understanding of the identity of related parties
37. Provide all audit staff with the names of known related parties
38. Inquire of management about the existence of related party transactions
39. Consider obtaining a related party questionnaire from appropriate members of management and the Council

Minutes, Contracts, Ordinances and Laws

40. Review the minutes of the Board and any committees, and abstract information relevant to the audit.
41. Obtain a written representation on minutes
42. Obtain and review copies of new agreements and new amendments to existing agreements
43. Review the Town's charter to determine duties, powers, and other data relevant to the audit
44. Review general state statutes to the extent considered necessary
45. If any legal requirements relevant to the audit are unclear, request a written representation from legal counsel
46. Summarize in the workpapers information identified for disclosure in the notes to the financial statements

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Cash

47. Develop and execute the appropriate audit steps to achieve the following audit objectives:

Cash in the combined balance sheet in on hand, in transit, or on deposit with third parties in the name of the Town

All cash is included in the combined balance sheet

Depositories are legally acceptable; adequate collateral has been pledged at depositories for the Town; and separate depository accounts are maintained for each fund for which required

Cash balances reflect a proper cutoff of receipts and disbursement and are stated at the correct amount

Cash balance are presented properly by fund type, restricted cash is presented separately by fund type, and related disclosure are adequate

Investments

48. Develop and execute the appropriate audit steps to achieve the following audit objectives:

Investment balances by fund type are evidenced by securities or other appropriate legal documentation either physically on hand or held in safekeeping by others and include all investments

Investments are of the types authorized by law, contract, and the investment policy of the Town and the State of Maryland

Investment values, income, gains, or losses are state correctly and allocated properly to funds

Investments are properly described and classified by fund type in the combined balance sheet, and related disclosures, including restrictions and commitments, are adequate

Revenue, Receivables, Including Due From Other Units of Government and Due From/To Other Funds and Deferred Revenue, and Receipts

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49. Develop and execute the appropriate audit steps to achieve the following audit objectives

Only revenues that are available and measurable in this fiscal period have been recorded, and amounts uncollected at the end of the period presented as receivable are valid

All revenues that are available and measurable in this fiscal period have been recorded

The Town has satisfied the relevant legal requirement to receive all revenues recorded

Revenues have been billed or charged and recorded at the correct amount, and receivables are state at the net realizable amount

Revenues and receivables are properly classified by fund type in the financial statement, and related disclosures are adequate

**Expenditures For Goods and Services and Accounts Payable, Including Accrued Liabilities**

50. Develop and execute the appropriate audit steps to achieve the following audit objectives:

Recorded expenditures and cash disbursements are for goods or services authorized and received

Expenditures incurred for goods or services and related accounts payable have been identified

Expenditures for goods or services are authorized and in accordance with the budget and other regulations or requirements

Expenditures for goods or services and related disbursement and liabilities have been recorded correctly as to account, fund, budget category, period and amount

Expenditures for goods or services and related liabilities are properly presented by fund type and budget category and related disclosures are adequate

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Payroll and Related Liabilities, Including Compensated Absences

51. Inquire about regulations pertinent to wages, salaries, and benefits and read relevant civil service regulations, local, state, and federal ordinances, and other regulations
52. Compare payroll expenditures to the prior period actual and current budget (by department or function and in total)
53. Reconcile payroll record totals to comparable total on Forms 941 filed
54. Compare accruals for compensated absences to the prior period's actual and current budget, and compare the relation of amounts to gross pay with same ratio for the prior period
55. Compare pension expenditures to the number of covered employees, and compare to the same relationship in the prior period
56. Identify bonuses or other unusual compensation, and inspect evidence for approval
57. Consider the reasonableness of the accrual for payroll expenditures at the end of the period
58. Conduct test for padded payroll (fictitious employees)
59. For selected payroll journals, foot and compare total net payroll with the deposit to the payroll bank account and the general fund disbursing check/transfer
60. Select a sample of payroll transactions during the year, and perform the procedures on page AP-104 of the firm's audit procedures
61. See page AP-104 and AP-105 of the firm's audit procedures for tests regarding salaries or fringe benefits that are made on behalf of the Town by another entity, and for proprietary fund types
62. If Town provides benefits to employee after retirement, determine if an accrual for post-retirement benefits is needed

Inventories

63. Inquire about Town's policies and procedures with respect to the following matters:
  - Individual funds that have recorded inventory
  - Date and procedures to be used for the physical inventory of each fund that records inventory

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The accounting method used to record inventory for each fund

64. At the date of the count(s), obtain a copy of the physical inventory summary and perform selected audit steps, such as

Compare the dollar amount of inventory by fund to prior periods, and consider reasonableness in relation to knowledge of acquisitions and activity during the period

In light of this comparison, investigate significant fluctuations

65. Ascertain whether inventory amounts in the financial statements are properly classified by fund type and whether reservation of the fund balance has been made

Property, Equipment, and Capital Expenditures, Including Fixed Assets In Use and Facilities Under Construction

66. Develop and execute the appropriate audit steps to achieve the following objectives:

Property and equipment in the general fixed assets account group and proprietary funds represent a complete and valid listing of the capitalizable cost of assets purchased, constructed, or leased and physically on hand

Capital expenditures represent a complete and valid listing of the capitalizable cost by acquiring fund of the property and equipment acquired during the period, and capitalizable costs are excluded from repair and maintenance and similar expenditure accounts

Capitalized costs and, if applicable, related depreciation associated with all sold, abandoned, damaged, or obsolete fixed assets have been removed from the accounts

Depreciation charged on fixed assets of proprietary funds and, if applicable, of grant programs has been computed on an acceptable basis consistent with that used in prior periods, and related allowance accounts are reasonable, considering expected useful lives and salvage value

Capital expenditures and fixed assets are properly classified by fund type or account group in the financial statement, and related disclosures are adequate

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Debt and Debt Service Requirements

67. Inquire about provisions of the charter, ordinances, or statues related to authority to borrow, and perform the following:

Obtain, or prepare, an analysis of debt activity during the year

Review legislative minutes for authorization to issue debt and, if applicable, records of voter referendums approving issuance

Confirm legal compliance of debt sales with bond counsel or the appropriate authorities

Trace debt authorized to accounting records, and consider the appropriateness of classification

68. Compare debt terms and balances as of the balance sheet date to amounts confirmed on standard financial institutions' confirmation or similar confirmations
69. Review loan documents, and draft disclosure points for pledged assets and restrictions, if any
70. Determine if Town is in compliance with restrictive covenants
71. Examine lease agreements, and determine if any leases should be capitalized
72. Review debt service schedule and scan expenditures for proper amounts and recording, and perform the following:

Consider the reasonableness of interest cost

Consider the need to inspect supporting documentation

73. Summarize in the workpapers information about terms, restrictions, guarantees, or commitments related to debt for disclosure in the notes to the financial statements

Fund Balances and Net Assets

74. Obtain, or prepare, an analysis of changes in the aggregate fund balance and components of the fund balance for each individual fund
75. Read minutes to identify authorization for reservations or designation of fund balances

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76. Consider the need for reservation of fund balances for items such as encumbrances, inventories, and long-term assets
77. Vouch the charges or credits changing the aggregate fund balance to supporting documentation

Grant and Similar Programs

78. Obtain, or prepare a schedule of grants and similar programs and perform the following procedures:
  - Review the minutes to identify grants received and related restrictions
  - Review grant contracts and related laws and regulations
  - Discuss procedures used to monitor grants
79. Identify financial reports require under grants, and perform the following procedures
  - Review the status of prior grant audit reports to identify the nature and disposition of prior deficiencies
  - Reconcile grant financial reports to accounting records
80. For grant revenues and receipts, perform the following procedures:
  - Compare amounts to the prior period actual and current budget
  - Confirm direct advances and draws
  - Review selected grant receipts for proper classification and compliance with contracts and regulations
81. Select a sample of expenditures charge to grant programs, and review for proper classification and compliance with contracts, laws, and regulations
82. Examine documentation and approvals supporting allocation of indirect costs
83. Draft the portion of the management representation letter concerning financial and compliance aspects of grants
84. Summarize in the workpaper information related to grant programs for disclosure in the notes to the financial statements.

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Fiduciary Fund Types

85. Develop and execute the appropriate audit steps to achieve the following audit objectives:

Investment balances by fund type are evidenced by securities or other appropriate legal documentation either physically on hand or held in safekeeping by others and include all investments

Investments are of the types authorized by law, contract, and the investment policy of the Town and the State of Maryland

Investment values, income, gains, or losses are state correctly and allocated properly

Investments are properly described and classified in the combined balance sheet, and related disclosures, including restrictions and commitments, are adequate

*Ending Fieldwork*

86. Summarize and evaluate misstatements noted during the audit
87. Draft the financial statement and discuss significant accounting policies, accounting estimates, and the implications of audit adjustments with management
88. Draft the auditor's report on the financial statements after considering any GAAP departures, scope limitations, uncertainties, and other relevant matters
89. Summarize reportable conditions in internal control structure and all identified instances of noncompliance with applicable laws and regulations for communication to the appropriate officials
90. Draft other reports that are required for the engagement
91. If the Town has an audit committee or a group or individual formally designated with oversight of financial reporting, consider whether communication of the following matters has been appropriately made and documented:
- Auditor responsibility
  - Accounting policies
  - Estimates
  - Adjustments
  - Other relevant matter
  - Disagreements, if any
  - Difficulties

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92. Complete the governmental disclosure checklist

**Sample Size and the Extent to Which Statistical Sampling Is to Be Used in the Engagement**

Our firm uses statistical sampling whenever it is cost effective and efficient.

Our firm will most likely use audit sampling in the following areas:

- Substantive tests of details of balance sheet account balances
- Substantive tests of details of transactions
- Tests of controls
- Test of compliance with laws and regulations

Our approach to planning the extent of substantive tests follows:

Assess the appropriate level of tolerable misstatement - tolerable misstatement (as a rule of thumb is 75% of planning materiality)

Determine an amount for individually significant dollar items - any amount less than tolerable misstatement may be used (as a rule of thumb, one-third of tolerable misstatement is often used)

Identify unusual items - these items are tested 100%

Calculate remaining balance and percent of coverage after selecting individually significant items

Determine what procedures, if any, are needed to test the remaining balance

Our firm normally uses one of the three following approaches to selecting samples: random selection, systematic selection, and haphazard selection.

There is a basic relationship between degree of risk and sample size. As the allowable risk of incorrect acceptance decreases, the necessary sample size increases. Statistical sampling allows us to decide on a specific percentage of allowable risk of incorrect acceptance, such as 5% and, through use of a formula or a table to determine sample size, hold the risk to that level or measure the risk level actually achieved by the sample results.

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After the sample size is determined and the tests are performed on the sample, we then project the misstatement to the total population using either the ratio method or difference method.

For tests of controls using audit sampling, the population is usually all transactions of a particular type. Tests of controls using audit sampling are usually tests of details of transactions. To be efficient, our firm only focuses on those policies and procedures that are important to achievement of control objectives. We do not test all the policies and procedures involved in processing of transactions, but only those that will have a significant bearing on substantive procedures.

For purposes of determining sample size, our firm considers: tolerable risk, the risk of assessing control risk too low, and the expected rate of deviations from prescribed internal control structure policies and procedures.

Our firm combines compliance tests of laws and regulations with substantive tests of transactions or tests of controls. In other words, we perform a triple-purpose test of transactions, if possible. For example:

Recording the correct amount, account and period

Indications of performance of internal control structure policies and procedures, and

Indications of compliance with relevant laws and regulations

**Type and Extent of Analytical Procedures to be Used in the Engagement**

Analytical procedures are used in general planning to improve our understanding of operations and to identify audit areas for increased attention. SAS No. 56 requires the use of analytical procedures in the planning and overall review stages of all audits.

Typical analytical procedures are: comparisons of account balances between accounting periods and ratio and trend analysis. Analytical procedures are also more effective and efficient than tests of details for achieving particular substantive testing objectives. The appropriate mixture of analytical procedures and tests of details is a matter of professional judgment.

Analytical procedures are used most often in the following:

Engagement planning  
Engagement review  
Account balance review  
Debt and debt service requirements

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Governmental fund revenues  
Inventories  
Payroll  
Proprietary fund revenues

**Approach to Be Taken to Gain and Document an  
Understanding of the Town's Internal Control Structure**

Our firm's approach to gaining an understanding of the Town's internal controls and documenting the internal control structure follows:

1. Document an understanding of the information system relevant to financial reporting including:
  - Relative significance of the account or related transactions to the overall financial statements
  - Volume of transactions
  - Susceptibility of related assets to theft or similar loss
  - Accounts or transaction classes that have traditionally required significant adjustments
2. Describe the extent to which the computer is used (either internally or by a service organization) in significant audit areas
3. List the significant computer applications run on the system, identify the source of the software used, and indicate whether the client has access to the source code included for each software used
4. Complete the governmental internal controls procedures forms for governmental funds, proprietary funds, fiduciary funds, and two account groups: general fixed assets and long-term obligations.
  - Budgeting
  - Cash
  - Petty cash
  - Investments
  - Revenue and receivables - governmental funds
  - Service revenue and receivables - proprietary fund types
  - Contributions - pension trust funds
  - Expenditures for goods and services and accounts payable
  - Payroll and related liabilities
  - Property, equipment and capital expenditures
  - Debt and debt service expenditures
  - Self-insurance

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5. Complete the computer controls questionnaire - general controls, including:
  - Organization controls
  - Access controls
  - Systems and program development controls
  - Operational controls
  - Disaster recovery/contingency planning
6. Complete the sampling worksheet for testing account coding and classification
7. Complete the inherent risk assessment form
8. Complete the test of controls form
9. Complete the tests of controls sampling form

**Approach to Be Taken in Determining Laws and Regulations That Shall Be Subject to  
Audit Test Work**

1. Review all
  - Material agreements and contracts
  - Loan documents
  - Grant files
2. Review prior auditors' workpapers
3. Discuss laws and regulations with Town's attorneys

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**Approach to Be Taken in Drawing Audit Samples for Purposes of Tests of Compliance**

Our firm uses a standard form (*GCX-17 Planning Worksheet to Determine Extent of Substantive Tests*). As a rule of thumb, sampling may not be efficient when the population is less than 100. In these instances, reviewing individually significant and unusual items, if any, and the internal control system often will be sufficient.

SOP 98-3, *Audits of States, Local Government, and Not-for-Profit Organizations Receiving Federal Awards*, indicates that it is not necessary to select separate sample sizes for each major program. The President's Council on Integrity and Efficiency Standards Subcommittee (though not authoritative) indicates that a sample size of 25 for testing compliance with laws and regulations is the minimum which federal agencies would consider acceptable.

Once the sample size is determined, the auditor normally uses random selection process for choosing the items audited.

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**Schedules that Town Personnel are Responsible for Preparing**

Trial balance for each fund  
General ledger for each fund  
List of bank accounts and investments  
Bank reconciliations for every bank/investment acct., including outstanding checks for June  
List of employees at June 30  
Contact information for Town Council  
Contact information for prior auditors  
Management letters provided to Town by prior auditors  
Correspondence regarding grants  
Schedules of:

- Taxes receivable
- Miscellaneous receivables
- Grants receivables
- Computation of uncollectible receivables
- Prepaid expenditures
- Investments by type
- Interest revenue
- Accrued interest
- Deferred revenue by source
- Accounts payable
- Compensated absences
- Operating transfers among funds
- Reconciliation of payroll per 941's to general ledger
- Legal fees paid
- Long-term debt activity
- Fixed assets additions and disposals
- Fixed assets by function and activity
- Federal financial aid received directly or indirectly from the federal government

Copies of

- New loan, bond and lease agreements
- Minutes of Town Council meetings
- Personnel handbook
- Charter
- Budget, original and amended

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**6 – References**

Lindsey + Associates has a long history of work with governmental entities, both large and small. Every engagement is unique; however, engagements performed in the past five years with demands similar to Cottage City follow:

| <b>Town of Riverdale Park</b> |                                                      |
|-------------------------------|------------------------------------------------------|
| Scope:                        | Financial statement audit, draft F/S and UFR         |
| Date:                         | 2003 to present                                      |
| Partner:                      | Bob Diss                                             |
| Total Hours:                  | ~200 annually                                        |
| Client Contact:               | Paul Smith, 301/927-6381, psmith@riverdaleparkmd.gov |

| <b>Town of Landover Hills</b> |                                                            |
|-------------------------------|------------------------------------------------------------|
| Scope:                        | Financial statement audit, Single Audit, draft F/S and UFR |
| Date:                         | 1998 to present                                            |
| Partner:                      | Bob Diss                                                   |
| Total Hours:                  | ~150 annually                                              |
| Client Contact:               | Mike Thompson, 301/773-6401, m.thompson@landoverhills.us   |

| <b>Town of Brentwood</b> |                                                         |
|--------------------------|---------------------------------------------------------|
| Scope:                   | Financial statement audit, draft F/S and UFR            |
| Date:                    | 2000 to present                                         |
| Partner:                 | Bob Diss                                                |
| Total Hours:             | ~150 annually                                           |
| Client Contact:          | Shelley Dorsey, 301/927-3344, treasurer@brentwoodmd.gov |

| <b>Chevy Chase Village</b> |                                                                     |
|----------------------------|---------------------------------------------------------------------|
| Scope:                     | Financial statement audit, draft F/S and UFR                        |
| Date:                      | 2009 to present                                                     |
| Partner:                   | Bob Diss                                                            |
| Total Hours:               | ~200 annually                                                       |
| Client Contact:            | Demetri Protos, 301/654-7300, Demetri.Protos@montgomerycountymd.gov |

| <b>City of Laurel</b> |                                                            |
|-----------------------|------------------------------------------------------------|
| Scope:                | Financial statement audit, Single Audit, draft F/S and UFR |
| Date:                 | 2005 to present                                            |
| Partner:              | Bob Diss                                                   |
| Total Hours:          | ~ 250 annually                                             |
| Client Contact:       | Michele Saylor, 301/725-5300 X236, msaylor@laurel.md.us    |

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**7 – Fee Schedule**

The total all-inclusive fee for the services described in the RFP and in this proposal, along with our hourly rates for any additional services as may be requested are as follows:

| <b>Financial Statement Audit</b> |              |             |                  |
|----------------------------------|--------------|-------------|------------------|
| <b>FY 2026</b>                   |              |             |                  |
|                                  | <b>Hours</b> | <b>Rate</b> | <b>Total</b>     |
| Partner                          | 8            | \$ 210      | \$ 1,680         |
| Supervisor                       | 24           | 128         | 3,072            |
| Staff                            | 80           | 102         | 8,160            |
| <b>Total</b>                     | 112          |             | <b>\$ 12,912</b> |
| <br>                             |              |             |                  |
| <b>FY 2027</b>                   |              |             |                  |
|                                  | <b>Hours</b> | <b>Rate</b> | <b>Total</b>     |
| Partner                          | 8            | \$ 210      | \$ 1,680         |
| Supervisor                       | 24           | 128         | 3,072            |
| Senior                           | 80           | 105         | 8,400            |
| <b>Total</b>                     | 112          |             | <b>\$ 13,152</b> |
| <br>                             |              |             |                  |
| <b>FY 2028</b>                   |              |             |                  |
|                                  | <b>Hours</b> | <b>Rate</b> | <b>Total</b>     |
| Partner                          | 8            | \$ 210      | \$ 1,680         |
| Supervisor                       | 24           | 130         | 3,120            |
| Senior                           | 80           | 110         | 8,800            |
| <b>Total</b>                     | 112          |             | <b>\$ 13,600</b> |