Audit Committee #1, #2, #3, #4
March 31, 2011
Briefing/Action

MEMORANDUM

March 29, 2011

TO: Audit Committee

FROM: Leslie Rubin, Legislative Analyst
Sue Richards, Senior Legislative Analyst
Office of Legislative Oversight

SUBJECT: Updates from the Office of the Inspector General and the Office of Internal Audit, FY10 Audit and Management Letters Review, and Audit Contract Renewal

On March 31st, the Audit Committee has four scheduled agenda items. The table below summarizes the items and the recommended length of time for the Committee's discussion.

Item #	Topic	Length
1	An update from the Inspector General	10 minutes
2	An update from the Office of Internal Audit	10 minutes
3	**Discussion with Clifton Gunderson** – Audit of the County Government's FY10 Financial Statements	1 hour
	Discussion with Clifton Gunderson – Audit of the Montgomery County Employees' Retirement Plans	
	Discussion with Clifton Gunderson – Audit of the Montgomery County Union Employees Deferred Compensation Plan	
	Discussion – Other related Clifton Gunderson work	
	Discussion with Rager, Lehman & Houck – Audits of the FY10 Financial Statements of Montgomery County's local fire and rescue corporations	
4	**Discussion and Action** – Contract amendments to contracts with Clifton Gunderson and Rager, Lehman & Houck for professional auditing services	10 minutes

The table on the next page identifies the County Government representatives and staff from the independent auditors scheduled to attend today's briefing.

Item #	Department/Office	Executive Branch Staff
1	Office of the Inspector General	Tom Dagley, Inspector General
2	Office of Internal Audit	Larry Dyckman, Manager
3	Department of Finance	Karen Hawkins, Chief Operating Officer Lenny Moore, Controller
	Board of Investment Trustees	Linda Herman, Executive Director
	Department of Permitting Services	Alicia Thomas
	Department of Technology Services	Keith Young
	Office of Procurement, DGS	Pam Jones, Director
	Montgomery County Fire & Rescue Service	Richard Bowers, Fire Chief Dominic Del Pozzo, Budget Manager
Item #	**Organization**	**Independent Auditors' Staff**
3, 4	Clifton Gunderson LLP	Keith Novak Thomas Rey Cheri Amoss Aires Coleman Jennifer Davis
3, 4	Rager, Lehman & Houck, P.C.	Harriet Gillen
3	Key & Associates	Beatrice Key

The table below includes page references for each agenda item.

Item		See Page	Documents begin on ©
1	An update from the Inspector General	2	n/a
2	An update from the Office of Internal Audit	2	n/a
3	**Discussion with Clifton Gunderson** – Audit of the County Government's FY10 Financial Statements	4	© 1
	Discussion with Clifton Gunderson – Audit of the Montgomery County Employees' Retirement Plans	6	© 18
	Discussion with Clifton Gunderson – Audit of the Montgomery County Union Employees Deferred Compensation Plan	7	© 29
	Discussion with Rager, Lehman & Houck – Audits of the FY10 Financial Statements of Montgomery County's local fire and rescue corporations	7	© 33
4	**Discussion and Action** – Contract amendments to contracts with Clifton Gunderson and Rager, Lehman & Houck for professional auditing services	14	© 77

A. Items #1 and #2: Updates from the Inspector General and the Office of Internal Audit

The Committee will receive updates from the Inspector General, Tom Dagley, and the manager of the Office of Internal Audit, Larry Dyckman.

B. Items #3: Summary of Auditors' Findings

The following documents related to the audits are attached.

Attachment	Begins on
Audit of the County Government's Financial Statements	
Report on Internal Controls for the FY10 audit of the County Government Financial Statements	© 1
Management Letter for the FY10 audit of the County Government Financial Statements	© 3
Clifton Gunderson letter re: matters related to the FY10 audit of the County Government Financial Statements	© 5
Executive Branch Response to the FY10 Management Letter for the County Government Financial Statements	© 13
Audit of the Employees' Retirement System Plans	
Report on Internal Controls for the FY10 audit of the Employees' Retirement System Plans	© 18
Clifton Gunderson letter re: matters related to the FY10 audit of the Employees' Retirement System Plans	© 20
Audit of the Montgomery County Union Employees Deferred Compensation Plan's Financial Statements	
Independent Auditor's Report accompanying the audited financial statement of the Montgomery County Union Employees Deferred Compensation Plan (MCUEDCP) for the calendar year ended December 31, 2010	© 29
Clifton Gunderson letter re: matters related to the audit of the 2010 MCUEDCP financial statements	© 30
MCUEDCP Board of Trustees' Comments on the Independent Auditor's Report	© 32
Audit of the Financial Statements of the Local Fire and Rescue Corporations	
Management Letters for the FY10 audits of the Fire and Rescue Corporations	© 33
Executive Branch Response to the FY10 Management Letters for the Fire and Rescue Corporations	© 70
Audit Contract Amendments	
Amendment # 6 to the Council's contract with Clifton Gunderson for professional auditing services	© 77
Amendment # 4 to the Council's contract with Rager, Lehman & Houck for professional auditing services	© 81

Definition of Terms. The summaries of the auditors' findings include terminology that auditors use to report their findings.[1] These terms, which have specific meanings, are explained below. A control deficiency represents the lowest degree of risk to the County, and a material weakness the greatest.

- **Control Deficiency** – When the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
- **Significant Deficiency** – A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.
- **Material Weakness** – A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

[1] To report their findings, auditors use a classification structure found in Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit.*

FY 2010 Audit of the County Government Financial Statements

Clifton Gunderson audited the basic financial statements of Montgomery County for the year ended June 30, 2010. In its Internal Auditor's Report included in the County Government's FY2010 Comprehensive Annual Financial Report, Clifton Gunderson found that the County Government's financial statements present fairly, in all material respects, the financial position of the County.

In its Report on Internal Control, Clifton Gunderson did not find any control deficiencies, significant deficiencies, or material weaknesses. In its Management Letter, Clifton Gunderson identified five matters, summarized in the table below along with the County Executive's responses. The Report on Internal Control and the Management Letter are attached at ©1 and ©3, respectively and the County Executive's written response is attached at ©13.

Matters Noted in Clifton Gunderson's Management Letter

Supervisory Review of Employees' Time

Auditor's Comment and Recommendation:

During our review of employee time and pay, we noted one instance out of a sample of twenty two in which an employee's timecard was not signed by the appropriate supervisor indicating approval. While the employee was salaried, lack of supervisory review could lead to improper recording of employee leave and vacation time. We recommend management review timely all salaried employee time for reasonableness prior to the disbursement of payroll.

County Executive's Response:

"This instance occurred while some County departments were still using paper timesheets. While the County made every effort during the time of this manual processing of timesheets to minimize this risk, expanded controls over supervisory approvals is one of the benefits sought in the County's implementation of an automated timekeeping system. All County departments are now using an automated timekeeping system which eliminates this risk. The system requires supervisory approval before time can be processed for payroll, except for appointed employees and staff who directly report to an elected official."

Bank Reconciliations

Auditor's Comment and Recommendation:

"During our review of bank reconciliations at year-end and throughout the year, we noted the following:

- Bank reconciliations for the County's main cash accounts were not being completed and reviewed on a timely basis.
- Bank reconciliations for the imprest funds did not include evidence of review and approval, and there were un-reconciled differences that were not resolved in a timely manner.
- The bank reconciliation for the detention center did not include a listing of outstanding checks. Currently, the accounting system used by the detention center does not provide an outstanding check listing for review, therefore, for bank reconciliation purposes, the detention center uses a formula to determine the total amount of outstanding checks as of the reconciliation date.

We recommend the County review its policies and procedures for reconciling cash accounts for all departments to ensure reconciliations are being performed and approved in a timely manner, unreconciled differences are resolved and a detailed outstanding check list is available for all accounts to ensure old, outstanding checks are written off when appropriate.

Bank Reconciliations (cont.)

County Executive's Response:

"The County considers the timely reconciliation of cash accounts to be a priority. This comment relates to three separate business processes. The County has a separate unit within the Department of Finance that is responsible for reconciling the main bank accounts of the County. Imprest funds are reconciled by each fund's custodian and copies of the reconciliations are forwarded to Finance for review. The reconciliations of the Detention Center inmate bank account is performed by staff of the Department of Corrections and Rehabilitation (DOCR) with copies of the reconciliations sent to Finance.

"Main Bank Accounts: An increase in the time required to perform bank reconciliations began in a prior year, with the County's transition to a new bank and the retirement of a senior accountant who performed bank reconciliations (50% of such staff). The transition to a new bank essentially doubled the number of reconciliations for an extended period of time. The combination of these situations resulted in a significant decrease in resources coinciding with a significant increase in workload. Ultimately, temporary accounting services were procured and the position was filled. However, a backlog of reconciliations occurred in the prior year, which caused a delay in starting FY10 reconciliations. The unit completed all FY10 reconciliations in August 2010, which is generally the standard timeframe to complete the final June reconciliations. Finance anticipates reconciliations for FY11 to be equally challenging. A completely new process was adopted with the implementation of the County's Enterprise Resources Planning (ERP) system at the beginning of FY11, and post-implementation issues are being resolved. The Department is in the process of identifying additional resources to bring the process current.

"Imprest Funds: The imprest funds, or petty cash/change funds, noted are for a department that uses imprest funds much more extensively than other County departments. For expediency purposes, the department sends Finance summaries of the reconciliations, but maintains in their offices the detailed supporting documentation. Copies of additional support were requested by Finance from the Department, but due to miscommunication were not provided to the auditors in time for completion of their fieldwork. Finance has coordinated with the department to ensure that supervisory reviews and approvals are performed and documented, and will ensure that appropriate support is provided to the auditors on a timely basis in the future.

"Detention Center Account: The DOCR inmate bank account reconciliation process was developed in consultation with both an external audit firm and the County's internal audit staff. The software DOCR currently uses to account for inmate bank account transactions has not been configured to automatically clear checks in the system that have cleared the bank, and does not capture individual checks issued prior to its implementation date. Thus, at any given time, DOCR cannot produce a comprehensive report of uncleared checks. Based on the advice of the external audit firm and internal audit, DOCR created a formula to approximate the total dollar amount of outstanding checks from one month to the next. DOCR intends to explore the cost of configuring its current software to automatically clear checks in the system that have cleared the bank. DOCR will also continue current efforts with Finance to explore implementation of pay-cards (value-added cards), which are designed to enhance operating efficiencies and improve controls. Also, DOCR is working with Finance to report uncashed checks within three or more years ago as abandoned property."

Temporary Vendors

Auditor's Comment and Recommendation:

As noted in the prior year and during our review of the purchasing system in the current year, we noted that there was no periodic review and purging of temporary vendors in the system. There is a risk that temporary or dormant vendors will be utilized in order to conceal fictitious payments. Per discussion with management, in preparation for the new accounting system, which was effective at the beginning of fiscal year 2011, all temporary vendors in the purchasing system were reviewed to determine their status and purged where appropriate. We recommend management continue to review temporary vendors in the purchasing system on a regular basis.

Temporary Vendors (cont.)

County Executive's Response:

"As the auditors noted, the County's implementation of a new financial management system at the beginning of FY11 resolved this issue. The County is not maintaining any temporary vendors in the new system. "

Change Management

Auditor's Comment and Recommendation:

During our review of the change management process related to key financial applications, we noted that a formal tracking and logging of implemented changes has not been created or utilized. It appears that this was a result of the pending implementation of the new accounting system. Without a central repository to accompany the project request form, management cannot be assured that the forms represent a complete listing of changes implemented to the financial applications. We recommend that management implement a process for logging and tracking change activity.

County Executive's Response:

"This recommendation relates to maintaining a record of changes made to the County's applications. In FY11, as previously noted, the County implemented a new financial management system. The finance system audited by Clifton Gunderson was used in, and retired at, the end of FY10. It was replaced by a new ERP system, and a new change management process over the ERP application was implemented in FY11 that addresses the recommendation above. The issue, therefore, is no longer applicable."

Escrow Deposits

Auditor's Comment and Recommendation:

During our review of the escrow deposits held by the County, we noted one deposit in which supporting documentation, such as the bond agreement, could not be located. We recommend management maintain supporting documentation for all deposits held until the associated project has been completed.

This letter is intended solely for the information and use of the County Council, the County's management, and others within the County, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

County Executive's Response:

"This issue has been addressed with the implementation of a new business process. The County previously had a process in place that relied on bond agreements being manually circulated among two departments before a stamped hardcopy was manually filed. While the document was in-transit, the issuing department, the Department of Permitting Services (DPS), would rely on information about the bond stored in the County's system of record – Hansen Permitting System (Hansen). The bond in question was issued in 2000 and was handled according to this legacy process. For the past three years, DPS has been imaging a copy of original bonds when they are received. With the implementation of Oracle's eBusiness Suite, DPS is the only department responsible for processing and filing a bond agreement. With this implementation, DPS has begun to image and file the deposit batches for cash bond deposits with the original copy of the bond, to link the bond recorded in Hansen with the individual entry of the bonds in Oracle."

FY 2010 Audit of the County Employees' Retirement System Plans

Clifton Gunderson audited the statement of plan net assets of the Montgomery County Employees' Retirement Plans for the year ended June 30, 2010. The auditors found that the financial statements present fairly, in all material respects, the net assets of the Plans and the changes in plan net assets. Clifton Gunderson did not identify any matters involving internal control over financial reporting and its operation that Clifton Gunderson considers to be a material weakness for the Retirement Plans' financial statements, and the Report on Internal Control does not include any comments or recommendations (©18). Clifton Gunderson also issued a letter with information about significant matters related to the audit (attached at ©20).

Audit of the Financial Statements of the Montgomery County Union Employees Deferred Compensation Plan for the Year Ended December 31, 2010

Clifton Gunderson audited the basic financial statements of the Montgomery County Union Employees Deferred Compensation Plan ("the Plan") for the year ended December 31, 2010. In an Independent Auditor's Report, the auditors found that the financial statements present fairly, in all material respects, the net assets available for plan benefits and the change in net assets available for plan benefits for the year ended December 31, 2010. Clifton Gunderson also issued a letter with information about significant matters related to the audit (attached at ©30). Clifton Gunderson did not issue a management letter and did not include any comments or recommendations in its findings.

FY 2010 Audit of the Fire and Rescue Corporations

Rager, Lehman & Houck, P.C. ("Rager") completed the audits of the fire and rescue corporation financial statements for the year ended June 30, 2010. Rager prepared financial statements for each corporation (available from OLO) and submitted Management Letters (beginning at ©33) for 13 of the 18 local fire and rescue departments (LFRDs).

Some of the LFRDs provided written responses to draft Management Letter comments, which Rager, Lehman & Houck incorporated into the final Management Letters. LFRD responses are referenced in the description of each comment. The Chief Administrative Officer's written response to the Management Letter comments begins on ©70. Executive Branch staff will be prepared to discuss their response to the Management Letters at the March 31st Audit Committee meeting.

The table below (continued on the next page) summarizes the number and type of comments provided by the Auditor in the Management Letters. For comparison, the table also includes the number and type of comments each LFRD received in the last two years. Summaries of Rager's findings and recommendations follow the table.

Summary of the Number and Type of FY10 LFRD Management Letter Comments

Local Fire and Rescue Department	# of Control Deficiencies	# of Significant Deficiencies	# of Material Weaknesses	Summary begins on page...
	Lowest Risk	→	Greatest Risk	
Bethesda Fire Department, Inc.				
FY10 Audit	3			33
FY09 Audit			6	
FY08 Audit			7	
Chevy Chase Fire Department, Inc.				
FY10 Audit	2			36
FY09 Audit	2			
FY08 Audit	2			
Damascus Volunteer Fire Department, Inc.				
FY10 Audit	1		1	38
FY09 Audit	4			
FY08 Audit	6			

Summary of the Number and Type of FY10 LFRD Management Letter Comments (cont.)

Local Fire and Rescue Department	# of Control Deficiencies	# of Significant Deficiencies	# of Material Weaknesses	Summary begins on page...
	Lowest Risk	→	Greatest Risk	
Gaithersburg-Washington Grove Fire Department, Inc.				
FY10 Audit	**2**			**41**
FY09 Audit	None			
FY08 Audit	3			
Glen Echo Volunteer Fire Department, Inc.				
FY10 Audit	**1**		**1**	**44**
FY09 Audit	None			
FY08 Audit	3			
Hillandale Volunteer Fire Department, Inc.				
FY10 Audit			**1**	**47**
FY09 Audit	None			
FY08 Audit	1			
Hyattstown Volunteer Fire Department, Inc.				
FY10 Audit	**1**			**49**
FY09 Audit	None			
FY08 Audit	2			
Kensington Volunteer Fire Department, Inc.				
FY10 Audit	**1**			**51**
FY09 Audit	None			
FY08 Audit	3			
Laytonsville District Volunteer Fire Department, Inc.				
FY10 Audit	**2**		**2**	**53**
FY09 Audit	2			
FY08 Audit	2			
Rockville Volunteer Fire Department, Inc.				
FY10 Audit		**1**	**1**	**57**
FY09 Audit	None			
FY08 Audit	2			
Takoma Park Volunteer Fire Department				
FY10 Audit	**1**			**60**
FY09 Audit	None			
FY08 Audit	2			
Upper Montgomery County Volunteer Fire Department, Inc.				
FY10 Audit			**1**	**62**
FY09 Audit	None			
FY08 Audit	8			
Wheaton Volunteer Rescue Squad, Inc.				
FY10 Audit		**1**	**3**	**66**
FY09 Audit		1	3	
FY08 Audit	3	1		

The LFRDs in the table below did not receive management letters as a part of the FY10 audit of their financial statements. The table summarizes the number and type of management letter comments received by these LFRDs during the FY08 and FY09 audits of their financial statements.

Summary of the Number and Type of FY08 and FY09 LFRD Management Letter Comments

Local Fire and Rescue Department	# of Control Deficiencies	# of Significant Deficiencies	# of Material Weaknesses	
	Lowest Risk	→	Greatest Risk	
Burtonsville Volunteer Fire Department, Inc.				
FY09 Audit		1		
FY08 Audit*				
Cabin John Park Volunteer Fire Department, Inc.				
FY09 Audit	None			
FY08 Audit		1		
Germantown Volunteer Fire Department, Inc.				
FY09 Audit	1			
FY08 Audit	4			
Sandy Spring Volunteer Fire Department, Inc.				
FY09 Audit	2	1	2	
FY08 Audit	7		3	
Silver Spring Volunteer Fire Department, Inc.				
FY09 Audit	None			
FY08 Audit	2	1		

*In FY08, the Auditor identified one "matter for consideration" for Burtonsville Volunteer Fire Department.

The Auditor's management letter comments are summarized below.

Bethesda Fire Department, Inc.

LFRD comments begin at ©34.

1. Control Deficiency – Purchase Orders

Rager, Lehman & Houck noted that purchase orders are not consistently used for all purchases, including recurring charges for utilities, vehicle maintenance, fuel and other reimbursable expenses, and small items such as postage stamps. Rager suggested that the LFRD use purchase orders for all transactions, which would ensure that all transactions are reviewed and approved properly before purchases are made.

2. Control Deficiency – Fund Balance

Rager noted that "[a]n entry to fund balance was necessary to tie the Department's books to previously audited amounts." Rager advised that "a process be put in place to ensure that no entries are made to fund balance during the year."

3. Control Deficiency – Segregation of Duties

Rager noted that "[c]ertain individuals are responsible for approving purchase orders, signing checks, reviewing bank reconciliations, and also have access to the bland check stock. We recommend that controls be strengthened by separating out one or two of the above mentioned functions."

Chevy Chase Fire Department, Inc.

1. Control Deficiency – Bank Reconciliations

Rager, Lehman & Houck found that the LFRD prepares bank reconciliations by hand, rather than using QuickBooks. Rager recommends using the software and recommends "that the reconciliation be reviewed by an officer of the Department and that the reviewer indicate their review via his or her initials or signature on the bank reconciliations.

2. Control Deficiency – Various Internal Processes

Rager found that while purchase orders are being used properly, the Department includes account numbers on purchase orders that refer to a prior account structure. Rager recommends using the appropriate account number.

Rager also recommends that the Department keep accounting records for State 508 Funds in QuickBooks to have similar transaction processing and data backup procedures across funds.

Damascus Volunteer Fire Department, Inc.

1. Material Weakness – Encumbrances

Rager, Lehman & Houck found that the Department backdated certain purchase orders created after the end of the fiscal year to include them in June 30, 2010 encumbrances. Rager stated that "[i]n our opinion, purchase orders created after year-end are not legitimate encumbrances and should instead be considered fund balance designations." Rager recommends that the Department "develop a better understanding of remaining unspent balances and be careful to encumber unspent funds prior to the end of the fiscal year."

2. Control Deficiency – Budgeting

Rager noted that the Corporation has not reassessed budget amounts for expenses annually, but rather rolled over the budget from year to year. The Auditor found that adjustments for expected shifts in price, quantity needed, or revenues were not being made. Rager recommends that senior management consider those factors and monthly budget-to-actual differences to "recalibrate[e] spending decisions." Note: the Auditor made this same recommendation last year.

Gaithersburg-Washington Grove Fire Department, Inc.

LFRD comments begin at ©42.

1. CONTROL DEFICIENCY – PURCHASE ORDERS

Rager, Lehman & Houck found that the Department had approved purchases after they had been made. Rager recommends that all purchases be approved before purchases are made. In addition, Rager recommends that the person approving a purchase order include on each purchase order the general ledger account to which the transaction should be posted to ensure recordation of the transaction in the manner intended.

2. CONTROL DEFICIENCY – SEPARATION OF DUTIES

Rager, Lehman & Houck found that the Administrative Officer has access to create purchase orders and to generate and sing checks as a valid bank account signatory. Rager recommends removing the Administrative Officer as a bank signatory. In addition, Rager found that although the Administrative Officer stated that the President reviews monthly bank reconciliations, Rager did not find any indication of review on the bank reconciliations. Rager recommends that the President document review of the bank reconciliations on the face of the document.

Glen Echo Volunteer Fire Department, Inc.

LFRD comments begin at ©45.

1. MATERIAL WEAKNESSES – PURCHASE ORDERS

Rager, Lehman & Houck found that several purchase orders were dated after invoice dates, indicating that purchases were made before purchase orders were approved by an authorized signer. Rager recommends approving all purchase orders before purchases are made.

2. CONTROL DEFICIENCY – RECORDING INVOICES

Rager, Lehman & Houck found that the LFRD was recording some invoices by the date the related disbursement was made, rather than by the invoice date or the date the invoice was received. Rager recommends entering all invoices in the accounting software by the invoice date, or for non-dated invoices, the date the invoice was received.

Hillandale Volunteer Fire Department, Inc.

LFRD comments begin at ©48.

1. MATERIAL WEAKNESS – ENCUMBRANCES

Rager, Lehman & Houck found that the Department backdated certain purchase orders created after the end of the fiscal year to include them in June 30, 2010 encumbrances. Rager does not consider these legitimate encumbrances, but rather fund balance designations. Rager recommends that the Department encumber unspent funds prior to the end of the fiscal year.

Hyattstown Volunteer Fire Department, Inc.

LFRD comments begin at ©50.

1. Control Deficiency – Bank Reconciliations

Rager, Lehman & Houck found that bank reconciliations performed by LFRD staff are not reviewed, other than the final reconciliation of the year. Rager recommends that someone other than the person who prepares the reconciliation review the work and indicate the review on the reconciliation.

Kensington Volunteer Fire Department, Inc.

1. Control Deficiency – Purchase Orders

Rager, Lehman & Houck recommends strengthening the LFRD's use of purchase orders by having the person approving a purchase order include on each purchase order the general ledger account to which the transaction should be posted to ensure recordation of the transaction in the manner intended.

Laytonsville District Volunteer Fire Department, Inc.

LFRD comments begin at ©54.

1. Material Weakness – Credit Cards

Rager, Lehman & Houck found that the LFRD was not following policies and procedures related to credit card expenses. Rager found that management did not note approval of expenses on monthly credit card statements and that invoices for expenses charged to credit cards were not attached to monthly statements. Rager recommends that either the President or Treasurer initial monthly credit card statements as evidence of expense approval and that receipts and invoices for credit card charges be attached to the statements.

2. Material Weakness – Bank Reconciliations

Rager, Lehman & Houck found no indication that bank reconciliations performed by LFRD staff were reviewed. Rager recommends that someone other than the person who prepares the reconciliation review the work and indicate the review on the reconciliation.

3. Control Deficiency – Purchase Orders

Rager, Lehman & Houck found several instances when the LFRD approved purchases that had already been made. Rager recommends approving all purchase orders before purchases are made.

4. Control Deficiency – Cash Management

Rager, Lehman & Houck found that the fire tax fund checking account was overdrawn by $7,197 and $42 as of June 30, 2009 and 2010, respectively. Rager recommends that the LFRD monitor cash flow to ensure bills are not paid until sufficient funds are available to cover the disbursements.

Rockville Volunteer Fire Department, Inc.

1. Material Weakness – Controls Over Cash

Rager, Lehman & Houck found no indication that bank reconciliations performed by LFRD staff were reviewed. Staff indicated that the LFRD's outside CPA reviewed reconciliations. Rager recommends that someone other than the person who prepares the reconciliation review the work and indicate the review on the reconciliation.

2. Significant Deficiency – Bid Process

Rager, Lehman & Houck found two instances where the proper number of bids was not solicited before approval of a purchase. Rager indicated that the LFRD "rationalized its lack of 3 bids by using a recurring vendor and by using a vendor which usually provides products and services at a discount." Rager recommends that bids be solicited for all expenditures over $5,000, and a decision be made with price being a principal deciding factor.

Takoma Park Volunteer Fire Department

1. Control Deficiency – Bank Reconciliations

Rager, Lehman & Houck found that the bank reconciliations performed quarterly by a hired bookkeeper are not reviewed by management. Rager recommends that all bank accounts be reconciled monthly and that either the President or Treasurer review the reconciliations for accuracy and indicate the review on the reconciliation.

Upper Montgomery County Volunteer Fire Department, Inc.

LFRD comments begin at ©63.

1. Material Weakness – Encumbrances

Rager, Lehman & Houck found that the Department included certain purchase orders created after the end of the fiscal year in order that they be included in June 30, 2010 encumbrances. Rager noted that purchase orders created after year-end are not legitimate encumbrances and should be considered fund balance designations.

Wheaton Volunteer Rescue Squad, Inc.

1. Material Weakness – Maintenance of a Complete Set of Books and Records

Rager, Lehman & Houck found that the Corporation only used the QuickBooks finance software to generate checks. Rager was required to work with a CPA consultant to properly record all financial activity that occurred during the year in order to generate end-of-year financial statements. The financial statements were generated through Excel worksheets. Rager recommends that the LFRD develop procedures to ensure that receipts, disbursements, and accrual accounting transactions are recorded in the QuickBooks general ledger on a monthly basis. Note: Rager noted that "[t]he staff was not prepared for the audit when the auditors arrived for fieldwork and the trial balance was not in balance." Rager noted this same material weakness in last year's audit.

2. MATERIAL WEAKNESS – BANK RECONCILIATIONS

Rager, Lehman & Houck found that the bank reconciliations performed monthly by the Treasurer are not reviewed by other management. Rager recommends that all bank accounts be reconciled monthly and that either the President or a member of the Board of Directors review the reconciliations for accuracy and indicate the review on the reconciliation.

3. MATERIAL WEAKNESS – BID PROCESS

Rager, Lehman & Houck found several instances where the proper number of bids was not solicited before approval of a purchase. Rager recommends developing a system to ensure that multiple bids are obtained where required and that the "bids are considered by the board before its approval of an expense being incurred."

4. SIGNIFICANT DEFICIENCY – PURCHASE ORDERS

Rager, Lehman & Houck found that the LFRD did not create and approve purchase orders for each disbursement, but created blanket purchase orders annually for each vendor. Rager recommends developing a system to ensure that purchase orders are used for all expenditures. Note: Rager noted this same significant deficiency in last year's audit.

C. Amendments to the Council's Contracts for Professional Auditing Services

1. Clifton Gunderson – Amendment #6 to the contract for professional auditing services

The Council and Clifton Gunderson entered into Contract #8031000103AB for the audit of the County Government financial statements, the audit of the financial statements of the employee retirement plans, and related services on April 24, 2008. The Council may renew the contract, one year at a time, for three additional one-year periods.

Amendment #6 (attached at ©77) renews the contract for one additional year, the final year of the audit engagement, to complete the FY11 audit. The County Attorney's Office reviewed the amendment for form and legality.

According to the Council's contract with Clifton Gunderson, the fees for audit services are fixed for the first two years of the contract. After the second year, the Auditor may request a fee increase. For the second year in a row, Clifton Gunderson is not requesting an increase in fees for work related to the FY11 audit. Therefore, the contract amendment does not reflect any fee increase.

Amendment #6 indicates that the cost for FY11 audit services totals $315,440. The work outlined in the amendment is summarized in the table below.

Amount	Work
Source of Funds: Independent Audit NDA	
$243,466	Audit of the County Government Financial Statements and the Single Audit
$10,000	Agreed-Upon Procedures for the National Transit Database Report
$18,000	Audit of the Montgomery County Union Employees Deferred Compensation Plan
Source of Funds: Employees' Retirement System, the Retirement Savings Plan, and the County's General Fund	
$36,720	Audit of the Employee Retirement Plans Financial Statements
Source of Funds: Solid Waste Disposal Fund	
$2,804	Agreed-Upon Procedures for the Chief Financial Officer's Annual Certification of Financial Assurance Mechanisms for Local Government Owners and Operations of Municipal Solid Waste Landfill Facilities
Source of Funds: State of Maryland Emergency Number Systems Board	
$4,450	911 System Audit

2. Rager, Lehman & Houck – Amendment #4 to the contract for professional auditing services

The Council and Rager, Lehman & Houck entered into Contract # 8031000103BB for the audit of the financial statements of Montgomery County's Local Fire and Rescue Corporations on May 29, 2008. The Council may renew the contract, one year at a time, for three additional one-year periods.

Amendment #4 (attached at ©81) renews the contract for one additional year, the final year of the audit engagement, to complete the FY11 audit of the Fire and Rescue Corporations. The County Attorney's Office reviewed the amendment for form and legality.

According to the Council's contract with Rager, Lehman & Houck, the fees for audit services are fixed for the first two years of the contract. After the two-year period, the Auditor may request a price adjustment based on the CPI for all urban consumers issued for the Washington-Baltimore, DC-MD-VA-WV Metropolitan area by the United States Department of Labor, Bureau of Labor Statistics. Like Clifton Gunderson, Rager, Lehman & Houck is not requesting a fee increase for its work related to the FY11 audit. Amendment #4 indicates that the cost for FY11 audit services totals $95,000. The source of funds is the Independent Audit NDA.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Honorable County Council
of Montgomery County, Maryland
Rockville, Maryland

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County) as of and for the year ended June 30, 2010 and budgetary comparison for the general fund for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 20, 2010. We did not audit the financial statements of Bethesda Urban Partnership, Inc. and Montgomery County Revenue Authority. The financial statements of Bethesda Urban Partnership, Inc. and Montgomery County Revenue Authority were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County in a separate letter dated December 20, 2010.

This report is intended solely for the information and use of County Council, the County's management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Baltimore, Maryland
December 20, 2010

Clifton Gunderson LLP
Certified Public Accountants & Consultants

The Honorable County Council
of Montgomery County, Maryland
Rockville, Maryland

We have completed our audit of the Montgomery County, Maryland (the County) financial statements as of and for the year ended June 30, 2010, and have issued our report dated December 20, 2010. In connection with our audit engagement, we noted the following matters which we would like to bring to your attention.

SUPERVISORY REVIEW OF EMPLOYEES' TIME

During our review of employee time and pay, we noted one instance out of a sample of twenty two in which an employee's timecard was not signed by the appropriate supervisor indicating approval. While the employee was salaried, lack of supervisory review could lead to improper recording of employee leave and vacation time. We recommend management review timely all salaried employee time for reasonableness prior to the disbursement of payroll.

BANK RECONCILIATIONS

During our review of bank reconciliations at year-end and throughout the year, we noted the following:

- Bank reconciliations for the County's main cash accounts were not being completed and reviewed on a timely basis.
- Bank reconciliations for the imprest funds did not include evidence of review and approval, and there were un-reconciled differences that were not resolved in a timely manner.
- The bank reconciliation for the detention center did not include a listing of outstanding checks. Currently, the accounting system used by the detention center does not provide an outstanding check listing for review, therefore, for bank reconciliation purposes, the detention center uses a formula to determine the total amount of outstanding checks as of the reconciliation date.

We recommend the County review its policies and procedures for reconciling cash accounts for all departments to ensure reconciliations are being performed and approved in a timely manner, unreconciled differences are resolved and a detailed outstanding check list is available for all accounts to ensure old, outstanding checks are written off when appropriate.

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TEMPORARY VENDORS

As noted in the prior year and during our review of the purchasing system in the current year, we noted that there was no periodic review and purging of temporary vendors in the system. There is a risk that temporary or dormant vendors will be utilized in order to conceal fictitious payments. Per discussion with management, in preparation for the new accounting system, which was effective at the beginning of fiscal year 2011, all temporary vendors in the purchasing system were reviewed to determine their status and purged where appropriate. We recommend management continue to review temporary vendors in the purchasing system on a regular basis.

CHANGE MANAGEMENT

During our review of the change management process related to key financial applications, we noted that a formal tracking and logging of implemented changes has not been created or utilized. It appears that this was a result of the pending implementation of the new accounting system. Without a central repository to accompany the project request form, management cannot be assured that the forms represent a complete listing of changes implemented to the financial applications. We recommend that management implement a process for logging and tracking change activity.

ESCROW DEPOSITS

During our review of the escrow deposits held by the County, we noted one deposit in which supporting documentation, such as the bond agreement, could not be located. We recommend management maintain supporting documentation for all deposits held until the associated project has been completed.

This letter is intended solely for the information and use of the County Council, the County's management, and others within the County, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Baltimore, Maryland
December 20, 2010

Clifton Gunderson LLP
Certified Public Accountants & Consultants

December 20, 2010

The Honorable County Council
of Montgomery County, Maryland
Rockville, Maryland

This letter is to provide you with information about significant matters related to our audit of the financial statements of Montgomery County, Maryland (the County) for the year ended June 30, 2010. It is intended solely for the County Council and should not be used by anyone other than this specified party.

We have provided a separate letter, dated December 20, 2010, concerning the internal control conditions that we noted during our audit.

The following are our observations arising from the audit that are relevant to your responsibilities in overseeing the financial reporting process.

Auditor's Responsibilities Under Generally Accepted Auditing Standards. Our audit was performed for the purpose of forming and expressing an opinion about whether the financial statements, that have been prepared by management with your oversight, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your responsibilities.

Other Information in Documents Containing Audited Financial Statements. In connection with the County's comprehensive annual financial report, we did not perform any procedures or corroborate other information included in the comprehensive annual financial report. However, we read the introductory section including the transmittal letter and the statistical section and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

Significant Issues Discussed With Management Prior to Retention. We discuss various matters with management each year prior to retention as the County's auditors. These discussions occur in the normal course of our professional relationship. There were no significant issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Consultations With Other Accountants. We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principles and generally accepted auditing standards.

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Qualitative Aspects of Accounting Practices.

Accounting Policies
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. During the year ended June 30, 2010, the County adopted Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51) and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). The adoption of both GASB 51 and 53 did not have a material impact on the County's financial statements as a whole.

There were no transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The following is management's description of the process utilized in forming estimates for depreciable lives of capital assets, landfill post-closure costs, claims liabilities, including incurred but not reported claims, for self-insurance and health insurance and for other postemployment benefits (OPEB) liability:

- The implementation guides for GASB Statement No. 2 published by the Governmental Accounting Standards Board was followed in determining the useful lives for various asset classes including depreciation of infrastructure. Depreciation was calculated using the straight-line method based on the useful lives.

- The liability for the County of the closed landfill is based on an estimate determined by an external engineering firm, which the County continues to monitor.

- Computations performed by outside specialists, including actuarially determined incurred but not reported claims and OPEB funding, were utilized to establish the amounts of claims liabilities under self-insurance programs and the Schedule of Funding Progress for OPEB and the net OPEB obligation.

We evaluated the key factors and assumptions used to develop the estimates for depreciable lives of capital assets, landfill post-closure costs, claims liabilities, including incurred but not reported claims, for self-insurance and health insurance and for other postemployment benefits (OPEB) liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures
Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

Difficulties Encountered in Performing the Audit. There were no significant difficulties in dealing with management related to the performance of our audit.

Corrected Misstatements. There were no misstatements detected as a result of audit procedures and corrected by management that were material, either individually or in the aggregate, to the financial statements taken as a whole.

Representations from Management. We have requested the representations from management that are shown in the attached Exhibit.

Disagreements With Management. There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the County's financial statements or our report on those financial statements.

Please contact Keith Novak if you have any questions regarding the matters included in this letter.

Clifton Gunderson LLP

DEPARTMENT OF FINANCE

Isiah Leggett
County Executive

Jennifer E. Barrett
Director

December 20, 2010

Clifton Gunderson LLP
9515 Deereco Road, Suite 500
Timonium, Maryland 21093

We are providing this letter in connection with your audit of the basic financial statements of Montgomery County, Maryland (the County) as of June 30, 2010 and for the year then ended for the purpose of expressing an opinion as to whether the basic financial statements present fairly the financial position of governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, the budgetary comparison for the general, revenue stabilization, housing initiative and grants funds and the aggregate remaining fund information and the respective changes in financial position and cash flows, where applicable of the County in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position and results of operations of the County and the cash flows of its proprietary fund types and nonexpendable trust funds, and the respective budgetary comparison for the general fund in conformity with accounting principles generally accepted in the United States of America. Although Clifton Gunderson may have made suggestions as to the form and content of the financial statements or even prepared them in whole or in part, we acknowledge our responsibility for the review and approval of the financial statement amounts and disclosures, and understand the financial statements remain the representations of our management.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of December 20, 2010 the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.

2. We have made available to you all:

   a. Financial records and related data.

   b. All communications from grantors, lenders, other funding sources or regulatory agencies concerning noncompliance with:

      (1) Statutory, regulatory or contractual provisions or requirements.

(2) Financial reporting practices that could have a material effect on the financial statements.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

4. We have followed applicable laws and regulations in adopting, approving and amending budgets.

5. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

6. With respect to the financial statements we acknowledge the following:

   a. The financial statements properly classify all funds and activities.

   b. The funds that meet the quantitative criteria in GASB Statement No. 34 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

   c. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

   d. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

   e. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

   f. Interfund, internal, and intra-activity and balances have been appropriately classified and reported.

   g. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

   h. Special and extraordinary items have been appropriately classified and reported.

   i. The management's discussion and analysis, pension and other post employment benefit information, which are required supplementary information (RSI) are measured and presented within prescribed guidelines.

7. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

8. We have reviewed and approved all adjustments and corrections made to the financial statements and acknowledge that the adjustments are complete and accurate.

9. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

10. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

    a. Management.

    b. Employees who have significant roles in internal control.

    c. Others where the fraud could have a material effect on the financial statements.

11. Except as disclosed to you, we have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.

12. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund balances.

13. The following have been properly recorded or disclosed in the financial statements:

    a. Related party transactions and related amounts receivable or payable, including revenues, expenditures, loans, transfers, leasing arrangements, and guarantees.

    b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements.

    c. Guarantees, whether written or oral, under which the entity is contingently liable.

    d. Agreements to repurchase assets previously sold.

    e. Estimates that might be subject to material change within one year from the date of the financial statements. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

14. There are no:

    a. Violations or possible violations of budget ordinances, or laws or regulations (including those pertaining to adopting or amending budgets, tax or debt limits, and federal, state or local environmental laws and regulations) whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*.

c. Transfers, reservations or designations of fund equity or interfund borrowings that were not properly authorized and approved, or uncollectible interfund loans that have not been properly reflected in the financial statements or disclosed to you.

15. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with FASB ASC 450.

16. The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged except as has been made known to you and disclosed in the financial statements.

17. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

18. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value.

19. We agree with the findings of our specialists in evaluating the liability for other post employment benefits pension liabilities and self insurance reserves and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialist.

20. We are responsible for establishing and maintaining effective internal control over financial reporting.

21. We are responsible for the County's compliance with grant provisions, laws and regulations applicable to it; and we have identified, and disclosed to you, all grant provisions, laws and regulations that have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds. We have complied with all aspects of grant provisions, laws, regulations, and contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

22. No events have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

23. Except as had been disclosed in the financial statements, we are not aware of any pollution remediation obligations which would require an adjustment to, or disclosure in the financial statements in accordance with GASB 49, *Accounting for Financial Reporting for Pollution Remediation Obligations.*

Timothy L. Firestine
Chief Administrative Officer

Jennifer E. Barrett
Director of Finance

Lenny Moore
Controller

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM **061475**

March 24, 2011

TO: Valerie Ervin, Council President

FROM: Isiah Leggett, County Executive

SUBJECT: **Response to Management Letter from Clifton Gunderson LLP for the Audit of County Government Financial Statements for the Fiscal Year Ended June 30, 2010**

Enclosed please find the Executive Branch's formal response to the Management Letter referenced above. This response is being provided by the March 24, 2011 date requested in your memorandum of March 15, 2011 as revised by the Office of Legislative Oversight on March 18, 2011.

The memorandum also requested that we provide a formal response to the auditors' Report on Internal Controls. The report transmitted to you by the auditors contains no recommendations, and, therefore, we have not provided any formal response.

We look forward to discussing the recommendations, and the County's progress in implementing improvements, with the Audit Committee on March 31, 2011. If you, or your staff, have any questions relating to the attached prior to that date, please contact Jennifer Barrett, Director, Department of Finance, at 240-777-8870 or Karen Hawkins, Finance Chief Operating Officer, at 240-777-8828.

Attachment

cc: Timothy Firestine, Chief Administrative Officer
Jennifer Barrett, Director, Department of Finance
Joseph Beach, Director, Office of Management and Budget
Kathleen Boucher, Assistant Chief Administrative Officer
Arthur Wallenstein, Director, Department of Corrections and Rehabilitation
Jennifer Hughes, Acting Director, Department of Permitting Services
E. Steven Emanuel, Chief Information Officer, Department of Technology Services
Mike Knuppel, Chief Technology Officer, Department of Technology Services
Steve Farber, Council Staff Director

Attachment

County Response to Management Letter
For the Audit of County Government Financial Statements
For the Fiscal Year Ended June 30, 2010

1. SUPERVISORY REVIEW OF EMPLOYEES' TIME

Recommendation:

During our review of employee time and pay, we noted one instance out of a sample of twenty two in which an employee's timecard was not signed by the appropriate supervisor indicating approval. While the employee was salaried, lack of supervisory review could lead to improper recording of employee leave and vacation time. We recommend management review timely all salaried employee time for reasonableness prior to the disbursement of payroll.

Response:

This instance occurred while some County departments were still using paper timesheets. While the County made every effort during the time of this manual processing of timesheets to minimize this risk, expanded controls over supervisory approvals is one of the benefits sought in the County's implementation of an automated timekeeping system. All County departments are now using an automated timekeeping system which eliminates this risk. The system requires supervisory approval before time can be processed for payroll, except for appointed employees and staff who directly report to an elected official.

2. BANK RECONCILIATIONS

Recommendation:

During our review of bank reconciliations at year-end and throughout the year, we noted the following:

- Bank reconciliations for the County's main cash accounts were not being completed and reviewed on a timely basis.

- Bank reconciliations for the imprest funds did not include evidence of review and approval, and there were un-reconciled differences that were not resolved in a timely manner.

- The bank reconciliation for the detention center did not include a listing of outstanding checks. Currently, the accounting system used by the detention center does not provide an outstanding check listing for review, therefore, for bank reconciliation purposes, the detention center uses a formula to determine the total amount of outstanding checks as of the reconciliation date.

We recommend the County review its policies and procedures for reconciling cash accounts for all departments to ensure reconciliations are being performed and approved in a timely manner, unreconciled differences are resolved and a detailed outstanding check list is available for all accounts to ensure old, outstanding checks are written off when appropriate.

Response:

The County considers the timely reconciliation of cash accounts to be a priority. This comment relates to three separate business processes. The County has a separate unit within the Department of Finance that is responsible for reconciling the main bank accounts of the County. Imprest funds are reconciled by each fund's custodian and copies of the reconciliations are forwarded to Finance for review. The reconciliation of the Detention Center inmate bank account is performed by staff of the Department of Corrections and Rehabilitation (DOCR) with copies of the reconciliations sent to Finance.

Main Bank Accounts

An increase in the time required to perform bank reconciliations began in a prior year, with the County's transition to a new bank and the retirement of a senior accountant who performed bank reconciliations (50% of such staff). The transition to a new bank essentially doubled the number of reconciliations for an extended period of time. The combination of these situations resulted in a significant decrease in resources coinciding with a significant increase in workload. Ultimately, temporary accounting services were procured and the position was filled. However, a backlog of reconciliations occurred in the prior year, which caused a delay in starting FY10 reconciliations. The unit completed all FY10 reconciliations by August 2010, which is generally the standard timeframe to complete the final June reconciliations. Finance anticipates reconciliations for FY11 to be equally challenging. A completely new process was adopted with the implementation of the County's Enterprise Resource Planning (ERP) system at the beginning of FY11, and post-implementation issues are being resolved. The Department is in the process of identifying additional resources to bring the process current.

Imprest Funds

The imprest funds, or petty cash/change funds, noted are for a department that uses imprest funds much more extensively than other County departments. For expediency purposes, the department sends Finance summaries of the reconciliations, but maintains in their offices the detailed supporting documentation. Copies of additional support were requested by Finance from the department, but due to miscommunication were not provided to the auditors in time for completion of their fieldwork. Finance has coordinated with the department to ensure that supervisory reviews and approval are performed and documented, and will ensure that appropriate support is provided to the auditors on a timely basis in the future.

Detention Center Account

The DOCR inmate bank account reconciliation process was developed in consultation with both an external audit firm and the County's internal audit staff. The software DOCR currently uses to account for inmate bank account transactions has not been configured to automatically clear checks in the system that have cleared the bank, and does not capture individual checks issued prior to its implementation date. Thus, at any given time, DOCR cannot produce a comprehensive report of uncleared checks. Based on the advice of the external audit firm and internal audit, DOCR created a formula to approximate the total dollar amount of outstanding checks from one month to the next. DOCR intends to explore the cost of configuring its current software to automatically clear checks in the system that have cleared the bank. DOCR will also continue current efforts with Finance to explore implementation of pay-cards (value-added cards), which are designed to enhance operating efficiencies and improve controls. Also, DOCR is working with Finance to report uncashed checks written three or more years ago as abandoned property.

3. TEMPORARY VENDORS

Recommendation:

As noted in the prior year and during our review of the purchasing system in the current year, we noted that there was no periodic review and purging of temporary vendors in the system. There is a risk that temporary or dormant vendors will be utilized in order to conceal fictitious payments. Per discussion with management, in preparation for the new accounting system, which was effective at the beginning of the fiscal year 2011, all temporary vendors in the purchasing system were reviewed to determine their status and purged where appropriate. We recommend management continue to review temporary vendors in the purchasing system on a regular basis.

Response:

As the auditors noted, the County's implementation of a new financial management system at the beginning of FY11 resolved this issue. The County is not maintaining any temporary vendors in the new system.

4. CHANGE MANAGMENT

Recommendation:

During our review of the change management process related to key financial applications, were noted that a formal tracking and logging of implemented changes has not been created or utilized. It appears that this was a result of pending implementation of the new accounting system. Without a central repository to accompany the project request form, management cannot be assured that the forms represent a complete listing of changes implemented to the financial applications. We recommend that management implement a process for logging and tracking change activity.

Response:

This recommendation relates to maintaining a record of changes made to the County's applications. In FY11, as previously noted, the County implemented a new financial management system. The finance system audited by Clifton Gunderson was used in, and retired at, the end of FY10. It was replaced by a new ERP system, and a new change management process over the ERP application was implemented in FY11 that addresses the recommendation above. The issue, therefore, is no longer applicable.

5. ESCROW DEPOSITS

Recommendation:

During our review of the escrow deposits held by the County, we noted one deposit in which supporting documentation, such as the bond agreement, could not be located. We recommend management maintain supporting documentation for all deposits held until the associated project has been completed.

Response:

This issue has been addressed with the implementation of a new business process. The County previously had a process in place that relied on bond agreements being manually circulated among two departments before a stamped hardcopy was manually filed. While the document was in-transit, the issuing department, the Department of Permitting Services (DPS), would rely on information about the bond stored in the County's system of record—Hansen Permitting System (Hansen). The bond in question was issued in 2000 and was handled according to this legacy process. For the past three years, DPS has been imaging a copy of original bonds when they are received. With the implementation of Oracle's eBusiness Suite, DPS is the only department responsible for processing and filing a bond agreement. With this implementation, DPS has begun to image and file the deposit batches for cash bond deposits with the original copy of the bond, to link the bond recorded in Hansen with the individual entry of the bonds in Oracle.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Montgomery County Employees' Retirement Plans
Rockville, Maryland

We have audited the financial statements of Montgomery County Employees' Retirement Plans (the Plans) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plans' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plans' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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This report is intended solely for the information and use of the Audit Committee, the Board of Trustees, Management, and other oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Baltimore, Maryland
December 3, 2010

Clifton Gunderson LLP
Certified Public Accountants & Consultants

December 3, 2010

The Board of Trustees
Montgomery County Employees' Retirement Plans
Rockville, Maryland

This letter is to provide you with information about significant matters related to our audit of the financial statements of Montgomery County Employees' Retirement Plans (the Plans) for the year ended June 30, 2010. It is intended solely for the Board and should not be used by anyone other than this specified party.

We have provided a separate letter, dated December 3, 2010, concerning the internal control conditions that we noted during our audit.

The following are our observations arising from the audit that are relevant to your responsibilities in overseeing the financial reporting process.

Auditor's Responsibilities Under Generally Accepted Auditing Standards. Our audit was performed for the purpose of forming and expressing an opinion about whether the financial statements, that have been prepared by management with your oversight, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your responsibilities.

Other Information in Documents Containing Audited Financial Statements. In connection with the Plans' annual financial report, we did not perform any procedures or corroborate other information included in the annual report. However, we read the management's discussion and analysis of financial conditions which affected the operations and performance of the Plans and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

Significant Issues Discussed With Management Prior to Retention. We discuss various matters with management each year prior to retention as the Plans' auditors. These discussions occur in the normal course of our professional relationship. There were no significant issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Consultations With Other Accountants. We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principles and generally accepted auditing standards.

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Qualitative Aspects of Accounting Practices.

Accounting Policies
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plans are described in Note 1 to the financial statements.

During the year ended June 30, 2010, the Plans' adopted Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51) and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). The adoption of both GASB 51 and GASB 53 did not have a material impact on the Plans' financial statements as a whole.

There were no transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

There were significant accounting estimates in the financial data regarding the fair value of certain alternative investments which would be particularly sensitive and require substantial judgments by management. The Plans' actuarial liabilities based on the actuarial valuation are also a significant estimate.

We evaluated the key factors and assumptions used to develop the fair value of certain alternative investments and actuarial liabilities in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures
Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures, except for the information on "Plan Terminations" included in Note 1 of the financial statements.

Difficulties Encountered in Performing the Audit. We encountered no significant difficulties in dealing with management related to the performance of our audit.

Corrected Misstatements. There were no misstatements detected as a result of audit procedures and corrected by management that were material, either individually or in the aggregate, to the financial statements taken as a whole.

Representations from Management. We have requested the representations from management that are shown in the attached Exhibit.

Disagreements With Management. There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the Plan's financial statements or our report on those financial statements.

Please contact Keith Novak if you have any questions regarding the matters included in this letter.

Clifton Gunderson LLP

BOARD OF INVESTMENT TRUSTEES

December 3, 2010

Clifton Gunderson LLP
9515 Deereco Road, Suite 500
Timonium, Maryland 21093

We are providing this letter in connection with your audit of the financial statements of Montgomery County Employee Retirement Plans (the Plans) as of June 30, 2010 and 2009, and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly the net assets and changes in net assets of the Plans in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of net assets and changes in net assets in conformity with accounting principles generally accepted in the United States of America. Although Clifton Gunderson may have made suggestions as to the form and content of the financial statements, we acknowledge our responsibility for the review and approval of the financial statement amounts and disclosures, and understand the financial statements remain the representation of management.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of December 3, 2010, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and the notes include all disclosures required by laws and regulations to which the Plans are subject.

2. With respect to actuarial assumptions and valuations:

    a. The plan administrator accepts the actuarial methods and assumptions used by the Employees' Retirement System (ERS) actuary for funding purposes and for determining accumulated plan benefit and has no knowledge or belief that would make such methods or assumptions inappropriate in the circumstances.

    b. There were no omissions from the participant data provided to the ERS actuary for the purpose of determining actuarially determined amounts in the financial statements.

c. There have been no changes in the actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements.

d. There have been no changes in plan provisions between the actuarial valuation date and the date of this letter.

3. We have made available to you all:

a. Financial records and related data.

b. Minutes of the meetings of the Board of Investment Trustees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

c. Amendments to the plan document.

d. Actuarial reports prepared for the ERS during the year under audit.

4. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the Plans involving:

a. Management of the Plans.

b. Employees of the Plans who have significant roles in internal control.

c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Plans received in communications from employees, former employees, participants, regulators, beneficiaries, third-party service providers, or others.

8. We have reviewed Plan investments and do not believe that recent market events and related circumstances require an impairment loss to be recognized or disclosed in the financial statements.

9. The County (the Plans' Sponsor) has no intentions that may materially affect the carrying value or classification of assets and liabilities, nor do we have any present plans or intentions to terminate, freeze or merge the Plans.

10. The following information about financial statement instruments with off-balance risk has been properly disclosed in the financial statements related to the Plans, if appropriate:

a. The face or contract amount (or the notional principal amount if there is no face or contractual amount).

b. The nature, terms, and cash requirements of those financial instruments and the related accounting policy.

c. The amount of the accounting loss the ERS would incur if any party to the financial instruments failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the Plan.

d. Information about the collateral supporting such financial statements.

11. The following information about financial instruments with concentrations of credit risk has been properly disclosed in the financial statements related to the ERS defined benefit plan:

a. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial information.

b. The amount of the accounting loss the ERS would incur if any party to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the ERS.

12. The following have been properly recorded or disclosed in the financial statements:

a. Related-party transactions and related amounts receivable or payable, including revenues, expenditures, loans, transfers, leasing arrangements and guarantees. In this regard, there were no nonexempt transactions with parties in interest that are not disclosed in the supplementary schedules or financial statements.

b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements.

c. Agreements to repurchase assets previously sold have been properly disclosed.

d. Estimates that might be subject to material change within one year from the date of the financial statements. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

e. Amendments to the Plan Document.

f. The existence of, and transactions with, joint ventures and other related organizations.

g. All significant estimate and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position (SOP) 94-6, Disclosure of Certain Significant Risks and Uncertainties. We understand significant estimates are estimates at the date of the statement of net assets which could change materially within the next year. Concentrations

refer to the nature and type of individual investments, volumes of business, revenues, available sources of supply, or markets or geographic areas for which it is reasonably possible that events could occur which would significantly disrupt normal finances within the next year. Concentrations include material sources of financing, including off-balance sheet arrangements and transactions with unconsolidated, limited purpose entities, and contingencies inherent in the arrangements, that are reasonably likely to affect the continued availability of liquidity and financing.

h. Changes in accounting principles affecting consistency.

13. There are no

a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*.

c. Other matters (e.g., breach of fiduciary responsibilities, nonexempt transactions or events that may jeopardize the tax status) that legal counsel have advised us that must be disclosed.

14. There are no significant deficiencies and material weaknesses in internal control over financial reporting that could adversely affect the Plan's ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a "significant deficiency" and a "material weakness" in accordance with the definitions in Statement on Auditing Standards No. 112 *Communicating Internal Control Related Matters Identified in an Audit.*

15. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with FASB ASC 450.

16. There are no:

a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.

b. Investments, loans, or leases in default or considered to be uncollectible that have not been disclosed in the supplemental schedules.

17. The Plan has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged, except as has been made known to you and disclosed in the financial statements.

18. The Plans have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

19. We have apprised you of all communications, whether written or oral, with regulatory agencies concerning the operation of the Plans.

20. No events have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

21. There are no accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with accounting principles generally accepted in the United States of America.

Timothy L. Firestine
Chief Administrative Officer
Plan Administrator

Kelda J. C. Simpson
Chair, Board of Investments Trustees

Linda A. Herman
Executive Director
Board of Investments Trustees

19. We have apprised you of all communications, whether written or oral, with regulatory agencies concerning the operation of the Plans.

20. No events have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

21. There are no accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with accounting principles generally accepted in the United States of America.

Timothy L. Firestine
Chief Administrative Officer
Plan Administrator

Kelda J. C. Simpson
Chair, Board of Investments Trustees

Linda A. Herman
Executive Director
Board of Investments Trustees

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

To the Trustees of the Montgomery County
Union Employees Deferred Compensation Plan

We have audited the accompanying statements of net assets available for plan benefits of the Montgomery County Union Employees Deferred Compensation Plan (the Plan), as of December 31, 2010 and 2009 and the related statements of changes in net assets available for plan benefits for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits as of December 31, 2010 and 2009 and the change in net assets available for plan benefits for the years ended December 31, 2010 and 2009 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Baltimore, Maryland
March 17, 2011

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Clifton Gunderson LLP
Certified Public Accountants & Consultants

March 17, 2011

Board of Trustees
Montgomery County Union Employees
Deferred Compensation Plan
Rockville, Maryland

This letter is to provide you with information about significant matters related to our audit of the financial statements of Montgomery County Union Employees Deferred Compensation Plan for the year ended December 31, 2010. It is intended solely for the use of management and should not be used by anyone other than this specified party.

The following are our observations arising from the audit that are relevant to your responsibilities in overseeing the financial reporting process.

Auditor's Responsibilities under Generally Accepted Auditing Standards. Our audit was performed for the purpose of forming and expressing an opinion about whether the financial statements, that have been prepared by management with your oversight, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your responsibilities.

Significant Issues Discussed with Management Prior to Retention. We discuss various matters with management each year prior to retention as the Plan's auditors. These discussions occur in the normal course of our professional relationship. There were no significant issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Consultations with Other Accountants. We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principles and generally accepted auditing standards.

Our views with respect to the accounting principles and auditing standards which were discussed in the consultations referred to above are as follows:

Qualitative Aspects of Accounting Practices.

Accounting Policies
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Montgomery County Union Employees Deferred Compensation Plan are described in Note 1 to the financial statements. There were no

significant accounting policies or their application which were either initially selected or changed during the year.

There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

There were significant accounting estimates of financial data which would be particularly sensitive and require substantial judgments by management. This estimate relates to the valuation of the SEI Stable Asset Fund. The SEI fund is valued at contract value, which approximates fair value, as estimated by Dwight Asset Management. The contract value is guaranteed through a related contract with a separate provider. The fund's credited interest rates are reset periodically according to terms set forth in the contract and are actuarially determined.

Financial Statement Disclosures
Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

Difficulties Encountered in Performing the Audit. We encountered no significant difficulties in dealing with management related to the performance of our audit.

Corrected Misstatements. There were no misstatements detected as a result of audit procedures and corrected by management that were material, either individually or in the aggregate, to the financial statements taken as a whole.

Representations from Management. We have requested the representations from management that are shown in the attached Exhibit.

Disagreements with Management. There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the Plan's financial statements or our report on those financial statements.

Please contact Thomas Rey if you have any questions regarding the matters included in this letter.

Clifton Gunderson LLP

Lodge 35
Walter E. Bader, Chairman

Gino Renne, Vice Chairman

Local 1664
John J. Sparks, Secretary/Treasurer

Montgomery County Union Employees Deferred Compensation Plan

March 24, 2010

Leslie Rubin
Office of Legislative Oversight
Montgomery County Council
100 Maryland Avenue
Rockville, Maryland 20850

RE: Montgomery County Union Employees Deferred Compensation Plan –
Independent Auditor's Report for the Calendar/Fiscal Year Ended 12/31/10

Dear Ms. Rubin:

This is in response to Council President Ervin's letter of March 21, requesting comments of the Montgomery County Union Employees Deferred Compensation Plan ["Plan"] on the independent auditor's report for the year ended December 31, 2010.

The Plan was established in March 2005. This is the second audit performed by Clifton Gunderson, LLP, the County Council's auditor. Financial statements for the years 2005 through 2008 were prepared by the Plan's accountants and have previously been provided to Council staff.

As recommended after last year's audit, the administrative account was converted from a cash to an accrual basis by the Plan's accountant. Adjusting journal entries were provided to Clifton Gunderson.

We have reviewed the financial statements and have no other comments.

Sincerely,

Walter E. Bader

Walter E. Bader
Chair

cc: Gino Renne, Vice Chair
John J. Sparks, Secretary-Treasurer

18512 Office Park Drive, Montgomery Village, Maryland 20886, Phone: 301-948-4286; Fax: 301-590-0317; email: mail@union457.com

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

February 1, 2011

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the Bethesda Fire Department, Inc.

In planning and performing our audit of the financial statements of revenues and expenditures – budget and actual – for both the fire tax district and state grant funds of the Bethesda Fire Department, Inc., for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Bethesda Fire Department, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Following are descriptions of other identified deficiencies that we determined did not constitute significant deficiencies or material weaknesses, and other general recommendations:

Purchase Orders

Purchase orders ("PO's") are currently being used for most purchases, however the process is not consistently applied for all purchases. During our audit, we found that recurring charges for utilities, vehicle maintenance, fuel and other reimbursable expenses, as well as small items such as postage stamps, do not require pre-approved PO's. We suggest that the Department at the very least utilize an annual blanket PO approval system which list vendors in each blanket P.O. category.

We also suggest that PO's be utilized for each transaction related to approved Amoss Fund projects, since in most cases the board-approved amount did not include detail of expected expenses. This process will help the Department track spending on larger projects approved by the board and the County and help prevent cost overruns.

The purchasing process would be strengthened even further by implementing the full purchase order process for all purchases made. This step will ensure that all transactions are properly reviewed and approved before purchases are made.

The auditors recommended the use of blank Purchase Orders (PO) for utility, vehicle maintenance, fuel and other reimbursable expenses. As you are aware we have an on-line PO system that aligns individual Pos with the ultimate receipt of materials/services and the payment of invoices. This system is used for all purchases including vehicle maintenance. In the case of vehicle maintenance we require approval of the PO by Stephen Lamphier of Fleet Maintenance before the goods or services are order. For fuel we have an ongoing relationship with Griffiths Energy and I am not sure what purpose a blanket PO would serve. The same is true with respect to utilities and postage stamps. There are other controls including in some cases reimbursement by the County that are much more important to the fiscal fiduciary process that creating a blanket PO. The auditors also commented on AMOSS fund POs. We will review the use of POs in this situation but again it may be an unnecessary control because our Finance Committee, Counsel and President all sign-off on detailed contractors before any AMOSS work is undertaken. The Board approves contracts once all these steps have taken place.

Fund Balance

An entry to fund balance was necessary to tie the Department's books to previously audited amounts. We suggest a process be put in place to ensure that no entries are made to fund balance during the year.

The auditors noted that they had to make an entry to tie the BFD's books to previously audited amounts. We made repeated requests of the auditors throughout the year to address how to book the entries - none of which were responded to. As a result we booked the entry. It is not our practice to make adjustments to Fund Balances during the year.

Segregation of Duties

Certain individuals are responsible for approving purchase orders, signing checks, reviewing bank reconciliations, and also have access to the blank check stock. We recommend that controls be strengthened by separating out one or two of the above mentioned functions.

I believe we have extensive segregation of duties given the size of BFD. There are multiple levels of verification and segregation that involve Chiefs, the Treasurer, the President, the Finance Committee, and the Administration Officer.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and Montgomery County, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Our comments and recommendations are intended to improve the internal control structure or result in other operating efficiencies. We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Rager, Lehman & Houck, P.C.

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

February 9, 2011

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the Chevy Chase Fire Department, Inc.

In planning and performing our audit of the financial statements of Chevy Chase Fire Department, Inc. as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Chevy Chase Fire Department, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Following are descriptions of other identified deficiencies that we determined did not constitute significant deficiencies or material weaknesses, and other general recommendations:

Bank Reconciliations

Currently, bank reconciliation are prepare by hand instead of using QuickBooks to generate the reconciliation. We recommend that the software be used in order to make the process more efficient. In addition, we recommend that the reconciliation be reviewed by an officer of the Department and that the reviewer indicate their review via his or her initials or signature on the bank reconciliation.

Various Internal Processes

Purchase orders are currently being used properly by the Department. However, we recommend that the appropriate account number to which the purchase order approver intends the transaction to be coded to be included on the purchase order. Currently, account numbers on the purchase order refer to the prior account structure.

Additionally, the accounting records for the State 508 Funds are not kept in QuickBooks, and we would recommend that would be implemented simply to have similar transaction processing and data backup procedures across funds.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and Montgomery County, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Rager, Lehman & Houck, P.C.

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

February 7, 2011

To the Honorable County Council
The Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the Damascus Volunteer Fire Department, Inc.

In planning and performing our audit of the financial statements of Damascus Volunteer Fire Department, Inc. as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Damascus Volunteer Fire Department, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Department's internal control to be material weaknesses:

Encumbrances

During our audit, we found that the Department backdated certain purchase orders created after the end of the fiscal year in order that they be included in June 30, 2010 encumbrances. In our opinion, purchase orders created after year-end are not legitimate encumbrances and should instead be considered fund balance designations. Per the Montgomery County LFRD accounting manual,

> "On June 30, each LFRD should prepare a listing of all encumbrances that have not been expended and are still in the "Reserved for Encumbrances" account to be provided by the auditors. The list should be matched with the executed Purchase Orders and examined to determine if the funds should remain encumbered, or if the encumbrance should be removed."

We recommend that the Department develop a better understanding of remaining unspent balances and be careful to encumber unspent funds prior to the end of the fiscal year.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Following are descriptions of other identified deficiencies that we determined did not constitute significant deficiencies or material weaknesses, and other general recommendations:

Budgeting

We observed during our audit that budgeted amounts for expenses have not been reassessed annually, and the budget has simply been rolled over from year to year. Therefore, adjustments for the expected shifts in prices, quantity needed, or revenues are not being made. We recommend that senior management consider these factors in future budgeting processes and consider substantial budget-to-actual differences each month as a management tool for recalibrating spending decisions.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and Montgomery County, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Rager, Lehman & Houck, P.C.

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

February 28, 2011

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the Gaithersburg-Washington Grove Fire Department, Incorporated

In planning and performing our audit of the financial statements of The Gaithersburg-Washington Grove Fire Department, Incorporated as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered The Gaithersburg-Washington Grove Fire Department, Incorporated's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Following are descriptions of other identified deficiencies that we determined did not constitute significant deficiencies or material weaknesses, and other general recommendations:

Purchase Orders

During our audit, we found an instance of the fire department approving purchases that had already been made. The instance spanned several invoices related to PO# 0301 for purchases from Northern Virginia supply. We recommend that all purchases be approved before the purchase is made.

Additionally, we recommend that the purchase order control be strengthened one step further by including the general ledger account to which the transaction should be posted on each purchase order approved. This step will ensure the transaction is being recorded in the manner that the approver of the purchase order intends. During our disbursement testing, nine of the twenty three items tested did not have a general ledger posting account on the related purchase order.

The subject PO's were shop related. In the Financial Manual, the mechanics are not required to have PO's prior to ordering and are not required to have pre-approvals. The shop personnel have now been transferred to Southlawn Lane so I do not see this as an issue in the future.

Separation of Duties

The Administrative Officer, in addition to duties that include processing daily transactions, has access to create purchase orders as well as generate and sign checks as a valid bank account signatory. We recommend that the Administrative Officer be removed as a bank signatory.

The Administrative Officer indicated during our audit that the President reviews bank reconciliations monthly, however, there was no indication of such a review upon our inspection of bank reconciliations. We recommend that the review of the reconciliation be documented (perhaps via the President's signature) on the face of the bank reconciliation once it is performed.

<u>Separation of Duties</u> (continued)

Steps have been taken to have our accountant reconcile the bank statements monthly. The President will review the reconciliations. The Administrative Officer at GWGVFD is no longer working at GWGVFD. He will be removed as a signatory on all our accounts.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and Montgomery County, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Rager, Lehman & Houck, P.C.

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

February 16, 2011

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the Glen Echo Volunteer Fire Department, Inc.

In planning and performing our audit of the statements of revenues and expenditures – budget and actual – for both the fire and tax district and state grant funds of the Glen Echo Volunteer Fire Department, Inc., as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Glen Echo Volunteer Fire Department, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. The following items are considered to be material weaknesses.

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Purchase orders

During testing, we discovered that that several purchase orders were dated after the invoice date, indicating that a purchase was made before the purchase order was approved, by the proper authorized signer. We recommend that this procedure be strengthened by implementing the procedure to approve all purchase orders before purchases are made. This will ensure that all purchases are legitimate and budgeted purchases.

The appearance of this situation is due to the purchases made being for regular, recurring, monthly purchases of everyday supplies for the station, and the purchase order preparer was only available one day a week because of Montgomery County budget cut backs. Our POs could only be completed on the one-day a week that the administrative assistant volunteer was available. These types of purchases are historically known to be recurring operational expense.

As a result of this concern, we have established an "Open Purchase Order" policy for vendors or recurring supplies and have just hired a part-time employee, using private funds, to execute the process of purchase order preparation.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

Following are descriptions of other identified deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

Recording Invoices

During our audit, we became aware that testing, we discovered that some invoices are being recorded as of the date that the related disbursement is made, rather than when the invoice date, or for non-dated invoices, the date it was received. We recommend that all invoices be entered into the accounting software as of the invoice date, or for non-dated invoices, the date the invoice was received.

This occurrence is based on previous auditors informing the check preparer/administrative assistant that this type of situation was of no consequence, except at the end of the fiscal year. Please also note the following: in regard to this concern, the check processing software automatically sets the date, and the preparer must manually change the date if this is required. It is of great importance to us to understand fully what

the appropriate method of dating the checks should be in the future, in order to avoid one auditor espousing one method, while another auditor states a different method.

We wish to thank Ms. Danielle Thomas for her support and assistance during our audit.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and Montgomery County, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Our comments and recommendations are intended to improve the internal control structure or result in other operating efficiencies. We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Rager, Lehman & Houck, P.C.

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

February 7, 2011

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the Hillandale Volunteer Fire Department, Inc.

In planning and performing our audit of the financial statements of Hillandale Volunteer Fire Department, Inc. as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Hillandale Volunteer Fire Department, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Department's internal control to be a material weakness:

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Encumbrances

During our audit, we found that the Department backdated certain purchase orders created after the end of the fiscal year in order that they be included in June 30, 2010 encumbrances. In our opinion, purchase orders created after year-end are not legitimate encumbrances and should instead be considered fund balance designations. Per the Montgomery County LFRD accounting manual,

> "On June 30, each LFRD should prepare a listing of all encumbrances that have not been expended and are still in the "Reserved for Encumbrances" account to be provided by the auditors. The list should be matched with the executed Purchase Orders and examined to determine if the funds should remain encumbered, or if the encumbrance should be removed."

We recommend that the Department develop a better understanding of remaining unspent balances and be careful to encumber unspent funds prior to the end of the fiscal year.

In our effort to be as accurate as possible we did anticipate certain encumbrances in advance but not all until we conferred with our accountant to finalize our list. In the future we will prepare a listing of encumbrances that have not been expended with purchase orders according to the Montgomery County LFRD accounting manual.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and Montgomery County, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Rager, Lehman & Houck, P.C.

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

February 17, 2011

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the Hyattstown Volunteer Fire Department, Inc.

In planning and performing our audit of the financial statements of Hyattstown Volunteer Fire Department, Inc. as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Hyattstown Volunteer Fire Department, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Following are descriptions of other identified deficiencies that we determined did not constitute significant deficiencies or material weaknesses, and other general recommendations:

Bank Reconciliations

During our audit, we learned that bank reconciliations performed by Fire Department staff are not reviewed (other than the final reconciliation of the year). We recommend that reconciliations are reviewed by someone other than the preparer and that the reviewer indicate his or her review via their initials or a signature on the reconciliation itself. Bank reconciliation review is an important step in catch major errors or fraud in cash balances and disbursements.

We agree with the auditors' recommendation regarding bank account reconciliations. In the past, we have regularly discussed the status of our available funding and budget, and all bank reconciliations have been made available to the Treasurer and BOD for review, however we did not establish a process that required a monthly review of the bank reconciliations. We will change our processes to ensure that the bank reconciliations are reviewed monthly by our Corporation's Treasurer.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and Montgomery County, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Rager, Lehman & Houck, P.C.

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

February 14, 2011

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the Kensington Volunteer Fire Department, Inc.

In planning and performing our audit of the financial statements of Kensington Volunteer Fire Department, Inc. as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Kensington Volunteer Fire Department, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Following are descriptions of other identified deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

Purchase Orders

Purchase orders are currently being used for all purchases within a certain criteria set by the Department. We recommend that this control be strengthened one step further by including the general ledger account to which the transaction should be posted on each purchase order approved. This step will ensure the transaction is being recorded in the manner that the approver of the purchase order intends.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and Montgomery County, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Rager, Lehman & Houck, P.C.

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

February 18, 2011

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the Laytonsville District Volunteer Fire Department, Inc.

In planning and performing our audit of the financial statements of Laytonsville District Volunteer Fire Department, Incorporated as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Laytonsville District Volunteer Fire Department, Incorporated's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Department's internal control to be material weaknesses:

Credit Cards

Internal controls for credit card expense are not operating properly according to policies and procedures. Management approval of expenses charged on credit cards was not noted on the monthly credit card statements. In addition, invoices for expenses that were charged on credit cards were not attached to the monthly statements. We recommend that either the President or Treasurer initial the monthly credit card statements as evidence of expense approval and that the receipts and invoices for credit card charges be attached to the statements.

At this time, only one credit card was utilized without exact amounts being unknown prior to items being purchased. This credit card was used for the purchase of food items for standby crews at Safeway grocery stores. While the amounts were not always known prior to their purchase due to the variable number of personnel participating in the meals at any one time, the purchases are pre-authorized for the duty crews involved. The Board of Directors assures you that the purchases were reviewed by both the treasurer and president on a monthly basis. Any statements for purchases on this card in the future will be initialed by the treasurer and president when they arrive, with the date of review noted.

Bank Reconciliations

During our audit, our auditor examined a copy of a bank reconciliation performed by Fire Department staff. There was no indication of any review of the reconciliation. We recommend that reconciliations are reviewed by someone other than the preparer and that the reviewer indicate his or her review via their initials or a signature on the reconciliation itself. Bank reconciliation review is an important step in catch major errors or fraud in cash balances and disbursements.

Monthly bank reconciliations were completed by the former OSC, and reviewed by Reumont CPA accountant Mark Rose for the purpose of checking their accuracy. We have since instituted a form that is kept at the beginning of each month's statements, reconciliations, and balance sheets that indicates who has prepared them, and three persons on the Board of Directors that have reviewed them. While

Bank Reconciliations (continued)

this was already being done, we now have in place a means to record who has reviewed them and when.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Following are descriptions of other identified deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

Purchase Orders

During our audit, we found several instances of the fire department approving purchases that had already been made. We recommend that all purchase orders be approved before the purchase is made.

Purchase Orders are filled out for each and every bill that is presented to this department for payment. However, there are several recurring bills which were considered to be payable without prior a consent from the board. Those bills included phone, utilities, fuel, and repairs to apparatus among others. Many of these are being forwarded directly to MCFRS for payment from now on. Any purchases which are not considered 'essential' to the operation of the fire department are presented to and approved by the board prior to the purchase being made.

Cash Management

During our audit procedures we noted that the fire tax fund checking account was overdrawn $7,197 and $42 as of June 30, 2009 and 2010, respectively. We recommend that management monitor cash flow needs to ensure that bills are not paid until sufficient funds are available to cover the disbursements. Possible overdraft fees and loss of vendor credit could negatively impact your operations.

The fire tax fund, to the best of our knowledge, has not been charged an overdraft fee for the fiscal years 2009 and 2010. Bills are written out of the tax account that must be paid or the department will incur late fees. At times, it becomes necessary to write the checks knowing that the funds will be deposited prior to the check arriving at the vendor. This practice is carefully calculated to ensure this scenario takes place, and will not cause an overdraft.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and Montgomery County, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Rager, Lehman & Houck, P.C.

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

February 1, 2011

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the Rockville Volunteer Fire Department, Inc.

In planning and performing our audit of the financial statements of Rockville Volunteer Fire Department, Inc. as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Rockville Volunteer Fire Department, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Department's internal control to be material weaknesses:

Controls over Cash

During our audit, our auditor examined a copy of a bank reconciliation performed by Fire Department staff. There was no indication of any review of the reconciliation. Per inquiries with staff, the reconciliations are reviewed by the outside CPA, but we recommend that the reviewer (which should be someone other than the preparer) indicate his or her review via their initials or a signature on the reconciliation itself. Bank reconciliation review is an important step in catch major errors or fraud in cash balances and disbursements.

Additionally, an item was found in disbursements testing where a check was signed by only one approved account signer. Our auditor inquired regarding the situation and was told that the final check posted was signed by two approved signors before it was sent out. However, we were unable to verify this statement due to bank statements not containing check images. This situation is one the Fire Department should strive to avoid, as all approved check signors have access to the location where check stock is maintained, and the ability to write a check that may not have necessarily been approved through the proper channels. We recommend that all checks are signed by two authorized signors and that copies of the final check be kept as supporting documentation.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following control deficiencies to be significant deficiencies:

Bid Process

In our State Funds disbursements testing, our auditors noted two purchases where the proper number of bids were not solicited before approval of the purchase. Per County purchasing guidelines, 3 bids are to be obtained for

purchases over $5,000. In these instances, the Fire Department rationalized its lack of 3 bids by using a recurring vendor and by using a vendor which usually provides products and services at a discount. We recommend that bids be solicited for all expenditures over $5,000, and a decision be made with price being a principal deciding factor.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and Montgomery County, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Rager, Lehman & Houck, P.C.

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

January 31, 2011

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of Takoma Park Volunteer Fire Department

In planning and performing our audit of the financial statements of Takoma Park Volunteer Fire Department as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Takoma Park Volunteer Fire Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Following are descriptions of other identified deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

Bank Reconciliations

In our discussions with Department staff, we became aware that the bank reconciliations performed quarterly by a hired bookkeeper are not reviewed by management, which is an internal control weakness that could affect cash balances. We recommend that all bank accounts be reconciled monthly and that either the President or Treasurer review the bank reconciliations for accuracy. Evidence of the management review should be noted on the reconciliations (preferably via initials or signature) by the reviewer.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and Montgomery County, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Rager, Lehman & Houck, P.C.

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

February 15, 2011

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and Board of Directors of Upper Montgomery County Volunteer Fire Department, Inc.

In planning and performing our audit of the financial statements of Upper Montgomery County Volunteer Fire Department, Inc. as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Upper Montgomery County Volunteer Fire Department, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the Department's internal control to be a material weakness:

Encumbrances

During our audit, we found that the Department included certain purchase orders created after the end of the fiscal year in order that they be included in June 30, 2010 encumbrances. Purchase orders created after year-end are not legitimate encumbrances and should instead be considered fund balance designations. Per the Montgomery County LFRD accounting manual,

> "On June 30, each LFRD should prepare a listing of all encumbrances that have not been expended and are still in the "Reserved for Encumbrances" account to be provided by the auditors. The list should be matched with the executed Purchase Orders and examined to determine if the funds should remain encumbered, or if the encumbrance should be removed."

We recommend that the Department develop a better understanding of remaining unspent balances and be careful to encumber unspent funds prior to the end of the fiscal year.

Historically, encumbrances have been set aside each year via journal entries June 30th and then purchase orders are created when the monies are actually committed or spent. The monies are set aside in the accounting code 3000 established by Montgomery County in their Quick Books program. As the monies are spent during the FY - they are subtracted from the original amount set aside June 30th via Journal Entry. The purchase orders are dated when the money is actually committed to a particular vendor. It is impossible to create a purchase order in Quick Books unless you know a specific vendor to attach it to. Frequently, money will be encumbered to be spent and divided into various vendors. Without knowing who will be receiving the funds a purchase order cannot be created.

In FY10 - the UMCVFD received a $25,000 grant from DFRS facilities for the removal of our underground fuel tanks. We contracted with APEX to remove the diesel tank and do the soil testing and subsequent reporting to the state required upon removal of the tank. The tank was removed in July of2010 and it took months to receive all the results of the tests and clearance from the State Dept. of Environment. We did not know what the actual cost would be for the removal and

testing until after the removal occurred. Should the ground have been contaminated, the bulk of the $25,000 would have gone to cleaning up the area and further testing and reports. As it happens, only $4,920 was used to pay Apex for the removal and testing of the ground. A purchase order was created in August of2010 for that amount. The item number for the expense is code 3000 - which is the County Code for Reserve for Encumbrances.

This shows that we used $4,920 of the $25,000 that was encumbered June 30 via Journal Entry into Item Code 3000. That left $20,080 of the grant to be expended on removing the underground oil tank and relocating it above ground. A purchase order was created on November 10th to allocate $20,000 to the removal of the oil tank. That leaves $80 unallocated out of the original $25,000 grant. Most grants allow up to 5% for administrative fees for grant processing. We only held back $80 to allow for any special certified mailings - special fees, etc. that might be associated with the removal of the oil tank. It is expected that the remaining $20,000 will be spent later in FY11 as our building project progresses.

This encumbrance process is not new to UMCVFD. We have been following this process for a number of years and have never had it mentioned before as a material weakness or any other type of discrepancy that needed correction.

Since it is impossible to assign a purchase order to a phantom company, it would appear that Rager, Lehman & Houck, P.C. and Montgomery County are suggesting that we create purchase orders prior to June 30th that may or may not be correct - to account for the money that we intend to encumber. We have never subscribed to that policy and do not believe in creating purchase orders until we know where and when the money is to be spent. Often this requires research and the obtaining of pricing from a number of vendors. That is why we have historically encumbered funds via Journal Entry and tracked them throughout the year via Quick Books accounting Item Code 3000. If there are funds allocated to encumbrances from prior FY that have not been spent, they are reallocated to future projects via Journal Entry and purchase orders created as the vendors are known and the funds are spent down. The Chief and President and the Board of Directors has to decide how this money is to be spent prior to the end of each Fiscal year and the reports are made monthly to them by the Treasurer.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and Montgomery County, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Rager, Lehman & Houck, P.C.

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

February 18, 2011

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the Wheaton Volunteer Rescue Squad, Inc.

In planning and performing our audit of the financial statements of Wheaton Volunteer Rescue Squad, Incorporated as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Wheaton Volunteer Rescue Squad, Incorporated's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We identified the following control deficiencies that we consider to be material weaknesses, as defined above.

Maintenance of A Complete Set of Books and Records

The VRS converted to the universal QuickBooks software provided by the County during the year ended June 30, 2009, but the software was only used to generate checks. We noted significant adjustments that were necessary at year end to properly record all activity throughout the year, and we worked closely with the CPA consultant, Bill Sault, to generate financial reports for the year ended June 30, 2010. The staff was not prepared for the audit when the auditors arrived for fieldwork and the trial balance was not in balance. These reports were generated manually using excel worksheets. Complete and accurate monthly reports are an important tool for management to track progress, review account balances for unusual items or errors, and compare actual results to the budget. We recommend that you develop procedures to ensure that receipts, disbursements, and accrual accounting transactions are recorded in the QuickBooks general ledger on a monthly basis.

The WVRS did not post prior year entries timely in the Montgomery County universal software system for the tax fund. The County Tax Fund and State 508 Fund receipts and disbursements are also entered into our general fund accounting QuickBooks program. We had difficulty separating these accounts in order to provide a separate general ledger for the auditors because the QuickBooks program would not allow us to select only these two fund balances. Because of this limitation, we have decided to set up a separate file for the State 508 fund and the WVR5 Board of Directors will monitor these accounting files on a monthly basis. This will eliminate the need to extract specific data from our General Fund accounting for the auditors. We will also be able to provide a backup of the data file for them.

Bank Reconciliations

In our review of internal controls related to cash, we observed that cash accounts were reconciled monthly. However, the bank reconciliations are not reviewed by a person independent of the reconciliation process. As the monthly reconciliations are prepared by the Treasurer, we would recommend that either the President or a member of the Board of Directors review the monthly reconciliation. Approval of

Bank Reconciliations - continued

the monthly bank reconciliation should be denoted by the signature or initial of the reviewer on the reconciliation.

The WVRS Board of Directors will designate an independent person to review and sign off on the bank reconciliations each month. This person will designate their approval by signing off on the reconciliation.

Bid Process

During our cash disbursements testing, we noted several purchases over the $5,000 threshold where 3 competitive bids were not obtained before purchase. Per the Montgomery County LFRD Accounting Manual states that for purchases over $5,000, the Rescue Squad is to "Obtain at least three written quotes...If three bids cannot be obtained, or if there is insufficient justification for sole source procurement, the LFRD's Chief or President must document this and make it part of the purchase record."

We recommend that you develop a system to ensure that multiple bids are obtained where required, and those bids are considered by the board before its approval of an expense being incurred.

The WVRS Board of Directors will develop a system to ensure multiple bids are obtained were required and the system will require the bids to be considered by the Board before approval in accordance with the Montgomery County LFRD Accounting Manual.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following control deficiency to be a significant deficiency:

Purchase Orders

During our cash disbursements testing, we noted that purchase orders are not created and approved for each disbursement, but rather a blanket purchase order is approved annually for each vendor. We recommend that you develop a system to ensure that purchase orders are utilized for all expenditures. This will help you with budgeting resources and ensuring that proper approvals are obtained before an expense is incurred.

<u>Purchase Orders</u> - continued

The WVRS Board of Directors will develop and enforce a system requiring purchase orders are utilized for all purchases.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and Montgomery County, Maryland and is not intended to be and should not be used by anyone other than these specified parties.

Rager, Lehman & Houck, P.C.

OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

MEMORANDUM

March 24, 2011

TO: Valerie Ervin, President, County Council

FROM: Timothy L. Firestine, Chief Administrative Officer

SUBJECT: Response to Management Letters Issued by Auditor to Local Fire and Rescue Departments (LFRDs) for Fiscal Year 2010

The following is a response to management letters issued to the LFRDs by the audit firm, Rager, Lehman, and Houck. Of the 18 LFRDs that receive county funds, 13 received management letters for FY10. Six of the 13 LFRDs that received letters did not have significant deficiencies or material weaknesses. The LFRDs responded to the audit letters and their remarks have been considered in this response. The specific findings are discussed below:

Bethesda Fire Department

1. Purchase Orders

Purchase orders were not being used for some recurring expenditures or for approved purchases involving state grant funds.

Response: Most recurring expenditures, including fuel, vehicle maintenance, utilities, and EMS supplies will be purchased by MCFRS rather than the LFRDs. This transition is currently underway. Regarding purchases using state grant funds, Bethesda will use purchase orders.

2. Fund Balance

An entry had to be made to fund balance to tie the department's books to previously audited amounts. This should not have been necessary.

Response: The department will not make entries to fund balance.

3. Segregation of Duties
There was too much overlapping responsibility for approving purchase orders, signing checks, reviewing bank reconciliations, and having access to blank checks.

Response: Bethesda does not have many personnel involved in financial transactions, but will reevaluate segregation of duties.

Chevy Chase Fire Department

1. Bank Reconciliations
Reconciliations were prepared by hand and were not reviewed by an officer in the corporation.

Response: Chevy Chase will use appropriate software for preparing bank reconciliations and will ensure that an officer reviews and initials the reconciliation.

2. Internal Processes
The purchase order process is being followed, but some purchase orders had account codes from an old accounting system. Also, Chevy Chase was not using the available software to account for its state grant funds.

Response: The CCFD will ensure that the proper account codes are used on purchase orders and that accounting software is used to track state grant funding.

Damascus Volunteer Fire Department

1. Purchase Orders
Certain purchase orders created after the close of FY10 were backdated so that they could be included in FY10 encumbrances.

Response: Going forward, only purchase orders created prior to the close of the fiscal year will be included in that year's encumbrances.

2. Budgeting
The auditor noted that budgeted amounts for expenses have not been assessed annually, and the budgeted amount has simply been rolled over from year to year. The adjustments for the expected shifts in prices, quantity needed, or revenues are not being made.

Response: MCFRS reviewed budget versus actual expenditures as part of the FY12 budget development process and reallocated funding as necessary. The LFRDs and MCFRS will continue to make appropriate reallocations in future years.

Gaithersburg-Washington Grove Volunteer Fire Department

1. Purchase Orders
Auditors identified an instance of the department approving purchases that had already been made.

Response: These were vehicle shop related purchases. The mechanics and their function have since been transferred to MCFRS, thus there will be no more such purchases.

2. Segregation of Duties
The administrative officer's duties include processing daily transactions, creating purchase orders, signing checks and reconciling bank statements. The auditor recommends that the administrative officer be removed as an authorized bank signatory. Also, the bank statements should be reconciled monthly, and the review of the bank reconciliation should be documented.

Response: Steps have been taken to have the accountant reconcile the bank statements monthly. The president will review the reconciliations. The administrative officer at GWGVFD is no longer working at GWGVFD. He will be removed as a signatory on all accounts.

Glen Echo Volunteer Fire Department

1. Purchase Orders
Auditors identified an instance of the department approving purchases that had already been made.

Response: The finding refers to regular, reoccurring purchases of everyday supplies for the station, and the issue arose because the purchase order preparer was only available one day a week. A privately funded, part-time employee has been hired to handle purchase order preparation.

2. Recording Invoices
Some invoices were being recorded as of the date the disbursement is made rather than the invoice date.

Response: The check preparer will use the date of the invoice when recording invoices.

Hillandale Volunteer Fire Department

1. Purchase Orders
Certain purchase orders created after the close of FY10 were backdated so that they could be included in FY10 encumbrances.

Response: Going forward, only purchase orders created prior to the close of the fiscal year will be included in that year's encumbrances.

Hyattstown Volunteer Fire Department

1. Bank Reconciliations
Reconciliations are being prepared in a timely fashion, but are not being reviewed by someone independent of the reconciliation process.

Response: Hyattstown agrees with the auditors' recommendation regarding bank account reconciliations. In the past, they have regularly discussed the status of available funding and budget, and all bank reconciliations have been made available to the Treasurer and BOD for review, however they did not establish a process that required a monthly review of the bank reconciliations. They will change their processes to ensure that the bank reconciliations are reviewed monthly by the treasurer.

Kensington Volunteer Fire Department

1. Purchase Orders
The auditors recommended strengthening control of purchase orders by including on the purchase order the account code to which the transaction should be posted.

Response: Kensington will include account codes on purchase orders in the future.

Laytonsville Volunteer Fire Department

1. Credit Cards
Management approval of expenses charged on credit cards was not noted on the monthly credit card statements. Also, invoices for expenses that were charged on credit cards were not attached to the monthly statements.

Response: One credit card was used without exact amounts being known prior to items being purchased. This card was used for the purchase of food for standby crews at Safeway grocery stores. While the amounts were not always known prior to their purchase due to the variable number

of personnel participating in the meals, the purchases are preauthorized for the duty crews involved. Any statements for purchases on this card in the future will be initialed and dated by the treasurer and president.

2. Bank Reconciliations
Reconciliations are not being reviewed by someone uninvolved in the reconciliation process.

Response: Monthly bank reconciliations were completed by the former administrative assistant, and reviewed for correctness and accuracy by a CPA. The department recently created a bank reconciliation form indicating who has prepared the reconciliations and which board members reviewed them. This was already being done, but now it is being documented.

3. Purchase Orders
Auditors identified an instance of the department approving purchases that had already been made.

Response: Generally, purchase orders are filled out for every purchase anticipated by the department; however, there were several recurring purchases which were considered to be exempt from this process, including utilities, fuel and apparatus repairs. MCFRS is taking over payment of these invoices. In the future, purchase orders will be approved prior to the purchase being made.

4. Cash Management
Auditors noted that a checking account was overdrawn $7,197 and $42 as of June 30, 2009 and 2010, respectively.

Response: The department will carefully monitor account balances to ensure that no account is overdrawn in the future. There have been no overdraft fees to date.

Rockville Volunteer Fire Department

1. Cash Controls
There was no indication that bank reconciliations were being reviewed by someone independent of the reconciliation process. Additionally, a check was signed by only one approved account signer rather than the required two.

Response: Bank reconciliations have been and are being reviewed by an outside CPA. In the future, these reconciliations will be initialed by the CPA to indicate they have been reviewed. With regard to the check, the

final, posted check was signed by two signers. Unfortunately, there was no way to verify this because the bank statements do not include check images. Rockville will ensure that two designated officers sign each check.

2. Bid Process
There was no documentation to show that three bids were received for two purchases that were above the threshold that requires three bids.

Response: One of the purchases involved repair of an air conditioning unit in a station bunk room. This was an urgent need, and three vendors did not respond in a reasonable period of time. Rockville used the vendor with whom they had a service contract. For the second purchase, Rockville had trouble getting three vendors to bid. Nonetheless, Rockville will ensure that the requisite three bids are obtained where making purchases above the threshold.

Takoma Park Volunteer Fire Department

1. Bank Reconciliations
Reconciliations are being prepared quarterly by a hired bookkeeper, but are not being reviewed by management.

Response: Takoma Park management will review and sign all bank reconciliations.

Upper Montgomery Volunteer Fire Department

1. Purchase Orders
Certain purchase orders created after the close of FY10 were backdated so that they could be included in FY10 encumbrances.

Response: Going forward, Upper Montgomery will ensure that only purchase orders created prior to the close of the fiscal year will be included in that year's encumbrances.

Wheaton Volunteer Rescue Squad

1. Maintenance of a Complete Set of Books and Records
The auditor noted that the Wheaton Volunteer Rescue Squad converted to the universal QuickBooks software provided by the County but the software was only used to generate checks and not complete financial reports.

Response: A process and procedure has been developed to ensure that receipts, disbursements and accrual accounting transactions are recorded in the QuickBooks general ledger on a monthly basis.

2. Bank Reconciliations
Reconciliations are being prepared in a timely fashion, but are not being reviewed by someone independent of the reconciliation process.

Response: The board will designate someone to conduct an independent review of the bank reconciliation. This person will indicate their approval by signing off on the reconciliation.

3. Bid Process
There was no documentation to show that three bids were received for certain purchases that were above the threshold that requires three bids.

Response: The Wheaton Volunteer Rescue Squad will develop a system to ensure that multiple bids are obtained where required and those bids are considered by the board before its approval of an expense being incurred.

4. Purchase Orders
Blanket purchase orders are being approved for vendors at the beginning of the year. Instead, purchase orders should be created and approved for each purchase.

Response: The WVRS Board of Directors will develop and enforce a system requiring purchase orders to be used for all purchases.

CONTRACT AMENDMENT #6
CONTRACT NUMBER 8031000103AB

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

BACKGROUND

1. The Council and the Auditor entered into Contract No. 8031000103AB on April 24, 2008. The current contract expires on July 23, 2011.

2. The purpose of this Contract is to provide for auditing services as required by Section 315 of the Montgomery County Charter.

3. The Council may renew the Contract, one year at a time, for three additional one-year periods. The Auditor's services are needed to conduct the Fiscal Year 2011 audit. This contract Amendment renews the contract for the third of three one-year periods.

4. Under this Contract, Article V. "Payments", Paragraph D. Payments in Subsequent Years., the fee for Auditor services is firm for a period of two years after execution of the Contract. After the two-year period, the Auditor may request a price adjustment based on the CPI for all urban consumers issued for the Washington-Baltimore, DC-MD-VA-WV Metropolitan area by the United States Department of Labor, Bureau of Labor Statistics. The Auditor has not requested a price adjustment for conducting the Fiscal Year 2011 audit.

CHANGE

1. Article V. "Payments", Paragraph A., Subparagraph 1. Payment for Subparagraphs 1, 2, 3, 4, 5, 10a, and 11a is amended by adding the following:

   c. The County will pay the Contractor a fixed fee not to exceed $243,466 for Fiscal Year 2011 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.

2. Article V. "Payments", Paragraph A., Subparagraph 2. Payment for Subparagraph 6 is amended by adding the following:

   c. The County will pay the Contractor a fixed fee not to exceed $10,000 for Fiscal Year 2011 audit services performed under this portion of the Contract. The County will pay the Contractor in two equal installments, with the first installment paid upon completion of the Contractor's field work, and the second installment paid after the Council accepts the deliverables described in Article II. "Deliverables", Paragraph B., Subparagraph 5. 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., Subparagraph 3. Payment for Subparagraph 7 is amended by adding the following

   c. The County will pay the Contractor a fixed fee not to exceed $2,804 for Fiscal Year 2011 audit services performed under this portion of the Contract. The County will pay the Contractor after the Council accepts the deliverables described in Article II. "Deliverables", Paragraph B., Subparagraph 6. The Solid Waste Disposal Fund will be the source of funds. The Department of Environmental Protection is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

4. Article V. "Payments", Paragraph A., Subparagraph 4. Payment for Subparagraph 8 is amended by adding the following:

   c. The State of Maryland will pay the Contractor a fixed fee not to exceed $4,450 for Fiscal Year 2011 audit services performed under this portion of the Contract. The State will pay the Contractor upon the Emergency Number Systems Board's acceptance of the deliverables described in Article II. "Deliverables", Paragraph B., Subparagraph 7. Emergency Number Systems Board funds will be the source of funds. The Emergency Number Systems Board is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

5. Article V. "Payments", Paragraph A., Subparagraph 5. Payment for Subparagraphs 9, 10b and 11b is amended by adding the following:

   c. The County will pay the Contractor a fixed fee not to exceed $36,720 for Fiscal Year 2011 audit services performed under this portion of the Contract. The County will pay the Contractor on a monthly basis for work completed, on the condition that the Board of Investment Trustees' designee determines that the Contractor is making satisfactory progress toward completing all auditing services. The Employees' Retirement System, the Retirement Savings Plan, and the County's General Fund (on behalf of the Deferred Compensation Plan) will be the source of funds. The Board of Investment Trustees' designee is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

6. Article V. "Payments", Paragraph A., Subparagraph 6. Payments for Subparagraphs 10c, 12 is amended by adding the following:

   b. The County will pay the Contractor a fixed fee not to exceed $18,000 for Fiscal Year 2011 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 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.

7. This Contract is renewed for an additional term of one year from July 24, 2011 through July 23, 2012.

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

Clifton Gunderson LLP

BY:_____ DATE _____
Keith Novak, Partner
Clifton Gunderson LLP

Montgomery County, Maryland

BY:_____ DATE _____
Valerie Ervin, President
Montgomery County Council

Approved to as to form and legality:

BY: Karen L. Federman Henry DATE 3/24/11
Karen L Federman Henry
Division Chief

CONTRACT AMENDMENT #4
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, 2011.

2. The purpose of this Contract is to provide for auditing services as required by Section 315 of the Montgomery County Charter.

3. The Council may renew the Contract, one year at a time, for three additional one-year periods. The Auditor's services are needed to conduct the Fiscal Year 2011 audit. This contract Amendment renews the contract for the third of three one-year periods.

4. Under this Contract, Article V. "Payments", Paragraph E. Payments in Subsequent Years., the fee for Auditor services is firm for a period of two years after execution of the Contract. After the two-year period, the Auditor may request a price adjustment based on the CPI for all urban consumers issued for the Washington-Baltimore, DC-MD-VA-WV Metropolitan area by the United States Department of Labor, Bureau of Labor Statistics. The Auditor has not requested a price adjustment for conducting the Fiscal Year 2011 audit.

CHANGE

1. Article V. "Payments", Paragraph A. Payment for Article I. "Scope of Work", Paragraph A. Basic Work is amended by adding the following subparagraph 3:

   3) The County will pay the Contractor a fixed fee not to exceed $95,000 for Fiscal Year 2011 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 Independent Audit Non-Departmental Account is the source of funds. The Contract Administrator is responsible for approving invoices and paying the Contractor for services performed under this portion of the Contract.

2. This Contract is renewed for an additional term of one year from August 29, 2011 through August 28, 2012.

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

Montgomery County, Maryland

BY:_____ DATE _____
Valerie Ervin, President
Montgomery County Council

Approved to as to form and legality:

BY: Karen L. Federman Henry DATE 3/24/11
Karen L. Federman Henry
Division Chief