Audit Committee #1, #2
March 29, 2012
Briefing

MEMORANDUM

March 27, 2012

TO: Audit Committee

FROM: Leslie Rubin, Legislative Analyst
Office of Legislative Oversight

SUBJECT: FY11 Audit of the Local Fire and Rescue Departments and the Montgomery County Union Employees Deferred Compensation Plan

On March 29th, the Audit Committee has two scheduled agenda items:

A. **Discussion with Rager, Lehman & Houck** – Audits of the FY11 financial statements of Montgomery County's local fire and rescue corporations; and

B. **Discussion with CliftonLarsonAllen**[1] – Audit of the Montgomery County Union Employees Deferred Compensation Plan for the year ended December 31, 2011

Typically, the Audit Committee would review the results of the audits of the County Government's financial statements and the financial statements of the County Government's retirement plans at today's briefing, but that work has been delayed due to challenges with the County Government's Enterprise Resource Planning (ERP) system. The Committee is scheduled to review those audit results on April 25, 2012.

The table below identifies the County Government representatives and staff from the independent auditors scheduled to attend the briefing.

Department/Organization	Representatives
Montgomery County Fire and Rescue Service	Richard Bowers, Fire Chief
Montgomery County Union Employees Deferred Compensation Plan	Walter Bader, Chair John Sparks, Secretary/Treasurer
Rager, Lehman, & Houck[2]	Harriet Gillen, Partner
CliftonLarsonAllen	Keith Novak, Partner

[1] In January 2012, the Council's external auditor, Clifton Gunderson merged with another firm and is now known as CliftonLarsonAllen.

[2] I would like to note for the Committee that because the Council is discontinuing the audit work related to the local fire and rescue corporations, this year marks the final year of Rager, Lehman & Houck's engagement as auditor for this work. Rager has served as the Council's auditor for the corporations for the past twelve years. The Council is discontinuing this audit work due to changes in the structure of County Government funding for the corporations.

The following documents related to the audits are attached.

Attachment	Begins on
Audit of the Financial Statements of the Local Fire and Rescue Corporations	
Management Letters for the FY11 audits of the Fire and Rescue Corporations	© 1
Executive Branch Response to the FY11 Management Letters for the Fire and Rescue Corporations	© 36
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, 2011	© 38
CliftonLarsonAllen letter re: matters related to the audit of the 2011 MCUEDCP financial statements	© 39
MCUEDCP Board of Trustees' Comments on the Independent Auditor's Report	© 44

Definition of Terms. The summaries of the auditors' findings include terminology that auditors use to report their findings.[3] 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.

A. FY 2011 Audit of the Fire and Rescue Corporations

This is the final year that the Council will retain an audit firm to perform audits of the financial statements for Montgomery County's local fire and rescue corporations (aka LFRDs – local fire and rescue departments). Rager, Lehman & Houck, P.C. ("Rager") completed the audits of the fire and rescue corporation financial statements for the year ended June 30, 2011 and prepared Management Letters for 16 of the 18 LFRDs. Fifteen of the 16 Management Letters are attached. At the time of the printing of this packet, Rager was not able to complete the Management Letter for the Hyattstown Volunteer Fire Department. Rager also prepared financial statements for each LFRD.

Rager incorporated any written responses by the LFRDs to draft Management Letter comments into the final Management Letters and the written responses are referenced in the description of each comment. The written response to the Management Letter comments from the Montgomery County Fire and Rescue Services' Fire Chief begins on ©36. Fire Chief Richard Bowers will be available to discuss the response to the Management Letters at the March 29th Audit Committee meeting.

The table 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 three years. Summaries of Rager's findings and recommendations follow the table.

[3] 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.*

Summary of the Number and Type of FY11 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.				
FY11 Audit	1			5
FY10 Audit	3			
FY09 Audit			6	
FY08 Audit			7	
Burtonsville Volunteer Fire Department, Inc.				
FY11 Audit		None		n/a
FY10 Audit		None		
FY09 Audit		1		
FY08 Audit*				
Cabin John Park Volunteer Fire Department, Inc.				
FY11 Audit			1	5
FY10 Audit		None		
FY09 Audit		None		
FY08 Audit		1		
Chevy Chase Fire Department, Inc.				
FY11 Audit[4]	1			6
FY10 Audit	2			
FY09 Audit	2			
FY08 Audit	2			
Damascus Volunteer Fire Department, Inc.				
FY11 Audit	1		1	6
FY10 Audit	1		1	
FY09 Audit	4			
FY08 Audit	6			
Gaithersburg-Washington Grove Fire Department, Inc.				
FY11 Audit			1	6
FY10 Audit	2			
FY09 Audit		None		
FY08 Audit	3			
Germantown Volunteer Fire Department, Inc.				
FY11 Audit	1	1	2	7
FY10 Audit		None		
FY09 Audit	1			
FY08 Audit	4			

[4] Rager, Lehman & Houck also noted a comment made in a prior year that bears noting again.

Summary of the Number and Type of FY11 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	
Glen Echo Volunteer Fire Department, Inc.				
FY11 Audit	**2**		**2**	7
FY10 Audit	1		1	
FY09 Audit		None		
FY08 Audit	3			
Hillandale Volunteer Fire Department, Inc.				
FY11 Audit		**None**		n/a
FY10 Audit			1	
FY09 Audit		None		
FY08 Audit	1			
Hyattstown Volunteer Fire Department, Inc.				
FY11 Audit		**Not yet available**		n/a
FY10 Audit	1			
FY09 Audit		None		
FY08 Audit	2			
Kensington Volunteer Fire Department, Inc.				
FY11 Audit	**1**			8
FY10 Audit	1			
FY09 Audit		None		
FY08 Audit	3			
Laytonsville District Volunteer Fire Department, Inc.				
FY11 Audit			**1**	8
FY10 Audit	2		2	
FY09 Audit	2			
FY08 Audit	2			
Rockville Volunteer Fire Department, Inc.				
FY11 Audit			**1**	8
FY10 Audit		1	1	
FY09 Audit		None		
FY08 Audit	2			
Sandy Spring Volunteer Fire Department, Inc.				
FY11 Audit[5]	**3**		**1**	9
FY10 Audit		None		
FY09 Audit	2	1	2	
FY08 Audit	7		3	

[5] Rager, Lehman & Houck also noted a comment made in a prior year that bears noting again.

Summary of the Number and Type of FY11 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	
Silver Spring Volunteer Fire Department, Inc.				
FY11 Audit			1	9
FY10 Audit		None		
FY09 Audit		None		
FY08 Audit	2	1		
Takoma Park Volunteer Fire Department				
FY11 Audit			2	10
FY10 Audit	1			
FY09 Audit		None		
FY08 Audit	2			
Upper Montgomery County Volunteer Fire Department, Inc.				
FY11 Audit		2	2	10
FY10 Audit			1	
FY09 Audit		None		
FY08 Audit	8			
Wheaton Volunteer Rescue Squad, Inc.				
FY11 Audit			2	11
FY10 Audit		1	3	
FY09 Audit		1	3	
FY08 Audit	3	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.

1. Control Deficiency – Bank Reconciliations

Rager, Lehman & Houck found that the bank reconciliations prepared for the Secondary Checking account holding County Tax Funds does not reconcile with accounting records. Rager recommends that this difference be investigated and corrected.

Cabin John Park Fire Department, Inc.

1. Material Weakness – Misuse of State Grant Funds

Rager, Lehman & Houck found that $50,000 was used from the State Grant Funds account to purchase an item designated to be disbursed from the Department's Private Fund. The error was found and the Private Fund reimbursed the State Grant Funds account. Rager recommends the Board of Directors keep the guidelines for qualified expenditures in mind for future State Grant Fund expenditures.

Chevy Chase Fire Department, Inc.

1. **CONTROL DEFICIENCY – PURCHASE ORDER APPROVAL**

Rager, Lehman & Houck found that several purchase orders did not have general ledger account numbers listed on them. Rager recommends that the purchase orders be written with the intended general ledger account number to ensure approval of the classification of the transaction.

2. ***Reiteration of Prior Year Finding*: BANK RECONCILIATIONS**

Rager, Lehman & Houck found that bank reconciliations are prepared manually via the bank statement and not through Quickbooks. Rager advised the President that it is more efficient to prepare in the County-implemented Quickbooks software rather than performing on the face of the bank statement.

Damascus Volunteer Fire Department, Inc.

1. **MATERIAL WEAKNESS – BANK RECONCILIATIONS**

Rager, Lehman & Houck recommends that bank accounts be reconciled and differences between book and bank balances be investigated on a timely basis by appropriate accounting personnel so that errors can be quickly identified and corrected. Rager also recommends that all checks issued from both the State Grant Fund and the Fire tax District Fund accounts be printed directly from Quickbooks to ensure inclusion in the monthly reconciliation. Further, Rager recommends that the person responsible for reviewing bank reconciliations verify that the book and bank balance tie to the general ledger and bank statement, respectively.

2. **CONTROL DEFICIENCY – UPDATING CHECK SIGNING AUTHORIZATION**

Rager, Lehman & Houck found that bank accounts were not updated in a timely manner to reflect changes in authorized check signers. Rager suggests that management review the authorized check signers annually and make necessary changes as soon as possible.

Gaithersburg-Washington Grove Fire Department, Inc.

LFRD comments begin at ©10.

1. **MATERIAL WEAKNESS – CASH OVERDRAFT**

Rager, Lehman & Houck found that the checking account with State Grant Funds was overdrawn, indicating an oversight in the spending area. Rager recommends that the Board of Directors watch spending closely to avoid this issue in the future.

Germantown Volunteer Fire Department, Inc.

1. Material Weakness – Bank Reconciliations

Rager, Lehman & Houck found that the bank reconciliation for the bank account with County tax funds did not reconcile with accounting records due to apparent missing cash disbursements from the reconciliation. These differences should be investigated and corrected on a monthly basis. Rager also noted that checks totaling $11,000 were written on June 30, 2011, but not released to vendors until several months later.

2. Material Weakness – Recording Accounts Payable

Rager noted that a "substantial amount" of payables were not included on the books at the end of the fiscal year. Invoices should be recorded on the earlier of the date the invoice is received or the invoice date, not on the date of processing the related payment.

3. Significant Deficiency – Purchase Orders

Rager noted that purchase orders were not attached to supporting documentation. Rager recommends that management follow the purchasing guidelines in the LFRD accounting manual.

4. Control Deficiency – Updating Check Signing Authorization

Rager, Lehman & Houck found that bank accounts were not updated in a timely manner to reflect changes in authorized check signers, finding two former board members with check signing authority. Rager suggests that management review the authorized check signers annually and make necessary changes as soon as possible.

Glen Echo Volunteer Fire Department, Inc.

1. Material Weakness – Purchase Order Approval

Rager, Lehman & Houck found several purchase orders dated after the invoice date indicating that a purchase was made before the purchase was approved by the proper authorized signer. Rager recommends strengthening purchasing controls by implementing procedures that require Administrative Staff to enter all purchase orders upon receipt of the request into the encumbrance system. Administrative Staff should then match the purchase order with the corresponding purchase request and then distribute to the Board of Directors for approval.

2. Material Weakness – Misuse and Commingling of Funds

Rager, Lehman & Houck found that State Grant Funds were used to purchase an item that should have been paid for from the Department's Private Fund. The Private Fund reimbursed the State Grant Funds account after the error was found. Rager also found that the County Tax Fund account owes the Private Fund $7,228 due to transactions dating back several years. Rager recommends the Board of Directors keep these guidelines in mind for future State Grant Fund expenditures.

3. Control Deficiency – Recording of Payables

Rager, Lehman & Houck found that some invoices are being recorded when the related disbursement is made rather than on the date when the invoice is received or applicable to. Rager recommends that invoices be recorded on the date the invoice is received (or the invoice date, whichever is earlier), and not when processing the related purchase orders.

4. Control Deficiency – Cash Overdraft

Rager, Lehman & Houck found that the checking account holding County Tax Funds was overdrawn, indicating issues in budgeting, cash flow, and oversight in the spending area. Rager recommends that the Board of Directors watch spending trends closely as a first step in putting into practice a spending plan to help the Department avoid this situation in the future.

Kensington Volunteer Fire Department, Inc.

1. Control Deficiency – Purchase Order Approval

Rager, Lehman & Houck reported that several purchase orders did not have general ledger account numbers on them. Rager recommends writing the general ledger account to which the transaction should be posted on each purchase order to ensure approval of the classification of the transaction.

Laytonsville District Volunteer Fire Department, Inc.

1. Material Weakness – Credit Cards

Rager, Lehman & Houck found that the LFRD was not following policies and procedures related to credit card transactions. Rager found that invoices and receipts were not attached to credit card statements and that there was no evidence of approval of purchases by the President or Treasurer, as required. Rager recommends that the Department implement approval procedures around the credit card transactions and attach actual documentation to the statement as support of these transactions.

Rockville Volunteer Fire Department, Inc.

1. Material Weakness – Encumbrances

Rager, Lehman & Houck found that the Department included purchase orders that were not executed prior to June 30, 2011 as encumbrances. Rager recommends that the Department develop a better understanding of the Montgomery County policies for encumbrances and execute approved purchase orders prior to the end of the fiscal year.

Sandy Spring Volunteer Fire Department, Inc.

LFRD comments begin at ©24.

1. Material Weakness – Bank Reconciliations

Rager, Lehman & Houck recommends that reconciling items for bank reconciliations should be researched promptly so corrective action may be taken. Rager also recommends that all differences between book and bank balances be investigated on a timely basis to identify and correct errors quickly. Finally, Rager recommends that all checks issued from both the State Grant Fund and the Fire tax District Fund accounts be printed directly from Quickbooks to ensure inclusion in the monthly reconciliation.

2. Control Deficiency – Timely Deposits

Rager, Lehman & Houck recommends that bank deposits involving a substantial amount of currency be made promptly.

3. Control Deficiency – Maryland Escheat laws

Rager, Lehman & Houck found several older outstanding checks on the Department's bank reconciliation. Rager recommends the Department becomes familiar with the Comptroller of Maryland's compliance requirements for reporting unclaimed property, which includes dormant outstanding checks.

4. Control Deficiency - Updating Check Signing Authorization

Rager, Lehman & Houck found that bank accounts were not updated in a timely manner to reflect changes in authorized check signers. Rager recommends that management review the authorized check signers annually and make necessary changes as soon as possible.

5. *Reiteration of Prior Year Finding*: Accounts Payable Clean-Up

Rager, Lehman & Houck found that there are multiple items listed in the "over 90 day" column of the Accounts Payable Aging schedule. Rager recommends eliminating these items to streamline accounts payable reconciliations.

Silver Spring Volunteer Fire Department, Inc.

1. Material Weakness – Misuse of State Grant Funds

Rager, Lehman & Houck found that the Department expended $17,002 from the Tax District Funds to purchase a capital expenditure that should have been paid for from State Grant Funds. The misappropriated funds have been reimbursed back to the Tax account. Additionally, Rager found that $203 of State Grant Funds were spent on accounting fees, not an allowable expenditure. Rager recommends that the Board of Directors keep these guidelines in mind for future expenditures of State Grant Funds.

Takoma Park Volunteer Fire Department

1. Material Weakness – Encumbrances

Rager, Lehman & Houck found "several" unusual purchase orders recorded in late June under the vendor name "Dummy" with no amounts assigned that were later updated with vendor names and amounts. Rager noted that purchase orders not executed before the year end are not legitimate encumbrances and should be considered fund balance restrictions or designations. Rager recommends that the LFRD develop a better understanding of the County Government's policies for encumbrances and execute approved purchase orders before the end of the fiscal year.

2. Material Weakness – Bank Reconciliations

Rager, Lehman & Houck found that bank reconciliations are not reviewed by management, which is an internal control weakness that could affect cash balances. Rager recommends all bank accounts be reconciled monthly and be reviewed by the President or Treasurer for accuracy. Rager also recommends that management review be noted on the reconciliation via initials or signature.

Upper Montgomery County Volunteer Fire Department, Inc.

1. Material Weakness – Purchase Order Approval

Rager, Lehman & Houck found that several purchase orders were not approved by the Board of Directors. Additionally, Rager found that several purchase orders were approved after the date of purchase or invoice date. Rager recommends all purchase orders be approved prior to the actual purchase of the item.

2. Material Weakness – Encumbrances

Rager, Lehman & Houck found that the Department included purchase orders that were not executed prior to June 30, 2011 as encumbrances, which are not legitimate encumbrances. Rager recommends that the Department develop a better understanding of the Montgomery County policies for encumbrances and execute approved purchase orders prior to the end of the fiscal year.

3. Significant Deficiency – Bid Process

Rager noted two instances were purchases were not put through the bid process before approval of purchase orders, as required by the Montgomery County LFRD accounting manual. Rager recommends developing procedures to ensure competitive bids are obtained to minimize costs.

4. Significant Deficiency – Authorizing Check Signers

Rager, Lehman & Houck found that a former board member was still authorized to sign checks from the checking account. Rager recommends removing his access immediately.

Wheaton Volunteer Rescue Squad, Inc.

1. SIGNIFICANT DEFICIENCY – MAINTENANCE OF A COMPLETE SET OF BOOKS AND RECORDS

Rager, Lehman & Houck found that QuickBooks software provided by the County Government was used only to generate checks and that Excel spreadsheets were used to track activity. Significant adjustments were needed at year end to properly record all activity and to general financial reports. Rager also found that the trail balance was not in balance. Rager recommends that the LFRD develop procedures to ensure that receipts, disbursements, and accrual accounting transactions are recorded in QuickBooks general ledger on a monthly basis. Without these practices, Rager notes that the Board cannot properly oversee financial reporting.

2. SIGNIFICANT DEFICIENCY – COMINGLING OF FUNDS

Rager found that the LFRD comingled tax funds and private funds in the tax fund checking account. Rager noted that transactions in the tax fund account should be limited to expenditures made with County fire tax appropriations.

B. Audit of the Financial Statements of the Montgomery County Union Employees Deferred Compensation Plan for the Year Ended December 31, 2011

CliftonLarsonAllen audited the basic financial statements of the Montgomery County Union Employees Deferred Compensation Plan ("the Plan") for the years ended December 31, 2011 and 2010. In an Independent Auditor's Report (at ©38), 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 years ended December 31, 2011 and 2010. CliftonLarsonAllen also issued a letter with information about significant matters related to the audit (attached at ©39). CliftonLarsonAllen did not issue a management letter and did not include any comments or recommendations in its findings.

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

March 6, 2012

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

In planning and performing our audit of the financial statements of Bethesda Fire Department, Incorporated as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Bethesda 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:

Bank Reconciliations

As of June 30, 2011, the bank reconciliation prepared for the Secondary Checking account holding County Tax Funds does not reconcile with the accounting records. This difference should be investigated and corrected.

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

March 2, 2012

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of Cabin John Park Volunteer Fire Department, Incorporated
Bethesda, Maryland

In planning and performing our audit of the financial statements of Cabin John Park Volunteer Fire Department, Incorporated as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Cabin John Park 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 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.

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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:

Misuse of State Grant Funds

Prior to June 30, 2011, $50,000 of funds were used from the State Grant Funds account to purchase an item designated to be disbursed from the Department's Private Fund. When the error was found, the Private Fund reimbursed the State Grant Funds account.

Qualified expenditures include fire rescue and EMS apparatus as well as facilities used to house firefighters and fire and EMS apparatus. We recommend that the Board of Directors keep these guidelines in mind for future expenditures of State Grant Funds.

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 16, 2012

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, 2011, 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. We did not identify any 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.

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.

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

Purchase Order Approval

During testing we noted that several purchase orders did not have general ledger account numbers listed on them. We recommend that the purchase orders be written with the intended general ledger account number included on them in order that the approval of the purchase order also includes approval of the classification of the transaction. Please refer to the Montgomery County LFRD accounting manual for details regarding purchase order procedures.

We made several comments in prior years' management letters where matters deemed to be worthy of management's attention were cited. We believe that the following matters, which are substantially a continuation of prior year comments, continue to deserve consideration.

Bank Reconciliations

Currently, the bank reconciliations are prepared manually via the bank statement and not through QuickBooks. Our auditors discussed this with the President and advised that it is more efficient to do in the County-implemented QuickBooks software rather than performing on the face of the bank statement. We commend the Department for having the President routinely review bank reconciliations as evidenced in our audit procedures.

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 10, 2012

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, Incorporated
Damascus, Maryland

In planning and performing our audit of the financial statements of Damascus Volunteer Fire Department, Incorporated as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Damascus 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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.

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 Organization's internal control to be material weaknesses:

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To the Board of Directors and Management
Damascus Volunteer Fire Department, Incorporated

Bank Reconciliations

Reconciling items should be researched promptly so that corrective action may be taken, where necessary, to resolve them. This process will substantially strengthen controls over cash. We suggest bank accounts be reconciled and all differences between book and bank balance be investigated on a timely basis by the appropriate accounting personnel so that errors and adjustments can be quickly identified and corrected. Additionally, we recommend that that all checks issued from both the State Grant Fund and the Fire Tax District Fund accounts are printed directly from QuickBooks to ensure inclusion in the monthly reconciliation. We further recommend that the person responsible for reviewing bank reconciliations verify that the book and bank balance tie to the general ledger and bank statement, respectively.

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:

Updating Check Signing Authorization

Our audit process disclosed that bank accounts were not updated in a timely manner to reflect changes in authorized check signors. The current Treasurer does not currently have check signing authority for an account. In an effort to maintain strong controls, we suggest that management review the authorized check signers annually and make any necessary updates as soon as possible.

We wish to thank Ron German, President, and Tiffany Newman, Assistant Treasurer, for their support and assistance during fieldwork.

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

March 19, 2012

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
Gaithersburg, Maryland

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, 2011, 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a 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 a material weaknesses:

<u>*Cash Overdraft*</u>

As of June 30, 2011, the checking account holding State Grant Funds was overdrawn. This indicates issues in oversight in the spending area. We recommend that the Board of Directors watch spending closely in order to avoid this issue in the future.

Response (Treasurer): The overdraft occurred shortly after we lost our Administrator. In the rush to keep the finances in order and learn the day to day administrative operations, I overlooked the fact that I needed to go to one bank, make a withdrawal and deposit sufficient funds in another. Upon learning of the overdraft the next day, the funds were transferred and no fees or penalties were issued by Bank America. The oversight was remedied within 24 hours. I take responsibility for the error. In order that this does not happen again, I will review the balances prior to writing checks from our Amoss account. I have also met with my Assistant Treasurer and instructed her to do the same. The Board of Directors has been made aware of this issue.

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.

The Department's written response to the deficiency outlined in this letter identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

March 24, 2012

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

In planning and performing our audit of the financial statements of Germantown Volunteer Fire Department, Incorporated as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Germantown 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:

Bank Reconciliations

As of June 30, 2011, the bank reconciliation prepared for the bank account holding County Tax Funds did not reconcile with the accounting records. This difference, which appeared to be due to cash disbursements missing from the reconciliation, all any other differences on bank reconciliations performed on a monthly basis should be investigated and corrected.

Additionally, we recommend that the guidance in the LFRD Accounting Manual be followed in regard to review of the bank reconciliation. The manual states that "...the Treasurer, a Board member, or other third party (i.e., accountant), should also review and approve the reconciliation after it is prepared."

We also noted that checks totaling $11,000 were written from the 508 Funds Account on June 30, 2011, but were released to the vendors several months later.

Recording Accounts Payable

It was noted during the review of accounts payable that a substantial amount of payables were not included on the books as of the fiscal year end. Invoices should be recorded on the date the invoice is received (or the invoice date, whichever is earlier), and not on the date of processing of the related payment.

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 deficiencies in the Organization's internal control to be significant deficiencies:

Purchase Orders

During our test of cash disbursements, we noted that purchase orders were not attached to the supporting documentation. Strong purchasing controls are important to manage expenses properly. We recommend that management follow the purchasing guidelines as outlined in the LFRD accounting manual.

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

Updating Check Signing Authorization

Our audit process disclosed that bank accounts were not updated in a timely manner to reflect changes in authorized check signers. Two former board members still had check signing authority. This is a weakness in internal control and increases the potential for fraud or other abuse. Only current authorized officers and employees should be responsible for such an important control over cash disbursements. In an effort to maintain strong controls, we suggest that management review the authorized check signers annually and make any necessary updates as soon as possible.

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, 2012

To the Honorable County Council
and 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 financial statements of Glen Echo Volunteer Fire Department, Inc as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Glen Echo'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.

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:

Purchase Order Approval

During the course of testing, we discovered 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 controls around purchasing be strengthened by implementing procedures that require the Administrative Staff to enter all purchase orders upon receipt of the request into the encumbrance system. The Administrative Staff should then match the purchase order with the corresponding purchase request and then distribute to the Board of Directors for approval.

This will ensure that all disbursements for the Department are legitimate and properly approved.

Misuse and Commingling of Funds

Audit testing in the disbursements area led our auditors to discover that State Grant Funds were utilized to purchase an item designated to be disbursed from the Department's Private Fund. When the error was found, the Private Fund later reimbursed the State Grant Funds account.

Qualified expenditures include fire rescue and EMS apparatus as well as facilities used to house firefighters and fire and EMS apparatus. We recommend that the Board of Directors keep these guidelines in mind for future expenditures of State Grant Funds.

Additionally, it was discovered that the County Tax Fund account owes the Private Fund $7,228 due to transactions dating back several years. Commingling of funds is not allowable. Please refer to the Montgomery County LFRD accounting manual for details regarding County Tax Funds.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal controls 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 came to our attention during the course of the audit but did not constitute significant deficiencies or material weaknesses:

Recording of Payables

During the course of testing, we discovered that some invoices are being recorded when the related disbursement is made rather than on the date when the invoice is received or applicable to. Invoices should be recorded on the date the invoice is received (or the invoice date, whichever is earlier), and not on the date of processing of the related the purchase orders. This will ensure that expenses are reflected in the proper reporting period.

Cash Overdraft

As of June 30, 2011, the checking account holding County Tax Funds was overdrawn. This indicates issues in budgeting, cash flow, and oversight in the spending area. We recommend that the Board of Directors watch spending trends closely; implementation of the recommendation in the comment above would only be a first step in putting into practice a spending plan that helps the Department avoid this situation in the future.

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 25, 2012

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, 2011, 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, and other general recommendations:

Purchase Order Approval

During testing we noted that several purchase orders did not have general ledger account numbers listed on them. We recommend that the purchase orders be written with the intended general ledger account number included on them in order that the approval of the purchase order also includes approval of the classification of the transaction. Please refer to the Montgomery County LFRD accounting manual for details regarding purchase order procedures.

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

March 7, 2012

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, 2011, 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 significant deficiencies that we consider to be material weaknesseses.

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 material weaknesses:

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Credit Cards

As stipulated in the County policies and procedures manual, all credit card transactions must be appropriately approved by either the President or Treasurer overseeing the Fire Department and must be initialed and attached to the supporting documents as evidence that the transaction had been reviewed and properly approved. During audit testing, we observed that invoices or receipts relating to the transactions were not attached to the credit card statements and there was no evidence of approval on any of the transactions.

We recommend that the Fire Department implement approval procedures around the credit card transactions to ensure that each transactions charged to the card has evidence of approval and should be supported by the actual documentation attached to the statement as support of these transactions.

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 15, 2012

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, Incorporated

In planning and performing our audit of the financial statements of Rockville Volunteer Fire Department, Incorporated as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Rockville 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 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 Fire Department included purchase orders that were not executed prior to June 30, 2011 as encumbrances. Purchase orders that are not executed prior to year end are not legitimate encumbrances. 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 Fire Department develop a better understanding of the Montgomery County policies for encumbrances and execute approved purchase orders 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.

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 12, 2012

To the Honorable County Council
The Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the Sandy Spring Volunteer Fire Department, Incorporated
Sandy Spring, Maryland

In planning and performing our audit of the financial statements of Sandy Spring Volunteer Fire Department, Incorporated as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Sandy Spring 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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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To the Board of Directors and Management
Sandy Spring Volunteer Fire Department, Incorporated

Bank Reconciliations

Reconciling items to be included in bank reconciliations should be researched promptly so that corrective action may be taken, where necessary, to resolve them. This process will substantially increase internal control over cash. We suggest that all differences between book and bank balance be investigated on a timely basis by the appropriate accounting personnel so that errors and adjustments can be quickly identified and corrected. Additionally, we recommend that that all checks issued from both the State Grant Fund and the Fire Tax District Fund accounts are printed directly from QuickBooks to ensure inclusion in the monthly reconciliation.

Response: Sandy Spring concurs with the comment and its recommendations.

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:

Timely Deposits

During our testing of accounts receivable we discovered a check had been cut from the State Grant Fund to the Fire Tax District Fund that was held for a long period of time before it was deposited into the bank. We suggest that deposits involving a substantial amount of currency be made promptly. This will avoid the possible mishandling or misplacement of funds.

Response: Sandy Spring concurs with the comment and its recommendations noting that this was a one time issue during the transition period.

Maryland Escheat Laws

We noted several older outstanding checks on your bank reconciliation. We recommend you become familiar with the Comptroller of Maryland's compliance requirements for reporting unclaimed property, which includes dormant outstanding checks.

Response: Sandy Spring concurs with the comment and its recommendations.

Updating Check Signing Authorization

Our audit process disclosed that bank accounts were not updated in a timely manner to reflect changes in authorized check signers. A former Treasurer still had check signing authority. This is a weakness in internal control and increases the potential for fraud or other abuse. Only current authorized officers and employees should be responsible for such an important control over cash disbursements. In an effort to maintain strong controls, we suggest that management review the authorized check signers annually and make any necessary updates as soon as possible.

Response: Sandy Spring has corrected this issue.

We made several comments in prior years' management letters where matters deemed to be worthy of management's attention were cited. We believe that the following matters, which are substantially a continuation of prior year comments, continue to deserve consideration.

Accounts Payable Clean-Up

During our procedures relating to accounts payable, it was discovered that there are multiple items listed in the over 90 day column of the Accounts Payable Aging schedule. While these old items are offset by negative entries posted to accounts payable, eliminating these items would streamline accounts payable reconciliations.

Response: Sandy Spring concurs with the comment and its recommendations.

We wish to thank Steve Lamphier, Treasurer, for his support and assistance during fieldwork.

The Organization's written response to the deficiencies outlined in this letter identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 8, 2012

To the Honorable County Council,
The Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the Silver Spring Volunteer Fire Department, Incorporated
Silver Spring, Maryland

In planning and performing our audit of the financial statements of Silver Spring Volunteer Fire Department, Incorporated as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Silver Spring 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:

Misuse of State Grant Funds

Prior to June 30, 2011, $17,002 of funds were used from the Tax District Funds and were utilized to purchase a capital expenditure designated to be disbursed from the State Grant Funds. This amount was expected from the State but was delayed. The misappropriated funds have been appropriately reimbursed back to the Tax account subsequent to June 30, 2011.

In addition, $203 of State Grant Funds were spent on accounting fees – not an allowable expenditure. Per the State Grant Funds guidelines, qualified expenditures include fire rescue and EMS apparatus as well as facilities used to house firefighters and fire and EMS apparatus.

We recommend that the Board of Directors keep these guidelines in mind for future expenditures of State Grant Funds.

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

March 19, 2012

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

In planning and performing our audit of the financial statements of The Takoma Park Volunteer Fire Department, Inc. as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered The Takoma Park 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.

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 noted several unusual purchase orders recorded in late June under the vendor name "Dummy" with no amounts assigned. Later, these same purchase orders were updated with vendor names and amounts. Purchase orders that are not executed prior to year end are not legitimate encumbrances and should instead be considered fund balance restrictions or 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 Fire Department develop a better understanding of the Montgomery County policies for encumbrances and execute approved purchase orders prior to the end of the fiscal year.

Bank Reconciliations

In our discussions with Department staff in prior years, we became aware that the bank reconciliations performed are not reviewed by management, which is an internal control weakness that could affect cash balances. We continue to 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.

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

January 30, 2012

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

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, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Upper Montgomery'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 and other deficiencies that we consider to be significant deficiencies.

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 Organization's internal control to be material weaknesses:

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To the Board of Directors and Management
Upper Montgomery County Volunteer Fire Department, Inc.

Purchase Order Approval

During testing we noted that several purchase orders were not approved by the Board of Directors. We also found several purchase orders that were approved after the date of purchase or invoice date. To strengthen purchasing controls, we recommend that all purchase orders be approved prior to the actual purchase of the item. Please refer to the Montgomery County LFRD accounting manual for details regarding purchase order procedures.

Encumbrances

During our audit, we found that the Fire Department included purchase orders that were not executed prior to June 30, 2011 as encumbrances. Purchase orders that are not executed prior to year end are not legitimate encumbrances. 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 Fire Department develop a better understanding of the Montgomery County policies for encumbrances and execute approved purchase orders 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. We consider the following deficiencies in the Organization's internal control to be significant deficiencies:

Bid Process

During disbursement testing, we noted two purchases that were not put through a bid process before approval of the purchase orders. According to the Montgomery County LFRD accounting manual, the Fire Department should be getting at least three bids on purchases of greater than $5,000. We recommend that you develop procedures to ensure that competitive bids are obtained to minimize costs.

Authorized Check Signers

During our audit procedures, we received confirmation from M&T Bank that Dennis Minor is list as an authorized signer on your checking account. We understand that he is no longer a board member and recommend that you update this account immediately to remove his access.

We wish to thank Sue Dabbondanza for her support and assistance during fieldwork.

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

March 26, 2012

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, Incorporated
Wheaton, Maryland

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, 2011, 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 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:

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. Instead, Excel spreadsheets were used to track activity, but significant adjustments were necessary at year end to properly record all activity throughout the year and to generate financial reports.

In addition, the staff was not prepared for the audit when the auditors arrived for fieldwork, as the trial balance was not in balance. The Board cannot properly oversee the Organization without proper financial reporting on a regular (usually monthly) basis, 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 the Organization develop procedures to ensure that receipts, disbursements, and accrual accounting transactions are recorded in the QuickBooks general ledger on a monthly basis.

Comingling of Funds

We also noted a comingling of tax funds and private funds in the tax fund checking account. Transactions in the tax fund should be limited to expenditures made with County fire tax appropriations.

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 would like to thank Nick Hrabak for his kind assistance during the 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.

Rager, Lehman & Houck, P.C.

MONTGOMERY COUNTY FIRE AND RESCUE SERVICE

Isiah Leggett
County Executive

Richard R. Bowers
Fire Chief

MEMORANDUM

March 23, 2012

TO: Council President Roger Berliner

FROM: Fire Chief Richard Bowers

SUBJECT: Local Fire and Rescue Department Audit Report

The summary report of the Local Fire and Rescue Departments internal audit, fiscal year ending June 30, 2011, is detailed below. The audit reviewed the county tax funds that were transferred to the Local Fire and Rescue Departments during that period of time. There continues to be consistent management audit issues with the transfer of tax funds to the Local Fire and Rescue Departments.

At the present writing of this correspondence, please be advised that the Executive Branch has only received eleven of the sixteen management letters that were transmitted by Rager, Lehman & Houck, P.C. Please find the content of the summary report from the Fire and Rescue Service.

- The auditor issued management letters to sixteen of eighteen local fire and rescue corporations

- Several identified deficiencies were noted that include the following:
  1. Bank reconciliations that did not reconcile with accounting records

  2. Check signing authorization for officers are not updated

  3. There were items purchased prior to an actual purchase order being generated and approved

  4. Encumbrances were not executed prior to June 30, 2011

  5. Recording issues of payables related to the incorrect recordation of the invoice versus the disbursement

6. There were cash overdraft issues in budgeting, cash flow and oversight in the spending area

7. Deposits of substantial currency were not timely made

8. Non-compliance with Maryland Escheat Laws for outstanding dormant checks

9. The accounts payable schedules need to be cleaned up

- Several significant deficiencies were noted that include the following:
  1. The bid process did not occur prior to approval of purchase orders

  2. Check signers were not authorized approved officers of corporations

- Several material weaknesses were noted that include the following:
  1. Bank reconciliations and accounts were not reconciled timely

  2. Checks issued from both the State Grant Fund and the Fire Tax District Fund accounts were not printed directly from Quickbooks

  3. Funds were used from the Tax District Funds to purchase a capital expenditure designated to be disbursed from State Grant Funds

  4. Purchases were made prior to purchase orders being approved and approved by the proper authorized signer

  5. Misuse and commingling of funds between State Grant Funds, the Department's Private Fund and Tax funds occurred

  6. There were uses of credit cards without the approvals by either the President or Treasurer of the corporation

Thank you for the opportunity to comment regarding the audit of the Local Fire and Rescue Departments. I am available to meet with the committee and respond accordingly should there be any questions.

cc: Timothy L. Firestine, CAO

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

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, 2011 and 2010 and the related statements of changes in net assets available for plan benefits for the years then ended. 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, 2011 and 2010 and the change in net assets available for plan benefits for the years then ended 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.

CliftonLarsonAllen LLP

Baltimore, Maryland
March 7, 2012

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

March 7, 2012

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, 2011. 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 INVESCO Stable Asset Fund. The INVESCO Stable Asset Fund is valued at contract value, which approximates fair value, as estimated by the Investment Manager. 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.

CliftonLarsonAllen LLP

Lodge 35
Walter E. Bader, Chairman

Local 1994
Gino Renne, Vice Chairman

Local 1664
John J. Sparks, Secretary/Treasurer

Montgomery County Union Employees Deferred Compensation Plan

March 7, 2012

Clifton Gunderson LLP
9515 Deereco Road
Suite No. 500
Timonium, MD 21093

We are providing this letter in connection with your audit of the financial statements of the Montgomery County Union Employees' Deferred Compensation Plan (the Plan) as of December 31, 2011 and 2010, 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 Montgomery County Union Employees' Deferred Compensation Plan 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 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 March 7, 2012, the following representations made to you during your audit.

1. To the best of our knowledge 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 Plan is subject.

2. We have made available to you all:

   a. Financial records and related data.

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

   c. Amendments to the plan instrument (including amendments made to comply with applicable laws), the trust agreement, or insurance contracts.

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

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

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

5. 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.

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

7. We have no:

   a. Plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

   b. Present intentions to terminate the Plan.

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

   a. Related-party transactions and related amounts receivable or payable.

   b. 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.

   c. Concentrations existing at the date of the financial statements that make the Plan vulnerable to the risk of severe impact within one year from the date of the financial statements. We understand that concentrations include the nature and type of investments held by the Plan, or markets for which events could occur which would significantly disrupt normal finances within the next year.

   d. Amendments to the plan instrument, if any.

9. The Plan obtained its latest determination on March 14, 2006, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code.

10. We believe the Plan and trust established under the Plan are qualified under the appropriate section of the Internal Revenue Code, and we intend to continue them as a qualified plan and trust.

11. 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.

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

12. We are not aware of any pending or threatened litigation, claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.

13. 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.

14. 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.

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

16. We have apprised you of all material communications, whether written or oral, with regulatory agencies concerning the operation of the Plan.

17. 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.

Walter E. Bader

Walter E. Bader
Board Chair

Lodge 35
Walter E. Bader, Chairman

Local 1994
Gino Renne, Vice Chairman

Local 1664
John J. Sparks, Secretary/Treasurer

Montgomery County Union Employees Deferred Compensation Plan

March 23, 2012

Roger Berliner, President
Montgomery County Council
100 Maryland Avenue
Rockville, Maryland 20850

RE: Montgomery County Union Employees Deferred Compensation Plan Audit

Dear President Berliner:

This is in reply to your correspondence of March 14, 2012, requesting the Montgomery County Union Employees Deferred Compensation Plan's formal comments on the Independent Auditor's Report.

This is the third audit of our Plan conducted for the Montgomery County Council by CliftonLarsonAllen (Clifton Gunderson). We encountered no problems during the audit and requested information was timely provided to the auditors.

We have no further comments, but will be available to respond to any questions on March 29 when the Audit Committee meets to review this Report.

Sincerely,

Walter E. Bader

Walter E. Bader
Chair

cc: Gino Renne, Vice Chair
John J. Sparks, Secretary/Treasurer
Leslie Rubin, Office of Legislative Oversight

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