Audit Committee #1
April 25, 2012
Briefing

MEMORANDUM

April 23, 2012

TO: Audit Committee

FROM: Leslie Rubin, Legislative Analyst
Office of Legislative Oversight

SUBJECT: FY11 Audit and Management Letters Review

On April 25th, the Audit Committee will receive a briefing from CliftonLarsonAllen,[1] the County Government's independent auditor, and Executive Branch staff on the results of the audits of the County Government's FY11 financial statements and the financial statements of the County Government's retirement plans.

A combination of staff vacancies and the implementation of the County Government's Enterprise Resource Planning (ERP) technology project made this a challenging year for the production of the County's FY11 Comprehensive Annual Financial Report (CAFR).[2] The CAFR, including CliftonLarsonAllen's *Independent Auditor's Report*, was issued on March 29, 2012.

CliftonLarsonAllen found that the County Government's financial statements presented fairly, in all material respects, the financial position of the County Government. CliftonLarsonAllen identified eight significant deficiencies and two material weaknesses in the County Government's financial controls, and identified one matter in a Management Letter that merited attention from Management. Eight of the significant deficiencies and material weaknesses identified by CliftonLarsonAllen were related to the ERP implementation.

The discussion items for today's meeting are listed below.

	Discussion Items
A	FY 2011 Audit of the County Government Financial Statements
B	FY 2011 Audit of the County Employees' Retirement System Plans
C	Follow-Up from FY 2010 Audit Findings

The table at the top of the next page identifies staff from the independent auditor and County Government representatives scheduled to attend the briefing.

[1] In January 2012, Clifton Gunderson, the County Government's independent auditor, merged with another firm, Larson Allen, and is now known as CliftonLarsonAllen.
[2] See ©1 for a summary of these challenges and ©2 for an April 16, 2012 memorandum from the Director of the Department of Finance to the Chair of the Council's Government Operations and Fiscal Policy Committee describing the status of financial reporting issues related to the ERP system.

Organization	Independent Auditor's Staff
CliftonLarsonAllen LLP	Keith Novak Cheri Amoss Aires Coleman
Department/Office	**Executive Branch Staff**
Department of Finance	Joseph Beach, Director Karen Hawkins, Chief Operating Officer Lenny Moore, Controller
Board of Investment Trustees	Linda Herman, Executive Director Akiko Kawashima, Compliance Analyst
Department of Housing and Community Affairs	Tim Goetzinger, Budget and Financial Manager
Department of Transportation	Al Roshdieh, Deputy Director Rick Siebert, Acting Chief, Division of Parking Management
Department of Liquor Control	George Griffin, Director Sunil Pandya, Chief of Administration
Department of Correction and Rehabilitation	Florence Bartlett, Finance Chief

Definition of Terms. The summaries of CliftonLarsonAllen 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 and correct misstatements on a timely basis.
- **Significant Deficiency** – 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.
- **Material Weakness** – 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.

A. FY 2011 Audit of the County Government Financial Statements

CliftonLarsonAllen audited the County Government's financial statements and issued two reports and a Management Letter summarizing its findings. CliftonLarsonAllen also issued a letter with information about significant matters related to the audit (attached at ©20). The findings are described below.

Independent Auditor's Report. CliftonLarsonAllen audited the basic financial statements of Montgomery County for the year ended June 30, 2011. In its *Internal Auditor's Report*, bound in the County Government's FY2011 Comprehensive Annual Financial Report, CliftonLarsonAllen found that the County Government's financial statements present fairly, in all material respects, the financial position of the County Government.

Report on Internal Control. In its *Report on Internal Control Over Financial Reporting*, CliftonLarsonAllen identified two material weaknesses and eight significant deficiencies. The Report includes the Executive Branch's response to each of CliftonLarsonAllen's findings and is attached at ©9.

[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.*

Management Letter. CliftonLarsonAllen identified one matter for attention in a Management Letter, attached at ©19. CliftonLarsonAllen's finding is summarized and the County Executive's response is reproduced below.

Auditor Finding and Recommendation. CliftonLarsonAllen found that the bank reconciliation for the detention center did not include a listing of outstanding checks for review. The accounting system currently used by the detention center does not provide a listing of outstanding checks. CliftonLarsonAllen recommends the "County review its policies and procedures and make necessary changes for reconciling the cash account for the detention center so that a detailed outstanding check list is available for all accounts to ensure old, outstanding checks are written off when appropriate."

Management Response. The County Executive submitted the following response (at ©35):

> The County concurs that a detailed list of outstanding checks would be preferred to its current method. However, its current method has been in use since 2002 and was developed based on consultation with both the County's external and internal auditors. When the Department of Correction (DOCR) converted its system used to account for the detention center inmate banking activity, the details of outstanding checks were not converted to the new system. The new system also was not programmed to maintain a detailed listing of outstanding checks.
>
> DOCR has initiated three changes to its bank statement reconciliation operations that should improve this process. DOCR has begun identifying detailed information on all outstanding checks and reporting information to the Department of Finance (DOF) for checks outstanding for 3 or more years. DOF reports the checks to the State as abandoned property. DOCR asked its system vendor to re-program the banking features of its software to include the capacity to automatically keep track of outstanding checks. DOCR is also planning to start issuing secured release cards to released inmates rather than checks.

1. Discussion of the Independent Auditor's Findings and County Government's Response

Summary of Findings. CliftonLarsonAllen's audit of the County Government's financial statements identified eight significant deficiencies and two material weaknesses. The table on the next page summarizes the subject matter of each of the Auditor's findings, identifies whether the finding is related to the ERP implementation, and provides summary information about Management's response. For the complete findings and Management's response, see ©11-18.

As the table shows, the County Government management concurs with all of the issues identified and, to date, has taken corrective action to address or begin addressing many of them. Staff from the Department of Finance and other departments will be present at the meeting to respond to Councilmember questions.

Findings in CliftonLarsonAllen's FY11 *Report on Internal Control*

#	Finding	ERP Related?	County Concurs?	Status of Corrective Action
	Material Weaknesses			
2011-1	Bank Reconciliations	Yes	Yes	Underway
2011-2	Approval of Journal Entries	Yes	Yes	Not specified
	Significant Deficiencies			
2011-3	Timing of CFO Certification of Municipal Solid Waste Landfill Facilities (DEPT)	Yes	Yes	Not specified
2011-4	Price of Liquor Inventory (DLC)	No	Yes	Underway
2011-5	Duplication of Escrow Deposits (DPS)	Yes	Yes	Completed
2011-6	Removal of Special Forgiveness Loans (DHCA)	No	Yes	Plan in place
2011-7	Recording of Duplicate Expenditures (Finance)	Yes	Yes	Underway
2011-8	Identification of Fixed Assets in ERP System (Finance)	Yes	Yes	Underway
2011-9	Land Sale Transaction (DOT/PLD)	Partial	Yes	Underway
2011-10	Conversion of Depreciation Expenses in ERP (Finance)	Yes	Yes	Not specified

B. FY 2011 Audit of the County Employees' Retirement System Plans

CliftonLarsonAllen audited the statement of plan net assets of the Montgomery County Employees' Retirement Plans for the year ended June 30, 2011. The auditors found that the financial statements present fairly, in all material respects, the net assets of the Plans and the changes in plan net assets. CliftonLarsonAllen issued a *Report on Internal Control Over Financial Reporting* and did not identify any significant deficiencies or material weaknesses (©37) and it did not issue a Management Letter for the Retirement Plans. CliftonLarsonAllen also issued a letter with information about significant matters related to the audit (attached at ©39).

C. Follow-Up from FY 2010 Audit Findings

From year-to-year, auditors typically review their prior-year audit findings – either from a *Report on Internal Control* or in a management letter – to ascertain whether management has corrected any issues identified. For the federal Single Audit (a federally-mandated annual audit of County Government programs receiving federal funds), the federal Office of Management and Budget requires auditors to follow up on comments made in prior years related to federal programs. Auditors will also typically review an entity's response to other audit comments (not related to federal programs) as part of the auditor's required review of an entity's internal controls.

Follow-Up from FY10 Audit Findings. In the FY10 audit, CliftonLarsonAllen did not identify any material weaknesses or significant deficiencies it its FY10 *Report on Internal Control* relating to the audit of the County Government's financial statements or the audit of the County Government retirement plans. CliftonLarsonAllen did note five matters for attention in its management letter related to the audit of the County Government's financial statements.

As part of its FY11 work, CliftonLarsonAllen revisited issues identified in previous years' audits and noted issues that have not been resolved. If CliftonLarsonAllen did not re-identify in its FY11 reporting, then it was satisfied that the County Government had sufficiently resolved the issue.

The table below shows the five matters that CliftonLarsonAllen identified in FY10. In FY11, CliftonLarsonAllen re-identified two prior-year issues. The reconciliation of the County Government's main cash accounts was identified as a material weakness in FY11 (Finding 2011-1, summarized at ©11-12); and an FY10 finding related to the recording of outstanding checks for the detention center was reiterated in the FY11 management letter as a matter for attention, summarized above on page 3.

Summary of CliftonLarsonAllen FY10 Audit Findings

	Matter Identified in FY10 Audit Findings	Identified in FY11 Findings?
1	Supervisory review of employees' time	No
2	Bank reconciliations	
	Reconciliation of the County Government's main cash accounts	Yes
	Reconciliation of imprest funds	No
	Record of the detention center's outstanding checks	Yes
3	Temporary vendors	No
4	Change management	No
5	Escrow deposits	No

The following documents related to the audits are attached.

Attachment	Begins on
Background Documents	
Office of Legislative Oversight of Background Information on the FY11 Audit	© 1
April 16, 2012 Memorandum from Joseph Beach Director, Department of Finance to Nancy Navarro, Chair, Government Operations and Fiscal Policy Committee	© 2
Audit of the County Government's Financial Statements	
Report on Internal Control for the FY11 audit of the County Government Financial Statements	© 9
Management Letter for the FY11 audit of the County Government Financial Statements	© 19
CliftonLarsonAllen letter re: matters related to the FY11 audit of the County Government Financial Statements	© 20
Executive Branch Response to the FY11 Management Letter for the County Government Financial Statements	© 35
Audit of the Employees' Retirement System Plans	
Report on Internal Control for the FY11 audit of the Employees' Retirement System Plans	© 37
CliftonLarsonAllen letter re: matters related to the FY11 audit of the Employees' Retirement System Plans	© 39

Office of Legislative Oversight Summary of Background Information on the FY11 Audit

The timing of the performance of the FY11 audit work this year differed from past years. The Department of Finance incurred challenges in closing the County Government's books for FY 2011 because of, among other things, problems stemming from the July 2010 implementation of Oracle business software, the County Government's Enterprise Resource Planning (ERP) system, and because of staff turnover.

These challenges led to a delay in the closing of the County Government's books for FY11 and in the production of the County Government's FY11 CAFR. Whereas the closing of the books and the production of the CAFR typically would have been completed by December 31st, 2011, the County Government issued its CAFR this year on March 29, 2012.

In November 2011, the Department of Finance requested that the Council amend its contract with CliftonLarsonAllen to allow the department to engage additional CliftonLarsonAllen staff (at a cost to the Department of Finance of up to $400,000) to assist with the closing of the County Government's books, accounting analysis and research, and preparing draft schedules to support the financial statements. The Council authorized the amendment, conditioned on several steps that CliftonLarsonAllen and the Department of Finance would take (and endorsed by the Inspector General and Deputy Inspector General) to ensure that the additional work would not compromise CliftonLarsonAllen's independence in its audit work.

Following the contract amendment, the Director of the Department of Finance reported to the Government Operations and Fiscal Policy (GO) Committee that the ERP transition:

> [H]as been an extremely challenging project and we have experienced certain post implementation issues that are not uncommon for this type of complex project.... Since the go-live date for the financial systems on July 6, 2010 and the go-live for the human resource system on January 1, 2011 we are implementing several "first-time" processes under the new system including year end closing and production of the Comprehensive Annual Financial Report (CAFR), production of W2 tax reporting forms, group insurance and open enrollment and other major enterprise processes. This presents challenges in terms of communication, training, and problem resolution.

DEPARTMENT OF FINANCE

Isiah Leggett
County Executive

MEMORANDUM

Joseph F. Beach
Director

April 16, 2012

TO: Nancy Navarro, Chair
Government Operations Committee

FROM: Joseph F. Beach, Director
Department of Finance

SUBJECT: Update: Status of Financial Reporting Issues in the Enterprise Resource Planning Project

The purpose of this memo is to provide the Government Operations Committee with an update on the status of Financial Reporting issues in the Enterprise Resources Planning (ERP) project.

1) CAFR Completion: The County's Comprehensive Annual Financial Report (CAFR) was published on March 29, 2012. While this was later than the normal publication date (before December 31st) the County was able to obtain the appropriate deadline extensions from the Government Finance Officers Association (GFOA) and the State of Maryland. This was the first year that the ERP system was used to produce the CAFR. Because of challenges encountered in implementation of the ERP system, detailed in the attached November 16, 2011 memo, publication of the CAFR was delayed past its regular publication date. Based on the experience gained in developing the FY11 CAFR, improvements made to the ERP system since "go-live" on 7/1/2010, and other steps being taken discussed below, we do not anticipate requiring an extension for completion of the FY2012 CAFR.

2) Going Forward - Issues and Process: The Department of Finance, in consultation with the Technology Modernization Project Office completed an inventory of system and process issues, including short-term workaround solutions, required to complete the FY11 CAFR. This inventory is currently being reevaluated for completeness, especially as it relates to short-term workarounds that require longer term solutions to address reporting and financial process issues in FY12 and beyond. We are using this inventory to systematically address remaining project issues in a priority order. We believe that this orderly and comprehensive approach to resolving remaining issues will provide not only for timely preparation of the

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FY12 CAFR, but also allow County employees to use the very powerful tools available within the ERP project to improve financial management, budget control, reporting, and provide relevant data for management decisions. Addressing such issues in a prioritized and organized manner – including prioritizing those remaining issues that had more significant impacts on the year-end closing, auditing, and CAFR preparation processes, is especially important since ultimate resolution of all issues will extend beyond FY12.

3) Staffing: Backfill and vacancies: The Department of Finance currently has 16 vacancies including 8 vacancies within the Controller's Division. Finance is working proactively with the Office of Human Resources to fill all of these positions during the balance of FY12 and FY13. In many cases we are using contractual resources to backfill these vacant positions, however, our ultimate goal is to fill the vacant positions and perform this work with in-house resources. I want to note though that the labor market for skilled and experienced accountants is very competitive with private industry usually paying significantly higher salaries than the County is able to offer under the current classification and salary structure.

4) Assessment of Appropriate Staffing for the Controller's Division: Currently my Office is conducting a comprehensive review of the structure, staffing levels, and position classifications in the Controller's Division to ensure that the Division is adequately staffed relative to its mission, especially using the new ERP system. In addition we are looking at the opportunity to repurpose some of the existing vacant positions so that they more appropriately address the staffing and resource needs of the division in serving the County Government.

I look forward to discussing these issues with the GO Committee at the meeting scheduled for April 19.

copies:
Valerie Ervin, Council President
Hans Riemer, Government Operations Committee
Timothy L. Firestine, CAO
Jacob Sesker, Council Staff
Costis Toregas, Council Staff
Jennifer Hughes, Director, Office of Management and Budget
Karen Plucinski, Acting Project Director, Technology Modernization Project

DEPARTMENT OF FINANCE

Isiah Leggett
County Executive

MEMORANDUM

Joseph F. Beach
Director

November 16, 2011

TO: Nancy Navarro, Chair
Government Operations Committee

FROM: Joseph F. Beach, Director
Department of Finance

SUBJECT: Status of Enterprise Resource Planning Project

Project Implementation

This memo is intended to provide the Government Operations (GO) Committee with an update on the status of the Enterprise Resource Planning (ERP) project based on the Finance Department's recent request for Council approval of a contract amendment with Clifton Gunderson. As mentioned at the recent Audit Committee meeting on the contract amendment, I believe the ERP project has been very successful. As detailed below, we have implemented the ERP project on time and within budget including replacement of all core financial systems, payroll, human resource management, as well as implementation of electronic timekeeping in all departments. We are continuing to implement new modules to enhance the functionality of the system and develop reports to allow departments to track and manage their budgets.

However, this has been an extremely challenging project and we have experienced certain post implementation issues that are not uncommon for this type of complex project. Among these challenges have been implementing and managing significantly different business processes under the new ERP system. The transition from the County's fragmented, mainframe based legacy systems and the tightly integrated ERP system has been a challenge for training (end users and managing departments), knowledge transfer (between Consultants and County staff), and administering financial programs. Since the go-live date for the financial systems on July 6, 2010 and the go-live for the human resource system on January 1, 2011 we are implementing several "first-time" processes under the new system including year end closing and production of the Comprehensive Annual Financial Report (CAFR), production of W2 tax reporting forms, group insurance open enrollment and other major enterprise processes. This presents challenges in terms of communication, training, and problem resolution.

Office of the Director

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Lessons Learned

Reports: One of the challenges we have experienced this year has been the need to reproduce reports that had been routinely used under the legacy system for several years. In order to expedite completion of other tasks and conserve resources on the project a decision was made to produce reports after the go-live date. On hindsight, availability of certain reports would have permitted the ERP team and departments to identify process implementation issues earlier and would have provided end users access to information about the status of their budgets.

Change Management/Knowledge Transfer: As mentioned previously, the County's transition to ERP was a major change from the legacy systems. Additional investments in change management and knowledge transfer would have better prepared County staff for the magnitude of change, the complexities of the new system, and facilitated adoption of the new system and business processes. In addition, a more concentrated effort with the "core business" departments (Finance, OMB, OHR, DGS-Procurement) should have been engaged along with the departmental end-users. The reason for this is that core business departments are the business process leaders within the government and are essential to system adoption as well as to identifying and resolving process and system issues.

Sustaining Organization: The County was very successful in preparing for and implementing the new system on time and under budget. However, a substantial investment in resources are needed post implementation to resolve problems, facilitate communication across business processes because of the system integration, produce reports, and re-engineer business processes. The Government Finance Officers Association (GFOA) and Gartner (a premier IT consulting organization) recommend that organizations implementing an ERP also establish an enterprise business support structure (often called a sustaining organization or Enterprise Service Center) after project implementation to maintain, enhance, and focus on: business strategy, functional / technical expertise, software integration, technology, project management and continuous process improvement. Investing in a sustaining organization is key to fully exploiting the capabilities of the new ERP system.

Testing Across Modules: Before go-live on all systems and modules, extensive testing was done to ensure the system specifications were satisfied. However, with the tightly integrated nature of the ERP system, it would have been beneficial to have performed additional testing across certain modules (for examples General Ledger and Projects and Grants) to identify process and system issues that were identified after system implementation.

Turnover and Position Abolishments: While the implementation of the ERP system will allow the County to operate in a more efficient, streamlined manner, the transition to the new system has been affected significantly by turnover in key positions within the Department of Finance and across the government as well as the abolishment of hundreds of administrative, fiscal, information technology (IT), and clerical positions within the government over the past four years due to severe economic and fiscal constraints. The Controller's Division in the Department of Finance has experienced a significant turnover in its staff over the past year primarily due to retirements. This loss of expertise and experience has created significant challenges during the very difficult transition from the County's legacy systems to the ERP system. In addition, because of the very competitive market for individuals with the functional and IT experience in ERP systems it has been difficult to recruit and retain contractual resources to remain on the ERP project.

ERP Accomplishments

Below I have listed in detail the many accomplishments and successes of the ERP project as well as the remaining tasks for this year:

Objectives Accomplished:

- Implementation on time and within budget (ERP Financials, Human Capital Management)
- Core Business Enterprise Legacy systems replaced
- Standardized and automated processes using a single, integrated computer system
- System Workflow and Approvals implemented to reduce manual, paper business processes and enhance internal controls
- Integrated business process sharing a centralized database and servers
- Internal controls with electronic timesheets and budgetary controls
- Self Service functionality for employees to access applications

Oracle e-Business Financial and Human Capital Management modules implemented since July 2010.

- General Ledger
- Accounts Payable
- Purchasing
- Accounts Receivable
- Cash Management
- Fixed Assets
- iAssets
- Projects and Grants

- Time and Attendance (MCtime)
- Active Employee Payroll
- Employee Self Service
- Manager Self Service
- Advanced Benefits
- Pension Administration
- Labor Distribution
- iRecruitment

Oracle e-Business modules being implemented in FY 12

- Retiree Payroll
- Performance Management
- Compensation Workbench
- Learning Management
- Hyperion
- Inventory
- eAsset Management
- iExpense
- iSupplier
- Advanced Collection
- iReceivables

Financials Accomplishments

- Implemented employee self service web portal
- Provided employees on-line pay slips, W2's, federal tax forms, etc..
- Eliminated mailing of payroll advices for employees with computer access. Employees can access through self service web portal.
- Streamlined business processes in Payroll:
  Retroactive pay process
  Automation of Garnishment payments
  W2 availability on-line (January 2012)
- Successfully implemented Budget Controls
- Streamline process for Journal and Budget entries, including elimination of manual paper processes
- Eliminate Finance from imaging approved Budget Change paper documents
- Prior to the new ERP budget change process, OMB was imaging the approved budget change packets (totaling over 800 annually), using the ZyImage document imaging process. The new ERP provides information on budget change approvals in the system and reports can be generated for auditors and reporting to end users

Retirement of Legacy Systems

Prior to implementation of the ERP, the County identified 300 stand alone systems that departments were using for their core business processes. Many of these systems have been or will be retired with the implementation of the ERP system. Below is a list of retired systems, licenses and software and the related savings that have already been realized in previous budgets approved by the County Council.

Eliminate paper timesheet process for department end users (MCtime)	$416,580
Eliminate Merkel Timesheet Keypunching contract – pre ERP implementation	$325,000
Elimination of ADPICS (procurement) software and maintenance	$70,000
Elimination of annual license fee and support for ePerform	$260,000
Eliminate contract costs related to ePAF (position action form), Unified Data Modeler (identity management), and pension and benefit applications	$300,000
Eliminate Human Resource Management System (HRMS) annual license/maintenance agreement with Integral	$175,000
Eliminate PeopleClick applicant tracking contract	$200,000
Eliminate annual license fees for SAS (statistical analysis software used in HR and financial applications)	$115,000
Eliminate Mainframe After-hours Operations	$802,810
Eliminate Mainframe Disaster Recovery and reduce Mainframe licensing/maintenance	$190,000

I look forward to discussing this project with the GO Committee at the meeting scheduled for November 21.

copies:
Valerie Ervin, Council President
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Costis Toregas, Council Staff
Steve Emanuel, Chief Information Officer
David Dise, Director, Department of General Services
Joseph Adler, Director, Office of Human Resources
Jennifer Hughes, Director, Office of Management and Budget
Karen Plucinski, Acting Project Director, Technology Modernization Project

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County) as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 29, 2012. We did not audit the financial statements of Bethesda Urban Partnership, Inc. and Montgomery County Revenue Authority. The financial statements of Bethesda Urban Partnership, Inc. and Montgomery County Revenue Authority were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 over financial reporting 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 material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be

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prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-1 and 2011-2 to be a material weaknesses in internal control over financial reporting.

A significant deficiency is a deficiency or a 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 deficiencies described in the accompanying schedule of findings and responses as items 2011-3 through 2011-10 to be significant deficiencies.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the County in a separate letter dated March 29, 2012.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

CliftonLarsonAllen LLP

Baltimore, Maryland
March 29, 2012

1. Material Weaknesses in Internal Control Over Financial Reporting

FINDING 2011-1: Reconciliations

Condition
Reconciliations are performed over balance sheet accounts and historically, have been completed and reviewed on a timely basis. Due to the implementation of a new accounting system in the current year, policies and procedures required revision in order to appropriately reconcile accounts. However, we noted the following:

Cash
The County's bank reconciliations were not completed in a timely manner during the year. The June 30, 2011 bank reconciliation was not completed until February 2012 and included significant adjustments including unmatched items which increased the County's general ledger cash balance. Management informed us that the lack of timely bank reconciliations was a result of the conversion to a new system and new procedures associated with reconciling the cash accounts to the general ledger. Management enlisted the help of an outside consultant to assist them in the reconciliation process.

Loans
Housing Initiative loans were not reconciled between the subsidiary ledger maintained by the Department of Housing and Community Affairs and the general ledger throughout the year and at year end. We noted discrepancies between the subsidiary and general ledgers as well as the amounts confirmed by borrowers.

Contributions to the Employees' Retirement System
Contributions to the plans under the Employees' Retirement System (ERS) were not reconciled to the County payroll records and the ERS in a timely manner during the year. Failure to reconcile contributions to the ERS with the underlying payroll system can lead to contributions being credited to the incorrect plan and employee retirement account.

Criteria
COSO/Internal Control Framework requires adequate internal controls over timely reconciliations to ensure that transactions are properly recorded, and reduce the risk that errors will be undetected.

Cause
Due to the implementation of a new accounting system in the current year, policies and procedures required revision in order to appropriately reconcile accounts; however the revisions were not identified and/or made in a timely manner.

Effect
Failure to complete the reconciliation may result in errors not being detected and corrected in a timely manner. Additionally, management decisions may not be based on accurate information.

Recommendation
We recommend management review its current procedures and make necessary changes to ensure bank reconciliations, Housing Initiative loan reconciliations, and reconciliations to contributions to the ERS are prepared and reviewed on a monthly basis.

Management's Response:
The County concurs, that reconciliation for bank accounts, Montgomery Housing Initiative (MHI) loans, and retirement contributions were not done in a timely manner in FY11. The County was presented with many unexpected challenges related to the implementation of a new financial management system (ERP). These challenges included turnover of key ERP team members and home operation staff, software problems and system configuration issues and other institutional learning related issues.

The County has evaluated its organizational structure under a new ERP environment and has identified changes that need to occur. The County is also reviewing the business process and polices that are impacted by the new system to ensure that they properly leverage the new capabilities provided by the system. Finally, the County is exploring options to further automate financial activity that require significant manual effort such as bank reconciliation and loan activity.

FINDING 2011-2: Journal Entries

Condition
Procedures were inadequate to ensure that journal entries were properly approved prior to posting. During review of the grants fund, we determined that certain journal entries were prepared and entered in the accounting system without management approval. These journal entries required revision and resulted in management posting material adjustments to correct them.

Criteria
COSO/Internal Control Framework requires adequate internal controls over preparation and approval of journal entries to ensure transactions are properly recorded and the risk of errors failure to detect and correct errors is minimized.

Cause
Management informed us that these errors were the result of journal entries posted without proper approval.

Effect
This resulted in an overstatement of deferred revenue in the area of grants, which was corrected through audit adjustment.

Recommendation
We recommend that management review its existing policies and procedures and make necessary changes to ensure that all journal entries are reviewed prior to their posting to the accounting system.

Management's Response:
The County concurs with this finding. Management's policy is that all proposed journal entries be reviewed and approved by personnel with expertise in that particular area. Due to the special challenges the County faced in closing its financial books for FY11, the policy was not consistently followed as staff were working outside of normal business hours to expedite the completion of the financial statements.

2. Significant Deficiencies in Internal Control Over Financial Reporting

FINDING 2011-3: Annual CFO Certification of Municipal Solid Waste Landfill Facilities

Condition
The County did not complete its annual CFO certification of Financial Assurance Mechanisms for Local Government Owners and Operators of Municipal Solid Waste Landfill Facilities within the established time constraints.

Criteria
COSO/Internal Control Framework requires adequate internal controls to ensure reports are filed in a timely manner.

Cause
This was due to the fact that the audit was unable to be completed by December 31st, which is an integral part of the certification.

Effect
The certification was not filed within the required guidelines.

Recommendation
We recommend that management develop policies and procedures to ensure that the County financial systems are closed such that future audits and certifications are completed in a timely manner.

Management's Response:
The County concurs with this finding. The County has traditionally issued its financial statements on time. The FY11 audit was delayed primarily because of challenges associated with the County's new ERP system and the turnover of key staff.

FINDING 2011-4: Liquor Inventory

Condition
The price of liquor inventory items is not consistently supported by underlying invoices. Our testing of 71 inventory items yielded two instances where the cost was overstated.

Criteria
COSO/Internal Control Framework requires adequate internal controls to facilitate proper validation of inventory items.

Cause
Price adjustments should be made to adjust to distribution price increases as opposed solely to invoices paid.

Effect
Price valuations did not reflect the actual costs paid for the inventory which could cause misstatements of amounts recorded on financial statements.

Recommendation
We recommend management record liquor items at the invoice cost to ensure price adjustments are properly accounted for in the inventory valuation.

Management's Response:
The County concurs with this finding on liquor inventory. The Department of Liquor Control inventories are valued at market cost due to the limitations of the current Warehouse Management System (WMS). This practice of valuation has been in existence since the inception of the current WMS system, over ten years ago. There are essentially three categories of products in the inventory: Beer, Wine and Liquor. The prices for these items do not fluctuate much during the fiscal year, and these products have a relatively fast inventory turnover time.

The Department of Liquor Control has purchased a new ERP WMS to replace the current WMS system which was primarily developed in-house and is over ten years old. In FY13, the Department intends to finalize the selection of an integrator to begin the implementation of the ERP WMS replacement. The ERP WMS will be fully integrated with the County's ERP system. Subsequent to the implementation of the ERP WMS, the Department inventory valuation methodology will be consistent with industry practices.

FINDING 2011-5: Escrow Deposits

Condition
The subsidiary ledger for escrow deposits in the permitting services fund erroneously duplicated deposits included in the solid waste fund. In addition, the subsidiary ledger included deposits that had been refunded prior to the end of the fiscal year; however, the liability was not removed from the subsidiary ledger.

Criteria
COSO/Internal Control Framework requires adequate internal controls over timely reconciliations to ensure that transactions are properly recorded, and reduce the risk that errors will be undetected.

Cause
Management informed us that these errors were the result of the conversion of the data into the new ERP system and new procedures for tracking escrow deposit activity.

Effect
This resulted in an overstatement of the escrow deposit liability, which was corrected through audit adjustment.

Recommendation
We recommend that management review its existing policies and procedures and make necessary changes to ensure refunds issued are properly reflected in the subsidiary ledger. In addition, management has taken steps to correct the duplication of deposits related to the solid waste fund.

Management's Response:
The County concurs with this finding. The subsidiary ledger has been corrected to reflect the General Ledger balance. A refund process has been in place since March 2011 which ensures that the refunds are properly reflected in the subsidiary ledger. Permitting Services personnel will reconcile the subsidiary and general ledgers on a monthly basis.

FINDING 2011-6: Special Forgiveness Loans

Condition
The County had loans recorded as receivable even though the terms and conditions had been met for the loans to be forgiven; however they were not removed because the borrower had not requested forgiveness of them before year end.

Criteria
COSO/Internal Control Framework requires adequate internal controls to facilitate in the proper valuation of loans.

Cause
The County has special forgiveness loans where the balance owed by the borrower can be forgiven if certain terms and conditions have been met. While, the County reviews these loans regularly to determine if the terms and conditions have been satisfied based on information submitted by the borrower, the loan is not written off until the borrower formally requests forgiveness of their outstanding loan balance.

Effect
Failure to assess the collectability of loans may result in reporting inaccurate values in the financial statements on which management decisions are made.

Recommendation
We recommend that management review its policies and procedures for the recording of special forgiveness loans to ensure the likelihood of collectability is assessed and properly reflected in the financial statements at year end.

Management's Response:
The County concurs with the auditors that the collectability of loans in a portfolio need to be periodically assessed for financial reporting purposes. The County has a process in place to ensure at least the annual assessment of the collectability of loans in the MHI loan portfolio. This assessment was performed by DHCA. However, DHCA's assessment was based on a legal compliance criterion, rather than an economic or financial reporting criterion. Accordingly, even loans that had forgivable terms were not assessed uncollectible unless the borrower met the eligibility terms for forgiveness and specifically requested forgiveness.

The County plans to perform a comprehensive review of loans that have forgivable terms to determine the extent borrowers have met the eligibility requirements for forgiveness in Fiscal Year 2012. DHCA has also modified its policy regarding the collectability of loans and procedures that are followed for forgivable loans. Borrowers will now be contacted whose loans appear to have met the terms for forgiveness and obtain certifications from the borrowers that they have indeed met these terms. When DHCA receives a certification, the loan(s) will be forgiven. Finance will consistently maintain a reserve (allowance) for all loans with forgivable terms regardless if the borrower has met the forgiveness terms unless DHCA determines that a borrower is not likely to meet the terms and the loan is likely to be collected.

FINDING 2011-7: Cut-off Procedures - Duplicate Expenditures

Condition
Cut-off procedures were inadequate to identify expenditures which were inappropriately duplicated in one fiscal year, with the offsetting adjustment being recorded in next fiscal year. This resulted in an adjustment to eliminate duplication.

Criteria
COSO/Internal Control Framework requires adequate internal controls to ensure that transactions are properly recorded, and reduce the risk that errors will be undetected.

Cause
Management informed us that the inappropriate classification of expenditures between fiscal years was the result of the new accounting system and new procedures for ensuring proper cut-off at year end.

Effect
The net result was an understatement of expenditures in fiscal year 2011, which was corrected through audit adjustment.

Recommendation
We recommend management review its current procedures and make necessary changes to ensure expenditures are properly recorded in the correct fiscal year.

Management's Response:
The County concurs with this finding. The County is in the process of reviewing all of its year- end policies and procedures to ensure system users are properly instructed on how to perform year-end transactions and that year-end activity is properly monitored by the appropriate oversight entities.

FINDING 2011-8: Fixed Assets

Condition
The County does not have sufficient procedures in place to capture capital additions in the new ERP system.

Criteria
COSO/Internal Control Framework requires adequate internal controls to ensure that transactions are properly recorded, and reduce the risk that errors will be undetected.

Cause
This is due to a change in operations and effects general fixed assets that are reported on the government wide statements. In prior years, fixed asset additions were separately tracked and identified in the accounting system for budgetary purposes. With the change in operations related to the tracking of fixed assets, additional time and effort was needed to properly capture capital additions.

Effect
Without accurate fixed asset additions being recorded in the accounting system the county could misstate its assets in the financial statements.

Recommendation
We recommend management review its policies and procedures and make necessary changes to properly track and identify capital additions for financial reporting purposes

Management's Response:
The County concurs with this finding. The County is in the process of evaluating its existing policies and procedures over fixed asset additions to ensure accurate and complete recording of the assets. The County, however, does not believe that its budgeting methods impact its controls over financial reporting.

FINDING 2011-9: Land Sale Transaction

Condition
The County entered into an agreement for the construction of a County public parking garage by a private developer based on a guaranteed construction cost. The agreement called for the County to deed title to a parcel of County land as partial payment for the construction. The agreement was structured so that the agreed value of the land was to be initially credited against the construction costs until exhausted and then the County would make direct percentage construction payments to the Developer until the garage was completed. The initial land sale transaction with an assumed credit against construction was not recorded in the County's general ledger.

Criteria
COSO/Internal Control Framework requires adequate internal controls over timely reconciliations to ensure that transactions are properly recorded, and reduce the risk that errors will be undetected.

Cause
The transaction was not reviewed to ensure proper recording in the general ledger.

Effect
This resulted in an understatement in construction in progress, retainage payable and income from the sale of the land.

Recommendation
We recommend that management review its policies and procedures and make necessary changes to ensure all transactions are properly reflected in the general ledger.

Management's Response:
The County concurs with this finding. The oversight in recording this transaction was primarily the result of three factors: unusual nature of the transaction, implementation of the new financial system, and turnover of key parking program personnel. This transaction was unusual as it was the first time where a sale of Parking Lot District land resulted in a non-cash transaction – a credit against future construction, rather than cash proceeds.

Complicating the situation, a key parking division financial position became vacant at the same time that the County was dealing with challenges associated with the new financial system. This impeded parking staff from a more thorough analysis of this unusual transaction. The key position has since been filled, and improved communication processes are being established between Parking and Finance staff, to ensure appropriate and timely analysis and financial reporting of unusual transactions.

FINDING 2011-10: Depreciation Expense

Condition
During the County's conversion of fixed assets into the new accounting system, the useful lives for certain additions to existing assets were incorrectly converted. The County identified and corrected the issue; however did not verify that the system had properly calculated depreciation expense as a result of this correction. Therefore, there was an overstatement of depreciation expense for the current year. This resulted in an overstatement of depreciation expense for the current year which was corrected through audit adjustment.

Criteria
COSO/Internal Control Framework requires adequate internal controls to ensure that transactions are properly recorded, and reduce the risk that errors will be undetected.

Cause
The County personnel failed to thoroughly review the adjustment made in the system.

Effect
There was an overstatement of depreciation expense for the current year which was corrected through audit adjustment.

Recommendation
We recommend management review its policies and procedures and make necessary changes to ensure depreciation expense is properly recorded in the general ledger.

Management Response:
The County concurs with the audit finding. Some assets were converted with remaining useful lives rather than full useful lives. The County considers this conversion issue part of the institutional learning associated with a new system.

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

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

We have completed our audit of the Montgomery County, Maryland (the County) financial statements as of and for the year ended June 30, 2011, and have issued our report dated March 29, 2012. In connection with our audit engagement, we noted the following matters which we would like to bring to your attention.

BANK RECONCILIATIONS

The bank reconciliation for the detention center did not include a listing of outstanding checks. Currently, the accounting system used by the detention center does not provide an outstanding check listing for review; therefore, for bank reconciliation purposes, the detention center uses a formula to determine the total amount of outstanding checks as of the reconciliation date. We recommend the County review its policies and procedures and make necessary changes for reconciling the cash account for the detention center so that a detailed outstanding check list is available for all accounts to ensure old, outstanding checks are written off when appropriate.

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

CliftonLarsonAllen LLP

Baltimore, Maryland
March 29, 2012

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

March 29, 2012

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

This letter is to provide you with information about significant matters related to our audit of the financial statements of Montgomery County, Maryland (the County) for the year ended June 30, 2011. It is intended solely for County Council and should not be used by anyone other than this specified party.

We have provided a separate letter, dated March 29, 2012, concerning the internal control conditions that we noted during our audit.

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

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

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

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

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

Qualitative Aspects of Accounting Practices.

Accounting Policies
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. During the year ended June 30, 2011, the County adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54).

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

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

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

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

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

- The allowance for uncollectible loans is based on loans that have met terms and conditions to be forgivable; however, the loan was not written off at year-end.

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

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

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

Difficulties Encountered in Performing the Audit. The following are significant difficulties in dealing with management related to the performance of our audit.

The completion of the audit was delayed as a result of the implementation of the new accounting system. Difficulties were encountered in obtaining account analyses supporting general ledger balances and account reconciliations. Many of the reconciliations were not completed in a timely manner.

Corrected Misstatements. The attached Exhibit A summarizes corrected misstatements, other than those that are trivial, that were brought to the attention of management as a result of audit procedures. Management has corrected all such misstatements.

Uncorrected Misstatements. The attached Exhibit B summarizes uncorrected misstatements, other than those that are trivial, aggregated by us during our current audit and pertaining to the most recent period presented in the financial statements. Management has determined that these uncorrected misstatements are immaterial, both individually and 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 C.

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

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

CliftonLarsonAllen LLP

AUDIT ADJUSTEMENT SUMMARY
Montgomery County, Maryland
Year Ended 06/30/11

Description	Assets	Liabilities	Fund Balance/Net Assets	Net Expense/Revenue and Change in Net Assets/Fund Balances
Governmental Activities/Funds:				
To record allowance for loan losses - grant fund	$ (7,436,084)	$ (7,436,084)	$ -	$ -
To record allowance for loan losses - housing initiative fund	(11,538,941)	-	(11,538,941)	(11,538,941)
To record adjustments to loans receivable - housing initiative fund	(268,516)	-	(268,516)	(268,516)
To reverse journal entries recorded in error - grants fund	(17,742,228)	(17,742,228)	-	-
Total adjustments for governmental funds	(36,985,769)	(25,178,312)	(11,807,457)	(11,807,457)
To adjust depreciation for error in calculation - governmental activities only	4,712,907	-	4,712,907	4,712,907
Total adjustments for Governmental Activities	$ (32,272,862)	$ (25,178,312)	$ (7,094,550)	$ (7,094,550)
Business Type Activites/Enterprise Funds:				
To reduce escrow deposit liablity for refunds prior to 6/30/11	$ (454,619)	$ (454,619)	$ -	$ -
To reduce escrow deposit liability for solid waste deposits recorded in error	(477,191)	(477,191)	-	-
To record sale of land and construction in progress related to parking lot districts	1,543,263	272,873	1,270,390	1,270,390
Total adjustments for Business Type Activities/Enterprise Funds	$ 611,453	$ (658,937)	$ 1,270,390	$ 1,270,390

Note: The above amounts are listed as either debits or (credits).

PASSED ADJUSTMENT SUMMARY
Montgomery County, Maryland
Non major governmental and Internal Service funds
Year Ended 06/30/11

Description	Assets	Liabilities	Fund Balance/Net Assets	Net Expense/Revenue and Change in Net Assets/Fund Balances
To adjust expenditures recorded in error	$	$ -	$ (468,465)	$ (468,465)
Net current year misstatements	-	-	(468,465)	(468,465)
Net prior year misstatements	-	-		
Total misstatements	$ -	$ -	$ (468,465)	$ (468,465)

Note: The above amounts are listed as either debits or (credits).

PASSED ADJUSTMENT SUMMARY
Montgomery County, Maryland
Liquor Fund
Year Ended 06/30/11

Description	Assets	Liabilities	Fund Balance/Net Assets	Net Expense/Revenue and Change in Net Assets/Fund Balances
Valuation of liquor inventory overstated	$ (279,580)	$	$ 279,580	$
Net current year misstatements	(279,580)	-	279,580	-
Net prior year misstatements	-	-		
Total misstatements	$ (279,580)	$ -	$ 279,580	$ -

Note: The above amounts are listed as either debits or (credits).

ROCKVILLE, MARYLAND

March 29, 2012

CliftonLarsonAllen, LLP
9515 Deereco Road, Suite 500
Timonium, Maryland 21093

We are providing this letter in connection with your audit of the basic financial statements of Montgomery County, Maryland (the County) as of June 30, 2011 and for the year then ended for the purpose of expressing an opinion as to whether the basic financial statements present fairly the financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the respective changes in financial position and cash flows, where applicable of the County in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position and results of operations of the County and the cash flows of its proprietary fund types and nonexpendable trust funds, and the respective budgetary comparison for the general fund in conformity with accounting principles generally accepted in the United States of America. Although CliftonLarsonAllen, LLP may have made suggestions as to the form and content of the financial statements or even prepared them in whole or in part, we acknowledge our responsibility for the review and approval of the financial statement amounts and disclosures, and understand the financial statements remain the representations of our management.

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

We confirm, to the best of our knowledge and belief, as of March 29, 2012, the following representations made to you during your audit.

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

2. We have made available to you all:

    a. Financial records and related data.

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

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

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

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

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

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

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

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

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

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

   d. Fund balance classifications for governmental funds are properly recorded in accordance with GASB 54.

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

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

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

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

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

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

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

9. We believe the effects of the uncorrected financial statement misstatements summarized in the accompanying Exhibit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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

11. We have no knowledge of any fraud or suspected fraud affecting the County 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.

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

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

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

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

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

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

    d. Agreements to repurchase assets previously sold.

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

15. There are no:

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

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

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

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

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

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

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

20. With respect to federal award programs:

    a. We are responsible for complying, and have complied, with the requirements of Circular A-133.

    b. We have prepared the Schedule of Expenditures of Federal Awards (SEFA) in accordance with Circular A-133 and have included all expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property including donated surplus property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

    c. We acknowledge our responsibility for presenting the SEFA in accordance with the requirements of OMB Circular A-133 Section 310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

    d. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

    e. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs.

    f. We are responsible for establishing and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal programs.

    g. We have identified and disclosed to you the requirements of laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program.

    h. We have made available all contracts and grant agreements related to federal programs (including amendments, if any) and any related correspondence that has taken place with federal agencies or pass-through entities.

    i. We have complied, in all material respects, with the compliance requirements in connection with federal awards except as we have disclosed to you.

j. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.

k. Our interpretations of any compliance requirements that have varying interpretations have been provided to you.

l. We have made available all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

m. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with that presented in the schedule of expenditures of federal awards.

n. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

o. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of Circular A-133.

p. We have taken appropriate action, including issuing management decisions on a timely basis after the receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.

q. We have considered the results of subrecipient audits and have made any necessary adjustments to our own books and records.

r. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by Circular A-133.

s. We have made available to you all audit or monitoring reports, if any, received from funding sources.

t. We have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

u. We are responsible for taking corrective action on audit findings of the compliance audit.

v. We have accurately completed the appropriate sections of the data collection form and we are responsible for preparing and implementing a corrective action plan for each audit finding.

w. We have disclosed all contracts or other agreements with the service organizations.

x. We have disclosed all communications from the service organization relating to noncompliance at the service organization.

y. We have disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.

z. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and/or material weaknesses, have occurred subsequent to the date as of which compliance is audited.

aa. We have included and separately identified all expenditures of funds provided by the American Recovery and Reinvestment Act of 2009 (ARRA) in the Schedule of Expenditures of Federal Awards.

bb. We have complied with all ARRA reporting requirements as required by the grantor or cognizant agency.

cc. All allowable costs and activities were in accordance with OMB Circular A-87.

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

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

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

24. 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.

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

Timothy L. Firestine
Chief Administrative Officer

Joseph F. Beach
Director, Department of Finance

Karen Q. Hawkins
Chief Operating Officer

Lenny Moore
Controller

PASSED ADJUSTMENT SUMMARY
Montgomery County, Maryland
Aggregate Remaining
Year Ended 06/30/11

Description	Assets	Liabilities	Fund Balance/Net Assets	Net Expense/Revenue and Change in Net Assets/Fund Balances
To adjust expenditures recorded in error	$	$ -	$ (468,465)	$ (468,465)
Net current year misstatements	-	-	(468,465)	(468,465)
Net prior year misstatements	-	-		
Total misstatements	$ -	$ -	$ (468,465)	$ (468,465)

Note: The above amounts are listed as either debits or (credits).

PASSED ADJUSTMENT SUMMARY
Montgomery County, Maryland
Liquor Fund
Year Ended 06/30/11

Description	Assets	Liabilities	Fund Balance/Net Assets	Net Expense/Revenue and Change in Net Assets/Fund Balances
Valuation of liquor inventory overstated	$ (279,580)	$	$ 279,580	$
Net current year misstatements	(279,580)	-	279,580	-
Net prior year misstatements	-	-		
Total misstatements	$ (279,580)	$ -	$ 279,580	$ -

Note: The above amounts are listed as either debits or (credits).

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

April 20, 2012

TO: Roger Berliner, Council President

FROM: Isiah Leggett, County Executive

SUBJECT: **Response to Management Letter from CliftonLarsonAllen, LLP for the Audit of County Government Financial Statements for the Fiscal Year Ended June 30, 2011**

Enclosed please find the Executive Branch's formal response to the Management Letter referenced above.

We look forward to discussing the recommendations, and the County's progress in implementing improvements, with the Audit Committee on April 25, 2012. If you, or your staff, have any questions relating to the attached prior to that date, please contact Joseph Beach, Director, Department of Finance, at 240-777-8870.

Attachment

cc: Timothy Firestine, Chief Administrative Officer
Joseph Beach, Director, Department of Finance
Linda Herman, Executive Director, Board of Investment Trustees
Jennifer Hughes, Director, Office of Management and Budget
Kathleen Boucher, Assistant Chief Administrative Officer
Arthur Wallenstein, Director, Department of Corrections and Rehabilitation

Attachment

County Response to Management Letter
For the Audit of County Government Financial Statements
For the Fiscal Year Ended June 30, 2011

BANK RECONCILIATIONS

Recommendation:

The bank reconciliation for the detention center did not include a listing of outstanding checks. Currently, the accounting system used by the detention center does not provide an outstanding check listing for review; therefore, for bank reconciliation purposes, the detention center uses a formula to determine the total amount of outstanding checks as of the reconciliation date. We recommend the County review its policies and procedures and make necessary changes for reconciling the cash account for the detention center so that a detailed outstanding check list is available for all accounts to ensure old, outstanding checks are written off when appropriate.

Response:

The County concurs that a detailed list of outstanding checks would be preferred to its current method. However, its current method has been in use since 2002 and was developed based on consultation with both the County's external and internal auditors. When the Department of Correction (DOCR) converted its system used to account for the detention center inmate banking activity, the details of outstanding checks were not converted to the new system. The new system also was not programmed to maintain a detailed listing of outstanding checks.

DOCR has initiated three changes to its bank statement reconciliation operations that should improve this process. DOCR has begun identifying detailed information on all outstanding checks and reporting information to the Department of Finance (DOF) for checks outstanding for 3 or more years. DOF reports the checks to the State as abandoned property. DOCR asked its system vendor to re-program the banking features of its software to include the capacity to automatically keep track of outstanding checks. DOCR is also planning to start issuing secured release cards to released inmates rather than checks.

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

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

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

We have audited the financial statements of Montgomery County Employees' Retirement Plans (the Plans) as of and for the year ended June 30, 2011, and have issued our report thereon dated March 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

CliftonLarsonAllen LLP

Baltimore, Maryland
March 15, 2012

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

March 15, 2012

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

This letter is to provide you with information about significant matters related to our audit of the financial statements of Montgomery County Employees' Retirement Plans (the Plans) for the year ended June 30, 2011. It is intended solely for the Board 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.

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

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

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

Qualitative Aspects of Accounting Practices.

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

During the year ended June 30, 2011, the Plans' adopted Governmental Accounting Standards Board Statement No. 59, *Financial Instruments Omnibus* (GASB 59). The adoption of GASB 59 did not have a material impact on the Plans' financial statements as a whole.

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

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

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

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

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

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

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

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

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

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

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

CliftonLarsonAllen LLP

BOARD OF INVESTMENT TRUSTEES

March 15, 2012

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

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

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

We confirm, to the best of our knowledge and belief, as of March 15, 2012, the following representations made to you during your audit:

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

2. With respect to actuarial assumptions and valuations:

    a. The plan administrator accepts the actuarial methods and assumptions used by the Employees' Retirement System (ERS) actuary for funding purposes and for determining accumulated plan benefit and has no knowledge or belief that would make such methods or assumptions inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to the ERS actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence of or objectivity of the actuary.

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

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

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

3. We have made available to you all:

   a. Financial records and related data.

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

   c. Amendments to the plan document.

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

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

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

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

   a. Management of the Plans.

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

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

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

8. The methods and significant assumptions used to estimate the fair values of financial instruments result in a measure of fair value appropriate for financial measurement and disclosure purposes.

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

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

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

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

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

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

    d. Information about the collateral supporting such financial statements.

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

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

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

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

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

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

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

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

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

f. Amendments to the Plan Document.

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

h. All significant estimate and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position (SOP) 94-6, Disclosure of Certain Significant Risks and Uncertainties. We understand significant estimates are estimates at the date of the statement of net assets which could change materially within the next year. Concentrations refer to the nature and type of individual investments, volumes of business, revenues, available sources of supply, or markets or geographic areas for which it is reasonably possible that events could occur which would significantly disrupt normal finances within the next year. Concentrations include material sources of financing, including off-balance sheet arrangements and transactions with unconsolidated, limited purpose entities, and contingencies inherent in the arrangements, that are reasonably likely to affect the continued availability of liquidity and financing.

i. Changes in accounting principles affecting consistency.

14. There are no:

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

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

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

15. We believe the Plans, and trusts established under the Plans, are qualified under the appropriate section of the Internal Revenue Code, and we intend to continue them as qualified plans and trusts.

16. 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 the accrued or disclosed.

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

17. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed..

18. 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.

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

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

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

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

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

Timothy L. Firestine
Chief Administrative Officer
Plan Administrator

Jeffrey Sharpe
Chair, Board of Investments Trustees

Linda A. Herman
Executive Director
Board of Investments Trustees

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

17. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed..

18. 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.

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

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

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

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

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

Timothy L. Firestine
Chief Administrative Officer
Plan Administrator

Jeffrey Sharpe
Chair, Board of Investments Trustees