MFP/Audit Committee #1, #2, #3
April 8, 2010
Briefing/Action

MEMORANDUM

April 6, 2010

TO: MFP Committee meeting as the Audit Committee

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

SUBJECT: **FY09 Audit and Management Letters Review, Audit Contract Renewal, and Discussion of Proposed FY11 Budget for the Office of Internal Audit**

On April 8th, the MFP Committee meeting as the Audit Committee has three scheduled agenda items. They are:

1. A review of the Reports on Internal Control and the Management Letters for the FY09 audits of (1) the County Government Financial Statements; (2) the Employees' Retirement System Plans; and (3) the local fire and rescue corporations;
2. Action regarding renewal of the audit contracts with Clifton Gunderson LLP and Rager, Lehman & Houck, P.C. for FY10 audit services; and
3. A discussion of the County Executive's proposed FY11 budget for the Office of Internal Audit.

The following Executive Branch representatives and staff from the independent auditors are scheduled to attend today's worksession to discuss items #1 and #2 above:

Executive Branch Staff	
Department of Finance	Jennifer Barrett, Director Karen Hawkins, Chief Operating Officer Lenny Moore, Controller
Board of Investment Trustees	Linda Herman, Executive Director
Montgomery County Fire & Rescue Service	Richard Bowers, Fire Chief Dominic Del Pozzo, Budget Manager
Independent Auditors' Staff	
Clifton Gunderson LLP	Keith Novak Aires Coleman
Rager, Lehman & Houck, P.C.	Harriet Gillen
Key & Associates	Beatrice Key

Larry Dyckman from the Office of Internal Audit will attend today's worksession to discuss item #3.

OLO recommends the following agenda for today's meeting:

Item	Description	See Page	Documents begin on ©
A.	**Discussion with Clifton Gunderson** – Audit of the County Government's FY09 Financial Statements	3	©1
B.	**Discussion with Clifton Gunderson** – Audit of the Montgomery County Employees' Retirement Plans	4	©5
C.	**Discussion with Rager, Lehman & Houck** – Audits of the FY09 financial statements of Montgomery County's local fire and rescue corporations	4	©9
D.	**Discussion** – Other related Clifton Gunderson work	10	n/a
E.	**Discussion and Action** – Contract amendments to contracts with Clifton Gunderson and Rager, Lehman & Houck for professional auditing services	10	©37
F.	**Discussion** - County Executive's Proposed FY11 Budget for the Office of Internal Audit	12	n/a

Background Information

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

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

Attachments	Begins on
Report on Internal Controls for the FY09 audit of the County Government Financial Statements	©1
Management Letter for the FY09 audit of the County Government Financial Statements	©4
Report on Internal Controls for the FY09 audit of the Employees' Retirement System Plans	©5
Executive Branch Response to the FY09 Management Letter for the County Government Financial Statements	©7
Management Letters for the FY09 audits of the Fire and Rescue Corporations	©9
Amendment #4 to the Council's contract with Clifton Gunderson for professional auditing services	©37
Amendment #3 to the Council's contract with Rager, Lehman & Houck for professional auditing services	©41
Rager, Lehman & Houck Request for Fee Increase	©43

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

A. FY 2009 Audit of the County Government Financial Statements

Clifton Gunderson audited the basic financial statements of Montgomery County for the year ended June 30, 2009. The auditors found that the financial statements present fairly, in all material respects, the financial position of the County.

In its Report on Internal Control, Clifton Gunderson reported one significant deficiency related to the County Government's recording of other post employment benefits (OPEB) liability. In its Management Letter, Clifton Gunderson noted one matter related to temporary vendors. Clifton Gunderson's recommendations regarding the significant deficiency and the noted matter and the County Executive's responses are summarized in the table below.

The Report on Internal Control and the Management Letter are attached at ©1 and ©4, respectively and the County Executive's written response is attached at ©7.

From Clifton Gunderson's Report on Internal Control	
Significant Deficiency – Recording of OPEB Liability	
Auditor's Comment and Recommendation:	**County Executive's Response:**
"During our review of the liability related to other post employment benefits, we noted that the liability recorded represented only the current year portion of the liability and not the cumulative liability. The liability related to other post employment benefits is only recorded once a year, and while management's initial review of the entry did not detect the error, compensating controls, which include management review of the financial statements, are currently in place. We recommend that management review all year-end audit schedules for accuracy and completeness of financial reporting. In addition, we recommend that management remain aware of, and follow, the compensating controls in place to ensure the financial statements are free of material misstatements."	*"We concur with the Auditor's recommendation. As noted by the Auditor above, we have an extensive review process already in place over the financial statements and supporting schedules and adjustments. A key management vacancy hampered the process with regard to the internally calculated cumulative liability associated with other post employment benefits (OPEB). This was the first year requiring this cumulative calculation for OPEB. This key management position has since been filled. We are also adding more explanatory documentation to year-end workpapers to avoid this situation in the future."*
From Clifton Gunderson's Management Letter	
Noted Matter – Temporary Vendors	
Auditor's Comment and Recommendation:	**County Executive's Response:**
"During our review of the purchasing system, we noted that there was no periodic review and purging of temporary vendors in the system. As of October 2009, we noted approximately 180,000 temporary vendors in the purchasing system. There is a risk that temporary or dormant vendors will be utilized in order to conceal fictitious payments. We recommend management routinely review all temporary vendors in the system and purge or put on inactive status those vendors that are not currently used or no longer needed.	*"Use of temporary vendors is a standard functionality for processing refunds embedded in the County's FAMIS financial system, not the ADPICS purchasing system. While purging did take place, it was not established as part of a standard schedule process and therefore allowed for the accumulation of a large number of these vendors in the system. The new financial system, Oracle's eBusiness Suite (EBS), which is currently being implemented, will eliminate the need for such a standard scheduled process. The temporary vendors that are currently in the County's legacy financial system will not be brought over to EBS."*

B. FY 2009 Audit of the County Employees' Retirement System Plans

Clifton Gunderson audited the statement of plan net assets of the Montgomery County Employees' Retirement Plans for the year ended June 30, 2009. The auditors found that the financial statements present fairly, in all material respects, the net assets of the Plans and the changes in plan net assets. Clifton Gunderson did not identify any matters involving internal control over financial reporting and its operation that Clifton Gunderson considers to be a material weakness for the Retirement Plans' financial statements, and the Report on Internal Control does not include any comments or recommendations (©5).

C. FY 2009 Audit of the Fire and Rescue Corporations

Rager, Lehman & Houck, P.C. ("Rager" or "Auditor") completed the audits of the fire and rescue corporation financial statements for the year ended June 30, 2009. The auditor prepared financial statements for each corporation (available from OLO) and submitted Management Letters (beginning at ©9) for eight of the 18 local fire and rescue departments (LFRDs).

Some of the LFRDs provided written responses to draft Management Letter comments, which Rager, Lehman & Houck incorporated into the final Management Letters. LFRD responses are referenced in the description of each comment. Executive Branch staff will be prepared to discuss their response to the Management Letters at the April 8th MFP/Audit Committee meeting.

The table on the next page summarizes the number and type of comments provided by the Auditor in the Management Letters. For comparison, the table also includes the number and type of comments received last year. Summaries of the Auditor's findings and recommendations follow the table.

Summary of the Number and Type of Management Letter Comments on the Local Fire and Rescue Departments

Local Fire and Rescue Department	# of Control Deficiencies	# of Significant Deficiencies	# of Material Weaknesses	Comments being on page...
	Lowest Risk	⟶	Greatest Risk	
Bethesda Fire Department, Inc.				
FY09 Audit			**6**	5
FY08 Audit			7	
Burtonsville Volunteer Fire Department, Inc.				
FY09 Audit		**1**		7
FY08 Audit*				
Chevy Chase Fire Department, Inc.				
FY09 Audit	**2**			7
FY08 Audit	2			
Damascus Volunteer Fire Department, Inc.				
FY09 Audit	**4**			7
FY08 Audit	6			
Germantown Volunteer Fire Department, Inc.				
FY09 Audit	**1**			8
FY08 Audit	4			
Laytonsville District Volunteer Fire Department, Inc.				
FY09 Audit	**2**			8
FY08 Audit	2			
Sandy Spring Volunteer Fire Department, Inc.				
FY09 Audit	**2**	**1**	**2**	8
FY08 Audit	7		3	
Wheaton Volunteer Rescue Squad, Inc.				
FY09 Audit		**1**	**3**	9
FY08 Audit	3	1		

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

Bethesda Fire Department, Inc.

LFRD comments begin at ©10.

1. Material Weakness – Management Oversight

Rager, Lehman & Houck noted that the Board of Directors is responsible for the financial and administrative oversight of the Corporation. This includes "financial oversight and management of all funds, including tax-related funds, and providing and maintaining written records of all-tax related financial records for review and audit."

Rager noted that the Corporation saw two changes in the Administrative Officer position between November 2008 and May 2009, including an employee from a temporary staffing agency. During the audit process, which included this transitional time period, Rager found "several unusual activities" in the Corporation's finances. Specifically:

During this year of transition, several unusual activities occurred that were subsequently discovered by third parties not connected with management. The temp agency discovered that their employee had been misstating hours on her time sheets and claiming substantial overtime. She was subsequently terminated and the Organization was refunded approximately $5,000 for overbillings. These errors could have been avoided if the Board had provided sufficient oversight and approvals for the hours that were being reported.

In addition, during the process of testing cash disbursements, Rager found that all credit card statements for the year were missing except for April and May 2009. Rager tested those two statements and found:

> [T]wo monthly payments made for $200 each to Comcast of Prince Georges County for which there were no receipts. The Organization contacted Comcast and verified that those payments were not applied to any of the current VFD accounts. The Treasurer then issued instructions to file a fraud report with the credit card issuer.

Rager recommended that the Corporation:

> [I]mplement control procedures and a system of oversight to ensure that the accounting functions are adequately supervised; checks are signed only when supporting documentation is provided and approved, account records are maintained in a well-organized manner, and financial reports are accurate and complete. The LFRD accounting manual is an excellent guide. *This is a repeat recommendation from the June 30, 2008 audit.* (emphasis added)

2. Material Weakness – Cash Management

Rager noted that the fire tax checking account "was overdrawn many times throughout the year" and [t]here were numerous instances were checks were returned for insufficient funds." Rager found that the Corporation used credit cards more frequently and that "credit card statements we reviewed included late payment fees, an additional expense that could be avoided with proper cash management."

Rager also found that the Corporation did not reconcile its bank statements during the third quarter of the fiscal year and that reconciliations done in the fourth quarter "contained errors and were not properly agreed to the bank balance or the general ledger balance." Rager advised that "[m]onthly reconciliations should be reviewed and approved by the Board."

3. Material Weakness – Timely Submission of Reimbursement Requests

Rager found that the Corporation did not submit requests for fuel, utilities, and maintenance expenses to the County "on a regular, timely basis," contributing to cash flow shortages. Rager recommends implementing standard procedures to ensure that reimbursement requests are submitted monthly and are reviewed and approved by the Board.

4. Material Weakness – Accounts Payable and Cash Disbursement Accounting Cycle

Rager found that the Corporation did not process vendors properly in its accounting software and that the Corporation only recorded expenses when checks were written, instead of when the expense was incurred. Rager found "duplicate check numbers and fund balance discrepancies and adjustments."

Rager also indicated that "the Treasurer stated that checks were signed during the year without proper review of supporting documentation and without questioning items." Rager recommends that the Corporation "maintain their books on the accrual basis of accounting to ensure that proper matching of revenue and expenses occurs."

5. Material Weakness – Purchase Orders

The Auditor found that the Corporation was not properly using purchase orders for all purchases. Rager recommends implementing procedures to approve a purchase order before the payment of an invoice to "ensure the transaction is a legitimate transaction and is being recorded in the manner that the approver of the purchase intended."

6. Material Weakness – Payroll Approvals

Rager found that "[t]he Organization did not retain copies of approved time sheets and related County-generated payroll journals throughout the year. Reconciliations were not performed to ensure that amounts paid agreed to what was submitted." Rager noted that "[p]ayroll is a large expense for the VFD, and management oversight is an essential control for this area."

Burtonsville Volunteer Fire Department, Inc.

LFRD comments begin at ©16.

1. Significant Deficiency – Bank Reconciliations

Rager, Lehman & Houck found that the Corporation was not performing bank reconciliations in a timely manner. The Auditor recommends timely reviewing each statement and reconciling it shortly thereafter.

Chevy Chase Fire Department, Inc.

LFRD comments begin at ©19.

1. Control Deficiency – Bid Process

Rager, Lehman & Houck found that two large purchases were not put through a bid process before the purchases were approved, as required by the Local Fire and Rescue Department (LFRD) Accounting Procedure Manual. The Auditor recommends developing procedures to ensure competitive bids are obtained and noted that "[t]his is a recurring recommendation."

2. Control Deficiency – Purchase Order Approvals

Rager found that the Office Services Coordinator (OSC) signed all purchase orders after receiving verbal approval from the President or the captain on duty. The Auditor recommends that the President or captain on duty sign purchase orders "to properly document their approval and eliminate possible errors."

Damascus Volunteer Fire Department, Inc.

LFRD comments begin at ©22.

1. Control Deficiency – Accounting Software Backup

Rager, Lehman & Houck found that the OSC stored the backup file for the accounting software in her desk. Rager recommends storing backup files at a different location such as an on-site, fireproof safe.

2. CONTROL DEFICIENCY – SEGREGATION OF DUTIES

Rager recommends that management review bank reconciliations after they are performed by the OSC.

3. CONTROL DEFICIENCY – BUDGETING

Rager noted that the Corporation has not reassessed budget amounts for expenses annually, but rather rolled over the budget from year to year. The Auditor recommends that senior management reassess the budget from year to year based on shifts in price, quantity needed, and/or revenues.

4. CONTROL DEFICIENCY – RECORDING DISBURSEMENTS IN QUICKBOOKS

Rager noted two instances where an account number noted on a purchase order did not match the account coding in the general ledger. The Auditor recommends noting approval of any changes in account coding on a purchase order.

Germantown Volunteer Fire Department, Inc.

LFRD comments begin at ©25.

1. CONTROL DEFICIENCY – CASH DISBURSEMENT CONTROLS

Rager, Lehman & Houck found that supporting documentation was not available for one credit card statement. The Auditor recommends not authorizing payment unless supporting documentation is available for review and approval.

Laytonsville District Volunteer Fire Department, Inc.

1. CONTROL DEFICIENCY – CASH MANAGEMENT

Rager, Lehman & Houck found that the fire tax fund was overdrawn at June 30, 2009. The Auditor recommends that "management monitor cash flow need to ensure that bills are not paid until sufficient funds are available to cover the disbursements."

2. CONTROL DEFICIENCY – ACCOUNTANT FEES

Rager, Lehman & Houck found that the Corporation was paying for professional CPA services directly from the fire tax fund, rather than allocating the expense between private and tax funds. The Auditor recommends allocating the expenses between the two funds per County guidance.

Sandy Spring Volunteer Fire Department, Inc.

LFRD comments begin at ©30.

1. MATERIAL WEAKNESS – QUICKBOOKS TRANSACTION EDITING

Rager, Lehman & Houck found that Corporation personnel "frequently utilized a feature in QuickBooks that allows them to edit or delete existing transactions when they find errors in them later on. Previously approved transactions and reports can be changed, and there is no audit trail." The Auditor recommends that the Corporation discontinue this practice and use journal entries to revise transactions and that management review and approve all journal entries.

2. Material Weakness – Commingling of Funds

Rager found that the Corporation reimbursed the tax fund for payments from the fund for "uses outside the stated purpose of the tax fund." The Auditor recommends improving the invoice approval process to ensure that fund activity is properly segregated, noting that the Board of Directors has a fiduciary responsibility to monitor tax fund expenditures "to ensure that only approved items are paid with these funds."

3. Significant Deficiency – Bank Reconciliations

Rager found that the Corporation was not performing bank statement reconciliations in a timely manner. The Auditor recommends that the Treasurer review each bank statement in a timely manner and that the reconciliation be performed shortly thereafter. "The timeliness of this process is crucial to the board, as it relies on timely and reliable reporting from OSC and the treasurer to perform its duties of financial oversight."

4. Control Deficiency – Year-End Accounting Clean-Up

Rager found several accounting record errors that the Auditor believes should have been corrected prior to the Auditor's arrival. The Auditor expects "that the records of the organization are reconciled with supporting documents by management when we arrive for the audit." Rager noted that its staff spent "a significant amount of time" resolving bookkeeping issues and indicated that in the future it will return errors to the department for correction before performing auditing procedures. The Auditor recommends that the Corporation hire a third-party accountant to assist with year-end financial matters.

5. Control Deficiency – Financial Reporting to Board

Rager recommends that in addition to the other materials reviewed monthly by the board, that the board review the monthly check register. "This process will provide the board with an extra layer of assurance that the decisions made on disbursements are being carried out as intended."

Wheaton Volunteer Rescue Squad, Inc.

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

Rager, Lehman & Houck found that the Corporation only used the QuickBooks finance software to generate checks. Rager was required to work with a CPA consultant to properly record all financial activity that occurred during the year in order to generate end-of-year financial statements. The financial statements were generated through Excel worksheets. The Auditor recommends that the Corporation develop procedures to ensure that all transactions are recorded in the QuickBooks general ledger on a monthly basis.

2. Material Weakness – Comingling of Funds

Rager found that the Corporation's tax fund still owed the private fund $10,791 as of June 30, 2009. The Auditor reiterated its note from the Corporation's 2008 Management Letter that County, State, and private funds should be kept separately and that loans among funds are prohibited. The Auditor recommends that the Corporation pay the funds back immediately.

3. Material Weakness – Fund Balance Adjustments

Rager found that adjustments had to be made to the beginning balances of fire tax district funds and to state grant funds. Because the Corporation does not keep separate accounting records for the separate funds, "equity balances were intermingled." The Auditor recommends that the Corporation create and use separate general ledgers to record the activities of the two funds.

4. Significant Deficiency – Purchase Orders

Rager found that purchase orders were not issued for five items reviewed by the Auditor. The Auditor recommends developing a system to ensure that purchase orders are used for all expenditures.

D. Audit of the Montgomery County Union Employees Deferred Compensation Plan

On February 24, 2010, the Council President signed a contract amendment to allow Clifton Gunderson to perform an audit of the financial statements of the Montgomery County Union Employees Deferred Compensation Plan for the year ended December 31, 2009. The contract amendment specifies that the work will be completed by April 30, 2010.

The Audit Contract Administrator will distribute to MFP/Audit Committee members the reports related to that work when they are received. The Committee will then be able to review Clifton Gunderson's findings at its next meeting.

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

1. Clifton Gunderson – Amendment #4 to the contract for professional auditing services

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

Amendment #4 (attached at ©37) renews the contract for one additional year, the third year of the audit engagement, to complete the FY10 audit. The County Attorney's Office reviewed the amendment for form and legality.

According to the Council's contract with Clifton Gunderson, the fees for audit services are fixed for the first two years of the contract. After the second year, the Auditor may request a fee increase. Clifton Gunderson chose not to request an increase in fees for work related to the FY10 audit. Therefore, the contract amendment does not reflect any fee increase.

Amendment #4 indicates that the cost for FY10 audit services totals $315,440. The work outlined in the amendment is summarized in the table below.

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

*See discussion below about the Single Audit

Report on Expenditures of Federal Awards ("Single Audit") – Differences in FY10 Audit. Every year, under its contract with the Council, the auditor (currently Clifton Gunderson) performs work related to the County Government's reporting to the Federal Government on the County Government's spending of federal funds. Each year, the auditor is required under federal guidelines to "test" certain County Government programs that use federal funds. This is commonly referred to as the "Single Audit." Typically, the auditor tests 4-6 programs each year for the Single Audit.

The American Recovery and Reinvestment Act (ARRA) of 2009 provided several billion dollars to state and local governments – commonly referred to as federal "stimulus funds." The federal government is requiring that any government program that receives any ARRA funds (even $1) must be "tested" for purposes of the Single Audit.

At this time, neither Executive Branch staff nor the auditor has the necessary information to determine how many County Government programs will require testing as part of the FY10 audit – although both parties predict that the number will be higher than it has been in recent years and will require additional work by the auditor. This information will be determined throughout the year as Executive Branch staff and the auditor perform the work related to the Single Audit.

This uncertainty prevented Executive Branch staff, Clifton Gunderson staff, and the Contract Administrator from accurately identifying the amount (and cost) of additional work that may arise under the Single Audit. The current contract amendment renewing Clifton Gunderson's contract for an additional year does not reflect any fee increase from the current year related to the Single Audit. **OLO Recommendation**: OLO staff recommends that, if needed, the Council execute a contract amendment at a later date to address increased work related to the Single Audit.

2. Rager, Lehman & Houck – Amendment #3 to the contract for professional auditing services

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

Amendment #3 (attached at ©41) renews the contract for one additional year, the third year of the audit engagement, to complete the FY10 audit of the Fire and Rescue Corporations. The County Attorney's Office reviewed the amendment for form and legality.

According to the Council's contract with Rager, Lehman & Houck, the fees for audit services are fixed for the first two years of the contract. After the two-year period, the Auditor may request a price adjustment based on the CPI for all urban consumers issued for the Washington-Baltimore, DC-MD-VA-WV Metropolitan area by the United States Department of Labor, Bureau of Labor Statistics. The relevant CPI is 2.6%, and the Auditor has requested a price adjustment of $2,470 for conducting the Fiscal Year 2010 audit. See ©43.

Rager, Lehman & Houck chose not to request an increase in fees for work related to the FY10 audit. Therefore, the contract amendment does not reflect any fee increase. Amendment #3 indicates that the cost for FY10 audit services totals $97,470. The source of funds is the Independent Audit NDA.

F. County Executive's Proposed FY11 Budget for the Office of Internal Audit

On February 9, 2010, the Council passed a resolution to implement a second budget savings plan for FY10. The plan eliminated $69.8 million from the FY10 budget, including $187,680 from the Office of Internal Audit (located in the Office of the County Executive).

In Council staff's January 21, 2010 memo to the MFP Committee on the savings plan, staff included the Executive Branch's description of the impact this reduction would have on the work of the Office.

> Reducing Internal Audit's budget for the remainder of FY 2010 will mean that Internal Audit will need to reduce the number of audits it can start this fiscal year. This means that audits of high or medium risk areas will need to be deferred until FY 2011 funding is available. This exposes affected programs or functions to greater vulnerability for fraud, waste, or abuse during the deferred period.... Assuming funding is restored in FY 2011, audits may only be delayed during this 3-month window.

In his FY11 Recommended Operating Budget, the County Executive decreased the Office of Internal Audits budget by $223,480 below its FY10 Approved budget of $664,770, including a $200,000 reduction in contracts. Executive Branch staff report that the Office currently has $204,000 in unobligated contract funds for the remainder of FY10.

This afternoon, Larry Dyckman from the Office of Internal Audit will attend the worksession to discuss the consequences of the cuts to the Office's FY10 budget and the proposed reductions to the Office's FY11 budget.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Accounting 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, 2009 and the budgetary comparison for the general fund for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 24, 2009. We did not audit the financial statements of Montgomery College, Bethesda Urban Partnership, Inc. and Montgomery County Revenue Authority. The financial statements of Montgomery College, 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 these entities, are based solely on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

AUDIT ADJUSTMENT

During our review of the liability related to other post employment benefits, we noted that the liability recorded represented only the current year portion of the liability and not the cumulative liability. The liability related to other post employment benefits is only recorded once a year, and while management's initial review of the entry did not detect the error, compensating controls, which include management review of the financial statements, are currently in place. We recommend that management review all year-end audit schedules for accuracy and completeness of financial reporting. In addition, we recommend that management remain aware of, and follow, the compensating controls in place to ensure the financial statements are free of material misstatements.

Management's Response:

We concur with the Auditor's recommendation. As noted by the Auditor above, we have an extensive review process already in place over the financial statements and supporting schedules and adjustments. A key management vacancy hampered the process with regard to the internally calculated cumulative liability associated with other post employment benefits (OPEB). This was the first year requiring this cumulative calculation for OPEB. This key management position has since been filled. We are also adding more explanatory documentation to year-end workpapers to avoid this situation in the future.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the County in a separate letter dated December 24, 2009.

Management's response to the finding identified in our audit is described above. We did not audit management's response and, accordingly, we express no opinion on it.

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

Clifton Gunderson LLP

Baltimore, Maryland
December 24, 2009

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

We have completed our audit of the Montgomery County, Maryland (the County) financial statements as of and for the year ended June 30, 2009, and have issued our report dated December 24, 2009. In connection with our audit engagement, we noted the following matters which we would like to bring to your attention.

TEMPORARY VENDORS

During our review of the purchasing system, we noted that there was no periodic review and purging of temporary vendors in the system. As of October 2009, we noted approximately 180,000 temporary vendors in the purchasing system. There is a risk that temporary or dormant vendors will be utilized in order to conceal fictitious payments. We recommend management routinely review all temporary vendors in the system and purge or put on inactive status those vendors that are not currently used or no longer needed.

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

Clifton Gunderson LLP

Baltimore, Maryland
December 24, 2009

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

The Board of Trustees
Montgomery County Employees' Retirement Plans
101 Monroe Street, 15th Floor
Rockville, MD 20850

We have audited the basic financial statements of Montgomery County Employees' Retirement Plans (the Plans) as of and for the year ended June 30, 2009 and have issued our report thereon dated December 1, 2009. 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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plans' internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Plans' internal control.

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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plans' basic 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.

Clifton Gunderson LLP

Baltimore, Maryland
December 1, 2009

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

March 19, 2010

TO: Nancy Floreen, Council President

FROM: Isiah Leggett, County Executive

SUBJECT: **Response to Management Letter from Clifton Gunderson, LLP for the Audit of County Government Financial Statements for the Fiscal Year Ended June 30, 2009**

Attached please find the Executive Branch's formal response to the Management Letter referenced above. This response is being provided by the March 26, 2010 date requested in your memorandum of March 11, 2010.

The memorandum also requested that we provide a formal response to the auditors' recommendation in the Report on Internal Controls. The report transmitted to you by the auditors included the Executive Branch's formal response. Therefore, the response is not separately provided in this correspondence.

We look forward to discussing the recommendations, and the County's progress in implementing improvements, with the Management and Fiscal Policy Committee on April 6, 2010. If you or your staff have any questions relating to the attached prior to that date, please contact Jennifer E. Barrett, Director, Department of Finance, at 240-777-8870.

JEB:cmc

Attachment

cc: Timothy Firestine, Chief Administrative Officer
Jennifer Barrett, Director, Department of Finance
Linda Herman, Executive Director, Board of Investment Trustees
Joseph Beach, Director, Office of Management and Budget
Kathleen Boucher, Assistant Chief Administrative Officer
E. Steven Emmanuel, Chief Information Officer, Department of Technology Services
Mike Knuppel, Chief Technology Officer, Department of Technology Services
Steve Farber, Council Staff Director

Attachment

County Response to Management Letter
For the Audit of County Government Financial Statements
For the Fiscal Year Ended June 30, 2009

TEMPORARY VENDORS

Recommendation:

During our review of the purchasing system, we noted that there was no periodic review and purging of temporary vendors in the system. As of October 2009, we noted approximately 180,000 temporary vendors in the purchasing system. There is a risk that temporary or dormant vendors will be utilized in order to conceal fictitious payments. We recommend management routinely review all temporary vendors in the system and purge or put on inactive status those vendors that are not currently used or no longer needed.

Response:

Use of temporary vendors is a standard functionality for processing refunds embedded in the County's FAMIS financial system, not the ADPICS purchasing system. While purging did take place, it was not established as part of a standard scheduled process and therefore allowed for the accumulation of a large number of these vendors in the system. The new financial system, Oracle's eBusiness Suite (EBS), which is currently being implemented, will eliminate the need for such a standard scheduled process. The temporary vendors that are currently in the County's legacy financial system will not be brought over to EBS

R L & H
Rager, Lehman & Houck, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

February 15, 2010

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

In planning and performing our audit of the statements of revenues and expenditures – budget and actual – for both the fire tax district and state grant funds of the ***Bethesda Fire Department, Inc.***, for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered ***Bethesda Fire Department, Inc.***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We did not identify any control deficiencies that we consider to be significant deficiencies, as defined above.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We identified several control deficiencies that we consider to be material weaknesses, as defined above.

Management Oversight

The Board of Directors is ultimately responsible for the general financial and administrative oversight of the Corporation, including financial oversight and management of all funds, including tax-related funds, and providing and maintaining written records of all tax-related financial records for review and audit.

The Organization experienced significant turnover in the AO position during the year. Maryann Hamilton worked through November 2008, when she was placed on administrative leave. A temp agency employee worked in this position for approximately six months, through May 2009. Then Janeth Mora, the current AO, was employed in May 2009.

During this year of transition, several unusual activities occurred that were subsequently discovered by third parties not connected with management. The temp agency discovered that their employee had been misstating hours on her time sheets and claiming substantial overtime. She was subsequently terminated and the Organization was refunded approximately $5,000 for overbillings. These errors could have been avoided if the Board had provided sufficient oversight and approvals for the hours that were being reported.

The audit letter indicates that a third party, the temp agency, discovered the misstated timesheets and overbilling. That is factually inaccurate. The misstated timesheets, forging of Michael Kay's signature and overbilling was discovered by our President, Grant Davies, and during his oversight review for signing and authorization of check payments. BFD informed the agency and recovered the overbilled funds from the agency.

During our cash disbursement testing, we requested monthly credit card statements for the entire year. All statements were missing except for April and May 2009. When we tested these statements, we noted two monthly payments made for $200 each to Comcast of Prince Georges County for which there were no receipts. The Organization contacted Comcast and verified that those payments were not applied to any of the current VFD accounts. The Treasurer then issued instructions to file a fraud report with the credit card issuer.

BFD concurs with the auditor's finding and had already made changes to our processes and system to address the use of credit cards. Among the changes implemented are the pre-approval of charges using our on-line purchase order and work order system, the associated pre-approval of account coding and the post-approval of receipt. It should also be noted that BFD County tax funds have been reimbursed by Contact One for this fraudulent transaction.

We recommend that you implement control procedures and a system of oversight to ensure that the accounting functions are adequately supervised; checks are signed only when supporting documentation is provided and approved, accounting records are maintained in a well-organized manner, and financial reports are accurate and complete. The LFRD accounting manual is an excellent guide. This is a repeat recommendation from the June 30, 2008 audit.

Cash Management

We noted the fire tax checking account was overdrawn many times throughout the year. At June 30, 2009 the unaudited cash overdraft was $360. There were numerous instances where checks were returned for insufficient funds. As a result, credit cards were used more frequently during the year. The credit card statements we reviewed included late payment fees, an additional expense that could be avoided with proper cash management. We recommend that you monitor the amount and timing of your cash requirements to ensure that there are sufficient funds available to cover checks that have been released. The unaudited credit card balance at June 30, 2009 was $130,902.

The auditors state "The unaudited credit card balance at June 30, 2009 was $130, 902." This is factually incorrect. BFD is required to use QuickBooks Enterprise System. The County controls the account codes/descriptions and BFD cannot add to the account codes. Therefore, when BFD has an expenditure that does not fit an existing County accounting code then BFD has to determine where to account for that expenditure. As the County is well aware over the last 6 years BFD has written numerous letters to various County Executive and Departmental leaders stating that our annual budgets *do not adequately cover the expenditures we and other LFRDs have to make to support day to day operations of the stations. The $130,902 represents the funds that BFD has had to spend (beyond what is received from the County) to fund the operations of our Stations over the past five years. For the reasons noted above the only place BFD could capture these expenditures was in "Credit Card Balances."*

BFD continues to monitor our cash payments and cash management very closely. This is done on a daily basis and as noted above we have instituted new procedures to not approve purchase orders or work orders unless we know where the cash will be coming from. For example, in cases of emergencies, such as fuel tank inspections and repair, where the County is ultimately responsible for the expenditure, BFD has instituted a practice of having the responsible County authority pre-approve the expenditure.

During our review of bank reconciliations, we noted that no reconciliations were done during the third quarter of the year under audit. Reconciliations prepared in the fourth quarter contained errors and were not properly agreed to the bank balance or the general ledger balance. Accurate, timely bank reconciliations are an important tool to ensure that receipts and disbursements have been recorded properly and cash balances are reported correctly. Monthly reconciliations should be reviewed and approved by the Board.

BFD concurs with the recommendations. Bank reconciliations are completed monthly and are approved by the Treasurer and President. This practice has been followed since July 2009.

<u>*Timely Submission of Reimbursement Requests*</u>

Reimbursement requests for fuel, utilities, and maintenance expenses were not submitted on a regular, timely basis to the County. This contributed to cash flow shortages. For example, April and May expenses were included with June expenses and not submitted until July 2009 for reimbursement. We recommend that you implement standard procedures to ensure that these requests are submitted monthly. They should be reviewed and approved by the Board.

Prior to the difficulties of 2009, BFD's reimbursement requests were submitted in a timely fashion. Since May 2009 they have been submitted in a timely manner. We concur that there was a problem in April and May 2009. These were not submitted in a timely manner.

<u>*Accounts Payable and Cash Disbursement Accounting Cycle*</u>

For most of the year, vendor invoices were not processed properly in the QuickBooks accounting software, and expenses were recorded only when checks were written. Janeth Mora and the Organization's accountant have worked closely to identify and correct these transactions, but this resulted in duplicate check numbers and fund balance discrepancies and adjustments. Unaudited fund balance at June 30, 2009 was $(96,757).

Unaudited fund balances of $(96,757): <u>This is factually incorrect</u>. At the end of June 2009, BFD was anticipating receiving prior to June 30, 2009 reimbursement from the County for expenditures made by BFD. BFD therefore prepared checks for vendors but held the checks pending receipt of funds from the County. The funds were not received until well into July 2009 and as a result, BFD was not able to release the checks to vendors until after June 30, 2009. As part of the BFD pre-audit preparation process these balances were reversed charged to Accounts Payable.

The Organization should maintain their books on the accrual basis of accounting to ensure that proper matching of revenue and expenses occurs. Invoices should be recorded as accounts payable when the expense is incurred, not paid.

Additionally, the Treasurer stated that checks were signed during the year without proper review of supporting documentation and without questioning items.

<u>This is factually incorrect</u>. I was the Treasurer for all of FY09. All checks signed by me were reviewed and the invoice initialed. This same practice was followed by our other Board members with signing authority. To my knowledge checks were not signed if the check did not have adequate support. The audit review showed that some invoices that had been initialed were missing and not filed properly by Tammy Love. Since May 2009 BFD (Treasurer) undertakes a monthly review to ensure signed checks have adequate support and are appropriately filed. As noted above we have strengthened controls regarding credit card purchases and the filing of documentation supporting the credit card invoice.

<u>*Purchase Orders*</u>

Purchase orders are not currently being used properly for all purchases. We recommend that this control be strengthened by implementing procedures to approve purchase orders (including the general ledger account to which the transaction should be posted) before the payment of the invoice. This step will ensure the transaction is a legitimate transaction and is being recorded in the manner that the approver of the purchase order intends.

As noted above BFD has an on-line purchase order and work order process. All transactions are pre-approved and account codes pre-authorized.

<u>*Payroll Approvals*</u>

The Organization did not retain copies of approved time sheets and related County-generated payroll journals throughout the year. Reconciliations were not performed to ensure that amounts paid agreed to what was submitted. Payroll is a large expense for the VFD, and management oversight is an essential control for this area.

All payroll information has been provided. There was no requirement to retain a copy of the timesheet. The pink copy is the employee's copy. Copies are available from OHR. Nor was there any requirement to maintain nor has BFD ever received a copy of the Payroll Summary. This was sent by OHR to Chief Alan Hinde's Office. To satisfy the auditor's legitimate request BFD obtained copies of each document from OHR and Chief Hinde. For FY 2010 BFD has asked auditors what process they plan to review and documentation they plan to request.

In summary BFD knows that FY 2009 was a difficult year and we appreciate the feedback from the auditors. BFD believes that we have instituted staffing changes and practices and policies that will address all of the issues raised during the FY2009 audit.

We wish to thank Ms. Janeth Mora, Mr. Grant Davies, and Mr. John Murgolo for their support and assistance during our audit.

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

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

Rager, Lehman & Houck, P.C.

Rager, Lehman & Houck, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

February 15, 2010

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

In planning and performing our audit of the statements of revenues and expenditures – budget and actual – for both the fire tax district and state grant funds of the ***Burtonsville Volunteer Fire Department, Inc.***, for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered ***Burtonsville Volunteer Fire Department, Inc.***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We consider the following control deficiency to be a significant deficiency:

Bank Reconciliations
During our walkthroughs of department control procedures, we noted that bank reconciliations are not being performed in a timely manner; our procedures revealed that a few reconciliations were performed over a month after the bank mails the bank statement. We encourage the Organization to make a habit of timely review of each statement and to promptly pass it on for reconciliation shortly thereafter. The timing of this process is crucial to the board, as it relies on current, reliable financial reporting to perform its duties of financial oversight.

In order to comply with the LFRD Accounting Manual's recommended separation of duties, we have hired the services of an outside accountant to perform the bank reconciliations for all bank accounts. We have maintained this practice for over ten years. However, Montgomery County DFRS has repeatedly denied our requests for the necessary funding to cover this budget expense. As such, we have been forced to cut down on the number of accountant visits, resulting in a delay of reconciling some of the bank statements in a timely manner. To date, this delay has not caused any oversight issues, however we do understand that the potential for these does exist. As such, we look to Montgomery County DFRS to provide the necessary funding for us to remedy this issue.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We did not identify any control deficiencies that we consider to be material weaknesses, as defined above.

We wish to thank Ms. Sharon Yetter for her support and assistance during our audit.

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

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

Rager, Lehman & Houck, P.C.

Rager, Lehman & Houck, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

February 15, 2010

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

In planning and performing our audit of the statements of revenues and expenditures – budget and actual – for both the fire tax district and state grant funds of the ***Chevy Chase Fire Department, Inc.***, for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered ***Chevy Chase Fire Department, Inc.***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We did not identify any control deficiencies that we consider to be significant deficiencies, as defined above.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We did not identify any control deficiencies that we consider to be material weaknesses, as defined above.

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

<u>*Bid Process*</u>

During disbursement testing, we noted two large purchases that were not put through a bid process before approval of the purchase orders. According to the LFRD Accounting Procedure Manual, the fire department should be getting at least three bids on purchases of greater than $5,000. We recommend that you develop procedures to ensure that competitive bids are obtained to minimize costs. This is a recurring recommendation.

The CCFD's current procedure is to obtain competitive bids for significant ($5000 or greater) purchases in an effort to minimize costs and insure quality. The CCFD has on occasion, based on prior experience with a contractor directly contracted for a significant service. Based on the audit recommendation the CCFD board revisited this practice at its February meeting and determined that while we believe the competitive bid process should be followed for most purchases that there may be reason to contract directly in rare instances, if there has been previous positive experience (exceptional work at reasonable prices) with the contractor. Also, when purchasing equipment for the hazardous material team, many times there are not multiple vendors available in the region.

<u>*Purchase Order Approvals*</u>

We noted that the OSC signs all purchase orders for the Department, after she obtains verbal approval from the President or the captain on duty. We recommend that these individuals personally sign the purchase orders to properly document their approval and eliminate possible errors.

> *While the CCFD agrees with the spirit of the recommendation, we believe our current process with our other internal controls allow the corporation to best perform its responsibility. The only employee of the corporation is the Office Services Coordinator (OSC.) The board doesn't believe it appropriate that the captain on duty sign to expend corporation funds as they are not corporation employees. The president being a volunteer is not available to sign the purchase orders in a timely manner. Therefore, in order to insure funds are appropriately spent the board of director's reviews bills at their monthly meeting. They also review the financial reports at these monthly meetings. In addition, the Treasurer reviews the purchase orders and invoices prior to signing the checks. While these controls are after the fact, as would be the audit recommendation, they serve as a deterrent to any misappropriation of funds. The CCFD believes that given the circumstances of the corporation, we are acting appropriately to insure funds are properly spent. The board of directors revisited this process at its latest meeting and voted to continue its current practice.*

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

We wish to thank Ms. Maureen McKenzie for her support and assistance during our audit.

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

Rager, Lehman & Houck, P.C.

Rager, Lehman & Houck, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

February 15, 2010

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

In planning and performing our audit of the statements of revenues and expenditures – budget and actual – for both the fire tax district and state grant funds of the ***Damascus Volunteer Fire Department, Inc.***, for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered ***Damascus Volunteer Fire Department, Inc.***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We did not identify any control deficiencies that we consider to be significant deficiencies, as defined above.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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

Accounting Software Backup

The Office Services Coordinator (OSC) creates a backup of the QuickBooks file at least monthly and stores it in her desk. We would recommend that the backups be stored in another location, perhaps an on-site, fireproof safe.

The Office Service Coordinator (OSC) does create back ups at least once a month and does now file the backups in a fireproof safe.

Segregation of Duties

During our review of internal control, we noted that that management personnel other than the OSC opens the bank statements and review for unusual transactions before the OSC receives the statement and performs the bank reconciliation. We applaud the organization on their advances in this area, and recommend that management take the control one step further and review the bank reconciliation once performed by the OSC, scanning the reconciling items for unusual items, and tracing the bank and book balances back to the bank statement and general ledger, respectively. The monthly reconciliation report could also become a part of the monthly financial information packet provided to the Board.

When the bank statements come in the President initials them, then the OSC does the bank reconciliation and then it is brought to the Board for further review. We have been *practicing this for over a month now and agree this will be part of our monthly plan and will be adding a bank reconciliation sheet to our monthly Board meetings.*

<u>*Budgeting*</u>

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

Our department does regulate our budget versus actual and is brought to a monthly board meeting for review. Senior management will be keeping track of what is spent and what needs to be spent so not all will be rolled over to the following year.

<u>*Recording Disbursements in QuickBooks*</u>

We observed two instances during our audit where the account number that a purchase was approved to be coded to (on the purchase order) did not match the actual account coding in the general ledger. The final codings ultimately made more sense than the approved coding, however, we recommend that approval of that change be noted on the purchase order.

All purchase orders will be corrected on them to coincide with the general ledger.

We wish to thank Ms. Stephanie Ayton for her kind support and assistance during our audit.

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

Rager, Lehman & Houck, P.C.

Rager, Lehman & Houck, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

February 15, 2010

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

In planning and performing our audit of the statements of revenues and expenditures – budget and actual – for both the fire tax district and state grant funds of the ***Germantown Volunteer Fire Department, Inc.***, for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered ***Germantown Volunteer Fire Department, Inc.***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such

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that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We did not identify any control deficiencies that we consider to be significant deficiencies, as defined above.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We did not identify any control deficiencies that we consider to be material weaknesses, as defined above.

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

Cash Disbursements Controls
During disbursement testing, we noted that supporting documentation was not available for the May credit card statement. We recommend that check signers do not authorize payment unless supporting items are available for their review and approval.

Germantown Volunteer Fire Department is in agreement with the suggestion. Starting immediately payment will not be authorized unless the supporting documentation is available for review.

We wish to thank Ms. Gina Hamilton for her support and assistance during our audit.

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

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

Rager, Lehman & Houck, P.C.

Rager, Lehman & Houck, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

February 15, 2010

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

In planning and performing our audit of the statements of revenues and expenditures – budget and actual – for both the fire tax district and state grant funds of the ***Laytonsville District Volunteer Fire Department, Inc.***, for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered ***Laytonsville District Volunteer Fire Department, Inc.***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We did not identify any control deficiencies that we consider to be significant deficiencies, as defined above.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We did not identify any control deficiencies that we consider to be material weaknesses, as defined above.

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

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

Accountant Fees
We noted that fees incurred for professional CPA services were paid directly from fire tax funds. Per County guidance, these expenses should be reasonably allocated between private and tax funds. Disbursement controls should ensure that only invoices that pertain to tax fund expenditures are approved for payment.

We wish to thank Ms. Nancy Stasulis for her support and assistance during our audit.

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

Honorable County Council
The Fire and Rescue Commission of Montgomery County, Maryland
The Board of Directors of the
Laytonsville District Volunteer Fire Department, Incorporated
February 15, 2010
Page Three

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

Rager, Lehman & Houck, P.C.

Rager, Lehman & Houck, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

February 15, 2010

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

In planning and performing our audit of the statements of revenues and expenditures – budget and actual – for both the fire tax district and state grant funds of the ***Sandy Spring Volunteer Fire Department, Inc.***, for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered ***Sandy Spring Volunteer Fire Department, Inc.***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We consider the following control deficiency to be a significant deficiency:

Bank Reconciliations

During our walkthroughs of department control procedures, we noted that bank reconciliations are being performed after a review of the bank statements itself by the treasurer, as we recommended in our letter last year. We commend the department for implementing a strong control over the cash. However, the bank reconciliations are not being performed in a timely manner; our procedures revealed that reconciliations are performed up to three months after the bank mails the bank statement. We encourage the treasurer to make a habit of timely review of each statement; the reconciliation should be performed shortly thereafter. The timeliness of this process is crucial to the board, as it relies on timely and reliable reporting from OSC and the treasurer to perform its duties of financial oversight.

The SSVFD implemented stronger cash controls in FY09 as a result of the FY08 recommendations. The auditors acknowledge this. However, the FY08 recommendations were not received until the third quarter of FY08. The recommendations were implemented at that time. So, as an example, the March statements were reconciled in April, the April statements were reconciled in May, the May statement was reconciled on July 1, the June statement was reconciled in July, and the July statement was reconciled in August. As such, the SSVFD believes that this issue was adequately addressed once the FY08 recommendations were received.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We consider the following control deficiencies to be material weaknesses:

QuickBooks Transaction Editing

During our audit, we became aware that the Organization's personnel frequently utilize a feature in QuickBooks that allows them to edit or delete existing transactions when they find errors in them later on. Previously approved transactions and reports can be changed, and there is no audit trail. We recommend that you discontinue this practice and instead use a journal entry to revise transactions. All journal entries should be reviewed and approved by management.

The SSVFD does not disagree with the recommendation and will implement it at this time, i.e. there may be previous FR09 transactions that have been handled using the feature in question. However, in fairness to the SSVFD, as the auditors state, this is a usable feature built into QuickBooks and the SSVFD has not been provided guidance to the contrary. If the auditors and/or the County do not recommend the use of this feature, then that information should be transmitted to all of the LFRDs.

Commingling of Funds

An interfund receivable is recorded on the books of the tax fund in recognition of payments made by the tax fund for uses outside of the stated purpose of the tax fund. The LFRD accounting manual provided by the county states that "it is the responsibility of the LFRD's Board of Directors to ensure that all transactions are inspected to fulfill their fiduciary responsibility with County tax funds." This fiduciary responsibility includes monitoring tax fund expenditures to ensure that only approved items are paid with these funds.. We recommend that you improve your invoice approval process to ensure that activity is properly segregated.

The SSVFD does not disagree with the recommendation. In all cases where this occurred, these transactions were documented. The two major culprits were simple errors in deposit or payments (just a couple of transactions), including an error made by the County in a wire transfer, or expenses related to the banquet. The banquet, which recognizes the member's hard work for the year, was paid for in full from tax funds. As the fiscal year drew to a close, the CCVFD looked at available tax funds and reimbursed tax funds from private funds in order to not exceed the tax budget.

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

Year-end Accounting Clean-up

During our audit, we came across several errors in the Departments' accounting records that we believe should have been adjusted prior to our arrival. It is our expectation as auditors that the records of the organization are reconciled with supporting documents by management when we arrive for the audit. We did not find that to be the case this year in several areas.

We spent a significant amount of time this year resolving these bookkeeping issues, which are outside of the scope of our audit contract. In the future, such issues will be returned to the Department to correct before we continue with our audit procedures. If the Department is unable to perform the requested duties, we will be available to assist at our normal billable rates.

We recommend that the Department consider engaging a third-party accountant to assist with year-end adjustments and reconciliations. Several other departments already do so; you may wish to consult those organizations for referrals.

As a matter of reference, we encountered issues in the following areas this year and would expect to see them properly dealt with for our audit next year:

- Fund balance accounts in each fund are properly reconciled to the previous year's audited statements.
- All audit adjustments are posted to your accounting records.
- Accounts payable and reserve for encumbrances accounts are reconciled with hard copies of invoices due as of June 30 and purchase orders approved as of June 30, respectively.

The SSVFD believes that it was well prepared for the audit. All documentation was ready in place when the auditors started work or it was readily available at the auditor's request. The Treasurer is aware that some adjusting entries were required. It should be noted that the Treasurer's experience is that in 15 years, the auditors have never, not provided adjusting entries. However, the SSVFD does not disagree with the recommendation.

<u>*Financial Reporting to Board*</u>

Every month, the board receives a custom budget vs. actual report for tax funds. 508 fund reports are presented to the board on an as needed basis. We recommend that the board also reviews the monthly check register. This process will provide the board with an extra layer of assurance that the decisions made on disbursements are being carried out as intended.

The SSVFD has had its practices in place for many years and this is the first time that a recommendation has been received to provide the Executive Board with a monthly check register, i.e. this recommendation was not the result of a <u>change</u> in SSVFD's practice. It is the President's and the Treasurer's responsibility to carry out the direction of the Executive Board and all documentation is readily available to any Executive Board member who would *like to inspect it. The Executive Board has many other business items each month and this would be a distraction. However, the SSVFD will consider making the document available for inspection in lieu of an action item.*

We wish to thank Ms. Debbie Rokes and Mr. Steve Lamphier for their support and assistance during our audit.

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

Rager, Lehman & Houck, P.C.

Rager, Lehman & Houck, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

February 15, 2010

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

In planning and performing our audit of the statements of revenues and expenditures – budget and actual – for both the fire tax district and state grant funds of the ***Wheaton Volunteer Rescue Squad, Inc.***, for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered ***Wheaton Volunteer Rescue Squad, Inc.***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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Purchase Orders

During our cash disbursements testing, we noted that purchase orders were not issued for five of the items that we selected. We recommend that you develop a system to ensure that purchase orders are utilized for all expenditures. This will help you with budgeting resources and ensuring that proper approvals are obtained before an expense is incurred.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We identified the following control deficiency that we consider to be a material weakness, as defined above.

Maintenance of A Complete Set of Books and Records

The VRS converted to the universal QuickBooks software provided by the County during the year ended June 30, 2009, but the software was only used to generate checks. We noted significant adjustments that were necessary at year end to properly record all activity throughout the year, and we worked closely with the CPA consultant, Bill Sault, to generate financial reports for the year ended June 30, 2009. These reports were generated manually using excel worksheets. Complete and accurate monthly reports are an important tool for management to track progress, review account balances for unusual items or errors, and compare actual results to the budget. We recommend that you develop procedures to ensure that receipts, disbursements, and accrual accounting transactions are recorded in the QuickBooks general ledger on a monthly basis.

Comingling of Funds

We noted that the VRS tax fund still owes the private fund $10,791 as of June 30, 2009. During the year, $3,594 of the prior year's balance was forgiven by the private fund. As noted last year, County, State, and private funds should be kept separate, and interfund loans are prohibited. We recommend these monies are paid back immediately.

Fund Balance Adjustments

Prior period adjustments were necessary to adjust the beginning fund balances for both fire tax district and state grant funds. Because each fund does not have its own set of accounting records, equity balances were intermingled. Separate general ledgers should be created and used to record activity in these two funds.

We wish to thank Ms. Marion Worton for her support and assistance during our audit.

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

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

Rager, Lehman & Houck, P.C.

CONTRACT AMENDMENT #4
CONTRACT NUMBER 8031000103AB

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

BACKGROUND

1. The Council and the Auditor entered into Contract No. 8031000103AB on April 24, 2008. The current contract expires on July 23, 2010.
2. The purpose of this Contract is to provide for auditing services as required by Section 315 of the Montgomery County Charter.
3. The Council may renew the Contract, one year at a time, for three additional one-year periods. The Auditor's services are needed to conduct the Fiscal Year 2010 audit. This contract Amendment renews the contract for the third of four one-year periods.
4. Under this Contract, Article V. "Payments", Paragraph D. Payments in Subsequent Years., the fee for Auditor services is firm for a period of two years after execution of the Contract. After the two-year period, the Auditor may request a price adjustment based on the CPI for all urban consumers issued for the Washington-Baltimore, DC-MD-VA-WV Metropolitan area by the United States Department of Labor, Bureau of Labor Statistics. The Auditor has not requested a price adjustment for conducting the Fiscal Year 2010 audit.

CHANGE

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

   b. The County will pay the Contractor a fixed fee not to exceed $243,466 for Fiscal Year 2010 audit services performed under this portion of the Contract. The Council will pay the Contractor on a monthly basis for work completed during the month, on the condition that the Contract Administrator determines, in his or her sole discretion, that the Contractor is making satisfactory progress toward completing all auditing services. The Independent Audit Non-Departmental Account is the source of funds. The Contract Administrator is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

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

   b. The County will pay the Contractor a fixed fee not to exceed $10,000 for Fiscal Year 2010 audit services performed under this portion of the Contract. The County will pay the Contractor in two equal installments, with the first installment paid upon completion of the Contractor's field work, and the second installment paid after the Council accepts the deliverables described in Article II. "Deliverables", Paragraph B., Subparagraph 5. The Independent Audit Non-Departmental Account is the source of funds. The Contract Administrator is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

3. Article V. "Payments", Paragraph A., Subparagraph 3. Payment for Subparagraph 7 is amended by adding the following

   b. The County will pay the Contractor a fixed fee not to exceed $2,804 for Fiscal Year 2010 audit services performed under this portion of the Contract. The County will pay the Contractor after the Council accepts the deliverables described in Article II. "Deliverables", Paragraph B., Subparagraph 6. The Solid Waste Disposal Fund will be the source of funds. The Department of Environmental Protection is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

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

   b. The State of Maryland will pay the Contractor a fixed fee not to exceed $4,450 for Fiscal Year 2010 audit services performed under this portion of the Contract. The State will pay the Contractor upon the Emergency Number Systems Board's acceptance of the deliverables described in Article II. "Deliverables", Paragraph B., Subparagraph 7. Emergency Number Systems Board funds will be the source of funds. The Emergency Number Systems Board is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

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

   b. The County will pay the Contractor a fixed fee not to exceed $36,720 for Fiscal Year 2010 audit services performed under this portion of the Contract. The County will pay the Contractor on a monthly basis for work completed, on the condition that the Board of Investment Trustees' designee determines that the Contractor is making satisfactory progress toward completing all auditing services. The Employees' Retirement System, the Retirement Savings Plan, and the County's General Fund (on behalf of the Deferred Compensation Plan) will be the source of funds. The Board of Investment Trustees' designee is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

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

   a. The County will pay the Contractor a fixed fee not to exceed $18,000 for audit services performed under this portion of the Contract. The County will pay the Contractor on a monthly basis for work completed during the month, on the condition that the Contract Administrator determines, in his or her sole discretion, that the Contractor is making satisfactory progress toward completing all auditing services. The Independent Audit Non-Departmental Account is the source of funds. The Contract Administrator is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

7. This Contract is renewed for an additional term of one year from July 24, 2010 through July 23, 2011.

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EFFECT

1. Existing Contract terms remain in effect unless specifically changed by this Amendment.
2. This Amendment is entered into prior to the expiration of the Contract.
3. This Amendment is entered into on the date of signature by the President of the County Council for Montgomery County, Maryland.
4. No goods or services are to be provided pursuant to this Amendment until it is signed by the President of the County Council for Montgomery County, Maryland.

(Signature Page Follows)

WITNESS

Clifton Gunderson LLP

BY:________________________________ DATE __________
Keith Novak, Partner
Clifton Gunderson LLP

Montgomery County, Maryland

BY:________________________________ DATE __________
Nancy Floreen, President
Montgomery County Council

Approved to as to form and legality:

BY:________________________________ DATE 3/31/10
Walter Wilson
Associate County Attorney

CONTRACT AMENDMENT #3
CONTRACT NUMBER 8031000103BB

This Amendment is entered into between Montgomery County, Maryland on behalf of the County Council for Montgomery County, Maryland ("Council") and Rager, Lehman & Houck, P.C., 205 East Main Street, Westminster, Maryland 21157 ("Contractor" or "Auditor").

BACKGROUND

1. The Council and the Auditor entered into Contract No. 8031000103BB on May 29, 2008. The current contract expires on August 28, 2010.
2. The purpose of this Contract is to provide for auditing services as required by Section 315 of the Montgomery County Charter.
3. The Council may renew the Contract, one year at a time, for three additional one-year periods. The Auditor's services are needed to conduct the Fiscal Year 2010 audit. This contract Amendment renews the contract for the third of four one-year periods.
4. Under this Contract, Article V. "Payments", Paragraph E. Payments in Subsequent Years., the fee for Auditor services is firm for a period of two years after execution of the Contract. After the two-year period, the Auditor may request a price adjustment based on the CPI for all urban consumers issued for the Washington-Baltimore, DC-MD-VA-WV Metropolitan area by the United States Department of Labor, Bureau of Labor Statistics. The relevant CPI is 2.6%, and the Auditor has requested a price adjustment of $2,470 for conducting the Fiscal Year 2010 audit.

CHANGE

1. Article V. "Payments", Paragraph A. Payment for Article I. "Scope of Work", Paragraph A. Basic Work is amended by adding the following subparagraph 2:

   2) The County will pay the Contractor a fixed fee not to exceed $97,470 for Fiscal Year 2010 audit services performed under this portion of the Contract. The County will pay the Contractor on a monthly basis for work completed during the month, on the condition that the Contract Administrator determines, in his or her sole discretion, that the Contractor is making satisfactory progress toward completing all auditing services. The Independent Audit Non-Departmental Account is the source of funds. The Contract Administrator is responsible for approving invoices and paying the Contractor for services performed under this portion of the Contract.

2. This Contract is renewed for an additional term of one year from August 29, 2010 through August 28, 2011.

EFFECT

1. Existing Contract terms remain in effect unless specifically changed by this Amendment.
2. This Amendment is entered into prior to the expiration of the Contract.
3. This Amendment is entered into on the date of signature by the President of the County Council for Montgomery County, Maryland.
4. No goods or services are to be provided pursuant to this Amendment until it is signed by the President of the County Council for Montgomery County, Maryland.

(Signature Page Follows)

WITNESS

Rager, Lehman & Houck, P.C.

BY:______________________________ DATE __________

Karl Lehman, Managing Partner
Rager, Lehman & Houck, P.C.

Montgomery County, Maryland

BY:______________________________ DATE __________

Nancy Floreen, President
Montgomery County Council

Approved to as to form and legality:

BY:______________________________ DATE 3/31/10

Walter Wilson
Associate County Attorney

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

April 6, 2010

Ms. Leslie Rubin
Montgomery County Office of Legislative Oversight
100 Maryland Avenue, Room 509
Rockville, Maryland 20850

RE: Montgomery County Fire & Rescue Department Audits-
Request for Price Adjustment

Dear Leslie:

Per Article V, Section E of our auditing contract with Montgomery County, we are requesting a price increase for the upcoming June 30, 2010 audit period.

Our fixed fee for these services is currently $95,000. During the past two years, our payroll, professional education, and administrative costs have increased significantly, and AICPA auditing standards have changed dramatically. In accordance with the terms of our contract, we understand the price adjustment for the June 30, 2010 audit contract cannot exceed 2.6%. Accordingly, we request an increase of $2,470 which corresponds to the allowed amount.

Thank you for considering our request. Please let me know if you have any questions.

Sincerely,

Harriet L. Gillan

Harriet L. Gillan, CPA, CFE

cc: Bea Key, Key & Associates

www.rlhcpa.com

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7420 HAYWARD ROAD SUITE 101 FREDERICK, MD 21702 TEL: 301-696-9449 FAX: 301-694-8428
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