Audit Committee #1
April 2, 2009
Briefing/Action

MEMORANDUM

March 31, 2009

TO: Council Audit Committee

FROM: Leslie Rubin, Legislative Analyst
Office of Legislative Oversight

SUBJECT: FY08 Audit and Management Letters Review and Audit Contract Renewal

On April 2nd, the Audit Committee has two scheduled agenda items. They are:

1. To review the Reports on Internal Control and the Management Letters for the FY08 audits of the County Government Financial Statements; the Employees' Retirement System Plans; and the 18 local fire and rescue corporations; and

2. To take action regarding renewal of the audit contracts with Clifton Gunderson LLP and Rager, Lehman & Houck, P.C. for FY09 audit services.

The following Executive Branch representatives and staff from the independent auditors are scheduled to attend today's worksession:

Executive Branch Staff	
Department of Finance	Jennifer Barrett, Director Karen Hawkins, Chief Operating Officer Lenny Moore, Controller Glenn Wyman, Debt and Cash Manager
Board of Investment Trustees	Linda Herman, Executive Director
Department of Technology Services	Keith Young
Department of Liquor Control	Sunil Pandya
Montgomery County Fire & Rescue Service	Richard Bowers, Interim Fire Chief Randy Wheeler, Division Chief Alan Hinde, Division Chief Dominic Del Pozzo, Budget Manager
Independent Auditors' Staff	
Clifton Gunderson LLP	Keith Novak Cheri Amos Aires Coleman
Rager, Lehman & Houck, P.C.	Harriet Gillen
Key & Associates	Beatrice Key Malav Sheth

OLO recommends the following agenda for today's meeting:

Item #	Description	See Page	Documents begin on ©
I.	Discussion with Clifton Gunderson re: the audit of the County Government's FY08 Financial Statements	4	©1
II.	Discussion with Clifton Gunderson re: the audit of the Montgomery County Employees' Retirement Plans	6	©6
III.	Discussion with Rager, Lehman & Houck's re: the audits of the financial statements of Montgomery County's local fire and rescue corporations	7	©11
IV.	Discussion re: the contract amendment to the Council's contract with Clifton Gunderson for professional auditing services	19	©77
V.	Discussion re: the contract amendment to the Council's contract with Rager, Lehman & Houck for professional auditing services	20	©80

Background Information

Definition of Terms. The summaries of the auditors' findings with respect to the audits of the County Government's financial statements, the Montgomery County Employees' Retirement Plans, and the financial statements of the local fire and rescue corporations (sections I, II, and III below), uses terms 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.

Suggested Committee Questions for the Independent Auditors. At its last meeting, the Audit Committee learned about the American Institute of Certified Public Accountants toolkit for government audit committees. This toolkit identifies 12 types of information and several specific items that an independent auditor is required to communicate to an audit committee.

[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.*

These areas include:

- Scope of Audit and level of assurances that the Audit provides;
- Significant accounting policies;
- Management judgments and accounting estimates;
- Audit adjustments;
- Auditors' judgments about the quality of the organization's accounting principles;
- Disagreements with management and their resolution;
- Consultation with other accountants; and
- Difficulties encountered in performing the Audit.

OLO shared this information with Clifton Gunderson's and Rager, Lehman & Houck, and they are prepared to address' several of these items during their presentations to the Audit Committee. (See attachments beginning at ©82 for the complete list and explanation of categories and items from the AICPA toolkit.)

LIST OF ATTACHMENTS

I. FY 2008 AUDIT OF THE COUNTY GOVERNMENT FINANCIAL STATEMENTS

Clifton Gunderson audited the basic financial statements of Montgomery County for the year ended June 30, 2008. 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 liquor inventory at the County's liquor warehouse. In its Management Letter, Clifton Gunderson noted three matters to bring to the County's attention, related to bank accounts, third-party administrators, and vulnerability testing. Clifton Gunderson's recommendations regarding the significant deficiency and the noted matters and the County Executive's responses are summarized in the tables below.

The Report on Internal Control and the Management Letter (attached at ©1 and ©4, respectively) contain Clifton Gunderson's comments and recommendations. The County Executive's written response to the Report and the Management Letter is attached at ©8.

From Clifton Gunderson's Report on Internal Control	
Significant Deficiency – Liquor Inventory	
Summary of Auditor's Comment and Recommendation: Clifton Gunderson reports differences between test counts and the counts performed by County liquor warehouse personnel during year-end physical inventory counts at the liquor warehouse. Clifton Gunderson also noted that the liquor warehouse is overcrowded, "which may have resulted in items being grouped incorrectly during the count." Clifton Gunderson reports that while the County has established policies and procedures for the year-end physical inventory counts at the liquor warehouse and County-owned stores, Clifton Gunderson recommends that inventory be "neatly organized and correctly arranged by product item number" and that "management establish procedures for test recounts in order to eliminate errors that were discovered...."	**County Executive's Response:** *"As noted by the auditors, the County has established policies and procedures governing year-end physical inventory counts performed at the liquor warehouse and County-owned stores. The variances encountered between the auditor's count and our warehouse system are not material to the overall valuation of inventory. These variances can be attributed in large part to the overcrowding of the warehouse. While the County has taken steps to minimize the impact of the overcrowding on inventory counting, the physical limitations in space still made it difficult to perform inventory counts.* *Limited warehouse space has been an on-going issue for several years and the County Executive has initiated a number of steps subsequent to the performance of the inventory to alleviate the overcrowding. The County has rented additional warehouse space and has negotiated for the acquisition of a new warehouse to permanently address the space constraints.* *The County acknowledges the mathematical error related to inventory excise taxes, which was corrected immediately. The error involved a calculation performed only for CAFR purposes, and did not effect the accuracy of the County's warehouse inventory management system."*

From Clifton Gunderson's Management Letter	
Noted Matter – Bank Accounts	
Summary of Auditor's Comment and Recommendation: Clifton Gunderson noted that several bank accounts were opened during the year without notification and authorization of finance personnel. Clifton Gunderson recommends that all County agencies follow established policies when a new bank account is needed.	**County Executive's Response:** *"Periodically, commercial banking institutions in the County will allow County employees to open unauthorized checking and/or savings accounts. These unauthorized accounts will typically be identified when the County performs its annual audit confirmation process with banks where the County has existing relationships. During the current year's process, the Department of Finance (Finance) became aware of an unauthorized bank account that was opened in a prior fiscal year; however, our review did not identify any unauthorized bank accounts opened during FY08.* *Finance works with affected departments, as such accounts are identified, to ascertain if a separate bank account is required. If it is determined that a separate account is not required, Finance works with the department to coordinate closure of the account and movement of the activity to the County's primary bank accounts. Finance is in the process of working with several departments in evaluating such accounts.* *Since the County does not have control over the operations of commercial banks, the County cannot fully guarantee that County personnel will not open unauthorized accounts. However, management believes that our annual confirmation process, which is the main source for identifying these unauthorized accounts, and increased communication with departments, will minimize the risk of unauthorized bank accounts being opened in the future. The Director of Finance will reaffirm to department heads that County bank accounts can only be opened under the direction and control of the Finance Director."*

<table>
<tr><th colspan="2">From Clifton Gunderson's Management Letter (cont.)</th></tr>
<tr><th colspan="2">Noted Matter – Third-Party Administrators</th></tr>
<tr><td>Summary of Auditor's Comment and Recommendation:

Clifton Gunderson noted that the County uses third-party administrators to process healthcare and risk management claims and to process property tax collections. While observing that the County reviews service auditor's reports (SAS 70) for third-party administrators that describes the third-party administrator's controls and testing of those controls, Clifton Gunderson noted that the County did not have a SAS 70 report for one third-party administrator.

Clifton Gunderson recommends that the County obtain SAS 70 reports for all third-party administrators used for processing claims and tax collections.</td><td>County Executive's Response:

"The County had the latest SAS 70 report for all third-party administrators (TPA). The TPA report in question was on a biannual cycle. At the time of the audit, the latest report had been received in FY 2007 for FY 2006. The next report from this TPA was not due until FY09. Some TPAs perform the SAS 70 assessment on a biannual basis because of the cost and time involved. The County was recently informed by the TPA in question that it is currently planning to convert to an annual cycle."</td></tr>
<tr><th colspan="2">Noted Matter – Access Controls – Vulnerability Testing</th></tr>
<tr><td>Summary of Auditor's Comment and Recommendation:

Clifton Gunderson noted during a review of the County's Department of Technology Services that the County conducts a weekly vulnerability scan of the County's network. Clifton Gunderson noted that the County does not have a formal plan to resolve in a timely manner vulnerabilities identified during the weekly testing.

Clifton Gunderson recommended that management implement a formal plan to resolve the vulnerabilities identified during the vulnerability assessment process in a timely manner.</td><td>County Executive's Response:

"The County is currently drafting a formal Desktop Vulnerability Management Plan, which is based on the National Institutes of Standards and Technology (NIST) Special Publication 800-40. The purpose of the Vulnerability Management Plan is to document the roles, responsibilities and practices undertaken by the County's Department of Technology Services (DTS) to manage and remediate security vulnerabilities within the County's IT network. Specifically, the plan addresses DTS's practices related to security vulnerability management and remediation on County owned and issued desktop personal computers and laptops. The County expects the plan to be completed in the first quarter of FY10."</td></tr>
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II. FY 2008 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, 2008. 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 (©6).

III. FY 2008 AUDIT OF THE FIRE AND RESCUE CORPORATIONS

Rager, Lehman & Houck, P.C. completed the audit of the fire and rescue corporation financial statements for the year ended June 30, 2008. The audit included a review to ensure that County tax funds were not spent or encumbered for legal fees or expenses related to pursuing claims against the County Government or any County agency. Rager, Lehman & Houck did not find any instances of inappropriate spending for legal fees or expenses.

The auditor prepared financial statements for each corporation (available from OLO) and also submitted Management Letters (attached beginning at ©11) for all 18 of the local fire and rescue departments (LFRD). 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 references in the description of each comment. Executive Branch staff will be prepared to discuss their response to the Management Letters at the April 2nd Audit Committee meeting.

The table below summarizes the number and type of comments provided by the Auditor in the Management Letters. Summaries of the Auditor's recommendations follow the table.

Summary of the Number and Type of Management Letter Comments on the Local Fire and Rescue Departments by Rager, Lehman & Houck

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.		1	7	8
Burtonsville Volunteer Fire Department, Inc.*				10
Cabin John Park Volunteer Fire Department, Inc.		1		10
Chevy Chase Fire Department, Inc.	2			10
Damascus Volunteer Fire Department, Inc.	6			10
Gaithersburg-Washington Grove Fire Department, Inc.	3			11
Germantown Volunteer Fire Department, Inc.	4			12
Glen Echo Volunteer Fire Department, Inc.	3			12
Hillandale Volunteer Fire Department, Inc.	1			13
Hyattstown Volunteer Fire Department, Inc.	2			13
Kensington Volunteer Fire Department, Inc.	3			13
Laytonsville District Volunteer Fire Department, Inc.	2			14
Rockville Volunteer Fire Department, Inc.	2			14
Sandy Spring Volunteer Fire Department, Inc.	7		3	15
Silver Spring Volunteer Fire Department, Inc.	2	1		16
Takoma Park Volunteer Fire Department, Inc.	2			17
Upper Montgomery County Volunteer Fire Department, Inc.	8			17
Wheaton Volunteer Rescue Squad, Inc.	3	1		19

*The Auditor identified one "matter for consideration" for Burtonsville Volunteer Fire Department.

In its management letter for the Bethesda Fire Department, Inc., Rager, Lehman & Houck identified one significant deficiency and seven material weaknesses related to the Bethesda Fire Department's internal control over financial reporting, which are described below. Management from the Bethesda Fire Department provided comments on each deficiency or weakness, but also provided a general explanatory comment. This comment (beginning on ©12), in its entirety, states:

> *This letter outlines several deficiencies of varying degrees. After review BFD concurs that there were deficiencies in the internal controls for the year ended June 30, 2008. BFD had identified the vast majority of these issues prior to the audit and had instituted improvements in internal controls. The President and Treasurer have undertaken extensive reviews and believe the overall state of our funds is in good condition and no funds are suspected of fraud, missing, or unaccounted for.*
>
> *Before responding to the specific issues raised we thought it important to provide some additional background that was not reflected in the audit letter. Beginning in the late spring of 2008 the President and Treasurer began to have concerns about the quality of the Administrative Officer's (AO) work. There were repeated requests made to review accounting records and specific transactions. These requests were only partially answered, and reports on specific accounts were insufficient. This culminated in decisions being made in late September to establish a Work Improvement Plan for the AO. This plan was communicated to her in early November, 2008. Later that month, the AO was put on a leave of absence. Between then and early February the President, Treasurer, Second Vice-President and BVD's (sic) external accountant, plus a temporary bookkeeper spent tens of hours going over BFD's records and filing system. We collectively concluded that the AO was not capable of handling the accounting and finance aspects of her job and as a result she was terminated in February. Much of what is reflected in the audit letter can be directly linked to the capabilities of the AO. At this time, we have hired a temporary AO who along with the assistance and support of the board and our own LFRD accountant (CPA) has dramatically improved our position. We have identified the actual mechanics of each deficiency, and most are corrected at this time. We have only recently received authorization from the County to hire a new AO. Our more expansive comments on each issue raised by the auditors is detailed below.*

The significant deficiency and the seven material weaknesses identified by Rager, Lehman & Houck are summarized below.

1. Significant Deficiency – Cash Management

Rager noted that the fire tax checking account was overdrawn by $41,168 at June 30, 2008. Rager recommends monitoring the amount and timing of cash requirements to ensure that sufficient funds are available to cover checks that have been released. See LFRD comments at ©12.

2. Material Weakness – Management Oversight

During its onsite audit work, Rager, Lehman & Houck identified inconsistencies in record keeping and found that numerous checks, invoices, supporting documents, and bank statements were missing. Rager, Lehman & Houck noted in its management letter that the Board of Directors is responsible for "general financial and administrative oversight of the Corporation." The auditor recommends developing control procedures and a system of oversight with respect to the Administrative Officer, the accounting records, and financial reports. See LFRD comments at ©14.

3. Material Weakness – Credit Card Security

Rager, Lehman & Houck recommends canceling two Corporation credit cards in the possession of the former Administrative Officer that were not returned and recommends reviewing monthly statements to ensure no unauthorized purchases were made. The auditor also recommends changing all passwords and physical locks. See LFRD comments at ©14.

4. Material Weakness – Funds Used for Personal Purchases

Rager, Lehman & Houck noted two instances where tax funds were used to pay personal bills. The funds were reimbursed in January 2008.

5. Material Weakness – Co-mingling of Funds

Rager, Lehman & Houck found that private volunteer funds were used to pay for fire tax expenditures. As of June 30, 2008, the private fund was due $56,811. The auditor recommends discontinuing the practice of co-mingling funds. See LFRD comments at ©15.

6. Material Weakness – Bid Process

Rager, Lehman & Houck found that 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 referring to the accounting procedures manual for the expected procedures on large purchases. See LFRD comments at ©15.

7. Material Weakness – Purchase Orders

Rager, Lehman & Houck found that the LFRD did not use purchase orders for any purchases. The auditor recommends developing a purchase order system immediately. See LFRD comments at ©15.

8. Material Weakness – FDIC Coverage

Rager, Lehman & Houck recommends that the LFRD review its cash balances periodically to determine if its FDIC coverage is sufficient. See LFRD comments at ©15.

Burtonsville Volunteer Fire Department, Inc.

1. Matter for Consideration – FDIC Coverage

Rager, Lehman & Houck recommends that the LFRD review its cash balances periodically to determine if its FDIC coverage is sufficient. See LFRD comments at ©18.

Cabin John Volunteer Fire Department, Inc.

1. Significant Deficiency – Accounting Records and Documents

Rager, Lehman & Houck found that accounting records were not maintained in an organized manner by the Office Services Coordinator (OSC) who recently retired and the auditor had difficulties locating documents selected for testing. The auditor recommends that the LFRD review accounting records to ensure that files are complete.

Chevy Chase Fire Department, Inc.

1. Control Deficiency – Bid Process

Rager, Lehman & Houck found that several 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 referring to the accounting procedures manual for the expected procedures on large purchases. See LFRD comments at ©22.

2. Control Deficiency – FDIC Coverage

Rager, Lehman & Houck recommends that the LFRD review its cash balances periodically to determine if its FDIC coverage is sufficient. See LFRD comments at ©22.

Damascus Volunteer Fire Department, Inc.

1. Control Deficiency – Segregation of Duties

Rager, Lehman & Houck found that the OSC opens bank statements and performs bank reconciliations. The audit recommends that management personnel other than the OSC open the bank statement and review for unusual transactions before the OSC receives the statement and reconciles. See LFRD comments at ©25.

2. Control Deficiency – Purchase Order Approval

Rager, Lehman & Houck found that several purchase orders were not signed by the approver and recommends that purchase orders be signed and approved to ensure that purchases are being reviewed. See LFRD comments at ©25.

3. CONTROL DEFICIENCY – INVOICES

Rager, Lehman & Houck noted that some check stubs did not have invoices attached and that check stubs were stamped paid when an invoice is paid. The auditor recommends stapling the invoice, purchase order, and check stub together when an invoice is paid. The auditor also recommends stamping an invoice paid to reduce the possibility of paying an invoice more than once if the invoice and the check stub become detached. See LFRD comments at ©26.

4. CONTROL DEFICIENCY – 508 FUND INVOICES

Rager, Lehman & Houck noted that several invoices for 508 expenditures could not be located. The auditor recommends that 508 invoices be kept in a folder separate from the Fire Tax District Fund invoices. See LFRD comments at ©26.

5. CONTROL DEFICIENCY – FUEL LOG MONITORING

Rager, Lehman & Houck noted that the LFRD does not keep fuel logs or perform periodic checks of usage. The auditor recommends keeping fuel logs and that the Chief review them periodically. See LFRD comments at ©26.

6. CONTROL DEFICIENCY – SALES TAX

Rager, Lehman & Houck noted that the LFRD paid sales tax on a few transactions, which the LFRD should not be paying. The auditor recommended referring to the accounting procedures manual for procedures on sales tax. See LFRD comments at ©27.

Gaithersburg-Washington Grove Fire Department, Inc.

1. CONTROL DEFICIENCY – BID PROCESS

Rager, Lehman & Houck found several 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 referring to the accounting procedures manual for the expected procedures on large purchases. See LFRD comments at ©29.

2. CONTROL DEFICIENCY – FUEL LOG MONITORING

Rager, Lehman & Houck noted that the LFRD does not have written procedures in place to properly monitor fuel usage. The auditor recommends keeping fuel logs and that the Chief review them periodically. See LFRD comments at ©31.

3. CONTROL DEFICIENCY – FDIC COVERAGE

Rager, Lehman & Houck recommends that the LFRD review its cash balances periodically to determine if its FDIC coverage is sufficient. See LFRD comments at ©31.

Germantown Volunteer Fire Department, Inc.

1. Control Deficiency – Sales Tax

Rager, Lehman & Houck noted that the LFRD paid sales tax on a few transactions, which the LFRD should not be paying. The auditor recommended referring to the accounting procedures manual for procedures on sales tax. See LFRD comments at ©33.

2. Control Deficiency – Purchase Orders/Bid Process

Rager, Lehman & Houck found several large purchases that were not put through a bid process before the purchase was approved, as required by the Local Fire and Rescue Department (LFRD) Accounting Procedure Manual. The auditor also found that many tested transactions did not have approved purchase orders attached. The auditor recommends referring to the accounting procedures manual for expected procedures. See LFRD comments at ©33.

3. Control Deficiency – Fuel Log Monitoring

Rager, Lehman & Houck noted that the LFRD does not have written procedures in place to properly monitor fuel usage. The auditor recommends keeping fuel logs and that the Chief review them periodically. See LFRD comments at ©34.

4. Control Deficiency – FDIC Coverage

Rager, Lehman & Houck recommends that the LFRD review its cash balances periodically to determine if its FDIC coverage is sufficient. See LFRD comments at ©34.

Glen Echo Volunteer Fire Department, Inc.

1. Control Deficiency – Sales Tax

Rager, Lehman & Houck noted that the LFRD paid sales tax on a few transactions, which the LFRD should not be paying. The auditor recommended referring to the accounting procedures manual for procedures on sales tax.

2. Control Deficiency – Bid Process

Rager, Lehman & Houck found one large purchase was not put through a bid process before the purchase was approved, as required by the Local Fire and Rescue Department (LFRD) Accounting Procedure Manual. The auditor recommends referring to the accounting procedures manual for the expected procedures on large purchases.

3. Control Deficiency – Credit Card Purchase Orders

Rager, Lehman & Houck found that some purchase orders for credit card purchases were not signed. The auditor recommends referring to the accounting procedures manual for the expected procedures on credit card purchases.

Hillendale Volunteer Fire Department, Inc.

1. Control Deficiency – Bid Process

Rager, Lehman & Houck found several 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 referring to the accounting procedures manual for the expected procedures on large purchases. See LFRD comments at ©40.

Hyattstown Volunteer Fire Department, Inc.

1. Control Deficiency – Bid Process

Rager, Lehman & Houck found one large purchase was not put through a bid process before the purchase was approved, as required by the Local Fire and Rescue Department (LFRD) Accounting Procedure Manual. The auditor recommends referring to the accounting procedures manual for the expected procedures on large purchases. See LFRD comments at ©43.

2. Control Deficiency – Sales Tax

Rager, Lehman & Houck noted that the LFRD paid sales tax on a few transactions, which the LFRD should not be paying. The auditor recommended referring to the accounting procedures manual for procedures on sales tax. See LFRD comments at ©44.

Kensington Volunteer Fire Department, Inc.

1. Control Deficiency – Bid Process

Rager, Lehman & Houck found several 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 referring to the accounting procedures manual for the expected procedures on large purchases. See LFRD comments at ©46.

2. CONTROL DEFICIENCY – PURCHASE ORDERS

Rager, Lehman & Houck found that no purchase order included a general ledger account number, which facilitates coding purchases to the proper account. The auditor also noted five non-repetitive transactions that lacked purchase orders. The auditor recommends using consecutively numbered purchase orders for all purchases of goods and services that are non-repetitive as noted in the LFRD Accounting Procedure Manual. See LFRD comments at ©46.

3. CONTROL DEFICIENCY – FDIC COVERAGE

Rager, Lehman & Houck recommends that the LFRD review its cash balances periodically to determine if its FDIC coverage is sufficient. See LFRD comments at ©47.

Laytonsville Disrict Volunteer Fire Department, Inc.

1. CONTROL DEFICIENCY – BID PROCESS

Rager, Lehman & Houck found several 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 referring to the accounting procedures manual for the expected procedures on large purchases. See LFRD comments at ©49.

2. CONTROL DEFICIENCY – PURCHASE ORDERS

Rager, Lehman & Houck found that no purchase order included a general ledger account number, which facilitates coding purchases to the proper account. See LFRD comments at ©50.

Rockville Volunteer Fire Department, Inc.

1. CONTROL DEFICIENCY – BID PROCESS

Rager, Lehman & Houck found one large purchase was not put through a bid process before the purchase was approved, as required by the Local Fire and Rescue Department (LFRD) Accounting Procedure Manual. The auditor recommends referring to the accounting procedures manual for the expected procedures on large purchases. See LFRD comments at ©53.

2. CONTROL DEFICIENCY – CASH OVERDRAFT

Rager, Lehman & Houck noted that the fire tax checking account was overdrawn $2,400 at June 30, 2008. The auditor recommends monitoring the amount and timing of cash requirements to ensure that sufficient funds are available to cover checks that have been released. See LFRD comments at ©54.

1. MATERIAL WEAKNESS – SEGREGATION OF DUTIES

Rager, Lehman & Houck noted a lack of segregation of duties between the Treasurer and the Office Services Coordinator. The Auditor found that the Treasurer's heavy involvement in the OSC's duties has impaired the OSC's grasp of organizational procedures and policies. The Auditor recommends that the Treasurer relinquish some job responsibilities to the OSC. See LFRD comments at ©56.

2. MATERIAL WEAKNESS – BANK RECONCILIATIONS

Rager, Lehman & Houck found that the Treasurer receives bank statements and performs the monthly bank reconciliation process, with no review by other staff. The Auditor recommends that the Treasurer receive, open, and examine the bank statement and the OSC perform the reconciliation. The Auditor recommends that a member of the Board then review and initial the reconciliation for accuracy each month. See LFRD comments at ©56.

3. MATERIAL WEAKNESS – FUNDING FOR OTHER FUNDS – FIRE TAX FUND

Rager, Lehman & Houck noted several transactions between funds. The Auditor noted that funds should be segregated between county fire tax, state grant, and VFD funds without commingling. The Auditor recommends immediately repaying $1,750 to the State Grant Fund. See LFRD comments at ©57.

4. CONTROL DEFICIENCY – CREDIT CARDS

Rager, Lehman & Houck noted that credit card statements are in the President's name. The Auditor noted this arrangement could cause an outsider to question the President's volunteer status because purchases and consistent monthly payments would increase the President's credit rating and possibly provide him with credit card bonuses (cash back, airline miles, etc.) The Auditor recommends that the credit cards be changed to the fire department's name and federal identification number as soon as possible. See LFRD comments at ©57.

5. CONTROL DEFICIENCY – OUTSTANDING CHECKS

Rager, Lehman & Houck noted outstanding checks totaling approximately $3,700 and dating back to September 2006. The Auditor recommended examining the outstanding checks and writing off checks that will likely not clear the bank. See LFRD comments at ©57.

6. CONTROL DEFICIENCY – PURCHASING CONTROLS

Rager, Lehman & Houck noted three issues with purchase controls. The Auditor found that several invoices did not have purchase order documentation, several invoices were not marked paid or cancelled, and a few invoices did not state the general ledger account to which the invoice was posted. The Auditor recommends using consecutively numbered purchase orders for all non-routine purchases, stamping each invoice paid when a check is issues, and include the general ledger account to which each invoice should be posted. See LFRD comments at ©58.

7. CONTROL DEFICIENCY – FUEL LOG MONITORING

Rager, Lehman & Houck noted that the LFRD does not have written procedures in place to properly monitor fuel usage. The auditor recommends keeping fuel logs and that the Chief review them periodically. See LFRD comments at ©59.

8. CONTROL DEFICIENCY – SALES TAX

Rager, Lehman & Houck noted that the LFRD paid sales tax on a few transactions, which the LFRD should not be paying. The auditor recommended referring to the accounting procedures manual for procedures on sales tax. See LFRD comments at ©59.

9. CONTROL DEFICIENCY – QUICKBOOKS FILE PASSWORD

Rager, Lehman & Houck noted that the LFRD's password to the QuickBooks file has remained the same since last year's audit. The Auditor recommends periodically changing the password and refers the LFRD to the Accounting Procedure Manual for password policies. See LFRD comments at ©59.

10. CONTROL DEFICIENCY – BACKUP FILES

Rager, Lehman & Houck noted that the LFRD backed up accounting information every few weeks. The Auditor recommends doing backups at the end of each week and at least quarterly and stored at an off-site location. See LFRD comments at ©60.

Silver Spring Volunteer Fire Department, Inc.

1. SIGNIFICANT DEFICIENCY – PURCHASING CONTROLS

Rager, Lehman & Houck noted that purchase orders were not used for any 508 fund expenditures and invoices were missing for three current year purchases. The Auditor also noted that purchase orders were not used for several non-repetitive expenditures. The Auditor recommends reviewing the LFRD Accounting Procedure Manual to ensure compliance with County purchasing procedures and controls. See LFRD comments at ©62.

2. **CONTROL DEFICIENCY – BID PROCESS**

Rager, Lehman & Houck found that 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 referring to the accounting procedures manual for the expected procedures on large purchases. See LFRD comments at ©63.

3. **CONTROL DEFICIENCY – FDIC COVERAGE**

Rager, Lehman & Houck recommends that the LFRD review its cash balances periodically to determine if its FDIC coverage is sufficient. See LFRD comments at ©64.

In addition, the LFRD included a comment about the revenues and expenditures identified in its financial statements in its Management Letter comments. See this comment at ©64.

Takoma Park Volunteer Fire Department, Inc.

1. **CONTROL DEFICIENCY – SALES TAX**

Rager, Lehman & Houck noted that the LFRD paid sales tax on a few transactions, which the LFRD should not be paying. The auditor recommended referring to the accounting procedures manual for procedures on sales tax. See LFRD comments at ©67.

2. **CONTROL DEFICIENCY – FDIC COVERAGE**

Rager, Lehman & Houck recommends that the LFRD review its cash balances periodically to determine if its FDIC coverage is sufficient. See LFRD comments at ©68.

Upper Montgomery County Volunteer Fire Department, Inc.

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

Rager, Lehman & Houck noted that several purchase orders were not approved by the Board of Directors. The Auditor also found that several purchase orders were approved by the OSC. The Auditor recommends that all purchase orders be approved prior to purchase of the item and refers the LFRD to the LFRD Accounting Procedure Manual. See LFRD comments at ©70.

2. **CONTROL DEFICIENCY – INVOICES**

Rager, Lehman & Houck noted that several purchase orders did not have an invoice or check stub attached. The Auditor recommends that for each purchase, the purchase order and invoice be attached prior to the check being signed, and once paid, the check stub also be stapled to the related invoice packet before filing. See LFRD comments at ©71.

3. Control Deficiency – Disbursements

Rager, Lehman & Houck noted that a few invoices were recorded to a different account than stated on the purchase order or invoice. The Auditor recommends noting a new account number on a purchase order or invoice when an invoice is recorded in a different account than the one noted on the purchase order or invoice. See LFRD comments at ©71.

4. Control Deficiency – Bank Statements

Rager, Lehman & Houck noted that the OSC opens all bank statements and reconciles them before they are reviewed by the Treasurer. The Auditor recommends that someone in management other than the OSC receive and open the bank statements to review them for any unusual items before the OSC receives them and reconciles the accounts. See LFRD comments at ©71.

5. Control Deficiency – QuickBooks File Password

Rager, Lehman & Houck noted that the LFRD's password to the QuickBooks file has remained the same since last year's audit. The Auditor recommends periodically changing the password and refers the LFRD to the Accounting Procedure Manual for password policies. See LFRD comments at ©72.

6. Control Deficiency – Backup Files

Rager, Lehman & Houck noted that backup files are made on a quarterly basis on a flash drive and kept in the OSC's office. The Auditor recommends keeping the backup offsite to protect against a disaster. See LFRD comments at ©72.

7. Control Deficiency – Fuel Log Monitoring

Rager, Lehman & Houck noted that the LFRD does not have procedures in place to monitor fuel and does not perform periodic checks of usage. The auditor recommends keeping fuel logs and that the Chief review them periodically. See LFRD comments at ©72.

8. Control Deficiency – Sales Tax

Rager, Lehman & Houck noted that the LFRD paid sales tax on a few transactions, which the LFRD should not be paying. The auditor recommended referring to the accounting procedures manual for procedures on sales tax. See LFRD comments at ©73.

1. SIGNIFICANT DEFICIENCY – CO-MINGLING OF FUNDS

Rager, Lehman & Houck found that the volunteer rescue service used private funds to pay for over $30,000 of expenditures on behalf of the tax fund. As a result, the tax fund owed $30,000 to the private fund at June 30, 2008. The Auditor noted that County, State, and private funds should be kept separate, and interfund loans are prohibited. The Auditor also noted that the volunteer rescue service maintained one general ledger that combined the activity of all three funds, creating the risk that business activity is not recorded and reported properly.

2. CONTROL DEFICIENCY – ACCOUNTING SOFTWARE

Rager, Lehman & Houck found that volunteer rescue service did not convert to the new universal QuickBooks software provided by the County for the year ended June 30, 2008. The Auditor noted that the volunteer rescue service's CPA consultant was not aware of the requirement and that the volunteer rescue service has since installed QuickBooks to record 2009 transactions.

3. CONTROL DEFICIENCY – PURCHASE ORDERS

Rager, Lehman & Houck noted that purchase orders were not issued for three non-repetitive purchases.

4. CONTROL DEFICIENCY – FDIC COVERAGE

Rager, Lehman & Houck recommends that the volunteer rescue service review its cash balances periodically to determine if its FDIC coverage is sufficient.

IV. AMENDMENT #2 TO THE COUNCIL'S CONTRACT WITH CLIFTON GUNDERSON FOR PROFESSIONAL AUDITING SERVICES

The Council and Clifton Gunderson entered into Contract #8031000103AB for the audit of the County Government financial statements 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 #2 (attached at ©77) renews the contract for one additional year to complete the FY09 audit. The FY09 audit is the second year of the audit engagement. 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. Therefore, the contract amendment does not reflect any increase in fees.

Amendment #2 indicates that the cost for FY09 audit services totals $297,440. It includes:

- $243,466 for the audit of the County Government Financial Statements and the Single Audit. The source of funds is the Independent Audit Non-Departmental Account (NDA);
- $10,000 for the Agreed-Upon Procedures for the National Transit Database Report. The source of funds is the Independent Audit NDA;
- $2,804 for the 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. The source of funds is the Solid Waste Disposal Fund;
- $4,450 for the 911 System Audit. The source of funds is the State of Maryland Emergency Number Systems Board; and
- $36,720 for the audit of the Employee Retirement Plans Financial Statements. The source of funds is the Employees' Retirement System, the Retirement Savings Plan, and the County's General Fund.

V. AMENDMENT #1 TO THE COUNCIL'S CONTRACT WITH RAGER, LEHMAN & HOUCK 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 #1 (attached at ©80) renews the contract for one additional year to complete the FY09 audit of the Fire and Rescue Corporations. The FY09 audit is the second year of the audit engagement. 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. Therefore, the contract amendment does not reflect any increase in fees. Amendment #1 indicates that the cost for FY09 audit services totals $95,000. The source of funds is the Independent Audit NDA.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Montgomery County, Maryland (the County) as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 22, 2008. 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 County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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 deficiencies to be significant deficiencies in internal control:

LIQUOR INVENTORY

The County has established policies and procedures governing year-end physical inventory counts performed at the liquor warehouse and County-owned stores. However, during our year-end inventory observation, we noted differences between our test counts and the counts performed by the County warehouse personnel. In addition, we noted the liquor warehouse is overcrowded, which may have resulted in items being grouped incorrectly during the count. In order to obtain an accurate physical inventory count and thus, fairly stated inventory and cost of sales account, we recommend inventory items be neatly organized and correctly arranged by product item number. In addition, we recommend management establish procedures for test recounts in order to eliminate errors that were discovered by our auditors observing the count.

Additionally, we noted a mathematical error in the calculation of the valuation of inventory, which resulted in an overstatement of inventory as of June 30, 2008. While there is a review process of year-end audit schedules, this error was not detected during the review. We recommend that management review all year-end audit schedules for accuracy and completeness of financial reporting.

Management's Response:
As noted by the auditors, the County has established policies and procedures governing year-end physical inventory counts performed at the liquor warehouse and County-owned stores. The variances encountered between the auditor's count and our warehouse system are not material to the overall valuation of inventory. These variances can be attributed in large part to the overcrowding of the warehouse. While the County has taken steps to minimize the impact of the overcrowding on inventory counting, the physical limitations in space still made it difficult to perform inventory counts.

Limited warehouse space has been an on-going issue for several years and the County Executive has initiated a number of steps subsequent to the performance of the inventory to alleviate the overcrowding. The County has rented additional warehouse space and has negotiated for the acquisition of a new warehouse to permanently address the space constraints.

The County acknowledges the mathematical error related to inventory excise taxes, which was corrected immediately. The error involved a calculation performed only for CAFR purposes, and did not effect the accuracy of the County's warehouse inventory management system.

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 or 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 22, 2008.

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

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 22, 2008

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, 2008, and have issued our reported dated December 22, 2008. In connection with our audit engagement, we noted the following matters which we would like to bring to your attention.

BANK ACCOUNTS

We noted that several new bank accounts were opened during the current year; however, through inquiry of finance personnel, these accounts were opened by agency personnel without notification and authorization of finance personnel. We recommend all County agencies follow established policies and contact authorized finance personnel when there is a need for a new bank account to segregate funds.

THIRD-PARTY ADMINISTRATORS

The County utilizes third-party administrators for processing healthcare and risk management claims as well as processing property tax collections. The County obtains and reviews service auditor's reports (SAS 70), which describes the third-party administrator's controls and includes detailed testing of those controls for most of the third-party administrators used by the County. During our audit, we noted that the SAS 70 report was not available for one of the third-party administrators of the County. We recommend the County require SAS 70 reports for all third-party administrators the County uses for processing claims and tax collections.

ACCESS CONTROLS – VULNERABILITY TESTING

During our review of the County's Department of Technology Services, we noted that the County conducts a weekly vulnerability scan of the County network. However, the County has not implemented a formal plan to resolve identified vulnerabilities in a timely manner. Without a formal plan, there is an increase in risk of unauthorized disclosure, modification, or destruction of data. We recommend that management implement a formal plan to resolve the vulnerabilities identified through the vulnerability assessment process in a timely manner.

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

Clifton Gunderson LLP

Baltimore, Maryland
December 22, 2008

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

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

We have audited the accompanying statements of plan net assets of the Montgomery County Employees' Retirement Plans (the Plans) as of June 30, 2008, and the related changes in plan net assets for the year then ended. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

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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 over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, 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 1, 2008

OFFICE OF THE COUNTY EXECUTIVE
ROCKVILLE, MARYLAND 20850

Isiah Leggett
County Executive

MEMORANDUM

March 26, 2009

TO: Phil Andrews, 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, 2008

Enclosed please find the Executive Branch's formal response to the Management Letter referenced above. This response is being provided by the March 27, 2009 date requested in your memorandum of March 12, 2009.

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 2, 2009. If you or your staff have any questions relating to the attached prior to that date, please contact Jennifer Barrett, Director, Department of Finance, at x78870.

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
George Griffin, Director, Department of Liquor Control
E. Steven Emanuel, Chief Information Officer, Department of Technology Services
Mike Knuppel, Chief Technology Officer, Department of Technology Services
Steve Farber, Council Staff Director

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County Response to Management Letter
For the Audit of County Government Financial Statements
For the Fiscal Year Ended June 30, 2008

1. BANK ACCOUNTS

Recommendation:

We noted that several new bank accounts were opened during the current year; however, through inquiry of finance personnel, these accounts were opened by agency personnel without notification and authorization of finance personnel. We recommend all County agencies follow established policies and contact authorized finance personnel when there is a need for a new bank account to segregate funds.

Response:

Periodically, commercial banking institutions in the County will allow County employees to open unauthorized checking and/or savings accounts. These unauthorized accounts will typically be identified when the County performs its annual audit confirmation process with banks where the County has existing relationships. During the current year's process, the Department of Finance (Finance) became aware of an unauthorized bank account that was opened in a prior fiscal year; however, our review did not identify any unauthorized bank accounts opened during FY08.

Finance works with affected departments, as such accounts are identified, to ascertain if a separate bank account is required. If it is determined that a separate account is not required, Finance works with the department to coordinate closure of the account and movement of the activity to the County's primary bank accounts. Finance is in the process of working with several departments in evaluating such accounts.

Since the County does not have control over the operations of commercial banks, the County cannot fully guarantee that County personnel will not open unauthorized accounts. However, management believes that our annual confirmation process, which is the main source for identifying these unauthorized accounts, and increased communication with departments, will minimize the risk of unauthorized bank accounts being opened in the future. The Director of Finance will reaffirm to department heads that County bank accounts can only be opened under the direction and control of the Finance Director.

2. THIRD-PARTY ADMINISTRATORS

Recommendation:

The County utilizes third-party administrators for processing healthcare and risk management claims as well as processing property tax collections. The County obtains and reviews service auditor's reports (SAS 70), which describes the third-party administrator's controls and includes detailed testing of those controls for most of the third-party administrators used by the County. During our audit, we noted that the SAS 70 report was not available for one of the third-party administrators of the County. We recommend the County require SAS 70 reports for all third-party administrators the County uses for processing claims and tax collections.

Response:

The County had the latest SAS 70 report for all third-party administrators (TPA). The TPA report in question was on a biannual cycle. At the time of the audit, the latest report had been received in FY 2007 for FY 2006. The next report from this TPA was not due until FY 2009. Some TPAs perform the SAS 70 assessment on a biannual basis because of the cost and time involved. The County was recently informed by the TPA in question that it is currently planning to convert to an annual cycle.

3. ACCESS CONTROLS – VULNERABILITY TESTING

Recommendation:

During our review of the County's Department of Technology Services, we noted that the County conducts a weekly vulnerability scan of the County network. However, the County has not implemented a formal plan to resolve identified vulnerabilities in a timely manner. Without a formal plan, there is an increase in risk of unauthorized disclosure, modification, or destruction of data. We recommend that management implement a formal plan to resolve the vulnerabilities identified through the vulnerability assessment process in a timely manner.

Response:

The County is currently drafting a formal Desktop Vulnerability Management Plan, which is based on the National Institutes of Standards and Technology (NIST) Special Publication 800-40. The purpose of the Vulnerability Management Plan is to document the roles, responsibilities and practices undertaken by the County's Department of Technology Services (DTS) to manage and remediate security vulnerabilities within the County's IT network. Specifically, the plan addresses DTS's practices related to security vulnerability management and remediation on County owned and issued desktop personal computers and laptops. The County expects the plan to be completed in the first quarter of FY10.

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

March 9, 2009

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, 2008, 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 identified the following control deficiencies that we consider to be significant deficiencies, as defined above.

Cash Management
We noted the fire tax checking account was overdrawn $41,168 at June 30, 2008. 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 AO had been instructed to not write checks on accounts such that the check would create a book overdraft. She had also been instructed to write all checks (County and private funds) using QuickBooks. This did not occur and as a result the account was overdrawn. This was addressed by transferring funds and also new control procedures were put in place to ensure it does not occur going forward. Writing all checks in QuickBooks was one of the new control procedure established along with more extensive post month-end reviews of bank statements and reconciliations.*

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.

> *This letter outlines several deficiencies of varying degrees. After review BFD concurs that there were deficiencies in the internal controls for the year ended June 30, 2008. BFD had identified the vast majority of these issues prior to the audit and had instituted improvements in internal controls. The President and Treasurer have undertaken extensive reviews and believe the overall state of our funds is in good condition and no funds are suspected of fraud, missing, or unaccounted for.*

Before responding to the specific issues raised we thought it important to provide some additional background that was not reflected in the audit letter. Beginning in the late spring of 2008 the President and Treasurer began to have concerns about the quality of the Administrative Officer's (AO) work. There were repeated requests made to review accounting records and specific transactions. These requests were only partially answered, and reports on specific accounts were insufficient. This culminated in decisions being made in late September to establish a Work Improvement Plan for the AO. This plan was communicated to her in early November, 2008. Later that month, the AO was put on a leave of absence. Between then and early February the President, Treasurer, Second Vice-President and BVD's external accountant, plus a temporary bookkeeper spent tens of hours going over BFD's records and filing system We collectively concluded that the AO was not capable of handling the accounting and finance aspects of her job and as a result she was terminated in February. Much of what is reflected in the audit letter can be directly linked to the capabilities of the AO. At this time, we have hired a temporary AO who along with the assistance and support of the board and our own LFRD accountant (CPA) has dramatically improved our position. We have identified the actual mechanics of each deficiency, and most are corrected at this time. We have only recently received authorization from the County to hire a new AO. Our more expansive comments on each issue raised by the auditors is detailed below.

<u>Management Oversight</u>
The Board of Directors is 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.

When we arrived onsite to start the audit fieldwork in December, 2008, we were informed that the Administrative Officer had been placed on administrative leave in November due to her lack of proper recordkeeping. Many checks, invoices, supporting documents, and bank statements were missing. In many instances, we noted that check numbers in the QuickBooks records did not match the actual check number attached to the invoice. The board president, treasurer, and a consulting CPA have performed a review of the accounting records and bank statements (using copies ordered from the bank) and feel confident that the reports are accurate and complete.

We recommend that you develop control procedures and a system of oversight to ensure that the next person in this position is adequately supervised, accounting records are maintained in a well-organized manner, and financial reports are accurate and complete. The LFRD accounting manual is an excellent guide.

We agree with this point and have instituted additional oversight as noted above. One of our faults may have been accepting excuses from the AO as to why actions could not be addressed in a timely manner. As noted above the AO ultimately was terminated.

Conditions have been dramatically improved. A more complete computerization system is in place. Books, file cabinets, and records are readily available and assessable by the proper staff. Proper supervision and precautions, not just from the Treasurer, but in addition from the Administrative Management and Finance (AMF) Committee has been put in place.

Credit Card Security
We were informed that the former Office Services Coordinator has two VFD credit cards in her possession that have not been returned as requested. We recommend you cancel these cards immediately and review all monthly statements to ensure that no unauthorized purchases have been made.

We also recommend you change all passwords and physical locks, if you have not already done so.

This recommendation had already been implemented.

Funds Used for Personal Purchases
We noted two instances where tax funds were used to pay for personal bills, specifically two payments to Kolly's Exterminating on 9/7/07 and 10/23/07. The monies were reimbursed in January, 2008.

Co-Mingling of Funds
We understand that the VFD has been using private volunteer funds to pay fire tax expenditures. At June 30, 2008, $56,811 was due to the private fund. Co-mingling of funds should be discontinued immediately, as this could create opportunities for errors and misuse of funds. The VFD should manage fire tax expenditures carefully to ensure they do not exceed annual approved budgets. Additional appropriations can be requested through the County's Budget Office, as described in the LFRD accounting manual.

We concur. This occurred because of an emergency repair which BFD had to fund out of its own accounts before receiving reimbursement from the County.

Bid Process

During disbursement testing, we noted that large purchases for both funds were not put through a bid process before the purchase was approved. According to the LFRD accounting manual, the fire department should be getting at least three bids on purchases of greater than $5,000. Please refer to the accounting procedures manual for expected procedures on these purchases.

BFV has always used three bids. The state of the AO's filing made it difficult to find the three bids even though the President and the Treasurer were certain that three bids had been obtained and approved by the AMF Committee. As noted above our filing processes have been changed to ensure we have the appropriate records. The bid process has always been by following our board for accuracy and procedure. The Administrative Management and Finance committee is now tasked to oversight this task.

Purchase Orders

We also noted during disbursement testing that a purchase order system was not used for any purchases. This is a County requirement and we recommend you develop a system immediately. A procurement system helps to ensure that all expenditures are properly authorized, priced, and made within budget constraints.

Purchase orders have been used by BFD. Again because of poor filing practices we have had difficulty locating the Pos. We informed Chief Wheeler sometime ago that in 2009 we would institute a new on-line system that would result in purchase approvals occurring on-line rather than using paper. This system has been instituted.

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

FDIC Coverage

We suggest that you review your cash balances periodically to determine if your FDIC coverage is sufficient. Maintaining cash balances in several institutions could help to reduce your risk of loss in the event of a bank failure.

This is always reviewed by the BFD Board and we address this issue constantly.

We wish to thank Ms. Tammy Love 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

January 20, 2009

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, 2008, 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 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.

We noted the following operational matter that is presented for your consideration.

FDIC Coverage

We suggest that you review your cash balances periodically to determine if your FDIC coverage is sufficient. Maintaining cash balances in several institutions could help to reduce your risk of loss in the event of a bank failure.

The current FDIC coverage limit was raised to $250,000 in October, 2008. All of our county and grant bank accounts are well below that limit and are therefore currently in compliance.

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. Sharon Yetter 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 27, 2009

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the
Cabin John Park 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 ***Cabin John Park Volunteer Fire Department, Inc.***, for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered ***Cabin John Park Volunteer Fire Department, Inc.***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 a deficiency in internal control 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 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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> *Accounting Records and Documents*
> We understand there were difficulties locating documents we selected for testing. Accounting records were not maintained in an organized manner by the OSC who recently retired. We recommend you review the accounting records to ensure that the files are complete.

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.

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. Danielle Thomas 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.

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

February 27, 2009

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, 2008, 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:

Bid Process

During disbursement testing, we noted several 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. Please refer to the accounting procedures manual for expected procedures on these purchases.

> *Chevy Chase Fire Department is not aware of the specific items referred to by the auditors. Our practice is to get multiple bids for purchases greater than $5,000, however, because we support the Hazardous Materials Team when purchasing specialty items we sometimes have a limited number of vendors that can fill our need.*

FDIC Coverage

We suggest that your review your cash balances periodically to determine if your FDIC coverage is sufficient. Maintaining cash balances at several institutions could help reduce your risk of loss in the event of a bank failure.

> *Chevy Chase Fire Department was aware that we exceeded the FDIC insurance coverage during FY 2008. This happened because of the funding received to outfit the new hazardous material vehicles. These funds needed to be in our operating account as we were in the process of making immediate purchases.*

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 29, 2009

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, 2008, 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. However, as discussed below, we did not identify certain deficiencies in internal control that we consider to be significant deficiencies or other deficiencies that we consider to be 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:

Segregation of Duties

During our review of internal control, we noted that the OSC opens the bank statements and performs the bank reconciliation. We recommend that management personnel other than the OSC open the bank statements and review for unusual transactions before the OSC receives the statement and reconciles.

> *The accountant reviews all of our bank statements and makes sure all corrections are noted and we will provide the President with the bank statement for review before reconciling.*

Purchase Order Approval

We noted that several purchase orders were not signed by the approver. We recommend that purchase orders are signed and approved to ensure that the control is operating properly and that the purchase has been reviewed and approved.

> *All of our purchase orders are signed by the Treasurer Mike Burch. We always follow the policy by having the board approve the purchase order and then sign off on them before the check is distributed.*

Invoices

During testing we noted that a few check stubs did not have an invoice attached. We recommend that when invoices are paid that the invoice, purchase order, and check stub are stapled together before filing. We also noted that the check stub was stamped paid when an invoice was paid. We recommend that the invoice be stamped paid and not the check stub. This would help reduce any possibility of paying an invoice more than once if the invoice and the check stub were detached.

> *All of our invoices when paid get a check stub attached to them stating that the invoice was paid; we will mark them paid also on the invoice to make sure nothing gets paid twice.*

508 Fund Invoices

We noted that several invoices for 508 expenditures could not be located. We recommend that 508 invoices be kept in a folder separate for the Fire Tax District Fund invoices.

> *Our 508 was just given back to us from the County in June of 08, therefore we do not have all the information regarding 508, the county does. As far as invoices they are all put in an individual folder marked 508 from June 1, 2008 till present.*

Fuel Log Monitoring

We noted that procedures are not in place to monitor fuel and no periodic checks of usage are being performed. We recommend that fuel logs be kept and reviewed by the Chief on a periodic basis. Please refer to the LFRD Accounting Procedure Manual for procedures in fuel usage monitoring.

> *Our fuel tanks are now being updated to give us a full meter reading; therefore we will be more knowledgeable of fuel usage. The State came in and had us modify this.*

Sales Tax

We noted that a sales tax was paid on a few transactions. According to the LFRD Accounting Procedure Manual, the Fire Department should not be paying sales tax. Recognizing these transactions could help the Fire Department save money. Please refer to the accounting procedures manual for procedures on sales tax.

> *The County and our Department are aware of the sales tax issues we have had with Griffith Energy and it is being taken off all of our bills recently.*

We truly appreciate the opportunity to reply to the cited matters, this gives us an opportunity for strengthening the internal control structure and improves the operating efficiency of our financial management. Any other questions or concerns please contact us.

We wish to thank Stephanie Ayton 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.

Rager, Lehman & Houck, P.C.

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

January 5, 2009

To the Honorable County Council,
the Fire and Rescue Commission of Montgomery County, Maryland,
and the Board of Directors of the
Gaithersburg-Washington Grove Fire Department, 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 ***Gaithersburg-Washington Grove Fire Department, Inc.***, for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered ***Gaithersburg-Washington Grove 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 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:

Bid Process

During disbursement testing, we noted several 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. Please refer to the accounting procedures manual for expected procedures on these purchases.

> *The Financial Manual says to get bids or show cause why you didn't. We generally don't because we use the same vendors, or in many cases, find it difficult to get three vendors to respond with the same criteria.*
>
> *The engine room door replacement. County used their vendor and transferred funds to us. No bidding required, as we can piggy-back off of County or any Federal, State, or Municipal bid.*
>
> *The Shop does some shopping for prices, but the decision making is also strongly dependent on quality, delivery times, and service. Some of their purchases are over the $5k mark, rarely for any one individual item, sometimes they seek approval from Dover Road, but usually not. David does keep a log of when apparatus goes out, promises made, etc, which goes into the decision making of whom to use. Much of this was passed on to the auditors.*

Examples referenced in the audit:

508
CK 10029 Glazing Contractors $10,391
Ck 10026 Therrien Waddell $62,485
Ck10027 Glazing Contractors $40,000

Tax Funds
Ck 4593 Wheeled Coach Ind $9,348
Ck 4674 Griffith Energy Services $13,183

We are in compliance with the 3 bid requirement, per the existing Financial Manual.

Wheeled Coach - There were 25 Hepa Filters at $339 each plus additional items. No one item or service was above the $5,000 threshold, and some of these items are proprietary without equivalent vendors. In addition, these are reimbursed by the County, and they have not raised any objections. David will also switch vendors if he can get better service, better prices, or both, with things like quality and delivery times counting for more than price.

Griffith Energy - This is fuel, purchased in quantities smaller than $5,000 at a time. These are also reimbursed expenses, which the County originally said they were scrutinizing for efficiencies. They have not raised any objections.

For both of these, please remember that the Financial Manual and the FRC regs have Not been updated to reflect the current reimbursement process.

Glazing Contractors - When we replaced the windows and front doors at Station 8, we received three bids and went with this contractor. We did not re-solicit for similar work at 28, as we have been very pleased with the results at 8.

Therrien Waddell - We did contact another general contractor, who ended up not responding. As we have with many such cases, we have been dependent on personal references from a variety of people and sources to choose vendors who will be with us for the long haul. That is what we did here, to mostly satisfactory results. Part of this funding was also used to compensate N-Tech, through T-W as their sub contractor. In 1998 we solicited three bids for an HVAC replacement, one did not bid, one bid a simpler not adequate system, and Cullop, now N-Tech, bid the most responsively.

Fuel Log Monitoring
We noted that there are not written procedures in place to properly monitor fuel usage. We recommend that fuel logs are keep for each apparatus and reviewed by the Chief on a periodic basis. Please refer to the LFRD Accounting Procedure Manual for procedures in fuel usage monitoring.

> *We match the delivery receipts against the bills monthly. We do not currently monitor usage beyond the entries in the logs kept on the apparatus. All dispensing nozzles are locked, and keys are available on the apparatus. Our request to have electronic monitoring of fuel usage when the tanks were installed by the County was denied.*

FDIC Coverage
We suggest that you review your cash balances periodically to determine if your FDIC coverage is sufficient. Maintaining cash balances in several institutions could help to reduce your risk of loss in the event of a bank failure.

> *We are currently compliant because of the increase in coverage. We were behind during part of the audit time-frame because of things like the unspent funds for 28 from Amoss, and the $43,000 and $60,000 encumbered for apparatus parts for Dover Road and for the ER Door replacement at 8. Plus with the increase in fuel and utility costs and the increased workload of the Shop, we are getting over $100,000 at the beginning of the FY to pre-fund per the reimbursement process, and then we receive whatever overages are due in July for the June bills submitted in July. It is not possible to stay under the $100K limit without lots more bank accounts and transfers.*

We wish to thank Mr. Steven Kurtz for his 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.

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

January 12, 2009

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, 2008, 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.

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An Independently Owned Member

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:

Sales Tax
During disbursement testing, we noted that sales tax was paid on a few transactions. According to the LFRD Accounting Procedure Manual, the fire department should not be paying sales tax. Recognizing these transactions could help the fire departments save money. Please refer to the accounting procedures manual for procedures on sales tax.

> *GVFD will ensure that the tax exempt card is available at all times for all future purchases.*

Purchase Orders/Bid Process
During disbursement testing, we noted several 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.

> *There were two purchases made during FY08 that totaled $5000.00 or above. The first was our annual banquet, at which exactly $5000.00 was expended. The second purchase was recorded at $6,430.00 for lounge furniture on the purchase order list. The actual amount spent was a little over $3,000.00 as some items were eliminated and the rest of the funds came out of the volunteer account.*

GVFD does follow the accounting manual practice of getting bids on any items over $5,000.00.

Additionally, many of the tested transactions during our audit did not have an approved purchase order attached. Please refer to the accounting procedures manual for expected procedures on these purchases.

Fuel Log Monitoring

We noted that there are not written procedures in place to properly monitor fuel usage. We recommend that fuel logs are keep for each apparatus and reviewed by the Chief on a periodic basis. Please refer to the LFRD Accounting Procedure Manual for procedures in fuel usage monitoring.

Our fuel is purchased through the county. The county has fuel rings on all apparatus assigned to GVFD. The fuel rings are electronic sensors that authorize the vehicle to obtain fuel from a county fueling station. Included with the bill from the county is a log that breaks down the fuel consumption per vehicle. Those bills are reviewed. The board of directors has been advised and will be working with the station commander to implement a fuel logbook to track the fuel that is obtained through the use of the fuel cards.

FDIC Coverage

We suggest that you review your cash balances periodically to determine if your FDIC coverage is sufficient. Maintaining cash balances in several institutions could help to reduce your risk of loss in the event of a bank failure.

Although a large amount of GVFD funds are located in OBA Bank; those monies are diversified into CDARS which are distributed amongst different entities. All of the investment monies are insured.

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 27, 2009

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

In planning and performing our audit of the statements of revenues and expenditures – budget and actual – for both the fire tax district and state grant funds of the ***Glen Echo Volunteer Fire Department, Inc.***, for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered ***Glen Echo Volunteer Fire Department, Inc.***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 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:

Sales Tax
During disbursement testing, we noted that sales tax was paid on a few transactions. According to the LFRD Accounting Procedure Manual, the fire department should not be paying sales tax. Recognizing these transactions could help the fire departments save money. Please refer to the accounting procedures manual for procedures on sales tax.

Bid Process
During disbursement testing, we noted one large purchase using 508 funds that was not put through a bid process before approval of the purchase order. According to the LFRD Accounting Procedure Manual, the fire department should be getting at least three bids on purchases of greater than $5,000. Please refer to the accounting procedures manual for expected procedures on these purchases.

Credit Card Purchase Orders
During testing, we discovered that that some of the purchase orders for credit card purchases the invoices were not signed. Please refer to the accounting procedures manual for expected procedures on these purchases.

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

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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

January 14, 2009

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

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 ***Hillandale Volunteer Fire Department, Incorporated***, for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered ***Hillandale Volunteer Fire Department, Incorporated***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and 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 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:

Bid Process

During disbursement testing, we noted several 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. Please refer to the accounting procedures manual for expected procedures on these purchases.

Three bids were obtained before accepting the proposal from Smitty's Home Improvement Projects, Inc. for $53,470.29. The two bids were attached to the original purchase order dated 4/2/08 but were overlooked by the auditors. I would be happy to provide them upon request. The purchases from Medtronic Physio-Control and Maryland Fire Equipment were done as sole source suppliers thru Montgomery County contracts. The purchase from Commercial Office Interiors was obtained thru the International Association of Fire Chief's Fire Rescue Group Purchasing plan. In the future we will make every effort to obtain three written bids and if unable to do so we will document and make it part of the purchase request.

We wish to thank Ms. Judy Moffson 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 27, 2009

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

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 ***Hyattstown Volunteer Fire Department, Incorporated***, for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered ***Hyattstown Volunteer Fire Department, Incorporated***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and 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 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:

Bid Process
During disbursement testing, we noted a purchase of HVAC equipment for over $8,000 that was not put through a bid process before approval of the purchase order. According to the LFRD Accounting Procedure Manual, the fire department should be getting at least three bids on purchases of greater than $5,000. Please refer to the accounting procedures manual for expected procedures on these purchases.

The item noted - HVAC equipment for over $8,000.00 was to replace the air conditioning unit at our firehouse. We did not obtain bids on this item for the following reasons:

1) *This was replaced as part of an emergency repair. We did not realize this unit would need to be replaced and therefore, we had no opportunity to get bids in advance.*
2) *We did contact HVAC companies in an effort to get technicians to come out, evaluate our system, and give us an emergency bid, however, because this occurred in early summer we could not find any businesses that could help us in a timely manner.*
3) *This system is the only source of air conditioning for our firehouse and we were in a position where we could not provide a/c for the career staff who are here 24/7.*

4) *Our HVAC system is extremely specialized. Our technician is experienced and completely capable of working with our system, they offer discounted rates to the fire departments, and they were willing to adjust their schedule to make this emergency repair for us.*

In the future, we will provide a clear explanation on the purchase order if we have any items or repairs that are eligible for the bidding process that did not receive bids.

<u>*Sales Tax*</u>

During disbursement testing, we noted that sales tax was paid on a few transactions. According to the LFRD Accounting Procedure Manual, the fire department should not be paying sales tax. Recognizing these transactions could help the fire departments save money. Please refer to the accounting procedures manual for procedures on sales tax.

It is our policy not to pay MD State sales tax on purchases. We contacted the auditor requesting further information so we could respond to this finding and discovered the finding was based on three disbursements to two vendors. The three disbursements they cited were to Allegheny Power and Comcast. We contacted both Allegheny Power and Comcast and were told the "taxes, surcharges, and fees" referred to are not MD State Sales tax, and are not subject to exemption. We are therefore requesting that you remove this finding from the comments on the audit.

We wish to thank Ms. Paula Mackal for her support and assistance during our audit.

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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 27, 2009

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

In planning and performing our audit of the statements of revenues and expenditures – budget and actual – for both the fire tax district and state grant funds of the ***Kensington Volunteer Fire Department, Inc.***, for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered ***Kensington Volunteer Fire Department, Inc.***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 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:

Bid Process
During disbursement testing, we noted several 508 fund purchases that were not put through a bid process before approval of the purchase order. According to the LFRD Accounting Procedure Manual, the fire department should be getting at least three bids on purchases of greater than $5,000. Please refer to the accounting procedures manual for expected procedures on these purchases.

> *All of the Amoss Fund (508) "3 Bids" issues were with Montgomery County contract vendors (Maryland Fire Equipment for firefighter turnout gear; Medtronic for AEDs; and Municipal Emergency Services for hose.)*

Purchase Orders
During disbursement testing, we noted that none of the purchase orders included a general ledger account number. It is important to include this detail so purchases are coded to the proper expense account. Additionally, we noted that a purchase order was not issued for five non-repetitive transactions. According to the LFRD Accounting Procedure Manual, the fire department should use consecutively numbered purchase orders for all purchases of goods and services that are non-repetitive.

> *All of the "no PO" invoices are for repetitive vendors except for American Fire Equipment (see below).*
> *Biomedical Waste services each of our 4 fire stations monthly;*

Griffith Energy delivers fuel twice monthly to our stations; Washington Gas supplies natural gas to all of our stations; and Unifirst supplies our mechanics with uniforms every two weeks.

American Fire Equipment is not a repetitive vendor, but I found a purchase order attached to the invoice (see attachment) which the auditor must have overlooked.

FDIC Coverage

We suggest that you review your cash balances periodically to determine if your FDIC coverage is sufficient. Maintaining cash balances in several institutions could help reduce your risk of loss in the event of a bank failure.

KVFD has no comment about the FDIC Coverage. We will continue to review our cash balances to ensure sufficient coverage. With the recent increase in federal backing, we remain confident that our average daily balances are within acceptable limits.

I have already voiced KVFD's concern to Ms. Gillan about lack of communication between the auditors and KVFD. At the end of the audit, KVFD asked if there were any reportable deficiencies and we were told there were none. So it came as quite a surprise to us when the draft latter contained two areas of concern.

We wish to thank Mr. Mike Kelly for his 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 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 27, 2009

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, Incorporated

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, Incorporated***, for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered ***Laytonsville District Volunteer Fire Department, Incorporated***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 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:

Bid Process

During disbursement testing, we noted five large 508 fund purchases that were not put through a bid process before approval of the purchase order. According to the LFRD Accounting Procedure Manual, the fire department should be getting at least three bids on purchases of greater than $5,000. Please refer to the accounting procedures manual for expected procedures on these purchases.

> *All items did have at least three bids; the auditors did not ask whether other bids had been solicited, either verbally or in writing, either at the time of the audit or subsequently. The first time the issue was raised was in the draft comments. Had they asked about these specific items and bids, they would have been given information that all items in question did have the required three bids.*
>
> *Check # 1706 (8-8-2007, $5,870) – prices were solicited over a year in advance from various vendors, by verbal quote for purposes of application for funds only. The lockers came in 4-locker units at $800 apiece. Until we received the Amoss funds notification from the county, we could not know how much if any funds we had available for these units. Followup verbal and online contacts for unit prices combined with shipping and any price breaks determined our choice of vendor.*

Check # 1714 (1-31-2008, $7874.66) – part of a very large and comprehensive proposal and contract which had been correctly bid for rehabilitation of the entire Station 17 building. The Architect invoices were originally paid by Firemens Fund and subsequently reimbursed by the Amoss Funds. The Firemens Fund was not the party involved in the bidding; they were merely the party being reimbursed for paying the architects fees, which were part of the winning competitive bid out of a field of at least three.

All other checks in question involved vendors who already had competitive bid status from Montgomery County regarding these specific items being purchased (PBI gear, support vehicles and ancillary lights, sirens, etc.) and therefore did not require duplication of effort by re-bidding on the part of the LFRDs.

We request that this item be withdrawn as a finding on the Audit Report final version.

<u>Purchase Orders</u>
During disbursement testing, we noted that none of the purchase orders included a general ledger account number. It is important to include this detail so purchases are coded to the proper expense account.

LDVFD's Quickbooks program was programmed and provided by the County DFRS, including the setup of the purchase orders, although these can be somewhat customized; however, at no point in the past have any auditors or audits made it a point that the GL codes were required on the front of any purchase order, nor does the county manual or GAAP state it must. This does not mean a GL code has not been assigned to the purchase order or subsequent expenditures, since the Quickbooks program itself <u>requires</u> a GL code to be assigned at the time a purchase order is created, and further requires an assigned GL code to either enter a bill or make payments. It is impossible to do any of these tasks without a GL code already having been assigned, which the auditors should certainly know through their own familiarity with the program. Again, not once during the audit or subsequently was this issue addressed, or we would gladly have corrected the misperception.

For the convenience of the auditors in future, we have added this information to the front of our purchase orders along with payment data.

We request this item also be withdrawn as a finding on the Audit Report final version.

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.

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

January 5, 2009

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

In planning and performing our audit of the statements of revenues and expenditures – budget and actual – for both the fire tax district and state grant funds of the ***Rockville Volunteer Fire Department, Incorporated***, for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered ***Rockville Volunteer Fire Department, Incorporated***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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:

Bid Process
During disbursement testing, we noted a large purchase that was not put through a bid process before approval of the purchase order. According to the LFRD Accounting Procedure Manual, the fire department should be getting at least three bids on purchases of greater than $5,000. Please refer to the accounting procedures manual for expected procedures on these purchases.

> *The purchase you are referring to we believe was for concrete work at Station 23 in the amount of $7,132.00. We did not obtain three bids for this project because we have used the vendor, Catania Construction, for several projects at our stations and their bids have always been several hundred to one thousand dollars less than most vendors and because we use them on a regular basis they agree to give us very good discounts, they are very familiar with our stations and they do outstanding work.*

Cash Overdraft
We noted that the fire tax checking account was overdrawn $2,400 at June 30, 2008. 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.

We agree the bank balance was negative on June 30, 2008. The reason for that was because checks were prepared for the Vehicle Maintenance account so they could be submitted with the June submission as requested by the management of that program. The checks were not mailed so there was no risk of checks actually bouncing. In the future we will hold these invoices until the July submission or until we receive funds to cover them.

Thank you for the opportunity to respond to your concerns.

We wish to thank Ms. Debby McMurray 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

January 6, 2009

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, 2008, 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 and other deficiencies that we consider to be 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 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 significant deficiencies to be material weaknesses:

Segregation of Duties

During our field work, we noted a lack of segregation of duties between the Treasurer and the Office Service Coordinator (OSC). Several questions that we would expect the OSC to be able to help us with were referred to the Treasurer instead. It appears that the Treasurer's heavily involvement has impaired the OSC's grasp of Organizational procedures and policies. We recommend that the Treasurer relinquish some job responsibilities to the OSC. Please refer to the LFRD Accounting Procedure Manual for the job description and responsibilities of the OSC.

> *We agree and we will correct. As a point of explanation, there is not any ill or malicious intent on the part of SSVFD regarding separation of duties. The Treasurer has had an unusually heavy business travel schedule over the past two years. Simply put, the OSC and the Treasurer's schedule have not been compatible. The Treasurer's business travel schedule has been lightened over the past several months and he looks forward to sharing more duties with the OSC.*

Bank Reconciliations

During our review of internal controls, we became aware that the Treasurer receives the bank statements and performs the monthly bank reconciliation process. Once the bank reconciliation is completed there is no review performed. We recommend that the Treasurer receive, open, and examine the bank statement for any unusual transactions before giving to the OSC to reconcile. Once the reconciliation is completed a member of the Board should review and initial for accuracy each month. This will help strengthen the oversight and controls on cash.

> *Please see response for segregation of duties.*

Funding for Other Funds-Fire Tax Fund
We noted several transactions between funds during the audit. Funds are to be segregated between county fire tax, state grant, and VFD funds without commingling. Specifically, a balance of $1,750 is due to the State Grant (508) Fund. We recommend that you repay this amount immediately.

> *We agree and we will correct. However, please note that this particular item was simply an invoice that was paid inadvertently from the incorrect fund. There was a total of three transactions between funds, that were fully disclosed prior to the FY 08 audit. Each transaction had its individual set of circumstances. The point is that this is not a common occurrence. The specific issue has been corrected.*

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

Credit Cards
During our review of internal controls, we noted that credit card statements are under the President's name. This arrangement could cause an outsider to question the President's volunteer status, as purchases made by the Organization coupled with consistently paid monthly balances would increases the President's credit rating and possibly provide him with credit card bonuses (cash back, airline miles, etc.). We recommend that the credit cards be changed to be under the fire department's name and federal identification number as soon as possible.

> *We understand the comment and we were already in the process of obtaining new departmental credit cards prior to receiving this comment.*

Outstanding Checks
During our tests of the bank reconciliations we noted a number of outstanding checks in the amount of approximately $3,700 dating back to 9/4/06. Outstanding checks should clear in the following month in most cases, so anything that does not clear should be addressed while performing the bank reconciliation. We recommend examining the outstanding check list and writing off checks that will most likely not clear the bank.

> *We agree and we will correct.*

Purchasing Controls

We tested a sample of cash disbursements and noted that several invoices did not have purchase order documentation. Consecutively numbered purchase orders should be used for all non-routine purchases. We also noted that several invoices were not marked paid or cancelled. A few invoices also did not state the general ledger account that the invoice was posted to. We recommend that each invoice is stamped paid when check is issued and the invoice note the respective general ledger account it is to be posted to.

In a review of the disbursements that were tested, we found the vast majority of those disbursements routine and/or recurring expenses related to utilities, fuel, apparatus maintenance, facility maintenance, reimbursements to members, emergency medical supplies and/or expenses less than $250. There was one disbursement that probably should have had an associated purchase order. The remaining disbursements that required a purchase order did in fact have a purchase order. While many of the disbursements of a routine or recurring nature may be deemed as an "excessive" amount, each invoice over $2,500 is approved by SSVFD's Executive Board as a result of a management audit recommendation several years ago.

The SSVFD believes that it has sufficient controls in place to ensure that an invoice is not paid on multiple occasions. First, the QuickBooks software warns the user if an invoice number from a particular vendor has already been used. Second, open accounts payable documents are kept physically separated from the paid documents in the OSC's office. Once an invoice is paid, it is stapled together with the check stub and the purchase order and is filed in a different file drawer. Third, the four different people review each invoice (the same four), so by human nature any duplication would be caught by sheer repetition. The opportunity to duplicate a payment is negligible.

The SSVFD also believes that the ease of researching transactions in QuickBooks, as well as its ability to provide custom reports negate the need to cancel (stamp) and/or write a general ledger account number on the invoice. It is very rare that paid invoices ever have to be researched. The addition of this step is labor intensive with little added value.

Fuel Log Monitoring

We noted that there are not written procedures in place to properly monitor fuel usage. We recommend that fuel logs are keep for each apparatus and reviewed by the Chief on a periodic basis. Please refer to the LFRD Accounting Procedure Manual for procedures in fuel usage monitoring.

> *We will consider this comment. The automated fuel dispensing system is at its full control capacity. Printed logs can be obtained for apparatus and vehicles normally assigned to the SSVFD. However, the ability to log fuel usage for reserve apparatus (for example) is essentially non-existent. Control keys must be shared between apparatus. Unfortunately, the system is obsolete and therefore not expandable to include additional keys. A new fuel dispensing system would be required to have full control. That being said, it should be noted that there is little opportunity for any misuse of fuel. The fueling site is lit, with video monitoring, and someone with malicious intent would need to acquire a key from inside the cab of a vehicle assigned to the SSVFD.*

Sales Tax

During disbursement testing, we noted that sales tax was paid on a few transactions. According to the LFRD Accounting Procedure Manual, the fire department should not be paying sales tax. Recognizing these transactions could help the fire departments save money. Please refer to the accounting procedures manual for procedures on sales tax.

> *We want to ensure that the reader knows that the payment of sales tax is not a common practice. In a review of the disbursements that were tested, we found the vast majority of those disbursements that contained sales tax were reimbursements to members. When a volunteer member has taken his or her time to purchase something for the SSVFD, and is out of pocket, it is difficult to ask the member to deal with sales tax. There was one instance where sales tax was charged on a utility for one station, but not the other. We are resolving that issue with the utility.*

QuickBooks File Password

We noted that the password to the QuickBooks file has remained the same since last fiscal years audit. We recommend that the password be changed periodically. Implementing a procedure to change passwords on a regular basis will improve computer access security. Please refer to the LFRD Accounting Procedure Manual for details regarding password policies.

> *We agree and this has been corrected.*

Backup Files

During our review of internal controls, we noted that backups are done every few weeks. We recommend that backups are done at the end of each week and at least quarterly and stored at on off-site location. This would allow for easy retrieval of the accounting information in the event of disaster. Please refer to the LFRD Accounting Procedure Manual for back-up procedures.

> *A new workstation is on-site and we will ensure that an external backup is setup for weekly backup. However, a backup is already performed quarterly and stored off-site.*
>
> *Thank you for the opportunity to respond to the draft management letter.*

We wish to thank Mr. Steve Lamphier and Ms. Debbie Rokes 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.

Rager, Lehman & Houck, P.C.

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

February 27, 2009

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

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 ***Silver Spring Volunteer Fire Department, Incorporated***, for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered ***Silver Spring Volunteer Fire Department, Incorporated***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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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Purchasing Controls

We noted that purchase orders were not used for any 508 fund expenditures, and invoices could not be located for three of the current year purchases. Additionally, during our tax funds disbursements testing, we noted that purchase orders were not issued for several non-repetitive expenditures. We recommend that you review the LFRD Accounting Procedure Manual to ensure that you are in compliance with county purchasing procedures and controls.

In reference to things highlighted in the test item list for the Senator Amoss 508 Funds:

* *Checks #213, 214, 215 - no POs available:*

o *As previously stated in our first e-mail, documentation for all 508-related matters including purchases, corresponding POs - which are issued for all 508 purchases without fail - are kept in a separate location than the account statements in the interest of security which is certainly favored by us, the audit team and MCFRS. We would have been happy to supply all the supporting documentation needed had it been requested. The audit team was prompted if anything else was needed and there was nothing requested. I feel that the 'significant deficiency' statement relating to 508 funds in the audit report must be retracted. It simply is not accurate. We submit our documentation for review and reconciliation on a monthly basis to our external accountant and no issues have been brought to our attention thus far. Furthermore, we also submit all information to the regular analysis of 508 fund documentation including copies of checks front/back, POs, and invoices as required by MCFRS on a regular basis and no issues have ever been brought to our attention.*

* *Checks #17343, 17753, 17798, 17924, 18089, 18109, 18128, 18132, 18174 - 'no PO' is highlighted:*

• *Invoices with amounts less than $150.00 do not require a PO and so these should not be marked as missing POs.*

* *Checks #17643, 17780, 17795, 17865, 17941 - 'no PO' is highlighted:*

o *These invoices are for frequently-used vendors for which the Board of Trustees, at the beginning of every fiscal year, approves an open PO and so these should not be marked as missing POs. This list was provided to the audit team.*

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 a large purchase that was not put through a bid process before approval of the purchase order. According to the LFRD Accounting Procedure Manual, the fire department should be getting at least three bids on purchases of greater than $5,000. Please refer to the accounting procedures manual for expected procedures on these purchases.

Check #213 - amount as well as '3 bids obtained: No" is highlighted:

o *The full check sum is a result of smaller, i.e. less than $5,000, invoice amounts. Bid information was obtained for these products and that is why we selected the particular vendor as their prices were the lowest for the products. Therefore, I feel it is not accurate for the report to comment on the bid process and the related 'control deficiency' statement in the audit report must be retracted. We are aware of the need to obtain bids and do so. Also, we would like to point out that Board of Trustees meeting minutes include a motion by a board member, seconded by another board member, that is approved by the Board of Trustees to accept the Treasurer's report and pay the bills.*

<u>*FDIC Coverage*</u>

We suggest that you review your cash balances periodically to determine if your FDIC coverage is sufficient. Maintaining cash balances in several institutions could help to reduce your risk of loss in the event of a bank failure.

We assume you are referring to our tax funds account. This was in part due to the fact that the SSFD made a supplemental funding request for $40,000 to Montgomery County to cover remaining expenses in the 4th quarter. This request was granted. However, the requested amount was mistakenly deposited twice to our account for an unexpected total of $80,000, a mistake clearly out of our control. It is important to point out that the mistake was properly identified and corrected with help from the SSFD. This should not be considered a "control deficiency" as we do not control electronic fund transfers made by Montgomery County.

<u>*Revenues Over/Under Expenditures*</u>

The last concern that I would like address refers to the "Revenues over expenditures" unfavorable total of ($9,043) listed on page 2 of the draft financial statements. To avoid any future confusion it should be noted that we had to reflect an 'unfavorable' amount due to a mistake in reimbursements by Montgomery County related to the monthly reimbursements for vehicle maintenance expenses.

We were not reimbursed properly for the full amount (approximately $13,000) in the appropriate fiscal year. In order to correct the issue, we were informed by the County that we would show an unfavorable (over-budget) amount for fiscal year 2008 and a favorable (under-budget) amount in fiscal year 2009. The County is supposed to monitor this so that it is resolved in the manner it was presented to us. The documentation that outlines the situation was made available for the audit team. We want to make sure the unfavorable amount is explained and documented so that it does not adversely affect the department in the future.

We wish to thank Ms. Ilona Aberl 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

January 5, 2009

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

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 ***Takoma Park Volunteer Fire Department, Inc.***, for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered ***Takoma Park Volunteer Fire Department, Inc.***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 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:

Sales Tax

During disbursement testing, we noted that sales tax was paid on a few transactions. According to the LFRD Accounting Procedure Manual, the fire department should not be paying sales tax. Recognizing these transactions could help the fire departments save money. Please refer to the accounting procedures manual for procedures on sales tax.

The referenced purchases are as follows:

1. *Check #3598 to Comcast for our cable service. (We receive complimentary basic and preferred service from Comcast each month) These services would run approximately 78.00 per month. The additional services we do purchase are: HBO, HDTV converter, Digital converter and a remote. These charges are approximately $34.00 per month. We are receiving a discount for service of approximately $78.00 per month or $936.00 per year. The tax we are paying averages $.75 per month or $9.00 per year. Though we are charged a minimal amount of tax, the savings in comparison are phenomenal.*

2. *Check # 3693 to Verizon for fax and DSL service. We are not charged MD sales tax. There are some MD surcharges but I was advised by Verizon customer service, these are not sales tax. We are charged a Fed tax of approximately $.72 per month.*

3. *Check #3654 to MAFA for air compressor repair. There was $21.19 in MD sales tax on the invoice. The invoice total was $445.05. I deducted the tax and paid the company a total of $423.86. Check stub is attached to the invoice and total was modified on invoice to reflect the total without sales tax.*

<u>FDIC Coverage</u>
We suggest that you review your cash balances periodically to determine if your FDIC coverage is sufficient. Maintaining cash balances in several institutions could help to reduce your risk of loss in the event of a bank failure.

Regarding the FDIC coverage, we are in agreement and will open additional accounts to reduce the risk of loss.

It was indeed a pleasure working with the staff from Key & Associates.

We wish to thank Ms. Pamela Taylor 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.

R&H

Rager, Lehman & Houck, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

February 27, 2009

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

In planning and performing our audit of the statement of revenues and expenditures – budget to actual – for both the fire tax district and state grant funds of the ***Upper Montgomery County Volunteer Fire Department, Inc.***, for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered ***Upper Montgomery County Volunteer Fire Department, Inc.***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 did not identify certain deficiencies in internal control that we consider to be significant deficiencies or other deficiencies that we consider to be material weaknesses.

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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:

Purchase Order Approval
During testing we noted that several purchase orders were not approved by the Board of Directors. We also found several purchase orders that were approved by the OSC. We recommend that all purchase orders should be approved prior to the purchase of the item. Please refer to the LFRD Accounting Procedure Manual for details regarding purchase order procedures.

> *The Chief or other authorizing Board member signs off on all purchase orders prior to a check being processed. This was not always the case, and this process was initiated following the last audit findings and is being followed at this time.*

Invoices
During testing we noted that several purchase orders did not have an invoice or check stub attached. We recommended that for each purchase, the purchase order and invoice be attached prior to the check being signed, and once paid, the check stub also stapled to the related invoice packet before filing.

Some invoices received monthly are deemed Annual Purchases and there is only 1 purchase order established at the beginning of the Fiscal Year. The purchase order number is listed clearly on these invoices. In the future, the Administrative Specialist will indicate that this is an Annual Purchase Order for auditing purposes. The list of Annual Purchase Orders is available in the Administrative Specialist's office should the audit team wish to refer to it. For all other purchases, the procedure is to attach a purchase order, receipt and invoice together. The check stub is stapled to the batch after the check has been mailed.

Disbursements

During disbursement testing we noted that a few invoices were recorded to a different account than stated on the purchase order or invoice. We recommend that when an invoice is recorded in a different account other then the one noted on the purchase order or invoices that the new account number should be noted on the purchase order or invoice as well.

Occasionally, it is necessary to place an item purchased into another funding category after the purchase order is produced. The occurs rarely, and the Administrative Specialist will be more diligent with regard to noting changes to purchase orders in the future, if necessary, will re-print a new P.O. and attach the original to it for documentation.

Bank Statements

The OSC opens all bank statements and reconciles them before they are handed over to the treasurer for his review. We recommend that someone in management other than the OSC receive and open the bank statements to review them for any unusual items before the OSC receives them and reconciles the accounts.

The Administrative Specialist opens all the mail that comes into the Station as the Admin. Spec. is the only person who is here on a daily basis. Bank statements are usually received between the 2nd and the 7th day of the month. In order to prepare the monthly financial statements for the Board of Directors, the Administrative Specialist must process the bank reconciliations as soon as the statements are received so they can go to the Board Treasurer for review. The Treasurer reviews them carefully and questions any activity that is unusual, i.e. bank charges, etc. If extra time were taken for someone else to open and review the statements prior to the Administrative Specialist performing the bank reconciliations, there would be no time to prepare the financial statements for the Board of Directors meeting which takes place by the 12th of each month.

QuickBooks File Password

We noted that the password to the QuickBooks file has remained the same since last fiscal years audit. We recommend that the password be changed periodically. Implementing a procedure to change passwords on a regular basis will improve computer access security. Please refer to the LFRD Accounting Procedure Manual for details regarding password procedures.

> *As noted, the password has not changed on the QB account, however, the Administrative Specialist and the Chief are the only two individuals with keys to the Admin. Office. The Chief does not have the password to the QB accounts. The Admin. office is locked 100% of the time when the Admin. Spec. is not in the building. We do not see this as a security issue at this time as no one has access to the computer except the Administrative Specialist.*

Backup Files

We noted that backups are made on a quarterly basis on a flash drive and then kept in the OSC's office. We recommend that the backups be kept offsite to protect against the event of a disaster. This would allow for easy retrieval of the accounting information in the event of disaster at the fire department location. Please refer to the LFRD Accounting Procedure Manual for back-up procedures.

> *Currently we are using an external hard drive to back up the files automatically on a daily basis. Periodically, the data has been backed up to a flash drive. Based on the recommendations of the audit team, the Administrative Specialist will make a copy of the files once a month and save the data to a flash drive or CD and store in the safe.*

Fuel Log Monitoring

We noted that procedures are not in place to monitor fuel and no periodic checks of usage are being performed. We recommend that fuel logs be kept and reviewed by the Chief on a periodic basis. Please refer to the LFRD Accounting Procedure Manual for procedures in fuel usage monitoring.

> *Procedures are in place for monitoring the fuel usage as a whole specifically to track whether there is any leakage into the ground from the holding tanks and to track the fuel pumped and delivered. At this time we are not tracking independent vehicle usage, other than to add up the totals to put into the fuel tracking log for the MD. Dept. of the Environment. The Administrative Specialist was never directed to monitor or report fuel usage by apparatus. We*

do have a key in each vehicle that is used at the pump, and there are individual counters on each key pad that record total volumes. This is something that could be tracked, but due to the variety of personnel coming through the facility, it would be difficult to do so. The situation has been previously discussed with the Station commander, who was asked to maintain a fuel tracking log in each vehicle. But again, due to the number of individuals who come through the Station, it is difficult to maintain. If this type of documentation is required by the county, then it should become a daily function of the career shifts to track and monitor, as they are the individuals filling the tanks.

Sales Tax

We noted that a sales tax was paid on a few transactions. According to the LFRD Accounting Procedure Manual, the fire department should not be paying sales tax. Recognizing these transactions could help the fire department save money. Please refer to the accounting procedures manual for procedures on sales tax.

All purchases, whenever possible are done utilizing the tax exempt status. Occasionally it is necessary for a member or an officer to make a purchase and pay sales tax. These purchases are extremely rare. The Administrative Specialist is diligent with regard to obtaining tax exempt status with all of our routine vendors.

We wish to thank Sue Dabbondanza 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.

Rager, Lehman & Houck, P.C.

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

February 29, 2009

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

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, Incorporated***, for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered ***Wheaton Volunteer Rescue Squad, Incorporated***'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 identified the following control deficiency that we consider to be a significant deficiency, as defined above:

Comingling of Funds
The VRS utilized private funds to pay over $30,000 of expenditures on behalf on the tax fund. As a result, the tax fund owes $30,000 to the private fund at June 30, 2008. County, State, and private funds should be kept separate, and interfund loans are prohibited. We recommend these monies are paid back immediately. Additionally, the VFS maintained one general ledger that combined the activity of all three funds. This creates a risk that business activity is not recorded and reported properly.

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:

Accounting Software
The VRS did not convert to the new universal QuickBooks software provided by the County for the year ended June 30, 2008.The CPA consultant, Bill Sault, was not aware of the requirement. We understand the software has since been installed, and the VRS is using it to record 2009 transactions.

Purchase Orders
During disbursement testing, we noted that purchase orders were not issued for three non-repetitive purchases.

FDIC Coverage
We suggest that you review your cash balances periodically to determine if your FDIC coverage is sufficient. Maintaining cash balances in several institutions could help to reduce your risk of the loss in the event of a bank failure.

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 #2
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, 2009.
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 2009 audit.
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.

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:

   a. The County will pay the Contractor a fixed fee not to exceed $243,466 for Fiscal Year 2009 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:

   a. The County will pay the Contractor a fixed fee not to exceed $10,000 for Fiscal Year 2009 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:

   a. The County will pay the Contractor a fixed fee not to exceed $2,804 for Fiscal Year 2009 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:

   a. The State of Maryland will pay the Contractor a fixed fee not to exceed $4,450 for Fiscal Year 2009 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:

   a. The County will pay the Contractor a fixed fee not to exceed $36,720 for Fiscal Year 2009 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. This Contract is renewed for an additional term of one year from July 24, 2009, through July 23, 2010.

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 __________
Phil Andrews, President
Montgomery County Council

Approved to as to form and legality:

BY:__________________________________ DATE __________
Walter Wilson
Assistant County Attorney

CONTRACT AMENDMENT #1
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, 2009.
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 2009 audit.
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.

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 1:

   1) The County will pay the Contractor a fixed fee not to exceed $95,000 for Fiscal Year 2009 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, 2009 through August 28, 2010.

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 __________

Phil Andrews, President
Montgomery County Council

Approved to as to form and legality:

BY:____________________________________ DATE __________

Walter Wilson
Assistant County Attorney

Discussions to Expect From the Independent Auditors

Purpose of This Tool. Auditing standards[1] require that the auditor communicate, either orally or in writing, certain information to an audit committee of the board, or another designated party that performs oversight of the financial reporting and audit process. This section discusses the type of information independent auditors are required to communicate to an audit committee or other oversight body.

Independent Auditors in the Public Sector

Communications with the audit committees have now engendered more legal and regulatory scrutiny. Independent auditors, in the wake of well-documented business failures and new regulatory oversight, are required to increase their documentation and communication efforts as they relate to their interactions with the audit committee. Independent auditors of government organizations may include an elected or appointed auditor or Inspector General or an independent public accounting firm. In addition, at the federal level the Government Accountability Office (GAO – formerly the General Accounting Office) may be statutorily required to act as the independent auditor in certain circumstances. If an independent public accounting firm is used as the independent auditor, it is often required to be under contract with the elected or appointed auditor or Inspector General. The communication guidance discussed in this section relates to whichever of the above parties is acting as the independent auditor.

Auditor's Responsibility Under Generally Accepted Auditing Standards

It is important for audit committees to understand what an audit is and what it is not. Usually, audit committees are most concerned about the system of internal control and that the financial statements are free of material misstatement. The auditor should make sure the audit committee understands the level of responsibility that the auditor assumes for the system of internal control and the financial statements under generally accepted auditing standards (GAAS). It is also important that the auditor makes sure that the audit committee understands that an audit is designed to obtain reasonable rather than absolute assurance about the financial statements.

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[1] The term "auditing standards" refers to generally accepted auditing standards (GAAS) issued by the AICPA. These standards are incorporated into government auditing standards (GAS or GAGAS) issued by the Comptroller General of the United States. These terms are also synonymous with the term "Yellow Book." In addition, OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements,* Section 5 requires open and timely communication between agency management, including the CFO, and the Inspector General (and the audit firm if the audit is contracted out) throughout the audit process. The guidance in this tool is based on Statements on Auditing Standards (SAS) No. 61, *Communication With Audit Committees*, as amended; No. 60, *Communication of Internal Control Related Matters Noted in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 325); and No. 54, *Illegal Acts by Clients* (AICPA, *Professional Standards*, vol. 1, AU sec. 317), and amendments thereto, which are in effect as of this writing and *Government Auditing Standards*, issued by the Comptroller General.

Significant Accounting Policies

The auditor should determine that the audit committee is informed about all significant accounting policies and how they are applied in the governmental organization. To make sure, the audit committee should expect that the auditors will communicate the following:

1. All significant accounting policies, including those that applied for the first time during the year
2. How those accounting policies are applied in the organization
3. Methods the organization used to account for significant unusual transactions
4. The effect of significant accounting policies in controversial or emerging areas for which there is lack of authoritative guidance or consensus

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management. These estimates are based on management's judgments (which are normally based on management's knowledge and experience about past and current events), and assumptions about future events.

The auditor should address the following issues with the audit committee:

1. The process used by management in formulating particularly sensitive accounting estimates
2. The basis for the auditor's conclusion about the reasonableness of those estimates

Audit Adjustments

The auditor should inform the audit committee about all audit adjustments arising from the audit that could, in the auditor's judgment, have a significant effect on the organization's financial reporting process. The audit team will keep track of those proposed adjustments for later discussion with management. Management will evaluate those proposed adjustments and decide whether the adjustment should be booked to the account balances as proposed. Bear in mind, however, that the auditor may find it necessary to qualify the audit report if management does not record the adjustments that the auditor deems necessary to record.

As part of its communications, the auditor should:

1. Inform the audit committee about adjustments arising from the audit that could either individually or in the aggregate have a significant effect on the organization's financial reporting process.
2. Address whether the adjustments were recorded.

3. Determine whether the adjustments may not have been detected except through the auditing procedures performed (meaning that the organization's own internal control system did not detect the need for the adjustment).
4. Explain about uncorrected misstatements aggregated by the auditor during the current engagement and pertaining to the most recent period presented in the financial statements, that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Auditor's Judgments About the Quality of the Organization's Accounting Principles

Note: This communication is required for audits of public companies. It is not required for governmental organizations but could be considered a good practice.

Although objective criteria for evaluating the quality of an organization's accounting practices have not been established, the auditor's judgments about the quality, not just the acceptability of the organization's accounting principles as applied in its financial statements, including disclosures, should be discussed. The discussion should be open and frank, and tailored to the organization's specific circumstances. It should include the following topics:

1. Consistency of the organization's accounting principles and their application
2. Clarity of the financial statements and related disclosures
3. Completeness of the financial statements and related disclosures
4. Any items that have a significant impact on the representational faithfulness, verifiability, and neutrality of the accounting information included in the financial statements, examples of which follow:
    a. Selection of new accounting policies or changes to current ones
    b. Estimates, judgments, and uncertainties
    c. Unusual transactions
    d. Accounting policies relating to significant financial statement items, including the timing of transactions and the period in which they are recorded
5. A discussion of accounting practices that are not specifically addressed in the accounting literature, for example, those that may be unique to a specific industry.

Other Information Contained in Audited Financial Statements

Although the notes to the financial statements are an integral part of the financial statements and therefore are included in the scope of the auditing procedures, other information prepared by management that generally accompanies financial statements is not necessarily included in the scope of the auditing procedures, for example, "Management's Discussion and Analysis of the Financial Condition and Results of Operations."

The auditor should discuss the responsibility, if any, that he or she has for other information in documents containing audited financial statements, any procedures performed, and the results.

Disagreements With Management

Disagreements may arise between the auditor and management over the application of accounting principles to specific transactions and events, as well as the basis for management's judgments about accounting estimates, or even the scope of the audit or disclosures to be made in the financial statements or footnotes. Differences of opinion based on incomplete facts or preliminary information that are later resolved are not considered disagreements for this purpose.

When meeting with the audit committee, the auditors should discuss any disagreements with management, whether or not resolved, about matters that individually or in the aggregate could be significant to the organization's financial statements or the auditor's report.

Consultation With Other Accountants

Sometimes, management of the government organization may consult with other accountants about accounting and auditing matters. If the auditor is aware that such consultation has occurred, the auditor should discuss with the audit committee their views about the significant matters that were the subject of the consultation. The audit committee may wish to ask management whether they have consulted with other accountants about accounting and auditing matters.

Major Issues Discussed With Management Before Retention

The auditor should discuss with the audit committee any major issues that were discussed with management in connection with the initial or recurring retention of the auditor. This includes any discussions regarding the application of accounting principles or auditing standards. For some government organizations, an audit organization is mandated by federal or state law to perform the government organization's audit. While auditor retention is not an issue, the auditor should nonetheless discuss with the audit committee any major issues regarding the auditor's application of accounting principles or auditing standards.

Difficulties Encountered in Performing the Audit

The auditor should inform the audit committee about any serious difficulties encountered in working with management during the audit. Examples include, but are not limited to:

1. Unreasonable delays by management in allowing the commencement of the audit
2. Unreasonable delays or refusals by management in providing needed information to the auditor
3. Unreasonable timetable set by management for the conduct of the audit
4. Unavailability of client personnel
5. Failure of client personnel to complete client-prepared schedules on a timely basis

Illegal Acts

The auditor has the responsibility to assure himself or herself that the audit committee is adequately informed about illegal acts that come to the auditor's attention (this communication need not include matters that are clearly inconsequential). The communication should describe (1) the act, (2) the circumstances of its occurrence, and (3) the effect on the financial statements.

What is an illegal act for purposes of this communication? Statement on Auditing Standards (SAS) No. 54, *Illegal Acts by Clients* (AICPA, *Professional Standards*, vol. 1, AU sec. 317), defines it as violations of laws or government regulations attributable to the government organization, or acts by management or employees on behalf of the organization. Illegal acts do not include personal misconduct by the organization's personnel unrelated to the government's business activities.

In addition, *Government Auditing Standards*, Auditor Communication, Chapter 5, Section 5.12, issued by the Comptroller General, and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, Section 7, paragraph c.(3)(a) requires auditors to report noncompliance with laws and regulations disclosed by the audit, except for those instances of noncompliance that are clearly inconsequential. In meeting this requirement, the auditor shall report all instances of fraud and illegal acts unless clearly inconsequential and significant violations of provisions of contracts or grant agreements and abuse. In some circumstances, auditors are required to report fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse directly to parties external to the audited organization.

Internal Control Matters

See also the tool, "Internal Control: A Tool for the Audit Committee," elsewhere in this toolkit.

SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 325), requires the auditor to communicate matters relating to the organization's internal control that are observed by the auditor in the conduct of a financial statement audit. These matters should be discussed with the audit committee because they represent significant deficiencies in the design or operation of the internal control system, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Fraud

See also the tool, "Fraud and the Responsibilities of the Audit Committee," elsewhere in this toolkit.

SAS No. 99, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 316), requires that the independent auditor bring any evidence of fraud to the attention of the appropriate level of management (generally seen as one level higher than the level at which a suspected fraud may have occurred), even in the case of an inconsequential fraud, such as a minor defalcation by a low-level employee. The independent auditor should reach an understanding with the audit committee regarding when (nature and scope) an inconsequential fraud conducted by a low-level employee should be brought to the audit committee's attention.

Fraud involving senior management, and any fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements must be reported to the audit committee by the independent auditor.

Conducting an Audit Committee Executive Session: Guidelines and Questions

Purpose of This Tool. Although it is generally accepted that audit committees should hold executive sessions with various members of the executive management, leaders of the financial management team, the leader of the internal audit team, and the independent auditor, the audit committee member may not understand the type of questions and the extent of the questions they should ask. This tool is intended to help the audit committee ask the right *first* questions, bearing in mind that the audit committee should have the necessary expertise to evaluate the answers and the insight to identify the appropriate follow-up question. See the "Other Questions for Management" section of this tool for possible follow-up questions audit committee members can ask key members of the financial management team in order to improve their understanding of the day-to-day operating environment and management teams' decision-making processes and interactions.

What is an Executive Session?

An executive session is a best practice that could be employed by audit committees for any reason, but here we are advocating that the executive session be used to meet with key members of the financial management team on a one-on-one basis. Executive sessions should occur at every meeting of the audit committee, though not every individual need be in an executive session at every meeting. For example, it is appropriate for the chief audit executive (CAE) and the independent auditor to have an executive session at every meeting, but the director of financial reporting might be in executive session with the audit committee only at the meeting before year-end results are released.

During an executive session meeting, minutes are (usually) not recorded, and when meeting with members of the financial management team, anyone who is not a member of the audit committee is excluded from the meeting. The purpose is to ask questions of various members of the financial management staff in a safe environment. It is important that, when meeting with the controller for example, the chief financial officer (CFO) not be in the room. Executive sessions should be a matter of routine at every audit committee meeting, and not on an exception basis.

The audit committee should avoid asking in an open session whether an individual has anything to discuss in an executive session. Such a question could put the individual in an awkward position with others in the government.

Asking open-ended questions in this kind of environment could be a major source of information for the audit committee. This tool includes examples of the kinds of questions the audit committee should ask. These are meant to be sample questions to help start a conversation and create dialogue between the individual and the audit committee. *These sample questions are not intended to be a checklist.* Audit committee members need to be financially sophisticated enough to understand the answers to the questions and to use these answers to develop appropriate follow-up questions. Since it will not be unusual to ask similar questions of key government officials or employees the independent auditor and/or the internal auditor, a comparison of their respective responses could be a good source of insight. Depending on the answers, follow-up action may also be necessary, and the audit committee must be prepared to take that action. The most important thing to do when conducting an executive session is to *listen to the answers that are given and follow up on anything that is not understood!*

Note an executive session provides "safety" and comfort that allows discussants to give honest answers to questions that they might not feel free to answer in an open environment.

Nevertheless, the audit committee may want additional information. "Other Questions for Management" is an associated section of questions that follow the suggested executive session questions. The formality of an executive session may not be required for these questions, which nevertheless may elicit information the audit committee wants.

Audit committee members should also consider the history of the governmental entity, the current economic climate, the political environment, etc., when asking questions in executive session. Finally, each executive session should be concluded with a reminder to the member of management that audit committee members are accessible outside the meeting, and that they should feel free to reach out to the audit committee member at other times if the need arises.

It is important to note that not every government will have different individuals in each position, as assumed in the following questions. Nevertheless, the audit committee should be aware of the functions that are part of dual roles, and adjust the questions accordingly. For example, in a small government, the CFO and controller might share the duties of the director of financial reporting. The audit committee should explore how a function or role is accomplished, and compose questions accordingly. Also, the audit committee should consider and take into account other roles in the government. It may be that other people within a government should also be asked to meet with the audit committee in executive session.

Instructions for Using This Tool. This tool is intended to help audit committee ask the right *first* questions, bearing in mind that the audit committee should have the necessary expertise to evaluate the answers and the insight to identify the appropriate follow-up question. Audit committee members may want to use the questions in the "Other Questions for Management" section in conjunction with this one in order to formulate and ask the appropriate follow-up question.

Conducting an Executive Session—Sample Questions	Comments
Chief Financial Officer	
1. Do you believe the financial statements fairly present the government's net assets and activities in accordance with generally accepted accounting principles (GAAP) or some other comprehensive basis of accounting (OCBOA)?	

Conducting an Executive Session—Sample Questions	**Comments**
Chief Financial Officer (cont.)	
2. Do you believe the disclosures are adequate and are understandable to the average user?	
3. Are you satisfied that an appropriate audit was performed by the independent auditors?	
4. Are you aware of any situations of management override (as it relates to financial reporting) within the government?	
5. Are you aware of any current or past fraud occurrence or any kind of fraud within the government? Do you know of any situations in which fraud could occur?	
6. Discuss areas in which an accounting treatment could be complex and/or unusual.	
7. Is there any activity at any level within the government that you consider to be a significant violation of laws, regulations, contracts or grants, or significant departures from GAAP? Are you aware of any abuse within the government that you would consider to be material?	
8. Have you encountered any situations in which the government complied with legal minimums of behavior, yet failed to go the extra mile to demonstrate its commitment to the highest ethical standards?	
9. Is there any activity within the government that you are uncomfortable with or consider unusual that warrants further investigation?	
10. Do you feel comfortable raising issues without fear of retribution?	
11. Are there any questions we have *not* asked that should have been asked? If so, what are those questions? Are there any individuals within or external to the government to whom we should address questions?	
Chief Executive Officer 1. Do you believe the financial statements fairly present the government's net assets and activities in accordance with GAAP or OCBOA?	
2. Do you believe the disclosures are adequate and are understandable to the average user?	

Conducting an Executive Session—Sample Questions	**Comments**
Chief Executive Officer (cont.)	
3. Are you satisfied that an appropriate audit was performed by the independent auditors?	
4. Are you aware of any situations of management override (as it relates to financial reporting) within the government?	
5. Are you aware of any disagreements between management of the government and the independent auditors?	
6. Are you aware of any disagreements between management and the internal auditors?	
7. Is there any activity at any level of the government that you consider to be a significant violation of laws, regulations, contracts or grants, or significant departures from GAAP? Are you aware of any abuse within the government that you would consider to be material?	
8. Have you encountered any situations in which the government complied with legal minimums of behavior, yet failed to go the extra mile to demonstrate its commitment to the highest ethical standards?	
9. Is there any activity within the government that you are uncomfortable with or consider unusual that would warrant further investigation?	
10. Are there any questions we have *not* asked that should have been asked? If so, what are those questions? Are there any individuals within or external to the government to whom we should address questions?	
Chief Audit Executive (leader of Internal Audit Team) 1. Overall, is management cooperating with the internal audit team? Does management have a positive attitude in responding to findings and recommendations, or is it insecure and defensive of findings?	
2. Has management set an appropriate "tone at the top" with respect to the importance of and compliance with the internal control system around financial reporting?	
3. Are you aware of any current or past occurrence of any type of fraud in the government? Do you know of any situations in which fraud could occur?	
4. Discuss areas in which there is an accounting treatment that could be construed as complex and/or unusual.	

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Conducting an Executive Session—Sample Questions	**Comments**
Chief Audit Executive (leader of Internal Audit Team) (cont.)	
5. Have you encountered any situations in which the government complied with legal minimums of behavior, yet failed to go the extra mile to demonstrate its commitment to the highest ethical standards?	
6. Do you have the freedom to conduct audits as necessary throughout the government?	
7. Were you restricted or denied access to requested information?	
8. Have you been pressured to change findings, or minimize the language in those findings so as to not reflect badly on another member of management? Are findings and recommendations given the level of discussion needed to properly satisfy any issues raised to your satisfaction?	
9. Do you feel comfortable raising issues without fear of retribution?	
10. Is there any activity at any level within the government that you consider to be a significant violation of laws, regulations, contracts or grants, or significant departures from GAAP? Are you aware of any abuse within the government that you would consider to be material?	
11. Have you encountered any situations in which the government complied with legal minimums of behavior, yet failed to go the extra mile to demonstrate its commitment to the highest ethical standards?	
Controller 1. Do you believe the financial statements fairly present the government's net assets and activities in accordance with GAAP or OCBOA?	
2. Do you believe the disclosures are adequate and are understandable to the average user?	
3. If you were the CFO, would you change the financial statements and accompanying footnotes, and, if so, for what reason(s) would you change them?	
4. Are you aware of any current or past occurrence of any type of fraud within the government? Do you know of any situations in which fraud could occur?	

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Conducting an Executive Session—Sample Questions	**Comments**
Controller (cont.)	
5. Discuss areas in which there is an accounting treatment that could be construed as complex.	
6. Are you satisfied that an appropriate audit was performed by the independent auditors?	
7. Are you aware of any situations of management override of internal controls (as it relates to financial reporting) within the government?	
8. Are you aware of any disagreements between the management of the government and the independent auditors?	
9. Has management set an appropriate "tone at the top" with respect to the importance of and adherence with the internal control system around financial reporting?	
10. Do you feel comfortable raising issues without fear of retribution?	
11. Have you encountered any situations in which the government complied with legal minimums of behavior, yet failed to go the extra mile to demonstrate its commitment to the highest ethical standards?	
12. Is there any activity at any level of the government that you consider to be a significant violation of laws, regulations, contracts or grants, or significant departures from GAAP? Are you aware of any abuse within the government that you would consider to be material?	
13. Is there any activity within the government that you are uncomfortable with or consider unusual that would warrant further investigation?	
14. Are there any questions we have *not* asked that should have been asked? If so, what are those questions? Are there any individuals within or external to the government to whom we should address questions?	

Conducting an Executive Session—Sample Questions	**Comments**
Director of Financial Reporting 1. Are there any issues since our last meeting that you wish to discuss with the audit committee?	
2. Are you aware of any current or past occurrences of any type of fraud within the government? Do you know of any situations in which fraud could occur?	
3. Discuss areas in which there is an accounting treatment that could be construed as complex. .	
4. Are you aware of any situations of management override (as it relates to financial reporting) within the government?	
5. Do you believe the financial statements and related disclosures adequately convey the net assets and activities of the government to an average user?	
6. Now that you have the opportunity, is there anything you want to tell the audit committee? Is there anything else that we need to know? Is there anyone else with whom we should speak?	
7. Are you aware of any disagreements between management of the government and the independent auditors?	
8. Do you feel comfortable raising issues without fear of retribution?	
9. Is there any activity at any level of the government that you consider to be a violation of laws regulations, contracts or grants, or significant departures from GAAP? Are you aware of any abuse within the government that you would consider to be material?	
10. Is there anything going on within the government with which you are uncomfortable?	
11. Are there any questions we have *not* asked that should have been asked? If so, what are those questions? Are there any individuals within or external to the government to whom we should address questions?	
General Counsel 1. Are you aware of any issues that could cause embarrassment or significant public outcry regarding the government's operations?	

Conducting an Executive Session—Sample Questions	**Comments**
General Counsel (cont.)	
2. Have you ever been told anything in confidence or otherwise that would embarrass or cause significant negative publicity for the government if it was known publicly?	
3. Are you aware of any situations of management override of internal controls (as it relates to financial reporting) within the government?	
4. Are there any items that you have discussed with the chief executive officer (CEO), CFO, other government officials, or outside counsel about which the audit committee is not already aware?	
5. Are you aware of any disagreements between the management of the government and the independent auditors?	
6. Do you feel comfortable raising issues without fear of retribution?	
7. Is there any activity at any level within the government that you consider to be a significant violation of laws, regulations, contracts or grants, or significant departures from GAAP? Are you aware of any abuse within the government that you would consider to be material?	
8. Have you encountered any situations in which the government complied with legal minimums of behavior, yet did not go the extra mile to demonstrate its commitment to the highest ethical standards?	
9. Is there any activity within the government that you are uncomfortable with or consider unusual that would warrant further investigation?	
10. Are there any questions we have *not* asked that should have been asked? If so, what are those questions? Are there any individuals within or external to the government to whom we should address questions?	
Chief Information Officer 1. Is there any activity within the government that you are uncomfortable with or consider unusual that would warrant further investigation?	
2. Do you feel comfortable raising issues without fear of retribution?	

Conducting an Executive Session—Sample Questions	Comments
Chief Information Officer (cont.) 3. Are there any questions we have *not* asked that should have been asked? If so, what are those questions? Are there any individuals within or external to the government to whom we should address questions?	

Conducting an Executive Session—Sample Questions
Independent Auditor Note that certain communications are required between the independent auditor and the audit committee. A separate tool, "Discussions to Expect from the Independent Auditors," has been prepared for the audit committee to ensure the completeness of the independent auditor's required communication with the audit committee. These suggested questions are meant to be in addition to the required communications.
1. Explain the process your firm goes through to assure that all of your engagement personnel are independent and objective with respect to our audit. Particularly, with respect to nonaudit services, how do those services affect the work that you do or the manner in which the engagement team or others are compensated? Are you aware of any anticipated event that could possibly impair the independence, in fact or in appearance, of the firm and any member of the engagement team?
Comments:
2. Has management, legal counsel, or others made you aware of anything that could remotely be considered a significant violation of laws, regulations, contracts or grants, or significant departures from GAAP? Are you aware of any abuse within the government that you would consider to be material?
Comments:
3. Are there any areas of the financial statements, including, and most important, the notes, in which you believe we could be more explicit or transparent, or provide more clarity to help a user better understand our financial statements?
Comments:
4. Have you expressed any concerns or comments to management with respect to how our presentation, including the notes or Management's Discussion & Analysis could be improved?
Comments:
5. Which accounting policies or significant accounting transactions do you think a user would have trouble understanding based on our disclosure? What additional information could (should) we provide?
Comments:

Conducting an Executive Session—Sample Questions
Independent Auditor (cont.)
6. Based on your auditing procedures, do you have any concerns as to whether management may be attempting to commit management override? Have you noticed any biases as a result of your audit tests with respect to accounting estimates made by management?
Comments:
7. In which areas have you and management disagreed?
Comments:
8. Discuss your impressions of the performance of the CAE in terms of the completeness, accuracy, and faithfulness of the financial reporting process.
Comments:
9. Has the firm been engaged to provide any services besides the independent audit of which the audit committee is not already aware?
Comments:
10. How can management improve in terms of setting an appropriate "tone at the top"?
Comments:
11. Describe the ideas you have discussed with management for improving the internal control system over financial reporting.
Comments:
12. Describe for us any situation in which you believe management has attempted to circumvent the spirit of GAAP, but has yet complied with GAAP.
Comments:
13. Is there anything going on within the government that you are uncomfortable with or consider unusual that would warrant further investigation?
Comments:
14. Are there any questions we have *not* asked that you wish to share with the audit committee?
Comments:

Other Questions for Management

Purpose of This Section. It is important for the audit committee to be solidly familiar with the management team, since the committee relies heavily on them. In some large governments, there is an expectation that member of the board will interact with members of management one-on-one on a regular basis. However, such interaction is not always possible. This section lists other questions that the audit committee may wish to address to key members of the financial management team. These questions need not be asked in an executive session, but can be addressed more informally as opportunities arise.

Other Questions for Management	Comments
Chief Financial Officer 1. Describe your working relationship with the chief executive officer.	
2. If you were the partner-in-charge of the audit, what would you do differently?	
3. Are you aware of any disagreements between the management of the government and the independent auditors?	
4. How frequently do you meet with the lead audit partner? Describe your relationship with him or her.	
5. Are you aware of any disagreements between the management and the internal auditors?	
6. Describe your relationship with the chief audit executive. Discuss your impressions of his or her performance.	
7. How do you interface with the internal audit function?	
8. Has the independent auditor been engaged for services other than the annual audit about which the audit committee is not already aware?	
9. What significant issues arose from the understanding of the internal control systems?	
10. What aspects of the government appear to put the most strain on management? Could any of these aspects significantly strain the government's net assets or activities?	
11. Are the computer systems upon which you rely integrated, or is manual intervention required to integrate your systems?	
12. Which systems are the most difficult to work with?	

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Other Questions for Management	Comments
Chief Financial Officer (cont.) 13. Are there any new systems or functionality that you would like to purchase but have delayed due to cost considerations?	
14. What procedures or oversight do you apply to manual journal entries that are proposed during the book-closing process?	
15. Do each of the accounting and finance departments of the government have adequate personnel, both in numbers and quality, to meet all their obligations?	
16. What are the most difficult challenges facing the finance department today?	
17. Which departments might benefit the most from additional people resources?	
18. What are the personnel turnover rates in the accounting and finance teams for the last year?	
19. Which of the government's business-type activities caused the largest decrease in net assets in the past year? The biggest increase?	
20. What, if any, changes do you believe need to be made in these areas?	
21. Describe your working relationship with the heads of the respective departments.	
22. What are the biggest obstacles facing the government in the next year? What steps do you think the government should take to address those obstacles?	
23. What are the biggest obstacles facing the government over the long term? What measures do you believe the government should take to address those obstacles?	
Chief Executive Officer 1. Discuss your impressions of the performance of the chief audit executive.	
2. Has the independent auditor been engaged for any services other than the annual audit about which the audit committee is not already aware?	
3. What issues arose from the understanding of the internal control systems?	
4. Which of the government's business-type activities had the largest decrease in net assets this past year? The largest increase?	

Other Questions for Management	Comments
Chief Executive Officer (cont.)	
5. What, if any, changes do you believe need to be made in these areas?	
6. Describe your working relationship with the heads of the respective departments. .	
7. What are the biggest obstacles facing the government in the next year? What steps do you think the government should take to address those obstacles?	
8. What are the biggest obstacles facing the government over the long term? What measures do you believe the government should take to address those obstacles?	
Chief Audit Executive (leader of Internal Audit function) 1. What procedures do you apply to the review of manual journal entries made during the book-closing process, and to other entries that could be termed as a management override of the internal control system around financial reporting?	
2. If you were the CEO, how would you do things differently in the internal audit department?	
3. Do you believe you have adequate resources available to you to fulfill the charge of the department? If not, what additional resources are needed?	
4. Did you encounter any disagreements or difficulties between the internal audit team and the independent auditors in connection with the recently completed audit of the government's financial statements? How will you approach the financial statement audit differently next year?	
5. What critical risks are being monitored by the internal audit team on a periodic or regular basis? How do you address the continuous auditing of these critical risks, and is automation and integrated system reporting assisting you in this effort?	
6. Are you aware of any other disagreements between management of the government and the independent auditors?	
7. Are there any disagreements between the internal audit team and management?	

Other Questions for Management	Comments
Chief Audit Executive (leader of Internal Audit function) (cont.)	
8. Has the independent auditor been engaged for any services other than the annual audit about which the audit committee is not already aware?	
9. What issues arose from the understanding of the internal control system?	
10. Are the computer systems upon which you rely integrated, or is manual intervention required to integrate your systems?	
11. Do you monitor payments to the independent audit firm to ensure that the audit is only providing services that are related to the audit, or other services that have been preapproved by the audit committee?	
12. Which of the government's business-type activities had the largest decrease in net assets this past year? The largest increase?	
13. What, if any, changes do you believe need to be made in these areas?	
14. Describe your working relationship with the heads of the respective departments.	
15. What are the biggest obstacles facing the government in the next year? What steps do you think the government should take to address those obstacles?	
16. What are the biggest obstacles facing the government over the long term? What measures do you believe the government should take to address those obstacles?	
Controller 1. Has the independent auditor been engaged for any services other than the annual audit of which the audit committee is not already aware?	
2. If you were the partner-in-charge of the audit, what would you do differently?	
3. Discuss your impressions of the performance of the chief audit executive.	
4. Are the computer systems upon which you rely integrated, or does it require manual intervention to integrate your systems?	

Other Questions for Management	Comments
Controller (cont.)	
5. What procedures do you apply to review manual journal entries proposed during the book-closing process, or to other entries that could be termed as a management override of the internal control system around financial reporting?	
6. Which of the government's business-type activities had the largest decrease in net assets this past year? The largest increase?	
7. What are the biggest obstacles facing the government in the next year? What steps do you think the government should take to address those obstacles?	
8. What are the biggest obstacles facing the government over the long term? What measures do you believe the government should take to address those obstacles?	
Director of Financial Reporting 1. How could the financial statements and related disclosures be improved?	
2. Are the computer systems upon which you rely integrated, or is manual intervention required to integrate your systems?	
General Counsel 1. Discuss your impressions of the performance of the chief audit executive.	
2. Has the independent auditor been engaged for any services other than the annual audit of which the audit committee is not already aware?	
3. Describe your working relationship with the heads of the respective departments.	
4. What are the biggest obstacles facing the government in the next year? What steps do you think the government should take to address those obstacles?	
5. What are the biggest obstacles facing the government over the long term? What measures do you believe the government should take to address those obstacles?	

Other Questions for Management	Comments
Chief Information Officer 1. Are you satisfied with the integrity of the information running through the systems in the government? How could technology improve the integrity of the information?	
2. What exposure is associated with the government's firewalls?	
3. If you had an unlimited budget, how would you spend money to improve the government's information architecture?	
4. What do you consider your critical risk areas?	
5. Describe your relationship with the CFO and other key people in the accounting and finance team.	
6. Are manual journal entries identified and approved? Are they somehow brought to the attention of the CAE, or other officer(s) that did not have a hand in creating the journal entries?	
7. Is documentation updated every time there is a change to the internal controls process?	
8. Describe your working relationship with the heads of the respective departments.	
9. What are the biggest obstacles facing the government in the next year? What steps do you think the government should take to address those obstacles?	
10. What are the biggest obstacles facing the government over the long term? What measures do you believe the government should take to address those obstacles?	
Independent Auditor 1. What audit procedures do you apply to manual journal entries that are proposed during the book-closing process, or to other journal entries that could be termed as a management override of the internal control system around financial reporting?	
2. Was any audit work not performed due to any limitations placed on you by management (e.g., any areas scoped out by management, or any restriction on fees that limited the scope of your work)?	

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Other Questions for Management *Independent Auditor (cont.)*	**Comments**
3. Was the audit fee that you charged the government sufficient for the work that you performed?	
4. If you had an unlimited audit fee, what additional work would you have performed?	
5. What are the biggest obstacles facing the government in the next year? What steps do you think the government should take to address those obstacles?	
6. What are the biggest obstacles facing the government over the long term?	
7. What steps do you believe the government should take to address those obstacles?	
Notes	