

MONTGOMERY COUNTY MARYLAND

Report on Expenditures of Federal Awards



Fiscal Year 2011

**July 1, 2010 - June 30, 2011
Rockville, Maryland**

MONTGOMERY COUNTY MARYLAND

Report on Expenditures of Federal Awards



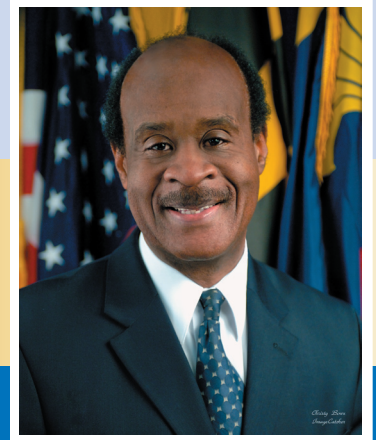
Prepared by the
DEPARTMENT OF FINANCE

Joseph F. Beach, Director
101 Monroe Street
Rockville, Maryland 20850
240-777-8860

Fiscal Year 2011
July 1, 2010 - June 30, 2011



Mission Statement



Isiah Leggett
ISIAH LEGGETT

MONTGOMERY COUNTY GOVERNMENT

WE pursue the common good by working for and with Montgomery County's diverse community members to provide:

- A Responsive and Accountable County Government
- Affordable Housing in an Inclusive Community
- An Effective and Efficient Transportation Network
- Children Prepared to Live and Learn
- Healthy and Sustainable Communities
- Safe Streets and Secure Neighborhoods
- A Strong and Vibrant Economy
- Vital Living for All of Our Residents

AS dedicated public servants, the employees of the Montgomery County government strive to embody in our work these essential values:

- Collaboration
- Inclusiveness
- Knowledge
- Competence
- Innovation
- Respect for the Individual
- Fiscal Prudence
- Integrity
- Transparency

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORTS	
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 <i>Government Auditing Standards</i>	1
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133.....	3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	6
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	14
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	16
SCHEDULE OF PRIOR YEAR FINDINGS	26



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

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

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

Internal Control Over Financial Reporting

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

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

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

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

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2011-3 through 2011-10 to be significant deficiencies.

Compliance and Other Matters

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

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

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

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

A handwritten signature in cursive script that reads "Clifton Larson Allen LLP".

Baltimore, Maryland
March 29, 2012



Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of Montgomery County, Maryland with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. Montgomery County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Montgomery County's management. Our responsibility is to express an opinion on Montgomery County's compliance based on our audit.

The County's financial statements include the operations of the Montgomery County Public Schools, Montgomery Community College, Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, and Bethesda Urban Partnership, Inc., component units which may have received federal awards, and which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2011. We and other auditors were separately engaged to perform and have separately reported on the results of our audits of the Montgomery County Public Schools, Montgomery Community College, Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, and Bethesda Urban Partnership, Inc. in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Montgomery County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Montgomery County's compliance with those requirements.

In our opinion, Montgomery County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Montgomery County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Montgomery County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-11. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Montgomery County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Montgomery County's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

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 as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 29, 2012. We did not audit the component unit financial statements of Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc., as of and for the year ended June 30, 2011. The federal expenditures, where applicable, for the Montgomery County Public Schools, Montgomery Community College, Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County, and Bethesda

Urban Partnership, Inc. are not included in the accompanying schedule of expenditures of federal awards. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, County Council, 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.

CliftonLarsonAllen LLP

Baltimore, Maryland
March 29, 2012

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U. S. Department of Agriculture			
Pass Through Programs From:			
Maryland State Department of Human Resources			
State Administrative Matching Grant for Food Stamps	10.561	Md. House Bill 669	\$ 3,911,913
Programs of the Emergency Food Assistance Cluster:			
ARRA - FY10 TEFAP	10.568	FNS-09-016-A2-ARRA	\$ 6,262
TEFAP - SURPLUS FOOD	10.568	OGM/FNS-09-016	36,392
Emergency Food Assistance Program (Food Commodities)	10.569	Food Bank	694,236
Subtotal Emergency Food Assistance Cluster			<u>736,890</u>
Total U. S. Department of Agriculture			<u>4,648,803</u>
U.S. Department of Defense - Office of Economic Adjustment			
Direct Programs:			
Base Realignment and Closure (BRAC)	12.607	RA0625-11-14	26,787
Base Realignment and Closure (BRAC)	12.607	RA0625-08-013-11-02	99,939
Total U. S. Department of Defense			<u>126,726</u>
U. S. Department of Housing and Urban Development			
Direct Programs:			
Programs of the CDBG - Entitlement Grants Cluster:			
Community Development Block Grant (CDBG)	14.218	B-09-UC-24-001	3,284,288
ARRA - CDBG Recovery Act	14.253	B-09-UY-24-0001	605,378
Subtotal CDBG - Entitlement Grants Cluster			<u>3,889,666</u>
Emergency Shelter Program	14.231	S-08-UC-24-0003	95,835
Emergency Shelter Program	14.231	S-09-UC-24-0003	85,970
HOME Investment Partnership	14.239	M-09-UC-24-0504	2,044,006
Balance of 06/30/2010 Outstanding Loans as of 06/30/2011	14.239	-	24,980,694
Neighborhood Stabilization Program (NSP)	14.251	B-08-UN-24-0001	284,907
ARRA - Homeless Prevention and Rapid Re-Housing	14.262	S09-UY-24-0003	1,137,085
Subtotal Direct Programs			<u>32,518,163</u>
Pass Through Programs From:			
Maryland Department of Housing and Community Development			
Maryland Neighborhood Conservation Initiative	14.228	MD - NCI -1	769,920
Maryland State Department of Health and Mental Hygiene			
Housing for People with AIDS (HOPWA)	14.241	AD658HOP	585,692
Subtotal Pass Through Programs			<u>1,355,612</u>
Total U. S. Department of Housing and Urban Development			<u>33,873,775</u>
U. S. Department of Justice			
Direct Programs:			
Forensic DNA Backlog Reduction Program	16.560	2006-DN-BX-K048	41,660
Forensic DNA Backlog Reduction Program	16.560	2009-DN-BX-K085	58,525
FY 2010 Forensic DNA Backlog Reduction Program	16.560	2010-DN-BX-K070	27,821
FY 2010 Justice Assistance Program	16.560	2010-DJ-BX-0704	205,982
FY06 FSS BJAG GOCCP	16.560	2008-DJ-BX-0483	41,611
Gang Suppression/Prevention - Montgomery County	16.580	2009-D1-BX-0314	43,033
Comprehensive Anti-Gang Activity Strategy Grant	16.580	I 37-1241	31,391
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2005-WE-AX-0096	317,015
Northwest/Oakview Weed and Seed	16.595	2008-WS-QX-0149	77,467

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011
(Continued)

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
Northwest/Oakview Weed and Seed	16.595	2009-WS-QX-0167	\$ 37,487
Bureau of Alcohol, Firearms and Explosives (BAFE) - Gang Task Force Overtime Grant	16.595	-	394
Federal Bureau of Investigation (FBI) - Joint Terrorist Force	16.595	-	5,890
State Criminal Alien Assistance Program (SCAAP)	16.606	-	922,239
COPS Technology Program	16.710	2010-CKWX0066	199,896
Solving Cold Cases with DNA	16.741	2008-LT-BX-K005	35,478
Maryland Regional Gang Initiative Expansion	16.753	2008-DD-BX-0648	212,321
Upcounty Youth Opportunity Center	16.753	2009-DI-BX-0307	450,000
Work First, Train Concurrently	16.812	2010-RV-BX-0006	73,624
Subtotal Direct Programs			<u>2,781,834</u>
Pass Through Programs From:			
Maryland State Department of Human Resources ARRA - VOCA CSA	16.801	CSA-CVA/07-022-A1-ARRA	11,034
Governor's Office of Crime Control and Prevention			
Victims of Crime Assistance Program (VOCA)	16.575	CSA/CVA-07-022	55,268
Victims of Crime Assistance Program (VOCA)	16.575	VOCA-2010-1016	198,612
Prosecution Support	16.588	VAWA-2008-1712	19,540
Domestic Violence Prosecutor	16.588	VAWA-2009-1812	56,932
Rockville District Court Abused Persons Support	16.588	VAWA-2008-1410	10,126
Victim Access	16.588	VAWA-2009-1411	14,772
Protective Order Enforcement	16.588	VAWA-2009-1019	10,880
Victim Safety Program	16.588	VAWA-2008-1014	29,545
ARRA - Silver Spring Courthouse Victim Assistant	16.588	VARA-2009-1004	12,269
Alcohol Use Prevention	16.727	EUDL-2010-1008	29,387
Senior Exploitation	16.738	BJAG-2009-1015	28,398
Pre Trial Domestic Violence Intensive Management	16.738	BJAG-2009-1025	25,688
ARRA - FJC Protection Order Enforcement	16.801	VARA-2009-1025	69,900
ARRA -Correctional Officer Safety Vest	16.803	BJRA-2009-1108	28,565
Felony Investigator Initiative	16.803	BJRA-2009-1126	122,840
ARRA - Victim's Court/Counseling Services - JRA	16.803	BJRA-2009-1127	57,052
ARRA - Mobile Video Evidence System - LETR	16.803	BJRA-2009-1043	304,957
ARRA - Backlog Reduction - DBRA	16.803	BJRA-2009-1086	158,716
ARRA - Crime Intelligence Analyst	16.803	BJRA-2009-1121	30,006
ARRA - Backlog Reduction and Violent Offender Suppression VOWR	16.804	2009-SB-B9-0879	279,249
U.S. Marshall's Office			
Regional Fugitive Gang Task Force	16.595	FATF-09-0128	10,881
Regional Fugitive Gang Task Force	16.595	FATF-10-0128	33,252
Regional Fugitive Task Force	16.595	FATF-08-0144	31,195
Subtotal Pass Through Programs			<u>1,629,064</u>
Total U. S. Department of Justice			<u>4,410,898</u>
U. S. Department of Labor			
Direct Programs:			
Workplace Flexibility	17.283		14,000
Subtotal Direct Programs			<u>14,000</u>
Pass Through Programs From:			
State Department of Labor, Licensing and Regulation			
Programs of the Workforce Investment Act (WIA) Cluster:			
ARRA - WIA Adult Program	17.258	POOB9200156-A	\$ 12,188
WIA - Adult Program	17.258	POOB9200072-A	21,472
WIA - Adult Program	17.258	POOB0400109-A/033-A	507,413

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011
(Continued)

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
ARRA - WIA Youth	17.259	PO0B9200156-B	\$ 71,363
WIA - Youth Programs	17.259	PO0B9200034-B	499,001
WIA - Youth Programs	17.259	PO0B0400033-B	36,927
ARRA - WIA Dislocated Worker	17.260	PO0B9200156-C	289,734
WIA - Dislocated Workers	17.260	POOB9200072-C	46,109
WIA - Dislocated Workers	17.260	POOB0400109-C/033-C	832,472
ARRA - Maryland Business Works	17.260	POOB0400011	80,061
Rapid Response	17.260	POOB7200052	13,629
Summer Youth Connection	17.260	POOB8200022	6,960
Rapid Response - Early Intervention	17.260	POOB8200043	216,275
WIA - Maryland Business Work	17.258/59/60	POOB9200073	32,032
ARRA WIA Statewide	17.258/59/60	POOB0400200	65,000
Maryland Businesses Works	17.258/59/60	POOB8200061	30,508
Subtotal Workforce Investment Act Cluster			\$ 2,761,144
WIA - Disability Navigator	17.266	POOB0400048	90,000
ARRA State Energy Sector Training Grant	17.275	POOB1400045	129,490
Temporary Assistance for Needy Families (TANIF)	93.558	POOB9200138	60,526
Total U. S. Department of Labor			3,055,160
U. S. Department of Transportation			
Pass Through Programs From:			
Maryland State Department of Transportation			
Highway Planning and Construction	20.205	Bridge Design	31,838,383
RideSharing/Commuter Assistance Grant	20.507	MD-95-0004	306,134
RideSharing/Commuter Assistance Grant	20.507	MD-95-0005	370,334
Maryland State Highway Administration - Maryland Highway Safety Office			
Commercial Vehicle Safety	20.218	-	22,002
The Metropolitan Washington Council of Governments			
Travel Assistance for Income Qualified Residents	20.205	Subgrant # 08-032	295,086
Employer Outreach	20.505	Contract 09-007	161,503
Total U. S. Department of Transportation			32,993,442
U. S. Department of the Treasury			
Direct Programs:			
Secret Service - Metro Area Task Force	21	-	14,884
Total U. S. Department of the Treasury			14,884
National Foundation on the Arts and the Humanities			
Pass Through Programs From:			
Maryland State Department of Education			
State Library Program	45.310	900445-01	1,288
State Library Program	45.310	901818-01	4,875
Teen Parent & Early Childhood Literacy Pilot Program	45.310	116098	3,396
Total National Foundation on the Arts and the Humanities			9,559

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011
(Continued)

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U. S. Environmental Protection Agency			
Pass Through Programs From:			
Mid-Atlantic Regional Air Management Association, Inc. ARRA - Transit Bus and County Equipment Retrofit Project Maryland Department of the Environment	66.039	2A-973793-01	\$ 487,397
Diesel Emissions Reduction	66.040	DS-97369001-1	<u>17,149</u>
Total U. S. Environmental Protection Agency			<u>504,546</u>
U. S. Department of Energy			
Direct Programs:			
ARRA EECBG Energy Efficiency and Conservation Subtotal Direct Programs	81.128	DE-EE0000743	<u>847,998</u> 847,998
Pass Through Programs From:			
Maryland Department of Housing and Community Development ARRA - Weatherization Assistance Grant	81.042	-	<u>1,530,013</u>
Total U. S. Department of Energy			<u>2,378,011</u>
U. S. Department of Education			
Pass Through Programs From:			
Maryland State Department of Education			
Programs of the Special Education Cluster:			
Infants and Families with Disabilities	84.027	114112-02	\$ 224,359
Infants and Families with Disabilities	84.173	114112-03	<u>8,610</u>
Subtotal Special Education Cluster			232,969
Programs of the Early Intervention Services (IDEA) Cluster:			
Infants and Families with Disabilities	84.181	104376-01	186,654
Infants and Families with Disabilities	84.181	114112-01	100,978
Infants and Families with Disabilities	84.181	114112-01	887,531
ARRA - Infants and Families with Disabilities	84.393	104516-01	1,244,084
ARRA - Infants and Families with Disabilities	84.393	104516-01	842,136
ARRA - Infants and Families with Disabilities	84.393	104516-02	343,188
ARRA - Infants and Families with Disabilities	84.393	104516-02	<u>352,918</u>
Subtotal Early Intervention Services (IDEA) Cluster			<u>3,957,489</u>
Total U. S. Department of Education			<u>4,190,458</u>
U. S. Department of Health and Human Services			
Direct Programs:			
Adult Drug Court Cap Expand Initiative	93.243	1H79TI020002-01	253,471
Head Start	93.600	03CH2109/44	1,102,176
Head Start	93.600	03CH2109/44	3,433,406
Community Based Services Delivery & Outreach	93.647	90PO371/01	74,081
ARRA - HeadStart COLA and QI	93.708	03SE2109/01	615
ARRA - HeadStart COLA and QI	93.708	03SE2109/01	<u>25,680</u>
Subtotal Direct Programs			4,889,429

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011
(Continued)

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
Pass Through Programs From:			
Maryland State Office on Aging			
Special Programs for the Aging - Ombudsman Services	93.042	AAA-3-24-015	\$ 69,029
Title III, Part D - Supportive Services and Senior Centers	93.043	AAA-3-24-015	32,439
National Family Care Giver Support	93.052	AAA-3-24-015	575,812
Medicare Improvements to Patients	93.053	-	60,000
ARRA - Senior Nutrition	93.705	ST-ARRA09-001	51,673
ARRA - Senior Nutrition	93.707	ST-ARRA09-001	58,143
Medical Waiver for Older Adults - Administrative Billing	93.778	-	592,540
Senior Health Insurance Program	93.779	ST-251509-043	70,195
Programs of the Aging Cluster:			
Title III, Part B - Supportive Services and Senior Centers	93.044	AAA-3-24-015	\$ 726,625
Title III, Part C - Nutrition Services	93.045	AAA-3-24-015	888,987
TITLE III - C-2	93.045	AAA-3-24-015	153,809
TITLE III - C-2	93.045	AAA-3-24-015	<u>294,152</u>
Subtotal Aging Cluster			2,063,573
Maryland State Department of Education			
Programs of the Child Care and Development Block Cluster:			
Early Head Start State Supplemental Funds	93.575	900707-01	11,609
Early Head Start State Supplemental Funds	93.575	104908-01	<u>110,046</u>
Subtotal Child Care and Development Block Cluster			121,655
Child Care Resource & Referral	93.575	-	5,964
ARRA - Regional Child Care Resource Center	93.713	-	222,575
National Association of County and City Health Officials (NACCHO)			
Centers for Disease Control and Prevention (CDCP)			
CDCP - Investigations and Technical Assistance	93.283	2008-100104	264,841
CDCP - Investigations and Technical Assistance	93.283	2010-092004	240,221
Maryland State Department of Human Resources			
Sexual Assault Grant	93.136	OMG/RPG-09-012	25,530
Family Preservation	93.556	Md. State HB 669	143,128
Child Support and Enforcement	93.563	CSEA/CRA/10-043	142,236
Child Support and Enforcement	93.563	CSEA/CRA/09-043	438,067
Title IV-D Child Support	93.563	Md. State HB 669	520,728
Energy Assistance	93.568	Md. State HB 669	1,219,605
Title IV-E Administration	93.658	Md. State HB 669	2,898,678
Programs of the Child Care and Development Block Cluster:			
Child Care Mandatory and Matching Funds of the CCDF	93.575	Md. State HB 669	633,537
Child Care and Development Fund (CCDF)	93.596	Md. State HB 669	<u>263,902</u>
Subtotal Child Care and Development Block Cluster			897,439
Promoting Responsible Fatherhood	93.086	Md. State HB 669	80,593
TANF	93.558	Md. State HB 669	6,311,448
Refugees - (Cash, Medical and Administrative)	93.566	Md. State HB 669	190,376
Family Kinship Connection	93.605	Md. State HB 669	51,426
Title IV-B Child Welfare Services	93.645	Md. State HB 669	246,182
Title IV-E Adoption	93.659	Md. State HB 669	116,006
Title XX Social Services Block Grant	93.667	Md. State HB 669	3,995,505

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011
(Continued)

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U. S. Department of Health and Human Services (Concluded)			
Pass Through Programs From:			
Maryland State Department of Human Resources			
Child Abuse and Neglect	93.669	Md. State HB 669	\$ 1,902
Domestic Violence Program	93.671	OGM/DV-09-003	179,619
Independent Living	93.674	Md. State HB 669	76,696
Programs of the Medicaid Cluster:			
Title XIX - Certification	93.778	Md. State HB 669	\$ 4,385,148
Title XIX - Health Related Services	93.778	Md. State HB 669	937,788
Subtotal Medicaid Cluster			5,322,936
Maryland State Department of Housing and Community Development			
Programs of the Community Services Block Grants (CSBG) Cluster:			
Furnace Replacement	93.568	-	5,220
Community Services Block Grant	93.569	DCA/OCA-10-03-013	133,493
Community Services Block Grant	93.569	DCA/OCA-10-03-013	318,643
ARRA - Community Services Block Grant	93.710	-	461,400
Subtotal Community Services Block Grants (CSBG) Cluster			918,756
Georgetown University			
Microbiology Infectious Disease Research	93.855	RX4335-023-MC	92,637
Microbiology Infectious Disease Research	93.856	RX4335-022MC	72,672
Prince George's County			
HIV Emergency Relief	93.914	C-1263-05	1,337,947
HIV Emergency Relief	93.914	C-0964-07	503,599
Maryland State Department of Health and Mental Hygiene			
Centers for Disease Control and Prevention (CDCP)			
CDCP - Investigations and Technical Assistance	93.069	CH822PHP	686,361
Tuberculosis Control	93.116	CH 015 TBF	257,683
Transition from Homelessness	93.150	MH 170 OTH	112,592
Reproductive Health/Family Planning	93.217	FH 554 FPG	562,933
Immunization Grants	93.268	CH 354 IMM	279,502
CDCP - Investigations and Technical Assistance	93.283	FH 438 CBC	616,223
Refugee Health	93.566	CH 421 REF	330,759
ARRA - Immunization	93.712	CHB 24 ARR	9,766
PWC Eligibility	93.767	MA 286 ACM	299,156
PWC Eligibility	93.778	MA 286 ACM	446,704
Programs of the Medicaid Cluster:			
State Survey and Certification of Health Care Providers	93.777	Nursing Care	533,292
Medical Assistance - Medicaid Transport	93.778	MA366GTS	1,233,546
Service Coordination	93.778	MR006MRC	1,363,998
Medical Assistance	93.778	MA 020 EPS	352,500
Medical Assistance Program	93.778	-	387,804
Medical Assistance Program	93.778	-	215,939
Medical Assistance Program	93.778	-	153,008
Subtotal Medicaid Cluster			4,240,087
HIV Care Formula	93.917	AD 486 RWS	991,876
HIV Prevention	93.940	AD 348 CTR	205,857
HIV Prevention	93.940	AD 506 HER	276,209
HIV Partner Services	93.940	AD632HPS	31,686
Community Mental Health Services	93.958	MH 234 OTH	525,954
Substance Abuse Prevention and Treatment	93.959	AS 018 SAS	828,721
Substance Abuse Prevention and Treatment	93.959	MU 525 ADP	357,259
Oral Cancer Prevention	93.991	CH 698 OCP	4,724
Maternal and Child Health Services	93.994	-	586,793
Improved Pregnancy Outcome	93.994	FH 886 IPO	88,521
Children with Special Needs	93.994	CH 501 CSN	20,758
Children with Special Needs	93.994	CH 501 CSN	62,275
Subtotal Pass Through Programs			42,034,770
Total U. S. Department of Health and Human Services			46,924,199

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011
(Continued)

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
Corporation for National and Community Service			
Direct Programs:			
Retired and Senior Volunteer Program	94.002	06 SRAMD 003	\$ 38,440
Retired and Senior Volunteer Program	94.002	09 SRAMD 003	44,640
Subtotal Direct Programs			<u>83,080</u>
Pass Through Programs From:			
Points of Light Institute and HandsOn Network 2011 MLK Day of Service	94.007	09MKHD002	5,000
Governor's Office on Service and Volunteerism Maryland Volunteer Generation Fund	94.021	VGf 2011	1,530
Subtotal Pass Through Programs			<u>6,530</u>
Total Corporation for National and Community Service			<u>89,610</u>
U. S. Department of Homeland Security			
Direct Programs:			
National Urban Search and Rescue Response System	97.025	2010-SR24-J053	190,784
National Urban Search and Rescue Response System	97.025	EMW-2008-CA-0484	318,300
National Urban Search and Rescue Response System	97.025	2009-SR24-K015	640,755
Staffing for Adequate Fire and Emergency Response	97.044	EMW-2006-FF-03999	308,980
Assistance to Fire Fighters Grant	97.044	-	37,143
Safer Grant	97.044	EMW-20006-FF-03999	86,940
2009 Buffer Zone Protection Program	97.078	09-SR-8852-05	157,716
Subtotal Direct Programs			<u>1,740,618</u>
Pass Through Programs From:			
District of Columbia - Homeland Security and Emergency Management Agency			
Programs of the Homeland Security Cluster:			
National Capital Area Region (NCR)			
Law Enforcement Information Exchange (LINX)			
UASI Information Data Sharing	97.067	VAFUAS6	\$ 383,023
UASI Information Data Sharing	97.067	10UASI536-03	1,146,816
UASI NCR Law Enforcement (LINX)	97.067	7UASI 536-01	675,655
UASI Emergency Planning	97.067	9UASI535-03	21,639
UASI-LINX Capabilities Upgrades Tactics and Objectives	97.067	9UASI536-03	645,921
LINX Expansion - Hampton Roads and Baltimore	97.067	9UASI536-01	379,676
Volunteer & Citizen Corps Program	97.067	2008-GE-T8-0035	73,757
In-Car Video for Montgomery County Police	97.067	8UASI535-05	1,009,918
H1N1 Flu Symptoms	97.067	7UASI535-06	1,428
UASI 5% Share	97.067	8UASI535-03	1,305,232
Emergency Medical Services - Life Support Restock Supplies	97.067	8UASI541-07	818,384
FY09 UASI Explosive Breaching Training	97.067	9UASI536-04	7,256
Fy10 Uasi Emergency Planning Grant	97.067	9UASI535-03	169,171
UASI NCR Radio Cache Maintenance	97.067	8UASI541-03	27,072
UASI NCR Radio Cache Maintenance	97.067	9UASI541-01	99,467
TLC Implementation Project - UASI 2009	97.067	9UASI535-05	605,651
Metropolitan Medical Response System	97.067	8UASI541-04	79,730
Montgomery County Homeland Security Support (MD 5%)	97.067	10UASI535-04	198,428
UASI Tactical Team Enhancements	97.067	10UASI536-03	1,146,358
UASI Emergency Medical Services Burn Baseline Capacity Grant	97.067	8UASI535-04	1,475,369
UASI Data Sharing	97.067	2009-SS-T9-0080	253,874
Critical Care Hospital Surge Capabilities - MD	97.067	8UASI535-01	1,518,137
FFY09 UASI Exercise and Training Grant	97.067	9UASI535-01/2009-SS-T9-0085	62,500
Telephone Alert Notification Systems (Maintenance)	97.067	9UASI535-04	24,203
NIMS Compliance Officer - Montgomery County	97.067	9UASI535-02	24,854
UASI - FY11 Multiple Tactical Response Exercises	97.067	8UASI536-02	18,385
Subtotal Homeland Security Cluster			<u>12,171,904</u>

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011
(Continued)

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U. S. Department of Homeland Security (Concluded)			
Pass Through Programs From:			
District of Columbia - Homeland Security and Emergency Management Agency			
Bus Security Cameras	97.075	Subgrant # 6TGO3	\$ 87,224
Training Initiative - Operational Control Center Readiness Security Plan	97.075	7TSGPS547-03 8TSGP547-02	10,547 108,592
Maryland Emergency Management Agency			
Programs of the Homeland Security Cluster:			
State Homeland Security Grant Program	97.067	2007-GE-T7-0040	\$ 132,621
2009 Citizen Corps Program	97.067	2009-SS-T9-0080	3,460
Active Shooter Exercise - Montgomery county	97.067	8UASI536-03	<u>16,892</u>
Subtotal Homeland Security Cluster			152,973
Emergency Management Preparedness - Training	97.042	2007-EM-E7-0104	47,397
FFY08 State Homeland Security Grant	97.073	2008-GE-T8-0011	648,005
Homeland Security Grant	97.073	2010-SS-TO-0025	<u>2,206</u>
Subtotal Pass Through Programs			<u>13,228,848</u>
Total U.S. Department of Homeland Security			<u>14,969,466</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 148,189,537</u>

MONTGOMERY COUNTY, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the primary government of Montgomery County, Maryland (the County) and is presented on the modified accrual basis of accounting. Federal awards of component units of the County reporting entity are not included in this Schedule.

The information in this Schedule is also presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

Expenditures of federal award grant funds are made for the purposes specified by the grantor, and are subject to certain restrictions. Expenditures are also subject to audit by the relevant federal agency. In the opinion of management, disallowed costs, if any, from such audits will not have a material effect on this Schedule or the financial position of the County.

NOTE 2 – SUBRECIPIENTS

Of the expenditures presented in the Schedule, the County provided awards to subrecipients as follows:

Program Title	CFDA Number	Subrecipient Name	Amount Provided to Subrecipients
Infants and Toddlers (I & T)	84.027	Montgomery County Public Schools	\$ 224,359
Infants and Toddlers (I & T)	84.181	Montgomery County Public Schools	100,978
ARRA – (I & T)	84.393	Montgomery County Public Schools	1,471,320
Head Start	93.600	Montgomery County Public Schools	3,433,406
ARRA - Head Start	93.708	Montgomery County Public Schools	615
MEDICAID (I & T)	93.778	Montgomery County Public Schools	387,804
Community Development Block Grant (CDBG)			
CDBG	14.218	City of Rockville	198,247
CDBG	14.218	City of Takoma Park	5,744
Workforce Investment Act (WIA)			
Workforce Solutions Group of Montgomery County, Inc. (WSGMC)			
Adult Program	17.258	WSGMC	528,885
ARRA - Adult Program	17.258	WSGMC	12,188
Youth Activities	17.259	Latin American Youth Center	467,788
ARRA - Youth Activities	17.259	Latin American Youth Center	71,363
Youth Supplemental	17.259	Latin American Youth Center	29,032
Youth Summer Program	17.259	Transcen, Inc	46,068
Rapid Response	17.260	WSGMC	229,904
ARRA - Dislocated Workers	17.260	WSGMC	289,734
Dislocated Workers	17.260	WSGMC	878,581
ARRA MD Business Work	17.260	WSGMC	80,061
MD Business Work	17.260	WSGMC	62,540
ARRA – State Wide Funds	17.260	WSGMC	65,000
Disability Navigator Grant	17.266	Transcen, Inc.	90,000
ARRA Energy Sector Training	17.275	WSGMC	129,490
Workplace Flexibility	17.283	WSGMC	14,000
TANIF	93.558	WSGMC	60,526

MONTGOMERY COUNTY, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011

NOTE 3 – LOAN PROGRAMS WITH CONTINUING COMPLIANCE REQUIREMENTS

The County participates in the Home Investment Partnership Act federal loan program. The balance of loans from previous years and current year loan activity, as required under OMB Circular A-133, are presented in the Schedule of Expenditures of Federal Awards.

**MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

Part I – Summary of Auditor’s Results

Financial Statement Section

Type of auditor’s report issued:		Unqualified	
		<u>Yes</u>	<u>No</u>
Internal control over financial reporting:			
Material weakness(es) identified?	X		
Significant deficiency(ies) identified not considered to be material weaknesses?	X		
Noncompliance material to financial statements noted?			X

Federal Awards Section

		<u>Yes</u>	<u>No</u>
Material weakness(es) identified?			X
Significant deficiency(ies) identified not considered to be material weaknesses?	X		
Type of auditor’s report on compliance for major programs:			Unqualified
		<u>Yes</u>	<u>No</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 section 510(a)?	X		

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.667	Social Services Block Grant
14.262	Homelessness Prevention and Rapid Re-housing Program Technical Assistance
84.181,84.393	Infants and Toddlers
66.039	Bus Retrofit
97.067	Homeland Security Grant Program
20.205	Highway Planning and Construction
81.128	Energy Efficiency and Conservation Block Grant Program
93.569,93.710	Community Services Block Grant/ARRA-Community Services Block Grant

Dollar threshold used to determine Type A programs:		\$3,000,000	
		<u>Yes</u>	<u>No</u>
Auditee qualified as low-risk auditee?	X		

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011
(Continued)

Part II – Financial Statement Findings Section

FINDING 2011-1: Reconciliations

Condition

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

Cash

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

Loans

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

Contributions to the Employees' Retirement System

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

Criteria

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

Cause

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

Effect

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

Recommendation

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

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

(Continued)

Management's Response:

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

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

FINDING 2011-2: Journal Entries

Condition

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

Criteria

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

Cause

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

Effect

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

Recommendation

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

Management's Response:

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

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011
(Continued)

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

Condition

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

Criteria

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

Cause

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

Effect

The certification was not filed within the required guidelines.

Recommendation

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

Management's Response:

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

FINDING 2011-4: Liquor Inventory

Condition

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

Criteria

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

Cause

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

Effect

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

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011
(Continued)

Recommendation

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

Management's Response:

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

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

FINDING 2011-5: Escrow Deposits

Condition

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

Criteria

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

Cause

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

Effect

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

Recommendation

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

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

(Continued)

Management's Response:

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

FINDING 2011-6: Special Forgiveness Loans

Condition

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

Criteria

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

Cause

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

Effect

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

Recommendation

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

Management's Response:

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

The County plans to perform a comprehensive review of loans that have forgivable terms to determine the extent borrowers have met the eligibility requirements for forgiveness in Fiscal Year 2012. DHCA has also modified its policy regarding the collectability of loans and procedures that are followed for forgivable loans. Borrowers will now be contacted whose loans appear to have met the terms for forgiveness and obtain certifications from the borrowers that

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011
(Continued)

they have indeed met these terms. When DHCA receives a certification, the loan(s) will be forgiven. Finance will consistently maintain a reserve (allowance) for all loans with forgivable terms regardless if the borrower has met the forgiveness terms unless DHCA determines that a borrower is not likely to meet the terms and the loan is likely to be collected.

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

Condition

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

Criteria

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

Cause

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

Effect

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

Recommendation

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

Management's Response:

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

FINDING 2011-8: Fixed Assets

Condition

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

Criteria

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

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011
(Continued)

Cause

This is due to a change in operations and affects fixed assets that are reported on the government wide statements. With the change in operations related to the tracking of fixed assets, additional time and effort was needed to properly capture capital additions.

Effect

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

Recommendation

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

Management's Response:

The County concurs with this finding. The County is in the process of evaluating its existing policies and procedures over fixed asset additions to ensure accurate and complete recording of the assets.

FINDING 2011-9: Land Sale Transaction

Condition

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

Criteria

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

Cause

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

Effect

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

Recommendation

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

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

(Continued)

Management's Response:

The County concurs with this finding. The oversight in recording this transaction was primarily the result of three factors: unusual nature of the transaction, implementation of the new financial system, and turnover of key parking program personnel. This transaction was unusual as it was the first time where a sale of Parking Lot District land resulted in a non-cash transaction – a credit against future construction, rather than cash proceeds. Complicating the situation, a key parking division financial position became vacant at the same time that the County was dealing with challenges associated with the new financial system. This impeded parking staff from a more thorough analysis of this unusual transaction. The key position has since been filled, and improved communication processes are being established between Parking and Finance staff, to ensure appropriate and timely analysis and financial reporting of unusual transactions.

FINDING 2011-10: Depreciation Expense

Condition

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

Criteria

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

Cause

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

Effect

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

Recommendation

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

Management Response:

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

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011
(Continued)

Part III – Federal Award Findings and Questioned Costs Section

Finding No 2011-11: The general ledger contained Federal expenses that were outside of the audit period (Reporting-Internal Control)

Federal Program

Social Services Block Grant CFDA #: 93.667

Condition

During our audit we identified one program expense that was paid and invoiced in fiscal year 2010, but was recorded as fiscal year 2011 program costs.

Criteria

The A-102 Common Rule requires that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Internal Control-Integrated Framework (COSO Report) provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Context

1 out of 40 program expenses tested was identified as a fiscal year 2010 cost.

Cause

Fiscal year 2010 invoice was not accrued as a fiscal year 2010 cost at year-end. Montgomery County did not correct the error via journal entry.

Effect

Montgomery County could report on the SEFA, expenditures that are not applicable to the reported fiscal year or applicable to Federal Programs.

Questioned Costs

None noted. The cost was allowable for the program.

Recommendation

We recommend that Montgomery County review expenditures to ensure that they were incurred within the current fiscal year.

Management's Response:

We concur with the Auditor's recommendation. The County has a comprehensive system of internal controls to ensure that expenditures are recorded in the proper fiscal period. But in fiscal year 2011, the County launched its new financial system, ORACLE, and many employees were not yet familiar with the meaning of the different dates in the new system when paying invoices. Although this was an allowable program expense, a journal entry should have been processed to record the expenditure in FY 10. The County will continue to remind staff of the requirement to report expenditures in the proper fiscal period during the annual year end training for staff.

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF PRIOR YEAR FINDINGS
June 30, 2011

Finding No 2010-01: Suspension and Debarment (Internal Control and Compliance)

Condition: Montgomery County does not consistently follow procurement procedures to review and document the federal suspension and debarment status of contractors in accordance with OMB Circular A-102 before implementation of a contract (Internal Control and Compliance).

**Management's
Response:**

The County has procedures in place to ensure that it only does business with reputable vendors. These procedures require, among other things, that the Office of Procurement maintain a list of individuals and organizations that have been debarred by the County. Many of the vendors the County uses for contracts funded with federal monies have done business with the County for many years. The nature of the services they provide are often unique and only performed by a small niche of vendors. The auditors noted no instance in which the County did business with a vendor that was listed on the U.S. General Services Administration (GSA) Excluded Parties List System (EPLS).

Department/grant administrators are responsible for ensuring grant specific requirements are met. While the County at the time of the audit did not have a procedure in place to centrally check GSA's EPLS, County departments often add a certification clause to vendor contracts if federal funds are to be used to fund the contract. This certification clause requires vendors to certify that they have not been debarred or suspended from federal procurement. The clause is included to comply with both circulars cited by the auditors.

Notwithstanding the County's existing procedures, the County recognizes the need to strengthen its ability to comply with the subject circulars by including a step in the contracting process that ensures appropriate vendors are checked against GSA's EPLS, certifications are obtained, or contract language is amended. The Office of Procurement will work with the County Attorney's Office, the Department of Finance, and any other appropriate core departments to identify and implement appropriate revisions to the current processes.

Status: Resolved. Montgomery County instituted a new policy within the Office of the County Attorney and Procurement, including but not limited to, retaining a copy of the epls.gov search in the Contract Administrator's contract file.



**Prepared by the:
Department of Finance
Division of the Controller
101 Monroe Street
Rockville, Maryland 20850
240-777-8860**