

MONTGOMERY COUNTY MARYLAND

Report on Expenditures of Federal Awards



Fiscal Year 2012

July 1, 2011 - June 30, 2012
Rockville, Maryland

MONTGOMERY COUNTY MARYLAND

Report on Expenditures of Federal Awards



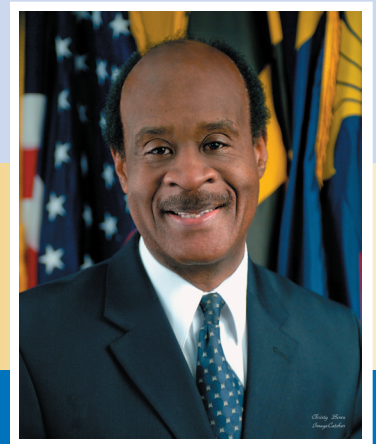
Prepared by the
DEPARTMENT OF FINANCE

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

Fiscal Year 2012
July 1, 2011 - June 30, 2012



Mission Statement



Isiah Leggett
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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

Montgomery County, Maryland

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Tel: 301-654-4900
Fax: 301-654-3567
www.bdo.com

7101 Wisconsin Ave, Suite 800
Bethesda, MD 20814

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, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 21, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of the Montgomery County Public Schools, the Housing Opportunities Commission of Montgomery County, Maryland, the Montgomery College, the Montgomery County Revenue Authority, and the Bethesda Urban Partnership, Inc., as described in our report on the County's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Bethesda Urban Partnership, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the County is responsible for establishing and maintaining effective 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 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 described 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.

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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 identified below and described in greater detail in the accompanying schedule of findings and questioned costs as items 2012-1 through 2012-4 to be material weaknesses.

- I. Changes in the Control Environment due to Systems Conversion.
- II. Reconciliations of Cash Accounts.
- III. Reconciliations of Accounts Payable.
- IV. Accuracy and Completeness of the Schedule of Expenditures of Federal Awards (SEFA).

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 identified below and described in greater detail in the accompanying schedule of findings and questioned costs as items 2012-5 through 2012-9 to be significant deficiencies.

- V. Employee Retirement Plans.
- VI. Journal Entry Approval.
- VII. Logon Accounts and Change Control Management.
- VIII. Access to Applications.
- IX. Review of Potential Security Violations.

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



The status of prior year instances of deficiencies is presented below:

Nature of Comment	Type of Comment in Fiscal Year 2011	Current Year Status
Reconciliations	Material Weakness	Material Weakness
Journal Entries	Material Weakness	Significant Deficiency
Annual CFO Certification of Municipal Solid Waste Landfill Facilities	Significant Deficiency	Not Repeated
Liquor Inventory	Significant Deficiency	Not Repeated
Escrow Deposits	Significant Deficiency	Not Repeated
Special Forgiveness Loans	Significant Deficiency	Control Deficiency
Cut-off Procedures - Duplicate Expenditures	Significant Deficiency	Not Repeated
Fixed Assets	Significant Deficiency	Not Repeated
Land Sale Transaction	Significant Deficiency	Not Repeated
Depreciation Expense	Significant Deficiency	Not Repeated

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

BDO USA, LLP

December 21, 2012



Tel: 301-654-4900
Fax: 301-654-3567
www.bdo.com

7101 Wisconsin Ave, Suite 800
Bethesda, MD 20814

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 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** (the County) 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 the County's major federal programs for the year ended June 30, 2012. The 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 the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

The County's basic financial statements include the operations the Montgomery County Public Schools, the Housing Opportunities Commission of Montgomery County, Maryland, the Montgomery College, and the Montgomery County Revenue Authority, which received federal awards, and which are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2012. Our audit, described below, did not include the operations of the Montgomery County Public Schools, the Housing Opportunities Commission of Montgomery County, Maryland, the Montgomery College, and the Montgomery County Revenue Authority, because the organizations engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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 the 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 the County's compliance with those requirements.

As described in item 2012-12 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding Eligibility that are applicable to its Medical Assistance Program Cluster. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

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In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the compliance 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, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-10, 2012-11, 2012-13, 2012-14, and 2012-15.

Internal Control Over Compliance

Management of the 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 the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 County's internal control over compliance.

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

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-12 to be a material weakness.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-10, 2012-11, 2012-13, 2012-14, and 2012-15 to be significant deficiencies.



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, Maryland** as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 21, 2012, which contained an unqualified opinion on those statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Montgomery County Public Schools, the Housing Opportunities Commission of Montgomery County, Maryland, the Montgomery College, and the Montgomery County Revenue Authority.

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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

BDO USA, LLP

March 29, 2013

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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			
Programs of the Supplemental Nutrition Assistance Program Cluster:			
State Administrative Matching Grant for Food Stamps	10.561	Maryland House Bill 669	\$ 3,699,760
Adoption Incentive Program	10.561	Maryland House Bill 669	<u>3,439</u>
Subtotal Supplemental Nutrition Assistance Program Cluster			3,703,199
Programs of the Emergency Food Assistance Cluster:			
FY11 Emergency Food Assistance Program - Surplus Food	10.568	OGM/FNS-09-016	\$ 31,804
FY12 Emergency Food Assistance Program - Surplus Food	10.568	OGM/FNS-12-016	12,968
Emergency Food Assistance Program (Commodities)	10.569	Food Bank	<u>1,246,481</u>
Subtotal Emergency Food Assistance Cluster			<u>1,291,253</u>
Total U.S. Department of Agriculture			<u>\$ 4,994,452</u>
U.S. Department of Defense			
Direct Programs:			
Base Realignment and Closure (BRAC)	12.607	RA0625-08-013-11-02	<u>\$ 122,213</u>
Total U. S. Department of Defense			<u>\$ 122,213</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	\$ 4,753,480
ARRA - CDBG Recovery Act	14.253	B-09-UY-24-0001	<u>476,787</u>
Subtotal CDBG - Entitlement Grants Cluster			5,230,267
Emergency Shelter Program	14.231	S-08-UC-24-0003	138,857
Emergency Shelter Program	14.231	S-09-UC-24-0003	188,928
HOME Investment Partnership	14.239	M-09-UC-24-0504	5,628,764
Balance of 06/30/2011 Outstanding Loans as of 06/30/2012	14.239	-	29,603,623
ARRA - Homeless Prevention and Rapid Re-Housing	14.262	S09-UY-24-0003	<u>493,200</u>
Subtotal Direct Programs			41,283,639
Pass Through Programs From:			
Maryland Department of Housing and Community Development			
Programs of the State Administered CDBG Cluster:			
Maryland Neighborhood Conservation Initiative	14.228	MD - NCI -1	9,563
Maryland State Department of Health and Mental Hygiene			
Housing Opportunities for Persons with AIDS	14.241	AD 658 HOP	<u>714,977</u>
Subtotal Pass Through Programs			<u>724,540</u>
Total U. S. Department of Housing and Urban Development			<u>\$ 42,008,179</u>
National Park Service, Department of The Interior			
Pass Through Programs From:			
Maryland Department of Planning - Historical Trust			
Design Guidelines for Montgomery County Historic Sites and Districts	15.904	24-09-21826	<u>\$ 23,000</u>
Total National Park Service, Department of The Interior			<u>\$ 23,000</u>

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U. S. Department of Justice			
Direct Programs:			
FY09 Forensic DNA Backlog Reduction Program	16.560	2009-DN-BX-K085	\$ 43,717
FY10 Forensic DNA Backlog Reduction Program	16.560	2010-DN-BX-K070	42,500
FY11 Forensic DNA Backlog Reduction Program	16.560	-	1,126
FY10 Justice Assistance Program	16.560	2010-DJ-BX-0704	35,305
Gang Suppression/Prevention - Montgomery County	16.580	2009-D1-BX-0314	88,805
Enforcement of Protection Orders Program	16.590	2005-WE-AX-0096	189,020
Northwest/Oakview Weed and Seed	16.595	2009-WS-QX-0167	59,321
Federal Bureau of Investigation (FBI) - Joint Terrorist Force	16.595	-	8,283
COPS Universal Hiring Program	16.710	2008-UL-WX-0016	207,629
COPS Technology Program	16.710	2010-CKWX0066	105,326
Maryland Child Exploitation Task Force	16.746	-	2,704
Maryland Regional Gang Initiative Expansion	16.753	2008-DD-BX-0648	858,629
Up-County Youth Opportunity Center	16.753	2009-DI-BX-0307	61,055
Programs of the Justice Assistance Grant (JAG) Cluster:			
ARRA - FY09 Recovery Act Justice Assistance Grant Program	16.804	2009-SB-B9-0879	49,472
Work First, Train Concurrently	16.812	2010-RV-BX-0006	159,902
Subtotal Direct Programs			<u>1,912,794</u>
Pass Through Programs From:			
Governor's Office of Crime Control and Prevention			
Victims of Crime Assistance Program (VOCA)	16.575	CSA/CVA-07-022	114,541
Victims of Crime Assistance Program (VOCA)	16.575	VOCA-2010-1016	185,695
S.T.O.P. Violence Against Women Act	16.588	VAWA-2011-1912	73,668
Lethality Assessment Advocate	16.588	VAWA-2011-1611	35,954
Protective Order Enforcement	16.588	VAWA-2009-1019	32,713
Alcohol Use Prevention	16.727	EUDL-2010-1008	1,239
FY11 Paul Coverdell Forensic Sciences Improvement Grant	16.742	CFSI-2011-1202	7,040
FY11 Paul Coverdell Forensic Sciences Improvement Grant	16.746	CFSI-2011-1202	23,646
Programs of the Justice Assistance Grant (JAG) Cluster:			
Multicultural Intervention Project for Victims of Child Abuse	16.738	VOCA-2011-1253	\$ 330,152
Rape Crisis Intervention Services	16.738	RFCl-2012-1001	4,167
Courtroom Technology Enhancements	16.738	BJAG-2009-1092	36,021
Forensic Crime Scene Investigation Improvements	16.738	BJAG-2009-1019	64,995
Bi-County Gang Grant - Congressionally Selected	16.738	2010-DD-BX-0554	162,878
Financial Exploitation Prevention Initiative	16.803	-	34,380
Felony Investigator Initiative	16.803	BJRA-2009-1126	31,160
ARRA - Backlog Reduction	16.803	BJRA-2009-1086	24,870
ARRA - Crime Intelligence Analyst	16.803	BJRA-2009-1121	42,205
ARRA - FY09 Recovery Act Justice Assistance Grant Program	16.804	2009-SB-B9-0879	53,618
Subtotal Justice Assistance Grant Cluster			<u>784,446</u>
U.S. Marshall's Office			
Regional Fugitive Gang Task Force	16.595	FATF-10-0128	47,916
Subtotal Pass Through Programs			<u>1,306,858</u>
Total U. S. Department of Justice			\$ 3,219,652

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U. S. Department of Labor			
Pass Through Programs From:			
State Department of Labor, Licensing and Regulation			
Programs of the Workforce Investment Act (WIA) Cluster:			
WIA - Adult Program	17.258	POOB2400134-A	\$ 97,768
WIA - Adult Program	17.258	POOB2400134-A	729,806
WIA - Youth Programs	17.259	POOB2400005-B	575,104
WIA - Youth Programs	17.259	POOB1400027-B	59,283
Summer Youth Connection	17.259	POOB2400090	10,256
WIA - Dislocated Workers	17.278	POOB24000134-C	849,067
WIA - Dislocated Workers	17.278	POOB2400072-C	141,096
ARRA - Maryland Business Works	17.278	POOB2400109-C	190,861
Rapid Response - Early Intervention	17.278	POOB2400003	216,270
WIA Statewide	17.258/59/78	POOB0400200	23,000
Maryland Businesses Works	17.258/59/78	POOB8200061	24
Subtotal Workforce Investment Act Cluster			<u>2,892,535</u>
Programs of the Employment Service Cluster:			
Montgomery County One Stop Center	17.207	-	252,437
ARRA - State Energy Sector Training Grant	17.275	POOB2400045	159,841
Base Realignment and Closure (BRAC)	17.277	-	<u>35,159</u>
Total U. S. Department of Labor			<u>\$ 3,339,972</u>
U. S. Department of Transportation			
Pass Through Programs From:			
Maryland (MD) State Department of Transportation			
Programs of the Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205	Bridge Design	\$ 3,227,421
ARRA - Highway Planning and Construction	20.205	Bridge Design	4,159,734
Subtotal Highway Planning and Construction Cluster			7,387,155
Programs of the Federal Transit Cluster:			
Ride-on Bus Fleet	20.500	MD-04-0005-02	\$ 2,858,537
RideSharing-Commuter Assistance Grant	20.507	MD-95-0005	34,015
ARRA - Ride-on Bus Fleet	20.507	MD-96-X001	6,550,000
Subtotal Federal Transit Cluster			9,442,552
MD State Highway Administration - MD Highway Safety Office			
Programs of the Highway Safety Cluster:			
ID Checking Calendar for Retailers and Takoma Park Cops in Shops	20.600	10-166-23	<u>988</u>
Total U. S. Department of Transportation			<u>\$ 16,830,695</u>
U. S. Department of the Treasury			
Direct Programs:			
Secret Service - Metro Area Task Force	21.000	-	\$ 10,103
Pass Through Programs From:			
State of Maryland			
Volunteer Income Tax Assistance - Maryland Cash Campaign	21.009	-	<u>9,472</u>
Total U. S. Department of the Treasury			<u>\$ 19,575</u>

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor, Pass Through Grantor, Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
National Foundation on the Arts and the Humanities			
Pass Through Programs From:			
Maryland State Department of Education Teen Parent and Early Childhood Literacy Pilot Program	45.310	116098	\$ 3,304
Total National Foundation on the Arts and the Humanities			\$ 3,304
U. S. Environmental Protection Agency			
Pass Through Programs From:			
Mid-Atlantic Regional Air Management Association, Inc. ARRA - Transit Bus and County Equipment Retrofit Project	66.039	2A-973793-01	\$ 12,063
Total U. S. Environmental Protection Agency			\$ 12,063
U.S Department of Energy			
Direct Programs:			
ARRA - Energy Efficiency Conservation Block Grant	81.128	DE-EE0000743	\$ 4,792,436
Pass Through Programs From:			
Maryland Department of Housing and Community Development ARRA - Weatherization Assistance Grant	81.042	-	2,808,295
Total U. S. Department of Energy			\$ 7,600,731
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	104376-02	\$ 440,650
Infants and Families with Disabilities	84.173	104376-03	9,000
Subtotal Special Education Cluster			449,650
Programs of the Vocational Rehabilitation Cluster:			
Summer Youth	84.126	-	30,008
Programs of the Early Intervention Services (IDEA) Cluster:			
Infants and Families with Disabilities	84.181	900485-05	\$ 175,097
Infants and Families with Disabilities	84.181	104376-01	1,010,621
Infants and Families with Disabilities	84.181	104376-01	83,884
ARRA - Infants and Families with Disabilities	84.393	104516	1,309,819
Subtotal Early Intervention Services (IDEA) Cluster			2,579,421
Total U. S. Department of Education			\$ 3,059,079

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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			
Direct Programs:			
Preparedness and Emergency Response Learning Center	93.069	-	\$ 20,833
Adult Drug Court Capacity Expand Initiative	93.243	1H79TI020002-01	116,971
Programs of the Head Start Cluster:			
Head Start	93.600	03CH2109/44	4,528,423
Community Based Services Delivery & Outreach	93.647	90PO371/01	97,300
Subtotal Direct Programs			<u>4,763,527</u>
Pass Through Programs From:			
Maryland State Office on Aging			
Special Programs for the Aging - Ombudsman Services	93.042	AAA-3-24-015	61,774
Title III, Part D - Supportive Services and Senior Centers	93.043	AAA-3-24-015	31,041
National Family Care Giver Support	93.052	AAA-3-24-015	305,299
Money Follows the Person - Education and Application	93.052	-	3,475
Programs of the Aging Cluster:			
Title III, Part B - Supportive Services and Senior Centers	93.044	AAA-3-24-015	\$ 784,050
Title III, Part C - Nutrition Services	93.045	AAA-3-24-015	1,137,624
Medicare Improvements to Patients	93.053	-	71,916
Senior Nutrition	93.053	-	228,485
Subtotal Aging Cluster			<u>2,222,075</u>
Maryland State Department of Education			
Programs of the Child Care and Development Block Cluster:			
Early Head Start State Supplemental Funds	93.575	104908-01	223,963
Subtotal Child Care and Development Block Cluster			
National Association of County and City Health Officials			
Centers for Disease Control and Prevention (CDCP)			
CDCP - Investigations and Technical Assistance	93.283	2008-100104	130,823
CDCP - Investigations and Technical Assistance	93.283	2010-092004	190,299
Maryland State Department of Human Resources			
Family Preservation	93.556	Maryland House Bill 669	109,315
Title IV-B PSSF Caseworker Visits	93.556	Maryland House Bill 669	14,832
Programs of the Temporary Assistance for Needy Families Cluster:			
Temporary Assistance for Needy Families	93.558	Maryland House Bill 669	4,589,699
Title IV-D - Child Support	93.563	Maryland House Bill 669	493,614
Child Support Enforcement	93.564	-	602,654
Refugees - (Cash, Medical and Administrative)	93.566	Maryland House Bill 669	208,796
Low Income Home Energy Assistance	93.568	Maryland House Bill 669	770,588
Programs of the Child Care and Development Block Cluster:			
Child Care Mandatory and Matching Funds of the CCDF	93.575	Maryland House Bill 669	\$ 944,420
Child Care and Development Fund (CCDF)	93.596	Maryland House Bill 669	58,220
Subtotal Child Care and Development Block Cluster			<u>1,002,640</u>
Family Kinship Connection	93.605	Maryland House Bill 669	56,649
Title IV-B Child Welfare Services	93.645	Maryland House Bill 669	126,047
Foster Care_Title IV-E Administration	93.658	Maryland House Bill 669	1,742,571
Foster Care_Title IV-E	93.658	Maryland House Bill 669	16,648
Title IV-E - Adoption	93.659	Maryland House Bill 669	53,487
Title XX - Social Services Block Grant	93.667	Maryland House Bill 669	2,054,171

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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	Maryland House Bill 669	\$ 1,222
Domestic Violence Program	93.671	OGM/DV-09-003	180,821
Senior Health Insurance Counseling	93.779	-	63,278
Programs of the Medicaid Cluster:			
Title XIX - Certification	93.778	Maryland House Bill 669	\$ 3,622,453
Title XIX - Health Related Services	93.778	Maryland House Bill 669	<u>269,436</u>
Subtotal Medicaid Cluster			3,891,889
Maryland State Department of Housing and Community Development			
Programs of the Community Services Block Grants (CSBG) Cluster:			
Community Services Block Grant	93.569	DCA/OCA-10-03-013	\$ 141,129
Community Services Block Grant	93.569	DCA/OCA-10-03-013	<u>334,984</u>
Subtotal Community Services Block Grants (CSBG) Cluster			476,113
Georgetown University			
Microbiology Infectious Disease Research - HIV Positive Women	93.855	RX 4335-023 MC	117,637
Prince George's County			
HIV Emergency Relief	93.914	C-0964-07	415,794
HIV Emergency Relief	93.914	C-1263-05	1,238,623
Maryland State Department of Health and Mental Hygiene			
Centers for Disease Control and Prevention (CDCP)			
Emergency Preparedness	93.069	CH 822 PHP	756,438
Tuberculosis Control	93.116	CH 015 TBF	253,262
Transition from Homelessness	93.150	MH 170 OTH	115,588
Reproductive Health/Family Planning	93.217	FH 554 FPG	153,567
Strategic Prevention Framework	93.243	MU 242 SPF	16,025
Programs of the Immunization Cluster:			
Immunization Grants	93.268	CH 354 IMM	254,131
Breast and Cervical Cancer - Early Detection	93.283	FH 438 CBC	675,141
Refugee Health	93.566	CH 421 REF	323,261
State Children Insurance Program	93.767	MA 286 ACM	342,488
Programs of the Medicaid Cluster:			
Medical Assistance - Medicaid Transport	93.778	MA 366 GTS	\$ 1,148,586
Service Coordination	93.778	MR 006 MRC	1,389,298
Pregnant Women and Children Eligibility	93.778	MA 286 ACM	511,407
Medical Assistance - Administrative Care Coordination	93.778	MA 020 EPS	352,500
Medical Assistance Program	93.778	-	<u>3,046,157</u>
Subtotal Medicaid Cluster			6,447,948
HIV Care Formula	93.917	AD 486 RWS	975,031
HIV Prevention - Partner Services	93.940	AD 632 HPS	44,278
HIV Prevention	93.940	AD 348 PRV	470,898
HIV Prevention	93.944	AD 348 PRV	1,500
Community Mental Health Services	93.958	MH 234 OTH	568,565
Substance Abuse Prevention and Treatment	93.959	MU 525 ADP	256,827
Substance Abuse Prevention and Treatment	93.959	AS 241 FED	898,164
Child Health Services	93.994	-	586,793
Children with Special Needs	93.994	CH 501 CSN	71,207
Subtotal Pass Through Programs			<u>34,606,949</u>
Total U. S. Department of Health and Human Services			\$ 39,370,476

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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	09 SRAMD 003	\$ 67,545
Pass Through Programs From:			
Governor's Office on Service and Volunteerism Maryland Volunteer Generation Fund	94.021	VGF 2011	<u>30,705</u>
Total Corporation for National and Community Service			<u>\$ 98,250</u>
U. S. Department of Homeland Security			
Direct Programs:			
National Urban Search and Rescue Response System	97.025	EMW-2008-CA-0484	\$ 1,273,435
National Urban Search and Rescue Response System	97.025	2009-SR24-K015	6,530
National Urban Search and Rescue Response System	97.025	2010-SR24-J053	524,886
Staffing for Adequate Fire and Emergency Response	97.044	EMW-2006-FF-03999	75,983
Assistant to Fire Fighters Grant	97.044	-	406
Safer Grant	97.044	EMW-2006-FF-03999	242,740
2010 Citizen Corps Program	97.053	-	1,933
2009 Buffer Zone Protection Program	97.078	200--BF-T9-0038	<u>345,240</u>
Subtotal Direct Programs			2,471,153
Pass Through Programs From:			
District of Columbia - Homeland Security and Emergency Management Agency			
National Capital Area Region (NCR)			
Urban Area Security Initiative (UASI)			
Law Enforcement Information Exchange (LINX)			
Metropolitan Medical Response System (MMRS)			
District of Columbia's Homeland Security and Emergency Management Agency (DCHLSMS)			
FY09 UASI NCR Radio Cache Maintenance	97.067	09UASI536-02	123,053
FY11 UASI Multiple Tactical Respiratory Exercises	97.067	9UASI541-01	8,822
UASI Awards Grant	97.067	2009-SS-T9-0080	194,100
FY10 UASI Exercise and Training Continuation	97.067	10UASI535-01	64,730
FY09 UASI-Information Data Sharing	97.067	08UASI536-01	26,607
FY10 UASI-LINX Capability Upgrades	97.067	9UASI536-03	801,643
UASI Information - Data Sharing	97.067	9UASI536-02	608,142
UASI Information - Data Sharing	97.067	9UASI536-01	175,901
FY10 LINX Maintenance	97.067	10UASI536-01	229,026
FY10 UASI-LINX Handheld Solutions (Phase II)	97.067	10UASI536-02	550,688
FY08 Hospital Critical Care Surge	97.067	08UASI535-01	137,751
FY10 UASI Emergency Planning Grant	97.067	09UASI535-03	582,406
FY09 MMRS Coordinator	97.067	09UASI535-02	6,454
FFY10 UASI MMRS Continuation	97.067	10UASI535-02	27,945
UASI Explosive Breaching Training	97.067	09UASI535-04	2,739
UASI 2009 5% - Implementation Project	97.067	09UASI535-05	814,162
UASI - Tactical Team Enhancements	97.067	10UASI536-03	152,753
FY10 Volunteer and Citizen Corps Program	97.067	10UASI535-03	78,440
FY10 UASI 5% - Homeland Security Support	97.067	10UASI535-04	76,210
FY08 UASI Burn Baseline Capacity Grant	97.067	08UASI535-04	750

(Continued)

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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			
FY08 UASI Emergency Management System			
Basic Life Support Restock Supplies	97.067	08UASI541-07	\$ 714
FY10 UASI Technology Rescue Task Force Project	97.067	10UASI541-04	5,386
FY08 UASI MMRS Grant	97.067	08UASI541-04	170,906
FY10 UASI Medical Ambulance Enhancement	97.067	10UASI541-03	125
FY11 UASI Tactical Team Enhancements	97.067	11UASI536-02	1,791,561
UASI Police In-Car Video, Portable Records Scanning and Backup Power Generator Project			
	97.067	09UASI535-06	729,412
FY11 UASI Regional Planning Grant	97.067	11UASI535-05	31,694
FY10 UASI Training via DCHLSMS	97.067	3BUAO	46,338
FY10 UASI Radio Cache Maintenance	97.067	10UASI541-01	5,930
Depot Security - Transit Grant	97.075	Subgrant # 6TGO3	629,860
Bus Security Cameras	97.075	Subgrant # 6TGO3	5,474
Maryland Emergency Management Agency			
State Homeland Security Grant Program	97.067	2007-GE-T7-0040	1,025,719
2009 Citizen Corps Program	97.067	2009-SS-T9-0080	4,424
Active Shooter Exercise	97.067	8UASI536-03	7,818
Emergency Management Preparedness	97.042	2007-EM-E7-0104	381,992
FY08 State Homeland Security Grant	97.073	2008-GE-T8-0011	563,036
Subtotal Pass Through Programs			<u>10,062,711</u>
Total U.S. Department of Homeland Security			\$ 12,533,864
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 133,235,505

The accompanying notes are an integral part of this Schedule.

Montgomery County, Maryland

Notes to the Schedule of Expenditures of Federal Awards

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.

2. Subrecipients

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

Program Title	Federal CFDA Number	Subrecipient Name	Amounts Provide to Subrecipients
Head Start	93.600	Montgomery County Public Schools	\$ 3,379,918
Head Start	93.600	Montgomery County Public Schools	53,488
Infants and Toddlers (I & T)	84.027	Montgomery County Public Schools	218,325
Infants and Toddlers (I & T)	84.181	Montgomery County Public Schools	101,708
ARRA - (I & T)	84.393	Montgomery County Public Schools	37,279
ARRA - (I & T)	84.393	Montgomery County Public Schools	191,343
Energy Efficiency and Conservation Block Grant (EECBG)			
EECBG	81.128	Montgomery County Public Schools	1,295,003
EECBG	81.128	Montgomery College	148,969
EECBG	81.128	Housing Opportunity Commission	193,568
EECBG	81.128	Maryland-National Capital Park and Planning Commission	33,797
Community Development Block Grant (CDBG)			
CDBG	14.218	City of Rockville	738,913
CDBG	14.218	City of Takoma Park	51,724
Workforce Investment Act (WIA)			
Adult Program	17.258	Workforce Solutions Group of Montgomery County, Inc. (WSGMC)	614,455
Youth Activities	17.259	Latin American Youth Center	520,143
Youth Summer Program	17.259	Transcen, Inc.	210,045

Montgomery County, Maryland

Notes to the Schedule of Expenditures of Federal Awards

Program Title	Federal CFDA Number	Subrecipient Name	Amounts Provided to Subrecipients
ARRA - On the Job Training	17.260	WSGMC	190,861
ARRA-State Energy	17.275	WSGMC	159,841
Base Closing (BRAC)	17.277	WSGMC	35,159
Dislocated Workers	17.278	Transcen, Inc.	10,758
Early Intervention	17.278	WSGMC	216,270
Dislocated Workers	17.278	WSGMC	796,707
ARRA-EECBG	81.128	WSGMC	115,867

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.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? X Yes None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? X Yes No

Type of auditors' report issued on compliance for major programs:

Unqualified for all major programs except for the Medical Assistance Program Cluster, which was qualified.

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133? X Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.558	Temporary Assistance for Needy Families
93.575, 93.596	Child Care and Development Fund Cluster
93.667	Social Services Block Grant
93.778	Medical Assistance Program Cluster
93.914	HIV Emergency Relief Project Grants
14.239	Home Investment Partnerships Program
97.025	National Urban Search and Rescue Response System
20.205	ARRA - Highway Planning and Construction Cluster
20.205	Highway Planning and Construction Cluster
20.507	ARRA - Federal Transit Cluster

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.507	Federal Transit Cluster
81.042	ARRA - Weatherization Assistance for Low-Income Persons
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program
Dollar threshold used to distinguish between Type A and Type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Section II - Financial Statement Findings

Finding 2012-1: Changes in the Control Environment due to Systems Conversion

In an effort to provide integrated management decision-making information including financial and operational activities, the County converted financial reporting systems during fiscal year 2011.

Subsequently, during fiscal year 2012, we noted variations of user satisfaction and user knowledge with the new system and programming work, along with a magnitude of required post-implementation corrections. Due to this variation in user knowledge, there was a direct impact on user ability to generate the required reports from the new system to facilitate the audit process. We recommend that all concerned parties (including operations and user personnel) and particularly, the controller's group continue to participate in training in the use of the new software's reporting functions. This will help ensure that producing internal financial reports and other required schedules for various business processes becomes a standard and relatively simple procedure.

Further, during fiscal year 2012, there were a number of users that were assigned system administrator authority or privileges (i.e. Administrator, Security Administrator, Domain Administrator, Super User, etc.) on the Windows and Linux environments and on the Oracle and PeopleSoft applications. We noted the following during our procedures:

- A number of users have the ability to migrate Oracle Financials application changes within the production environment.
- Three (3) Data Base Administrators and the Enterprise Services and Operations Technology Expert have been granted administrative access or full access rights to one or more of the following: the Windows Domain, Linux environment, and Oracle Financials application. In addition, the Enterprise Services and Operations Technology Expert also has the ability to modify the production job schedules.
- The Accounts Payable Manager has been granted administrative system access for a limited amount of time to the Oracle Financials application creating a segregation of duties risk.
- The Systems Control Manager, who is responsible for assigning user access, has been granted administrative access rights to the PeopleSoft and Oracle applications, creating a segregation of duties risk.

This presents an increased and heightened risk for unauthorized or inappropriate access to data and information that could have a significant impact on the financial reporting process. To maintain the desirable separation of duties, we recommend that management should review and evaluate who should be assigned system administrator authority on the Windows and Linux environments and on the Oracle and PeopleSoft applications. These access rights should be limited and only be granted to those key users who require these privileges within their functional area of authority. Lastly, management's review should be documented and retained.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Management's Response:

As with any new large complex enterprise-wide system implementation and business process reengineering effort, there are significant change management and learning curve aspects that impact all levels of users. There is also a period of time where post-implementation issues will arise that must be resolved, and where reevaluation of business process opportunities, to maximize system capabilities, will continue. The County is in the process of these efforts. As part of this process, ERP team and business process owners work together to identify issues, underlying causes, and opportunities for improvement, and to prioritize resources assigned to such efforts. Training programs have been updated and are made available to impacted County employees. Significant resources and expertise are also dedicated to continued development of reporting tools and reporting dashboards.

As it relates to specific issues noted above:

- The County has reviewed the system administrator accounts and has removed Oracle Financial application administrator privileges from the Expert since the business need is not required moving forward. The County is in the process of developing additional controls to monitor for and prevent unauthorized access that could compromise operations or financial reporting.
- Given that the County server architecture is highly virtualized and supported by a large matrix team, the County has a business requirement to provide sufficient coverage for scheduled maintenance, including monthly patching, as well as the ability to respond to system issues quickly. The County is evaluating the continuing business and operations requirements and the administrator privilege assignments in order to identify potential changes to reduce potential risks balanced with business operations and support.
- The Accounts Payable Manager (ERP subject matter expert) was provided administrative system access to the Oracle Financials application for four days, after go-live when the implementer is restricted from access to the production environment for internal control purposes, to set up a new functionality. With the implementation of the Change Control Process, administrative system access will require formal review and approval through a change request.
- The Systems Control Manager is responsible for managing all user access for the Enterprise Service systems (PeopleSoft, Oracle, Hyperion, OBIEE reporting tool). All changes to PeopleSoft require a Change Request, testing, and approval from the business owner. The County will review and evaluate PeopleSoft roles and responsibilities to determine the feasibility of limiting specific responsibilities.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-2: Reconciliations of Cash Accounts

During much of the year, various bank account reconciliations appeared to be generally incomplete. For instance, the July 31, 2011 bank reconciliation was not completed until August 2012 and upon reconciliation, significant adjustments and unreconciled items were discovered which resulted in a substantial adjustment to the County's general ledger cash balance.

Cash is the most liquid of assets and has the highest risk for theft, embezzlement, and misappropriation. Not reconciling such accounts on a periodic basis means that errors or other problems might not be recognized and resolved on a timely basis. Further, unreconciled differences that appear immaterial can obscure significant but offsetting items (such as bank errors or improperly recorded transactions) that would be a cause for investigation if the items were apparent.

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements. As such, we recommend that management review its current procedures and make necessary changes to ensure that bank reconciliations are prepared on a periodic basis. A further benefit of regular reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations.

Management's Response:

The County concurs with this finding. However, although various FY12 bank account reconciliations were not completed in a timely manner, the reconciliations were completed in significantly less time than in FY11 due to improvements implemented in FY12. FY11 was the first full year utilizing the County's new ERP system and cash management capabilities, including related reengineered business processes. Management continues to work in conjunction with the ERP Office to develop and implement solutions to the issues which have been preventing the County from completing monthly bank reconciliations in a timely manner.

Improvements being implemented in FY13 include, but are not limited to:

- Developing interfaces into the Oracle Accounts Receivable module (A/R) to eliminate or reduce manual efforts and streamline reconciliation processes, and to improve internal controls, in the following areas:
 - For four key departments, to allow recording through A/R instead of directly through the General Ledger, thus enabling effective use of the Cash Management module (CM) matching capabilities;
 - Automated matching of one-to-one receipts; and
 - Enhancing matching of single cash receipts to multiple-revenue-line invoices.
- Continuing to identify and establish separate bank accounts for large and high volume revenue streams in order to facilitate the reconciliation process;
- Incorporating the unique reference number generated by the bank into the daily bank interface file to use as a key matching field for electronic funds transfers in CM;
- Enhancing the use of automated software tools throughout more of the reconciliation processes; and
- Continuing outreach to departments to develop solutions to business process related issues that prevent timely reconciliation.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-3: Reconciliations of Accounts Payable

During much of the year, the accounts payable detail had not been reconciled to the general ledger balance. The lack of this control feature allows for differences to occur and accumulate over a period of time. Ultimately, the determination of the actual payables balance is virtually impossible without a significant time investment in a lengthy reconciliation process.

To maintain proper control over accounts payable, a reconciliation of accounts payable from the general ledger to the outstanding accounts payable register should be prepared to determine that all additions to, and payments of, accounts payable are correctly recorded and to determine whether there are any disputed items. If any differences exist, they should be investigated and resolved promptly.

We recommend that management review its current procedures and make necessary changes to ensure that accounts payable reconciliations are prepared on a periodic basis to ensure that the general ledger balance reflects the proper accounts payable amount as supported by the subsidiary system.

Management's Response:

The County concurs that the accounts payable detail should be reconciled to the general ledger. The County reconciles the accounts payable detail on an enterprise-wide basis to the general ledger monthly. However, the County does not reconcile the accounts payable detail by fund until year-end. The County is currently working on configuration changes to the ERP as well as changes to the associated business processes to allow for the efficient monthly reconciliation of accounts payable by fund to the general ledger.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-4: Accuracy and Completeness of the Schedule of Expenditures of Federal Awards (SEFA)

The County receives grant and contract funds from various funding agencies. These situations necessitate a strong accounting system to record specific grant and contract activities. We noted the following during our procedures:

- The County was not able to produce an accurate SEFA in a timely manner. The SEFA had significant errors pertaining to the Catalog of Federal Domestic Assistance (CFDA) references. The CFDA serves as the basic reference source of Federal programs and facilitates coordination and communication between the Federal government and State and local governments. It appears that adequate information was not available from all State and/or Federal granting agencies in a timely manner to produce the preliminary SEFA with the proper classification of CFDA references. Hence, various CFDA references and related expenditures were misclassified. This resulted in erroneous reporting and delays in the overall audit process and necessitated additional test work.
- Our audit procedures also disclosed that automated controls are not in place to capture Federal expenditures incurred under capital projects which enhances the risk that a department project manager may not be fully aware of Federal reporting requirements and thereby, the County may fail to fully report Federal expenditures incurred under capital projects.
- In addition, while performing final due diligence, management discovered that intergovernmental revenues amounting to \$1.8 million were inadvertently misclassified and consequently the related federal expenditures had not been included in the SEFA. This adjustment was provided late in the audit process, resulting in additional analysis and delays in order to ensure accuracy of the SEFA and confirmation that there was adequate coverage of federal expenditures.

The accounting system should facilitate the reporting requirements of each contract and grant. We recommend that management consider establishing respective fields within the accounting system to include the input of a CFDA reference at the start of a grant program. Management should also re-emphasize the importance of such information to employees handling grants and contracts to avoid the recurrence of such errors and misclassifications. This communication involves not only making sure that appropriate employees are aware of established policies and procedures but also for providing the necessary training to ensure they understand how to interpret and execute them.

Management's Response:

The County concurs with this finding. The County has a strong manual process in place to compile accurate information needed for the SEFA. This process includes obtaining written communication from granting agencies on CFDA numbers and capital project program reporting and administrative requirements. For the FY12 SEFA, this manual process was significantly delayed and abbreviated as a result of the delayed issuance of the FY11 financial statements. Nevertheless, the County is exploring ways to automate parts of the process such as including a specific field in the ERP system for CFDA numbers.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-5: Employee Retirement Plans

During our procedures over the Employees' Retirement System, the Retirement Savings Plan, and the Deferred Compensation Plan, we noted that contributions to the respective plans had not been reconciled to the County's payroll records in a timely manner during the year. As such, problems were encountered in the year-end closing and audit process, which resulted in delays in the delivery of the final report. We recommend that proper account analysis be performed on a current and timely basis.

Management's Response:

The County concurs with the finding. However, reconciliations between vendors and County systems were prepared shortly after year-end for the FY12 audit, and all amounts remitted to the Retirement Plans were verified to payroll records for each pay period.

The Department of Finance, in conjunction with the staff from the ERP team, Office of Human Resources, and the Montgomery County Employee Retirement Plans will continue to work diligently to revise this business process, so that retirement contributions are being reconciled to the general ledger and third party vendors on a timelier basis for FY13.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-6: Journal Entry Approval

During our sample test work over journal entries, we noted that 1 out of 14 items selected lacked proper approval by a responsible employee. This presents an increased and heightened risk for unauthorized or incorrect journal entries.

We recommend the enforcement of existing policies whereby all journal entries are approved by the controller or other designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals. Management may consider spot checks and formal investigation of any instances of lack of approval and implement any preventive steps to avoid such occurrences.

Management's Response:

Management concurs that all journal entries must be properly approved prior to posting. The entry in question was a routine reversal of a properly reviewed and approved FY11 year-end entry that was done for reporting purposes. The reversing entry was reviewed and posted by an employee other than the one who prepared it, as required by the existing Finance Department procedure for journal entry approval and posting. However, the posting employee failed to sign the journal entry cover sheet and supporting documentation as required by existing procedures. Finance has sent correspondence to all staff in the Controller's Office reminding them of the existing journal entry approval and posting procedure.

The County is also exploring the possibility of implementing Oracle workflow for its journal entry and approval process in FY14, thus eliminating the need for manual approvals.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Finding 2012-7: Logon Accounts and Change Control Management

We noted the following during our procedures:

- Logon Accounts - When users are given access to the system, a user logon account is created for them that contains descriptive information about the user and about the user's access privileges. Good security practices include modifying these accounts when users change departments, job responsibilities or roles, and deleting the accounts if employees leave. Good practices also include reviewing or re-certifying the logon user accounts periodically to ensure that established security practices are functioning as intended. Due to the lack of a periodic review process, a terminated outside consultant/contractor had not been removed/disabled of their respective administrator access rights to the Oracle Financials application.

We recommend the County should consider developing and implementing procedures to ensure that user accounts for logon to all systems (e.g., network, Linux, Oracle, PeopleSoft, etc.) do not contain accounts for inactive employees, that there are no duplicate accounts, and that existing accounts allow employees access to only what they require for their job responsibilities or roles.

- Change Control - There are no formally approved written policies and procedures to provide proper guidance and oversight for requesting changes to existing computer applications. We noted the following:
 - For an Oracle Financials application change request, at the time of our review, there was no formal approval documented within the SharePoint change ticket.
 - For a PeopleSoft change request, there was no appropriate documentation maintained to demonstrate the user acceptance testing that had been performed. In addition, it was noted at the time of our review, that the program change was implemented into the production environment without the appropriate levels of approval.

As a result, system support activities are being performed and implemented without documented management approval. A formal change control methodology should be reviewed and enforced to ensure requested system modifications are documented and reviewed, appropriate approvals are received, and changes are tested by the requesting party prior to migration into the production environment.

Inappropriate system modifications to applications can cause incorrect calculations and compromise functionality.

Management's Response:

Logon Accounts - The County is developing an Identity Management System intended to eventually include workflow approvals, user roles approval and provisioning, and auditing. Given that the full implementation will take some time, the County is evaluating near term improvements to network and application account provisioning and control. The County is also reviewing the existing periodic reviews of accounts to determine if frequency needs to be increased and documentation of results can be improved.

Montgomery County, Maryland

Schedule of Findings and Questioned Costs

Change Control - During ERP implementation, the County used the implementers (Ciber's) "Workspace" application to document changes. The County converted from Workspace to the County's Change Control Process housed in SharePoint in September 2012. The ERP team has a formal review and approval process of all change requests, approvals, configuration, modifications, and testing. This is being tracked centrally in SharePoint. Written procedures and policies are being developed and should be complete by April 2013.

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Finding 2012-8: Access to Applications

During our test work, we noted there was no formal notification/documentation to add or remove an employee's user profile (i.e. USERID) from the network and application systems as follows:

- Documentation was not maintained for an employee who was granted access to the Windows Active Directory.
- Documentation was not maintained for a terminated employee who was removed/disabled from the Windows Active Directory and for an outside consultant/contractor who was not removed/disabled from the Oracle Financials application, when he should have been.
- Approval documentation was not maintained for a newly hired employee who was granted "Pension Generalist" access privilege to the PeopleSoft application.

Without proper documentation, management is not assured that its policies and procedures are being properly carried out. Further, without a base against which the user accounts can be compared, it is difficult to analyze the completeness and accuracy of the user accounts. As such, we recommend the County should consider developing a formal procedure for establishing, approving, or removing user account profiles on the network and the application systems. The policies and procedures should clearly document the type of requests received and made by users, employee user identification, date requested for any additions, modifications, or deletions of user accounts, and any other special requirements.

Management's Response:

The County is developing an Identity Management System intended to eventually include workflow approvals, user roles approval and provisioning, and auditing. Given that the full implementation will take some time, the County is evaluating near term improvements to network and application account provisioning and control. The County is also reviewing the existing periodic reviews of accounts to determine if frequency needs to be increased and documentation of results can be improved.

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Finding 2012-9: Review of Potential Security Violations

Various system events can indicate a potential security violation or it can indicate the need for security related training for individuals or departments. We noted the County does not review potential security violations over the ERP infrastructure and applications (i.e. operating system, application, data base). Consequently, there is a risk that potential security violations are occurring, unintentionally or intentionally, which exposes the County's information systems and assets.

We recommend the County should consider establishing procedures to review and investigate potential security violations within the ERP infrastructure and applications. The procedures should start with proper systems security facilities being set up to record specified Linux event/history logs that could be considered potential security risks (e.g. violating password security by exceeding a specified number of incorrect USERID's or passwords). The system should record these activities in system logs or audit logs as they occur.

At a specified time interval (at least monthly), a designated individual should review these logs that are generated and summarize the activities of these logs, and identify areas of concern, which should be brought to management's attention. Further, management's review should be documented and retained.

Management's Response:

The County is planning to expand its use of the existing log correlation system currently used for Windows Active Directory (AD) and network environments to the ERP Linux environment including server OS and databases to strengthen internal controls, better identify potential security violations, and take appropriate actions as needed.

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Schedule of Findings and Questioned Costs

Section III - Federal Award Findings and Questioned Costs

Finding 2012-10: Cash Management

Information on Federal Program(s) - ARRA - Energy Efficiency and Conservation Block

Grant Program

CFDA Number: 81.128

Grant Award Number: DE/EE0000743/002

Grant Award Period: November 9, 2009 to November 8, 2012

Criteria or Specific Requirement - OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition - We reviewed 3 of 7 drawdowns made during the year totaling \$2.1 million and noted that in 1 instance, the drawdown request had been prepared and approved by the same personnel.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of the County's compliance with specified requirements.

Effect - There is increased risk that errors or misappropriation could occur and go undetected.

Cause - Policies and procedures were not appropriately adhered to.

Recommendation - We recommend the County re-evaluate its existing policies and procedures and strengthen processes surrounding its grants management drawdown cycle.

Views of Responsible Officials and Planned Corrective Actions - We agree with this finding and recommendation. We will review our internal controls over requests for grant funds to ensure that in the future the established separation of duties of this process is followed for each and all requests.

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Finding 2012-11: Davis-Bacon Act

Information on Federal Program(s) - Highway Planning and Construction Cluster
(Federal-Aid Highway Program)
CFDA Number: 20.205
Grant Award Number: M0074
Grant Award Period: July 1, 2011 to June 30, 2012

Criteria or Specific Requirement - All laborers and mechanics employed by a contractor or subcontractor to work on construction contracts in excess of \$2,000 and financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL). This includes a requirement for a contractor or subcontractor to submit to a non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Condition - For 7 out of 15 payroll reports selected for testing from 2 construction contracts, we observed that while the reports had been certified weekly, they had not been submitted to the County on a weekly basis as required. While Contracts Compliance and Monitoring, Inc. (CCMI), the specialized firm hired by the County to monitor compliance with the Davis-Bacon Act, sent letters to the firms requesting the reports, the firms did not submit them.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of the County's compliance with specified requirements.

Effect - The County is not in compliance with federal program requirements for timely submission and review of supporting documentation (i.e. certified payrolls) as outlined in the grant agreements and the OMB Circular A-133 compliance requirements. There is a potential that contractors or subcontractors could have paid their employees less than the prevailing wage rates established by the DOL.

Cause - The County did not strictly implement the terms of the construction contracts and Davis-Bacon Act requirements when monitoring its contractors or subcontractors.

Recommendation - The County should ensure that responsible project management personnel obtain and review, on a timely basis, the required certified payroll reports for each week in which a contractor or subcontractor's work is performed.

Views of Responsible Officials and Planned Corrective Actions - We agree with this finding and recommendation. The County has a strong monitoring process in place. The County uses a third-party vendor, Contract Compliance and Monitoring, Inc. (CCMI), to monitor Davis-Bacon Act compliance. As part of its monitoring functions, CCMI submitted a detailed monthly audit report to the prime contractors that were part of the test listing the non-compliance instances observed. In spite of CCMI's communication with the contractors, they failed to comply with submitting timely the subject certified payrolls. We concur that in these instances, the tested contractors did not initially submit the certified payroll by the required timeframe.

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We believe that the County exhibited in good faith effort, under the current Prevailing Wage Law, to enforce the Davis-Bacon Act requirements to ensure that we will ultimately receive all payroll records and the proper rates are paid to the employees. The County plans to identify enforcement actions it can take in a timely manner within the scope of the law against vendors to ensure future compliance.

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Finding 2012-12: Eligibility

Information on Federal Program(s) - Medical Assistance Program Cluster

CFDA Number: 93.778

Grant Award Number: Maryland House Bill 669

Grant Award Period: July 1, 2011 to June 30, 2012

Criteria or Specific Requirement - OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition - The County's Department of Health and Human Services (HHS) is responsible for determining eligibility of participants in the Medical Assistance (MA) Program. We noted the following during our review of 65 participants which had been selected for testing:

- 2 participant files did not have signed application forms.
- 1 participant file did not have the correct application information.
- 5 participant files could not be located during our testing.

Without HHS maintaining the proper documentation in the case files, we were unable to verify whether certain participants were properly enrolled in the MA program.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of HHS' compliance with specified requirements.

Effect - Lack of supporting documentation for program services and noncompliance with program requirements could result in disallowances of costs and participants could be receiving benefits that they are not entitled to receive under the program.

Cause - Policies and procedures were not appropriately adhered to in the aforementioned instances to ensure that supporting documentation was maintained to evidence that proper eligibility determination had been conducted.

Recommendation - We recommend that HHS improve internal control procedures to ensure that documentation is maintained to support eligibility decisions and that files are properly secured. Personnel receiving the applications and supervisors reviewing the eligibility determination should ensure that application forms are completely filled out and correct information is maintained in the file.

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Views of Responsible Officials and Planned Corrective Actions - We agree with this finding and concur with the recommendation but want to offer up additional explanation. The County has over 65,000 active cases of Medical Assistance including community Medicaid, Long term care Medicaid, MCHIP, etc. The sample and the related missing files are a relatively small subset of the total volume of cases. The County has a structured process for determining eligibility. The Cognizant system, CARES, included narration on the subject applicants that could only come from case files including applications. Therefore, even though 5 hard copy files were not immediately available the information in CARES backs up the hard copy file and provides an additional level of support. The information requested appeared to have been misfiled and could not be presented during the time of the audit. It should be noted that the workload volume in this program has increased over 116% in the last five years with no additional resources. Although procedures were in place to prevent misfiled records, the possibility for this to occur had increased simply due to workload pressures and staffing shortages.

In order to mitigate the risk, a new policy will be implemented that will require a complete case record (including original application) as part of Supervisory or peer pre-reviews (PIRAMID) as well as an end-of-day check by managers to ensure proper filing. We are also expanding the number of personnel dedicated to case record management and filing, and implementing soon an electronic case management system with scanning capabilities, with a projected implementation schedule for May 2013.

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Finding 2012-13: Eligibility

Information on Federal Program(s) - Temporary Assistance for Needy Families

CFDA Number: 93.558

Grant Award Number: Maryland House Bill 669

Grant Award Period: July 1, 2011 to June 30, 2012

Criteria or Specific Requirement - OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition - The County's Department of Health and Human Services (HHS) is responsible for determining eligibility of participants in the Temporary Assistance for Needy Families (TANF) program. We noted the following during our review of 41 participants which had been selected for testing:

- 1 participant file did not have income verification support available in the file.
- 1 participant file did not have the Maryland Automated Benefits System (MABS) income determination information. Further, the participant had failed to comply with the job search requirement and no evidence was available that income had been verified.
- 1 participant file did not have a signed application form.

Without HHS maintaining the proper documentation in the case files, we were unable to verify whether certain participants were properly enrolled in the TANF program.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of HHS' compliance with specified requirements.

Effect - Lack of supporting documentation for program services and noncompliance with program requirements could result in disallowances of costs and participants could be receiving benefits that they are not entitled to receive under the program.

Cause - Policies and procedures were not appropriately adhered to in the aforementioned instances to ensure that supporting documentation was maintained to evidence that proper eligibility determination had been conducted.

Recommendation - We recommend that HHS improve internal control procedures to ensure that documentation is maintained to support eligibility decisions and that files are properly secured. Personnel receiving the applications and supervisors reviewing the eligibility determination should ensure that application forms are completely filled out and correct information is maintained in the file.

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Views of Responsible Officials and Planned Corrective Actions - We agree with this finding and recommendation but want to offer up additional explanation. There has been a 72% increase in caseload and workload at a time of staffing shortfalls. We have almost a thousand cases of TANF in the County and the finding referenced two records. These conditions increased our risk around effective records management. However, we do want to reassure our stakeholders in oversight roles that the County has a structured process for determining eligibility. The Cognizant system, CARES, included narration on the subject applicants that could only come from case files including applications and serves as a back-up for the hard copy file. However, the information requested appeared to have been misfiled and could not be presented during the time of the audit.

In order to mitigate the risk, a new policy will be implemented that will require a complete case record (including original application) as part of Supervisory or peer pre-reviews (PIRAMID) as well as an end-of-day check by managers to ensure proper filing. We are expanding the number of personnel dedicated to case record management and filing, and implementing soon an electronic case management system with scanning capabilities, with a projected implementation schedule for May 2013.

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Schedule of Findings and Questioned Costs

Finding 2012-14: Eligibility

Information on Federal Program(s) - Social Services Block Grant

CFDA Number: 93.667

Grant Award Number: Maryland House Bill 669

Grant Award Period: July 1, 2011 to June 30, 2012

Criteria or Specific Requirement - OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Condition - The County's Department of Health and Human Services (HHS) is responsible for determining eligibility of participants in the Social Services Block Grant (SSBG) program. We noted the following during our review of 60 participants which had been selected for testing:

- 1 participant did not have documentation that a notice was given to provide status of the case.
- 1 participant, who was not considered a vulnerable adult, was incorrectly re-assessed.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of HHS' compliance with specified requirements.

Effect - Lack of supporting documentation for program services and noncompliance with program requirements could result in disallowances of costs and participants could be receiving benefits that they are not entitled to receive under the program.

Cause - Policies and procedures were not appropriately adhered to in the aforementioned instances to ensure that supporting documentation was maintained to evidence that proper eligibility determination had been conducted.

Recommendation - We recommend that HHS improve internal control procedures to ensure that documentation is maintained to support eligibility decisions and that files are properly secured. Personnel receiving the applications and supervisors reviewing the eligibility determination should ensure that application forms are completely filled out and correct information is maintained in the file. Further, HHS should strengthen its assessment controls and procedures to minimize instances of ineligible applicants being re-assessed under the program.

Views of Responsible Officials and Planned Corrective Actions - We agree with this finding and recommendation but ask that it be viewed in the context of the whole program. Aging and Disability Administration was found to have a 3% error rate for the APS and SSTA programs. These programs in FY12 had a collective caseload volume of 2,193 cases. Given these numbers, the findings are relative small in magnitude though we concur that these vulnerabilities must be addressed. The program is reviewing case record documentation practices to address identified accountability issues to prevent such occurrences in the future.

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The service area has instituted enhanced supervisory oversight of case management record reviews to ensure compliance will be implemented. New case records will be reviewed every 30 days by the managers to ensure that all documentation in the case file is complete. For on-going cases, the manager will review the case files every six months for case record requirements. This process was implemented February 5, 2013.

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Finding 2012-15: Subrecipient Monitoring

Information on Federal Program(s) - ARRA - Energy Efficiency and Conservation Block

Grant Program

CFDA Number: 81.128

Grant Award Number: DE/EE0000743/002

Grant Award Period: November 9, 2009 to November 8, 2012

Criteria or Specific Requirement - The OMB Circular A-133 Compliance Supplement indicates that a grantee must have policies and procedures in place to (1) monitor the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (2) ensure required audits are performed and require the subrecipient to take prompt corrective action on any audit findings; and (3) evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Compliance with these requirements is required to be documented and files are required to be retained in accordance with OMB Circular A-102.

Condition - 1 of 3 subrecipients selected for testing did not report funding received from the County's Energy Efficiency and Conservation Block Grant Program in its separate OMB Circular A-133 audit report dated September 28, 2012. There was no evidence that the County obtained any corrective action plan from the subrecipient and followed-up on this deficiency in a timely manner. The County informed the subrecipient about the deficiency and requested a corrective action plan subsequently.

Questioned Costs - Not determinable.

Context - This is a condition identified per review of the County's compliance with specified requirements.

Effect - Failure to properly monitor subrecipients could lead to subrecipients inappropriately using federal funds and incorrect reporting.

Cause - It appears that the County did not have a consistent method in place to monitor its subrecipients.

Recommendation - We recommend the County enforce its existing policies and procedures. Such procedures should ensure that a copy of the subrecipient's audit reports are obtained in a timely manner and any corrective action plans for findings noted are implemented in a timely manner. In addition, we also recommend maintaining a database of all subrecipients to whom the provisions of OMB Circular A-133 requirements apply, those who are required to provide an audit, the date of the receipt of the audit report, a listing of the findings, and a status on the corrective action on all audit findings.

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Views of Responsible Officials and Planned Corrective Actions - We agree with this finding and recommendation. Because of the delay in closing the prior fiscal year, the established schedule of procedures was not completed timely. This year, following the established procedures, correspondence will be sent to subrecipients in July informing them of the amount of funds passed through during the fiscal year, the relevant CFDA number, grant identifier, the federal granting agency issuing the funds originally, and the granting agency from which the County received the funding. In the same correspondence, a copy of their single audit report will be requested as soon as it becomes available. Starting the last week of September, we will follow up to obtain copies of subrecipients' single audit reports, will review them for findings, and request corrective actions if necessary.

Montgomery County, Maryland

Summary Schedule of Prior Audit Findings and Management's Corrective Action Plan

Individuals Responsible for Corrective Action Plan

Karen Hawkins
Chief Operating Officer
240-777-8828

Lenny Moore
Controller
240-777-8802

Mauricio Delgado
Finance, Grant Manager
240-777-8804

2011-11: Reporting

Information on Federal Program(s) - Social Services Block Grant
CFDA Number: 93.667

Prior Year Finding - During the audit, a program expense was paid and invoiced in fiscal year 2010, but was recorded as fiscal year 2011 program costs.

Current Year Status - This finding has been corrected in the current year.



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