City of Rockville, Maryland

Annual Financial Report
(Single Audit)

June 30, 2012

City of Rockville, Maryland

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Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Mayor and Council and City Manager
City of Rockville, Maryland

Compliance

We have audited the City of Rockville, Maryland's compliance 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 City of Rockville, Maryland's major federal programs for the year ended June 30, 2012. The City of Rockville, Maryland'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 City of Rockville, Maryland's management. Our responsibility is to express an opinion on the City of Rockville, Maryland's compliance based on our audit.

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 City of Rockville, Maryland'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 on the City of Rockville, Maryland's compliance with those requirements.

In our opinion, the City of Rockville, Maryland 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.

Internal Control Over Compliance

Management of the City of Rockville, Maryland 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 City of Rockville, Maryland'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 City of Rockville, Maryland'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, in 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, Maryland, as of and for the year ended June 30, 2012, which collectively comprise the City of Rockville, Maryland's basic financial statements, and have issued our report thereon dated October 31, 2012, which contained unqualified opinions on the financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockville, Maryland's basic financial statements. The 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 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 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 additional 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 financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor and Council, City Manager, management, 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.

CohnReznick LLP

Baltimore, Maryland
November 19, 2012

City of Rockville, Maryland

Schedule of Expenditures of Federal Awards

June 30, 2012

Federal Grantor/Pass-through Grantor Program Title	Grant Number	CFDA Number	Federal Expenditures
Department of Energy			
American Recovery and Reinvestment (ARRA) Stimulus of 2009 Energy Efficiency and Conservation Block Grant (EECBG)	SC0003143	81.128	$ 155,313
Environmental Protection Agency			
Pass-Through Maryland Department of the Environment American Recovery and Reinvestment (ARRA) Stimulus of 2009 Water Quality State Revolving Loan (WQSRL) Woodley Gardens Stream Restoration Loan	WQSRL0854617L	66.458	30,141
Pass-Through Maryland Department of Natural Resources Watershed Assistance Grant - Horizon Hills Stormwater Retrofit	10642	66.466	3,536
Pass-Through Maryland Department of the Environment Congressionally Mandated - Sanitary Sewer Rehab Project	XP-97388201	66.202	566,899
Total Environmental Protection Agency			600,576
Department of Transportation			
Pass-Through Maryland State Highway Administration Safe Routes to School Grant - Year D 2010/2011	S10-001	20.205	4,455
Pass-Through Maryland State Highway Administration Pedestrian Access Grant	MO513ZM2	20.205	144,100
Pass-Through Maryland State Highway Administration Intermodal Access Grant - Baltimore Road Project	06-MHSO-GM-01	20.205	35,919
Total Department of Transportation			184,474
Department of Justice			
COPS Technology Grant 2010	2010CKWX0343	16.710	35,932
Bulletproof Vest Partnership - 2011	2011BUBX11055867	16.607	1,790
Pass-Through Maryland Association of Youth Services Bureaus Maryland Association of Youth Services Bureaus (MAYSB) Grant	N/A	16.540	65,500
Total Department of Justice			103,222
Department of Housing and Urban Development			
Pass-Through Montgomery County Community Development Block Grant - Year 37	1012949	14.218	146,236
Pass-Through Montgomery County Community Development Block Grant - Year 36	1000117	14.218	272,225
Pass-Through Montgomery County Community Development Block Grant - Year 35	1000117	14.218	248,834
Total Department of Housing and Urban Development			667,295

(continued)

City of Rockville, Maryland

Schedule of Expenditures of Federal Awards - Continued

June 30, 2012

Federal Grantor/Pass-through Grantor Program Title	Grant Number	CFDA Number	Federal Expenditures
Department of Interior			
Preserve America Grant - Historic Building Catalog	24-08-AP-4021	15.904	20,000
Department of Health and Human Services			
Pass-Through Montgomery County Senior Nutrition Grant	1012373	93.045	7,985
Department of Homeland Security			
Pass-Through Maryland Emergency Management Agency Legislative Pre-Disaster Mitigation Grant	LPDM-PJ-03-MD-2010-001	97.039	182,021
Total federal financial assistance expended			$ 1,920,886

See note to schedule of expenditures of federal awards

City of Rockville, Maryland

Note to Schedule of Expenditures of Federal Awards

June 30, 2012

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the City of Rockville, Maryland under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Rockville, Maryland, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City of Rockville, Maryland.

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

City of Rockville, Maryland

Schedule of Findings and Questioned Costs

June 30, 2012

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	____ Yes	___X___	No
Significant deficiency(ies) indentified?	____ Yes	___X___	None Reported
Noncompliance material to financial statements noted?	____ Yes	___X___	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	____ Yes	___X___	No
Significant deficiency(ies) indentified?	____ Yes	___X___	None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	____ Yes	___X___	No

I. Summary of Independent Auditor's Results (Continued)

Indentification of Major Programs

Name of Federal Program or Cluster	CFDA Number(s)	Fiscal Year 6/30/2012 Expenditures
Community Development Block Grant	14.218	$ 667,295
Sanitary Sewer Rehab Project	66.202	$ 566,899
Dollar threshold used to distinguish between type A and type B programs		$ 300,000

Auditee qualified as a low-risk auditee? ____ Yes ___X___ No

II. Financial Statement Findings

None

III. Federal Award Findings and Questioned Costs

None

City of Rockville, Maryland

Summary Schedule of Prior Year Audit Findings

June 30, 2012

Significant Deficiencies - Financial Statement Audit

None

Findings and Questioned Costs - Major Federal Award Programs Audit

Reference No. - 2011-01

CFDA No. 81.128 - US Department of Energy - Energy Efficiency and Conservation Block Grant (EECBG) - Federal Award No. SC0003143.

CFDA No. 20.205 - Department of Transportation - Safe Routes to School Grant - Year C/D - Grant Number - S09-001/S10-001 - Pass-through from Maryland State Highway Administration.

Criteria:

The City is required to submit quarterly reimbursement requests for expenditures covered by the grant agreement with the corresponding supporting documentation.

Statement of Condition:

The City submitted quarterly reimbursement claims which did not include all the expenditures covered by the grant for that period.

Cause and Effect:

The City did not effectively review the quarterly reimbursement claims for supporting documentation and completeness.

Status:

Resolved.

Reporting Period:

June 30, 2011.