

**ANNUAL FINANCIAL REPORT
(SINGLE AUDIT)**

CITY OF ROCKVILLE, MARYLAND

JUNE 30, 2008

City of Rockville, Maryland

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND 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 compliance of the City of Rockville, Maryland, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Rockville, Maryland's major federal programs are identified in the summary of audit 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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City of Rockville's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined above. 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 City of Rockville, Maryland, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Rockville's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 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.

Reznick Group, P.C.

Baltimore, Maryland
October 31, 2008

City of Rockville, Maryland

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

Federal Grantor/Pass-Through Grantor Program Title	Grant Number	CFDA Number	Federal Expenditures
Department of Transportation			
Pass-Through from Maryland State Highway Administration - Highway Planning and Construction Grant - Rockville Town Center Accessibility	TCS (201)	20.205	\$ 1,336,435
Pass-Through from Maryland State Highway Administration - Safe Routes to School Grant	S07-001	20.205	243,689
Department of Housing and Urban Development			
Pass-Through from Montgomery County Community Development Block Grant	B-99-UC-24-0001	14.218	336,001
Environmental Protection Agency			
Pass-Through from Maryland Department of the Environment - Rockville Storm Water Improvement	XP-98394201	66.202	130,185
Department of Homeland Security			
Pass-Through from Maryland Emergency Management Agency - Homeland Security Grant Program	FEMA-1652-DR-MD	97.067	<u>10,201</u>
			<u>\$ 2,056,511</u>

See notes to schedule of expenditures of federal awards

City of Rockville, Maryland

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE 1 - SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133

This Single Audit of the City of Rockville, Maryland was conducted in accordance with the provisions of the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Compliance testing of all specific requirements, as described in the compliance supplement was performed. Compliance testing of specific requirements was performed for the following major federal financial assistance programs. These programs cover 65% of total federal financial assistance program expenditures.

<u>Grant Description</u>	<u>CFDA Number</u>	<u>Fiscal Year 2008 Expenditures</u>
Department of Transportation		
Highway Planning and Construction Grant - Rockville Town Center Accessibility	20.205	<u>\$ 1,336,435</u>

NOTE 2 - FISCAL PERIOD AUDITED

Single Audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2008. Single Audit testing has most recently been performed on transactions occurring during the fiscal year ended June 30, 2007.

City of Rockville, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2008

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Rockville, Maryland.
2. No significant deficiencies were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the City of Rockville, Maryland, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the City of Rockville, Maryland, expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for the City of Rockville, Maryland.
7. The programs tested as major programs include: See Note 1 to Schedule of Expenditures of Federal Awards.
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The City of Rockville, Maryland qualified as a low-risk auditee.

City of Rockville, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2008

SIGNIFICANT DEFICIENCIES - FINANCIAL STATEMENT AUDIT

NONE

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT

NONE

City of Rockville, Maryland

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2008

SIGNIFICANT DEFICIENCIES - FINANCIAL STATEMENT AUDIT

SEE BELOW

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT

Significant Deficiency 2007-01

Appropriate segregation of duties over access to the AMS financial system and the Payroll system do not appear to be in place as the Financial Systems Manager has access to both systems, as well as the ability to perform system administrator functions. User access to AMS 3.X is set up by the Financial Systems Manager who is also a functional user of both AMS 2.X and 3.X. The Financial Systems Manager also approves access rights to these systems.

Recommendation

Although the City has mitigating controls in place, the function of setting up user accounts in the financial systems should be performed by the IT department to support appropriate segregation of duties capabilities between functional users of the financial systems and the administrators of those systems.

Current Status

Corrective action taken.