

ANNUAL FINANCIAL REPORT
(SINGLE AUDIT)

CITY OF ROCKVILLE, MARYLAND

JUNE 30, 2010

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 could have a direct and material effect on each of the City of Rockville, Maryland's major programs for the year ended June 30, 2010. 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.

As described in items 2010-1, 2010-2, and 2010-3 in the accompanying schedule of findings and questioned costs, the City of Rockville, Maryland did not comply with the requirements regarding the subrecipient monitoring and reporting requirements that are applicable to its Community Development Block Grant and Safe Routes to School Grant. Compliance with such requirements is necessary, in our opinion, for the City of Rockville to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Rockville, Maryland complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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's internal control over compliance.

A deficiency in 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 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 over 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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-01, 2010-02, and 2010-03. 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.

The City of Rockville'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 City of Rockville's responses and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, 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, 2010, and have issued our report thereon dated October 29, 2010, which contained an unqualified opinions on the financial statements. Our audit was performed for the purpose of forming our opinions on those financial statements as a whole. 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 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 statement or to the financial statement themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the information 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
February 8, 2011

City of Rockville, Maryland

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2010

Federal Grantor/Pass-Through Grantor Program Title	Grant Number	CFDA Number	Federal Expenditures
<u>Department of Energy</u>			
Pass-Through from Maryland Department of Energy- American Recovery and Reinvestment (ARRA) Stimulus of 2009 Drinking Water State Revolving Fund (DWSRF) - Rockville Water Treatment and Plant Energy Conservation	DWSGG 0851717L	66.468	\$ 1,237,180
Pass-Through from Maryland Department of Energy American Recovery and Reinvestment (ARRA) Stimulus of 2009 Maryland Water Quality State Revolving Fund (WQSRF) Woodley Gardens Park Stream Restoration Loan	Project No. 55	66.458	<u>771,776</u>
Total Department of Energy			<u>2,008,956</u>
<u>Department of Housing and Urban Development</u>			
Pass-Through from Montgomery County Community Development Block Grant - Year 33	9763000175AA	14.218	207,761
Pass-Through from Montgomery County Community Development Block Grant - Year 34	0763000149AA	14.218	<u>128,548</u>
Total Department of Housing and Urban Development			<u>336,309</u>
<u>Department of Justice, OAAG</u>			
COPS Technology Grant - 2005	2005CKWX0424	16.710	188,366
COPS Technology Grant - 2009	2009CKWX0227	16.710	<u>115,890</u>
Total Department of Justice, OAAG			<u>304,256</u>
<u>Department of Transportation</u>			
Pass-Through from Maryland State Highway Administration - Safe Routes to School Grant - Year B	S08-001	20.205	420,437
Pass-Through from Maryland State Highway Administration - Safe Routes to School Grant - Year C	S09-001	20.205	36,320
Pass-Through from Maryland State Highway Administration - Intermodal Access Project	06-MHSO-GM-01	20.205	<u>252,583</u>
Total Department of Transportation			<u>709,340</u>
<u>Environmental Protection Agency</u>			
Pass-Through from Maryland Department of the Environment - Rockville Storm Water Improvement	XP-98394201	66.606	<u>414,299</u>
Total federal financial assistance expended			<u>\$ 3,773,160</u>

See notes to schedule of expenditures of federal awards

City of Rockville, Maryland

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2010

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 all of the federal financial assistance programs listed on the Schedule of Federal Awards. These programs cover 100% of total federal financial assistance program expenditures.

NOTE 2 - FISCAL PERIOD AUDITED

Single Audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2010. Single Audit testing has most recently been performed on transactions occurring during the fiscal year ended June 30, 2009.

City of Rockville, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2010

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. Three significant deficiencies were identified during the audit of the major federal award programs. The deficiencies were not reported as material weaknesses.
5. The auditors' report on compliance for Community Development Block Grant and Safe Routes to School Grant for the City of Rockville, Maryland, expresses a qualified opinion; the report on the remaining programs is unqualified.
6. Audit findings that are required to be reported in accordance with Section 510(a) of the OMB Circular A-133 are reported in the schedule of findings and questioned costs.
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 did not qualify as a low-risk auditee.

City of Rockville, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2010

SIGNIFICANT DEFICIENCIES - FINANCIAL STATEMENT AUDIT

NONE

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT

Reference No. - 2010-01

CFDA No. 14.218 - Department of Housing and Urban Development - Community Development Block Grant (CDBG) - Federal Award No. 9763000175AA/0763000149AA - Pass-through from Montgomery County

Criteria:

The City is required by the grant agreement to perform monitoring procedures of each sub-grantee to ensure that the minimum expectations for the program are met.

Statement of Condition:

The sub-grantee, Latino Outreach, did not meet the minimum expectations stated in the grant agreement with regard to the participation in the Immigration and Naturalization (INS) classes and the citizenship classes. In addition, the monitoring procedures performed by the City did not identify that the stated expectations in the grant agreement were not met before the final disbursement of the CDBG funds.

Cause and Effect:

Latino Outreach was unable to accumulate the minimum amount of participants for the above stated classes. In addition, the monitoring procedures performed by the City did not identify that Latino Outreach was unable to meet the stated minimum expectations in the grant agreement before final reimbursement was made. As a result, the City submitted the final reimbursement to Latino Outreach without being in compliance with the stated grant agreement terms.

City of Rockville, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2010

Recommendations:

The City should formally document each sub-grantees' progress of meeting the stated minimum expectations per the grant agreement when performing the monitoring procedures noting any instances where these expectations may not be met. The sub-grantees should also be required to communicate to the City if they believe that these minimum expectations are not going to be met before the final reimbursement is requested. Furthermore, before the final reimbursement is made, the City should document in the sub-grantees' file that all minimum expectations noted in the grant agreement have been obtained.

Management Response:

The City has instituted monitoring procedures to educate sub-grantees that all contractual requirements must be in place prior to requesting reimbursements. The City will continue to ensure that contractual requirements are met prior to disbursements being made. In addition, the City will review the wording of contractual program goals and work with Montgomery County to determine whether contract amendments are necessary. Contractual requirements should reflect measurements that sub-grantees can be held accountable for. This will be accomplished by June 1, 2011.

Reference No. - 2010-02

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

Criteria:

The City is required to meet certain minimum expectations per the grant agreement pertaining to local media attendance and documentation of increased student participation. The City is required to retain documentation supporting the achievement of these expectations.

Statement of Condition:

The City did not retain supporting documentation noting that certain minimum expectations per the grant agreement pertaining to local media attendance and documentation of increased student participation were achieved.

City of Rockville, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2010

Cause and Effect:

The City was unable to provide documentation that the certain minimum expectations per the grant agreement pertaining to local media attendance and documentation of increased student participation were achieved, therefore, these expectations cannot be substantiated as being completed by the City.

Recommendations:

The City should implement a documentation retention policy supporting the achievement of the stated minimum expectations per the grant agreement.

Management Response:

The City has instructed all grant managers to ensure that all aspects of the grant are in compliance including maintaining of supporting documentation for all aspects of the grant agreement.

Reference No. - 2010-03

CFDA No. 20.205 - Department of Transportation - Safe Routes to School Grant – Year C – Grant Number – S09-001 - 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 a quarterly reimbursement claim with supporting documentation that related to expenditures incurred for a period other than the quarter covered by the reimbursement application.

City of Rockville, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2010

Cause and Effect:

The City did not effectively review the quarterly reimbursement claim and the related supporting documentation noting that the incorrect documentation was being submitted for reimbursement.

Recommendations:

The City should enhance the review of the quarterly reimbursement claims to assure that the appropriate supporting documentation is being submitted for reimbursement.

Management Response:

The City has added an additional layer of review of documentation, prior to submitting reimbursement claims.

City of Rockville, Maryland

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2010

SIGNIFICANT DEFICIENCIES - FINANCIAL STATEMENT AUDIT

NONE

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT

Reference No. - 2009-01

CFDA No. 14.218 - Department of Housing and Urban Development - Community Development Block Grant (CDBG) - 2008/2009 Federal Award No. 9763000175AA/0763000149AA - Pass-through from Montgomery County

Criteria:

The City is required by the grant agreement to perform the monitoring function for the related sub-grantees of the following programs included in the CDBG grant: Latino Outreach Naturalization/Community Ministries, Resident Counselor/Rockville Housing Enterprises, Top Banana Home Delivered Groceries, Community Ministries/Elderly Ministries, Public Housing Renovations, Mobile Med Health Care, and Safe and Habitable Homes/Community Ministries.

Statement of Condition:

The City was not performing an effective monitoring of the sub-grantees. The sub-grantees of CDBG were not following the guidelines of the grant agreement in the appropriate manner.

Cause and Effect:

As a result of the City not performing an effective monitoring of the sub-grantees, the following requirements were not performed appropriately: The sub-grantees were not servicing the appropriate number of persons/homes that were stated in the agreement; reports were being submitted by the sub-grantee to Montgomery County before being reviewed for accuracy by the City; funds that were allocated in the budgets for certain resources were being used to pay other items without the appropriate timely written approval.

City of Rockville, Maryland

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2010

Status:

Resolved

Reporting Period:

June 30, 2010

Reference No. - 2009-02

CFDA No. 14.218 - Department of Housing and Urban Development - Community Development Block Grant (CDBG) - 2008/2009 Federal Award No. 9763000175AA/0763000149AA - Pass-through from Montgomery County

Criteria:

The City is required to review reimbursements submitted by the sub-grantees (refer to Reference No. 2009-01 for listing of specific programs) to ensure that all costs being submitted are allowable under the terms of the grant agreement for CDBG.

Statement of Condition:

The City did not review the reimbursements submitted by the sub-grantees effectively. The reimbursements included payroll items that did not correspond with the terms in the grant agreement.

Cause and Effect:

As a result of the City not reviewing the reimbursements submitted by the sub-grantees effectively, the reimbursements paid to the sub-grantees included supporting documentation that contradicted the terms of the grant agreement.

Status

Resolved

Reporting Period

June 30, 2010