Audit Committee #1, #2, & #3
March 14, 2019
Briefing/Action

MEMORANDUM

March 12, 2019

TO: Audit Committee

FROM: Blaise DeFazio, Senior Legislative Analyst BD
Gene Smith, Legislative Analyst GS

SUBJECT: Review of Results from the FY18 External Audit, Review of CliftonLarsonAllen Contract Renewal, &

On March 14th, the Audit Committee will:

- Receive a briefing from CliftonLarsonAllen LLP (CLA), the County Government's independent auditor, and Executive Branch staff on the results of the audits of the County Government's FY18 financial statements and the financial statements of the County Government's retirement plans, and other audit-related work (Item #1),
- Review a contract amendment to extend CliftonLarsonAllen's contract for an additional year (Item #2), and
- Review and recommendations to strengthen the County's audit and oversight (Item #3).

The table below identifies staff from the independent auditor and County Government representatives scheduled to attend the briefing:

Organization	Representative
CliftonLarsonAllen LLP	Sean Walker, Principal Jason Ostroski, Principal Shannon Weis, Engagement Director
Department of Finance	Alexandre A. Espinosa, Director Karen Hawkins, Chief Operating Officer Lenny Moore, Controller Kim Williams, General Accounting Manager Mauricio Delgado, Senior Financial Specialist
Office of the Inspector General	Edward L. Blansitt III, Inspector General
Office of Internal Audit	Fariba Kassiri, Assistant Chief Administrative Officer William Broglie, Manager
Department of Liquor Control	Robert Dorfman, Director Marty Utermohle, Administration Division Chief
Montgomery County Employee Retirement Plans	Linda Herman, Executive Director Yan Yan, Chief Financial Officer Priti Mehta, Compliance Analyst, Retirement Plans

Item #1. Briefing on External Audit Findings

Each year, an external certified public accounting firm performs audit work required by the County Charter and the County Code. The auditor's engagement is made up of several components. The primary components are listed below.

1	Audit of the Financial Statements of the:	• County Government • Montgomery County Employee Retirement Plans • Montgomery County Retiree Health Benefits Trust • Montgomery County Union Employees Deferred Compensation Plan
2	Single Audit	Examination and review of information and transactions related to the County Government's spending of federal funds
3	Agreed-Upon Procedures related to:	• The County Government's preparation of a report to the National Transit Database • The County Government's certification of information required by the Federal Environmental Protection Agency related to local solid waste landfill facilities
4	Maryland 9-1-1 Emergency Number Systems Program of Montgomery County	Audit of the Schedule of Maintenance and Operating Revenue and Expenditures

In the coming months CliftonLarsonAllen will complete the audit of the financial statements of the Montgomery County Union Employees Deferred Compensation Plan (MCUEDCP). The MCUEDCP closes its books on December 31st each year. Consequently, the information required to complete the audit work is not available until the beginning of the calendar year and the audit work is completed on a different schedule than the audit of the County Government's and the retirement plans' financial statements. When this audit is complete, OLO will forward the findings to the Audit Committee with an explanatory cover memo.

CliftonLarsonAllen also issued letters with information about the process for auditing the County Government financial statements and the financial statements of the Montgomery County Employee Retirement Plans. Copies of these letters are available from OLO upon request.

Definition of Audit-Related Terms. CliftonLarsonAllen's findings include terminology that auditors use to report their findings.[1] These terms, which have specific meanings, are explained below. A control deficiency represents the lowest degree of risk to the County, and a material weakness the greatest.

- **Control Deficiency** – 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.
- **Significant Deficiency** – A deficiency, or 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.
- **Material Weakness** – A deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

[1] To report their findings, auditors use a classification structure found in Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit.*

A. FY18 Audit of the County Government Financial Statements

CliftonLarsonAllen audited the basic financial statements of the County Government and issued two reports summarizing its findings. For a sixth year, CLA did not identify any significant deficiencies or material weaknesses related to the audit of the County Government's financial statements.

Independent Auditor's Report. CliftonLarsonAllen issued an *Internal Auditor's Report*, bound in the County Government's FY2018 Comprehensive Annual Financial Report. This report states that CliftonLarsonAllen found that the County Government's financial statements present fairly, in all material respects, the financial position of the County Government. See ©1.

Report on Internal Control. The *Report on Internal Control Over Financial Reporting* identifies any significant deficiencies or material weaknesses identified by CliftonLarsonAllen. For FY18, CliftonLarsonAllen did not identify any material weaknesses or significant deficiencies related to its audit of the County Government's financial statements. The *Report on Internal Control* is bound in the County's *Report on Single Audit* – the review of the County's use of federal funds in FY18 (described below). See ©3.

Management Letter. CliftonLarsonAllen issues a Management Letter if it identifies matters that it wants to bring to the attention of management, but the matters do not rise to the level of significant deficiencies or material weaknesses. CliftonLarsonAllen identified one matter for attention related to the FY18 audit work. The matter is below along with the Executive's formal response. See ©20 for the Management Letter. See ©21 for the response.

Summary of CliftonLarsonAllen's FY18 Management Letter Comments and Executive's Response

Management Letter Comment	Executive's Response
Department of Liquor Control (DLC) – Inventory Count Items were stored in multiple locations which were not represented in the newly implemented digital inventory system. At the time of the count, not all locations were labeled or identified in the system. Further, items were not found in locations they should have been per records in the system. In addition, it was noted that items are moved without the location being updated in the system. These factors allow for misplaced items and errors in the inventory count. We recommend the County enhance its policies and procedures related to the DLC annual inventory count to ensure an accurate count and proper safeguarding of the inventory.	The County concurs with this recommendation. At the time of the physical inventory count, DLC had just finished implementing the use of system location codes which are assigned to all product within the warehouse, and warehouse staff were beginning to use scanners to record the movement of product to the various physical locations. Since this implementation, additional training has been provided to warehouse staff and scanners are in full use for the receipt and movement of product. Management will continue to communicate the physical inventory count process to all warehouse staff. Reconciliations of physical warehouse locations to system location codes will also be performed daily, through the existing cycle count process, to ensure accurate reflection within the perpetual inventory system.

B. FY18 Audit of the Montgomery County Employee Retirement Plans

CliftonLarsonAllen audited the financial statements of the Montgomery County Employee Retirement Plans for the year ended June 30, 2018. In an *Independent Auditors' Report* bound in the Retirement Plans' CAFR, the auditors state that the financial statements present fairly, in all material respects, the net position of the Plans and changes in financial position for FY18. See ©23. CliftonLarsonAllen issued a *Report on Internal Control Over Financial Reporting* stating that it did not identify any significant deficiencies or material weaknesses related to its audit of the Retirement Plans' financial statements. See ©26. CLA did not issue a Management Letter for the Retirement Plans.

C. FY18 Audit of the Montgomery County Consolidated Retiree Health Benefits Trust

Based on new requirements according to the Generally Accepted Accounting Principles and Generally Accepted Auditing Standards, CliftonLarsonAllen audited the financial statements of the Montgomery County Consolidated Retiree Health Benefits Trust for the year ended June 30, 2018. In an *Independent Auditors' Report*, the auditors state that the financial statements present fairly, in all material respects, the net position of the Trust and changes in financial position for FY18. See ©37. CliftonLarsonAllen issued a *Report on Internal Control Over Financial Reporting* stating that it did not identify any significant deficiencies or material weaknesses related to its audit of the Trust's financial statements. See ©39.

D. Federal Single Audit

The Federal Single Audit (also referred to as the OMB A-133 Audit) is a federally-mandated audit, typically performed by a certified public accounting firm, for entities that expend $750,000 or more in federal funds in a year. As part of the Council's contract for audit services, the external auditor performs this work annually for the County Government. The information from this audit work is compiled in the County Government's *Report on Single Audit*, prepared annually by the Department of Finance. See ©50.

In FY18, the County expended $166.2 million in federal funds (including $36.7 million in outstanding loans). CliftonLarsonAllen performed testing on County Government spending related to three federal programs. In its *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance*, related to the audit of the County Government's financial statements, CliftonLarsonAllen reported that it did not find any deficiencies in internal control that it considers material weaknesses or significant deficiencies. See ©52. In its *Independent Auditor's Report on Compliance* related specifically to the County Government's expenditure of federal funds in FY18, CliftonLarsonAllen did not identify any deficiencies that it considered material weaknesses or significant deficiencies. See ©54.

E. Other Audit Work

The subsections below summarize CliftonLarsonAllen's findings from other audit work performed and completed this year. As indicated on page 2, CLA will complete one additional piece of the audit-related work in the near future. When CLA completes the work, OLO will forward the audit results to the Committee with an explanatory cover memo.

a. Agreed-Upon Procedures – Related to the Annual Certification of Financial Assurance Mechanisms for Local Government Owners and Operators of Municipal Solid Waste Landfill Facilities

These agreed-upon procedures[2] are related to an assessment of the County Government's compliance with Federal financial assurance criteria related to local government-owned and -operated solid waste landfills. CliftonLarsonAllen found no exceptions as a result of the procedures they performed. See ©69.

b. Agreed-Upon Procedures – Related to the Federal Transit Administration's National Transit Database

These agreed-upon procedures are performed to assist users in evaluating assertions by County Government management of the County Government's compliance with data recording and reporting requirements related to the Federal National Transit Database. CliftonLarsonAllen's report indicates that there were no unusual findings noted in the examination of County Government data and information. See ©73.

[2] For the agreed-upon procedures work, the auditor performs procedures agreed to by County Government management.

c. Maryland 9-1-1 Emergency Number Systems Program – Schedule of Maintenance and Operating Revenues and Expenses

CliftonLarsonAllen audited the Schedule of Maintenance and Operating Revenue and Expenditures of the Maryland 9-1-1 Emergency Number Systems Program of Montgomery County (the Program) for the year ended June 30, 2018. The auditor found that the Schedule presents fairly, in all material respects, the revenue and expenditures of the Program for the year ended June 30, 2017. See ©77.

Item #2. Extension of External Audit Contract with CliftonLarsonAllen LLP

Staff Recommendation: Recommend approval of a resolution authorizing the Council President to contract with CliftonLarsonAllen LLP to conduct the audit of the FY19 financial statements, with no change of the current contract rates.

The Council and CliftonLarsonAllen entered into Contract #425820958 for the audit of the County Government financial statements, the audit of the financial statements of the Montgomery County Employee Retirement Plans, the audit of the financial statements of the Montgomery County Union Employees Deferred Compensation Plan, and related services on May 17, 2016. Based on Contract Amendment #3, the audit work also includes the audit of the Consolidated Retiree Health Benefits Trust. The contract states that the Council may renew the contract, one year at a time, for three additional one-year periods. Contract Amendment #4 will renew the contract for a third and final time to complete FY19 audit work. The County Attorney's Office reviewed the amendment for form and legality. See ©84.

A Council resolution to authorize the Council President to contract for these audit services for the fiscal year ending June 30, 2019 and the calendar year ending December 31, 2019, is attached at ©88. If the resolution is approved by this Committee, the Council is scheduled to act on March 19, 2019.

According to the Council's contract with CliftonLarsonAllen (CLA), the fees for audit services are fixed for the first two years of the contract and in the third year of the contract, CLA received an increase in audit fees by 2.2%. In this upcoming fourth year of the contract, there will be no fee changes. See ©69.

The FY19 audit fees are summarized in the table below:

CliftonLarsonAllen Fees Related to FY19 Audit Work

FY19 Audit Fees	Work
	Source of Funds: Independent Audit NDA
$221,220	Audit of the County Government Financial Statements and the Single Audit
$8,350	Agreed-Upon Procedures for the National Transit Database Report
$16,630	Audit of the Montgomery County Union Employees Deferred Compensation Plan
	Source of Funds: Employees' Retirement System, the Retirement Savings Plan, and the County's General Fund
$40,010	Audit of the Employee Retirement Plans Financial Statements
	Source of Funds: Consolidated Retiree Health Benefits Trust
$28,000	Audit of the Retiree Health Benefits Trust

	Source of Funds: Solid Waste Disposal Fund
$2,860	Agreed-Upon Procedures for the Chief Financial Officer's Annual Certification of Financial Assurance Mechanisms for Local Government Owners and Operations of Municipal Solid Waste Landfill Facilities
	Source of Funds: State of Maryland Emergency Number Systems Board
$4,310	911 System Audit
Total $321,380	

Item #3. Review and recommendations to strengthen the County's audit and oversight

On January 15th, the Council received a briefing on the Office of Inspector General (OIG) Report #19-002 – *A Review of Management Control Deficiencies Contributing to the Misappropriation of Montgomery County Economic Development Funds*. The Council discussed the OIG's findings and the Executive's response to these findings (see © 90 for the OIG's Summary of Findings; © 114 for the Actions Taken by the County to Strengthen Controls and Processes). As a follow-up to the discussion, the Council requested that Council and Office of Legislative Oversight (OLO) staff ("staff") provide recommendations on how the Council can strengthen its oversight role.

Staff reviewed the corrective actions taken by the Executive regarding the findings of the OIG Report 19-002, and staff believes that these actions are reasonable and aligned with the issues discussed by the OIG. Staff believes that the Council should continue to monitor the implementation of management's corrective actions, and staff has also identified other actions for the Audit Committee's consideration to strengthen the Council's oversight role on pages 8-9.

Background

Below are tables that compare the different audit functions for the County and the historical funding for those functions.

County Areas Responsible for Targeting Waste, Fraud, and Abuse

Function	Description	FY19 Budget
Inspector General	Under the Council; reviews the effectiveness and efficiency of County operations; conducts investigations/reviews to prevent and detect fraud, waste, and abuse in government activities.	$1.1M
Internal Audit	Within the County Executive's Office; identifies areas of risk for County operations; conducts fiscal, contract, performance, and information system audits; undertakes investigative audits; provides departments advice and recommendations on internal control issues.	$0.5M
External Audit	A Non-Departmental Account managed by OLO; audits the County's financial statement and expresses opinion on the accuracy of the financial statements; will focus on certain government operations if directed by the County Council or the County Executive's Office	$0.4M

Historical Budgets for Montgomery County Oversight Funding

Function	FY09	FY12*	FY19	% Change FY09-FY19
Inspector General	$770,720	$655,510	$1,140,590	+48%
Internal Audit	$921,860	$393,510	$553,478	–40%
External Audit	$394,000	$420,820	$420,820	+7%

*Lowest budgets from recession decreases

During the recession, the budgets of OIA and the OIG decreased between FY09 and FY12 – with the lowest budgets in FY12. The IG's budget has since recovered and surpassed its FY09 level. The OIA's budget has not.

Oversight Functions in Other Jurisdictions

County/City	Function	Location	Budget*	FTEs*
Anne Arundel County, MD	Office of the County Auditor	Legislative	$1,559,000	7
		Total	**$1,559,000**	**7**
Baltimore City, MD	Department of Audits	Independent	$5,160,362	47
	Inspector General	Executive	$766,792	10
		Total	**$5,927,154**	**57**
Baltimore County, MD	County Auditor	Legislative	$1,732,263	17
		Total	**$1,732,263**	**17**
Prince George's County, MD	Audit and Investigations	Legislative	$2,308,000	19
		Total	**$2,308,000**	**19**
District of Columbia	Office of the DC Auditor	Legislative	$6,228,782	32.6
	External Audit (in OCFO)**	Independent	$3,568,000	26
	Inspector General	Independent	$18,763,338	112
		Total	**$28,560,120**	**170.6**
Fairfax County, VA	Internal Audit (in CE)	Executive	$1,427,931	14
	External Audit (in Finance) **	Executive	$3,486,667	13
	Financial Program & Audit	Legislative	$400,704	3
		Total	**$5,315,302**	**30**
Montgomery County, MD	Internal Audit (in CE)	Executive	$553,478	1
	External Audit NDA	Legislative	$420,820	0.33
	Inspector General	Legislative	$1,140,590	7
		Total	**$2,114,888**	**8.33**

*Approved FY19 budget. The County's appropriation includes funding for potential contracts.
**Entire Financial Reporting Program under a department; External Audit costs are not broken out.

The oversight functions in other jurisdictions can be summarized into three structure setups:

1. **One Department** – Anne Arundel, Baltimore, and Prince George's counties have one department that covers all audit and investigative duties under the Legislative Branch. The Executive Branch has input into the workplan.

2. **Split Government Branches** – audit and inspector general functions are split, falling under the Executive or Legislative Branches, or being independent. In Fairfax, the District of Columbia, and Montgomery County, the External Audit is also separated into a department or a non-departmental account.

3. **Completely Independent** – both audit and inspector general are independent; develop own assignment/work plan; prepare reports to Executive and Legislative branches.

Recommendations and Discussion Items

Staff summarizes the recommendations and discussion topics into three categories for the committee.

1. **Audit Function Structure and Funding**

Structure. As illustrated in previous table, neighboring jurisdictions have adopted varying structures. Each structure comes with advantages and disadvantages. For example, the County's inclusion of the OIA in the Office of the County Executive provides better connection to management and management's decision, but it also reduces the independence of that office's workplan. The Council is in the process of hiring an Inspector General; therefore, any major structural changes should be done in collaboration with them. **Staff recommends that the Audit Committee discuss with candidates for Inspector General about preferred structure or alternatives for the audit structure in the County.**

OIA funding. The OIA funding has decreased significantly since FY09. A more robust staff or an additional contractor could work closely with OMB to focus on high risk areas across County government. In addition, the OIA's funding level impacts its ability to produce reports evaluating implementation of corrective actions. Staff discusses the need for additional reporting in the next section. **Staff recommends that the Council carefully review the OIA appropriation during the FY20 budget discussions.**

OIG positions. The County Code mandates that all positions under the OIG are term positions. This provides flexibility for a new Inspector General to staff their office. Conversely, this results in a loss of institutional knowledge during Inspector General transitions. **Staff recommends that the Council consider amending §2-151(g)(1) of the County Code to provide a mixture of term positions and permanent positions for the OIG.** This should be done in collaboration with the new Inspector General to determine the best mixture for the office. In addition, the County's OIG operates with minimal staff compared to local jurisdictions. Within the context of the appropriate staffing mixture, the Council should evaluate the overall staffing level for the office and adjust funding accordingly.

2. **Coordination Between Audit Functions**

Reporting. There is limited reporting that the OIA must perform in response to any findings by the OIG. **Staff recommends that the Council require that the OIA complete an annual report that provides details about how management has responded and implemented corrective actions for each finding by the OIA, OIG, and OLO, as appropriate, in the prior year**. It can be like a recent report requested by the Audit Committee (see ©119). This report should be transmitted to the OIG, who will transmit it to the Audit Committee with the OIG's independent review and comment about the County's progress implementing corrective actions. The Council's budget resolution is the best mechanism to require this reporting.

Semi-annual meetings. There is limited coordination between the different audit functions. **Staff recommends that the OIA, OIG, external audit contractor, and relevant Executive and Council staff conduct semi-annual meetings to evaluate and discuss high-risk areas of the County Government.** The work product of this meeting will be a written report to the Audit Committee, and the committee would determine whether the report warrants a committee discussion.

3. **Other Areas**

Contract Monitoring. **Staff recommends that the Council consider mandating that contracts above a certain threshold (e.g., $300,000) require a reporting mechanism, so the Council can review the outputs received from those contracts.** Currently, contracts are monitored by the contracting department with limited or no oversight by budget staff. Mandating a dollar threshold for certain contracts would increase oversight from budget staff and provide greater clarity about the outputs the County receives for the funding provided. This review should be conducted by a budget staff, such as Office of Management and Budget and/or Council/OLO staff, in conjunction with the department staff monitoring the contract. This requirement may be implemented through the Council's annual budget resolution and provided annually to the Audit Committee as a summary of the contracts, funding amounts, and measured outputs.

Agreements. Management has implemented new procedures governing agreements between the County and other organizations in response to the OIG Report 19-002. **Staff recommends that the Executive should transmit a report, like the Economic Development Fund (EDF) Annual Report, that provides a summary of these agreements.**[3] The summary should include the entity's name, purpose of the agreement, term of the agreement, maximum funding allowed by the agreement in a fiscal year, total funding provided to the entity during all fiscal years the agreement is in effect, and whether the agreement allows advance payment. This report may be implemented through the Council's annual budget resolution and provided annually to the Audit Committee.

[3] The EDF Annual Report requires that the Executive list all business incentive awards, including the awardee, value of the award, and performance expectations of the agreement.

The following documents are attached:

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

The Honorable County Council
of Montgomery County, Maryland

Report on the Financial Statements

We have audited the accompanying 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, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc., which represent 2.2 percent, 4.1 percent, and 0.1 percent, respectively, of the assets, net position and revenues of the non-major component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montgomery County Revenue Authority and Bethesda Urban Partnership, Inc., is based solely on the report of the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Bethesda Urban Partnership, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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The Honorable County Council
of Montgomery County, Maryland

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

During the fiscal year ended June 30, 2018, the County adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of this standard, the County reported a restatement for the change in accounting principle (See Note I.E). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 27 and the budgetary comparison information for the general, housing initiative and grants funds, the Consolidated Retiree Health Benefits Trust, Employees' Retirement System, Maryland State Retirement and Pension System, and the notes to required supplementary information on pages 168 through 170 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 30, 2018

CliftonLarsonAllen

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' 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, in accordance with the 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, 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, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 30, 2018. The County's financial statements include the financial statements of the Montgomery County Public Schools, Montgomery County Community College, Housing Opportunities Commission of Montgomery County, Montgomery County Revenue Authority and the Bethesda Urban Partnership, Inc. as described in our report on the County's financial statements. Our audit described below did not include operations of these entities because these entities engaged for their own separate audit in accordance with *Government Audit Standards* and Bethesda Urban Partnership and Montgomery County Revenue Authority was not audited in accordance with *Government Audit Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

The Honorable County Council
of Montgomery County, Maryland

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 30, 2018

CliftonLarsonAllen

CliftonLarsonAllen LLP
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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, 2018, and have issued our report thereon dated November 30, 2018. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note I to the financial statements.

As described in Note I.E. to the financial statements, the County implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, by recognizing its net OPEB liability related to its post-employment benefit plan. Accordingly, the cumulative effect of the accounting change is recorded at the beginning of the year in the financial statements of the governmental activities.

We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the depreciable lives of capital assets, landfill post-closure costs, allowance for uncollectible loans, claims liabilities, including incurred but not reported claims for self-insurance and health insurance, postemployment benefits (OPEB) liability and pension costs.

- Management's estimate of the depreciable lives of capital assets is based on the implementation guides for GASB Statement No. 34 published by the Governmental Accounting Standards Board. We evaluated the key factors and assumptions used to estimate the useful lives for various asset classes including the depreciation of infrastructure in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the liability for landfill post-closure costs is based on estimates determined by an external engineering firm, which the County continues to monitor. We evaluated the key factors and assumptions used to develop the liabilities for landfill post-closure costs in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the allowance for uncollectible loans is based on loans that have met terms and conditions to be forgivable; however, the loan was not written off at year-end. We evaluated the key factors and assumptions used to develop the allowance for uncollectible loans in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the claims liabilities, including incurred but not reported claims for self-insurance and health insurance, is based on computations performed by outside specialists, including actuarial computations of incurred but not reported claims that were relied upon to establish the amounts of claims liabilities under self-insurance programs. We evaluated the key factors and assumptions used to develop the claims liabilities in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the other post-employment benefits (OPEB) liability is based on computations performed by outside specialists, including actuarial computations and assumptions that were relied upon to determine the Net OPEB Liability. We evaluated the key factors and assumptions used to develop the OPEB liability in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the net pension liability is based on computations performed by outside specialists, including actuarial computations and assumptions that were relied upon. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes an uncorrected misstatement of the financial statements. Management has determined that its effect is immaterial to the financial statements taken as a whole.

Corrected misstatements

The misstatement detected as a result of audit procedures was not material to the financial statements taken as a whole.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated November 30, 2018.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Audits of group financial statements

We noted no matters related to the group audit that we consider to be significant to the responsibilities of those charged with governance of the group.

Quality of component auditor's work

There were no instances in which our evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.

Limitations on the group audit

There were no restrictions on our access to information of components or other limitations on the group audit.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, identified in the table of contents, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the schedule of expenditures of federal awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of the Uniform Guidance, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated November 30, 2018.

With respect to the combining and individual fund financial statements and supplementary schedules (collectively, the supplementary information) as defined in the table of contents, accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated November 30, 2018.

The introductory and statistical sections (the other information) accompanying the financial statements, which are the responsibility of management, were prepared for purposes of additional analysis and is not a required part of the financial statements. Such information was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we did not express an opinion or provide any assurance on it.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

This communication is intended solely for the information and use of the Honorable County Council and management of Montgomery County, Maryland and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 30, 2018

SUMMARY OF UNCORRECTED MISSTATEMENTS - AUDIT
Montgomery County, Maryland
Parking Lot Districts
Year Ended June 30, 2018

UNCORRECTED ADJUSTMENTS	**Effect of misstatements on:**			
Description	**Assets**	**Liabilities**	**Fund Balance / Net Assets**	**Net Expense/Revenue and Change in Net Assets / Fund Balance**
A subsequent disbursement for an expense related to FY18 was improperly excluded from FY18 AP.	$ -	$ (264,000)	$ (264,000)	$ 264,000
Net current year misstatements (Iron Curtain Method)	-	(264,000)	(264,000)	264,000
Net prior year misstatements	-	-		-
Combined current and prior year misstatements (Rollover Method)	$ -	$ (264,000)	$ (264,000)	$ 264,000
Financial statement totals	$ 210,995,141	$ 42,118,095	$ 169,276,351	$ (1,980,594)
Current year misstatement as a % of financial statement totals (Iron Curtain Method)		-1%	0%	-13%
Current and prior year misstatement as a % of financial statement totals (Rollover Method)		-1%	0%	-13%

INADEQUATE DISCLOSURES

Description	**Amount (If Applicable)**

6

OFFICES OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

November 30, 2018

CliftonLarsonAllen LLP
1966 Greenspring Drive Suite 300
Timonium, Maryland 21093

This representation letter is provided in connection with your audits of the financial statements of Montgomery County, Maryland (the County), which comprise the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of November, 30, 2018 the following representations made to you during your audit of the financial statements as of and for the year ended June 30, 2018.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the contract dated May 19, 2016, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

- We acknowledge and have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions used in making those estimates, and we believe the estimates (including those measured at fair value) and the significant assumptions used in making those accounting estimates are reasonable.

- Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.

- Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

- No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements or in the schedule of findings and questioned costs.

- We have not identified or been notified of any uncorrected financial statement misstatements.

- The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

- Guarantees, whether written or oral, under which the County is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.

- Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.

- Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.

- We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

- Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility, if any. Impairment loss, if any, and insurance recoveries have been properly recorded.

- Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value.

- We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefits (OPEB) liabilities and costs for financial accounting purposes are appropriate in the circumstances.

- We do not plan to make frequent amendments to our pension or other postemployment benefit plans.

- We believe that the effects of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Other Postemployment Benefits Other Than Pension* have been properly reflected in the financial statements, including the cumulative effect of the change in accounting principle as a restatement of net position as of July 1, 2017.

- Except as disclosed in the financial statements, we are not aware of any pollution remediation obligations which would require an adjustment to or disclosure in the financial statements in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.*

- We are not aware of any intangible assets which require an adjustment to or disclosure in the financial statements in accordance with GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.*

Information Provided

- We have provided you with:

    - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.

    - Additional information that you have requested from us for the purpose of the audit.

    - Unrestricted access to persons within the County from whom you determined it necessary to obtain audit evidence.

    - Access to all audit or relevant monitoring reports, if any, received from funding sources.

- All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.

- Except as made known to you, we have no knowledge of any fraud or suspected fraud that affects the County and involves:

    - Management;

    - Employees who have significant roles in internal control; or

- Others when the fraud could have a material effect on the financial statements.

- Except as made known to you, we have no knowledge of any allegations of fraud, or suspected fraud, affecting the County's financial statements communicated by employees, former employees, grantors, regulators, or others.

- We have no knowledge of any instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse whose effects should be considered when preparing financial statements.

- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

- There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.

- We have disclosed to you the identity of the County's related parties and all the related party relationships and transactions of which we are aware.

- The County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as made known to you and disclosed in the financial statements.

- We have a process to track the status of audit findings and recommendations.

- We have identified or made available to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to Montgomery County, Maryland, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

- There are no violations or possible violations of which we are aware of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

- The County has complied with all aspects of contractual or grant agreements that would have a material effect on the financial statements in the event of noncompliance.

- We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
- We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures, jointly governed organizations, and other related organizations.
- The financial statements properly classify all funds and activities.
- All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- Investments, derivative instruments, and land and other real estate held by endowments, if any, are properly valued.
- Provisions for uncollectible receivables have been properly identified and recorded.
- Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.
- Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- We have appropriately disclosed the County's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

- We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

- We acknowledge our responsibility for presenting the supplementary information identified in the table of contents of the financial statements in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

- With respect to federal award programs:

    - We are responsible for understanding and complying with, and have complied, with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) including requirements relating to preparation of the schedule of expenditures of federal awards.

    - We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) and related notes in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

    - Since the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issued the SEFA and the auditors' report thereon.

    - We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and included in the SEFA expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

    - We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.

- We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.

- We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.

- We have received no requests from a federal agency to audit one or more specific programs as a major program.

- We have complied with the direct and material compliance requirements, including when applicable, those set forth in the *OMB Compliance Supplement*, relating to federal awards and confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal awards.

- We have disclosed to you any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.

- We have disclosed or made available to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.

- Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR part 200, subpart E) and OMB Circular A-87, *Cost Principles State, Local, and Tribal Governments*, and OMB Circular A-102 *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.

- We have disclosed to you our interpretation of compliance requirements, if any, that may have varying interpretations.

- We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

- We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period, if any.

- There are no known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.

- We have disclosed to you whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies and/or material weaknesses in internal control over compliance, if any, have occurred subsequent to the period covered by the auditors' report.

- Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.

- The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

- We have monitored subrecipients, as necessary, to determine that they have expended subawards in compliance with federal statutes, regulations, and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.

- We have issued management decisions for audit findings, if any, that relate to federal awards made to subrecipients and such management decisions have been issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse. Additionally, we have followed-up ensuring that the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient

- We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.

- We have charged costs to federal awards in accordance with applicable cost principles.

- We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

- We are responsible for and have ensured the Uniform Guidance reporting package does not contain protected personally identifiable information.

- We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

- We are responsible for taking corrective action on each audit finding of the compliance audit, if any, and have developed a corrective action plan, if any, that meets the requirements of the Uniform Guidance.

Timothy L. Firestine

Timothy L. Firestine
Chief Administrative Officer

Alexandre A. Espinosa, Director
Department of Finance

Lenny Moore, Controller
Department of Finance

SUMMARY OF UNCORRECTED MISSTATEMENTS - AUDIT
Montgomery County, Maryland
Parking Lot Districts
Year Ended June 30, 2018

UNCORRECTED ADJUSTMENTS — **Effect of misstatements on:**

Description	Assets	Liabilities	Fund Balance / Net Assets	Net Expense/Revenue and Change in Net Assets / Fund Balance
A subsequent disbursement for an expense related to FY18 was improperly excluded from FY18 AP.	$ -	$ (264,000)	$ (264,000)	$ 264,000
Net current year misstatements (Iron Curtain Method)	-	(264,000)	(264,000)	264,000
Net prior year misstatements	-	-		-
Combined current and prior year misstatements (Rollover Method)	$ -	$ (264,000)	$ (264,000)	$ 264,000
Financial statement totals	$ 210,995,141	$ 42,118,095	$ 169,276,351	$ (1,980,594)
Current year misstatement as a % of financial statement totals (Iron Curtain Method)		-1%	0%	-13%
Current and prior year misstatement as a % of financial statement totals (Rollover Method)		-1%	0%	-13%

INADEQUATE DISCLOSURES

Description	Amount (If Applicable)

19

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

Management
Montgomery County, Maryland
Rockville, Maryland

In planning and performing our audit of the financial statements of Montgomery County, Maryland (the County) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

However, during our audit we became aware of a deficiency in internal control other than a significant deficiency and material weakness and other matter that is an opportunity to strengthen your internal control and improve the efficiency of your operations. Our comment and suggestion regarding this matter is summarized below. We previously provided a written communication dated November 30, 2018, on the entity's internal control. This letter does not affect our report on the financial statements dated November 30, 2018, nor our internal control communication.

Department of Liquor Control (DLC) Inventory Count

Several opportunities to strengthen internal controls were noted during observation of the annual DLC inventory count. Items were stored in multiple locations which were not represented in the newly implemented digital inventory system. At the time of the count, not all locations were labeled or identified in the system, leading to items being stored in a default location of "0." Further, items were not found in locations they should have been per records in the system. Reliance was placed on warehouse staff members to know the whereabouts of the items. In addition, it was noted that items are moved without the location being updated in the system. These factors allow for misplaced items and errors in the inventory count. We recommend the County enhance its policies and procedures related to the DLC annual inventory count to ensure an accurate count and proper safeguarding of the inventory.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various County personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

This communication is intended solely for the information and use of management, the Honorable County Council, and others within the County, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 30, 2018

A member of Nexia International

OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

Andrew W. Kleine
Chief Administrative Officer

MEMORANDUM

March 1, 2019

TO: Nancy Navarro, Council President

FROM: Marc Elrich, County Executive

SUBJECT: Response to Management Letter from CliftonLarsonAllen LLP for the Fiscal Year Ended June 30, 2018

Attached please find the Executive Branch's formal response to the management letter referenced above which you requested in your memorandum of February 13, 2019.

We look forward to discussing the recommendations, and the County's progress in implementing improvements, with the Audit Committee on March 14. If you or your staff have any questions prior to that date, please contact Alexandre A. Espinosa, Director, Department of Finance, at x78870.

ME:kkw

Attachment

Andrew Kleine, Chief Administrative Officer
Alexandre A. Espinosa, Director, Department of Finance
Richard Madaleno, Director, Office of Management and Budget
Fariba Kassiri, Assistant Chief Administrative Officer
Robert Dorfman, Director, Department of Liquor Control
Marlene Michaelson, Executive Director, County Council

Attachment

County Response to Management Letter
For the Audit of County Government Financial Statements
For the Fiscal Year Ended June 30, 2018

DEPARTMENT OF LIQUOR CONTROL (DLC) INVENTORY COUNT

Comment and Suggestion:

Several opportunities to strengthen internal controls were noted during observation of the annual DLC inventory count. Items were stored in multiple locations which were not represented in the newly implemented digital inventory system. At the time of the count, not all locations were labeled or identified in the system, leading to items being stored in a default location of "0". Further, items were not found in locations they should have been per records in the system. Reliance was placed on warehouse staff members to know the whereabouts of the items. In addition, it was noted that items are moved without the location being updated in the system. These factors allow for misplaced items and errors in the inventory count. We recommend the County enhance its policies and procedures related to the DLC annual inventory count to ensure an accurate count and proper safeguarding of the inventory.

Response:

The County concurs with this recommendation. At the time of the physical inventory count, DLC had just finished implementing the use of system location codes which are assigned to all product within the warehouse, and warehouse staff were beginning to use scanners to record the movement of product to the various physical locations. Since this implementation, additional training has been provided to warehouse staff and scanners are in full use for the receipt and movement of product. Management will continue to communicate the physical inventory count process to all warehouse staff. Reconciliations of physical warehouse locations to system location codes will also be performed daily, through the existing cycle count process, to ensure accurate reflection within the perpetual inventory system.

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

The Honorable County Council of Montgomery County, Maryland
Board of Investment Trustees
Montgomery County Employee Retirement Plans
Rockville, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the Montgomery County Employee Retirement Plans (the Plans), which comprise the statements of fiduciary net position as of June 30, 2018, and the related statements of changes in fiduciary net position for the year then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plans as of June 30, 2018, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The Honorable County Council of Montgomery County, Maryland
Board of Investment Trustees
Montgomery County Employee Retirement Plans

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of changes in the employers' net pension liability and related ratios, employer contributions and investment returns and related notes, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plans' financial statements. The schedules of administrative expenses and investment expenses, the statements of fiduciary net position and changes in fiduciary net position for the Employees' Retirement System, Retirement Savings Plan and the Deferred Compensation Plan (supplementary information) and the introduction, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary 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. Such 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 supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the Plans' financial statements for the year ended June 30, 2017, which are presented with the accompanying financials statements. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Plans' financial statements as a whole. The statements of fiduciary net position as of June 30, 2017, and the related statements of changes in fiduciary net position for the year then ended, are presented for the purposes of additional analysis and are 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 2017 financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 statements of fiduciary net position as of June 30, 2017, and the related statements of changes in fiduciary net position for the year then ended are fairly stated in all material respects in relation to the financial statements from which they have been derived.

The Honorable County Council of Montgomery County, Maryland
Board of Investment Trustees
Montgomery County Employee Retirement Plans

The introduction, investment, actuarial, and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018, on our consideration of the Plans' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the Plans' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plans' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 23, 2018

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INDEPENDENT AUDITORS' 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
Board of Investment Trustees
Montgomery County Employee Retirement Plans

We have audited, in accordance with the 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, the financial statements of the Montgomery County Employee Retirement Plans (the Plans), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plans' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control. Accordingly, we do not express an opinion on the effectiveness of the Plans' internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plans' financial statements are free from 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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Plans' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plans' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 23, 2018

CliftonLarsonAllen

CliftonLarsonAllen LLP
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Board of Investment Trustees
Montgomery County Employee Retirement Plans
Rockville, Maryland

We have audited the financial statements of the Montgomery County Employee Retirement Plans (the Plans) as of and for the year ended June 30, 2018, and have issued our report thereon dated October 23, 2018. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plans are described in Note B of the Employees' Retirement System to the financial statements.

No new accounting policies were adopted and the application of existing policies were not changed during fiscal year 2018.

We noted no transactions entered into by the Plans during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were significant estimates in the valuation of alternative investments and the calculation of the actuarial information included in the footnotes and required supplementary information.

The valuation of alternative investments, including private equity and real asset investments, are a management estimate which is primarily based upon net asset values reported by the investment managers and comprise 14% of the total investment portfolio. The values for these investments are reported based upon the most recent financial data available and are adjusted for cash flows through June 30, 2018. Our audit procedures validated this approach through the use of confirmations sent directly to a sample of investment managers and the review of the most recent audited financial statements for these funds. Furthermore, we reviewed management's estimate and found it to be reasonable in relation to the financial statements taken as a whole.

The actuarially calculated information was based on the assumptions and methods adopted by the Board, including an expected investment rate of return of 7.5% per annum compounded annually. The valuation takes into account all of the promised benefits to which members are entitled as of July 1, 2018 as required by the Montgomery County Code. Our audit procedures included reviewing the actuarial valuation and related assumptions used therein and we believe the estimate to be reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated October 23, 2018.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Plans' financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the Plans' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the schedules of administrative and investment expenses and the statements of fiduciary net position and changes in fiduciary net position for the Employees' Retirement System, Retirement Savings Plan, and Deferred Compensation Plans, (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated October 23, 2018.

The introductory, investment, actuarial and statistical sections of the comprehensive annual financial report (the other information) is being included in documents containing the audited financial statements and the auditors' report thereon. Our responsibility for such other information does not extend beyond the financial information identified in our auditors' report. We have no responsibility for determining whether such other information is properly stated and do not have an obligation to perform any procedures to corroborate other information contained in such documents. As required by professional standards, we read the other information in order to identify material inconsistencies between the audited financial statements and the other information. We did not identify any material inconsistencies between the other information and the audited financial statements.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

This communication is intended solely for the information and use of the Board of Investment Trustees, Management, and others within the Plans and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 23, 2018

MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS

October 23, 2018

CliftonLarsonAllen LLP
1966 Greenspring Drive, Suite 300
Timonium, Maryland 21093

This representation letter is provided in connection with your audit of the financial statements of Montgomery County Employee Retirement Plans (the Plans), which comprise the fiduciary net position of the Plans as of June 30, 2018, and the related changes in fiduciary net position for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of October 23, 2018, the following representations made to you during your audit.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 1, 2018, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the Plans as required by generally accepted accounting principles to be included in the financial reporting entity.

- We acknowledge and have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions used in making those estimates, and we believe the estimates (including those measured at fair value) and the significant assumptions used in making those accounting estimates are reasonable.

- Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.

- Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

- No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

- We have not identified or been notified of any uncorrected financial statements misstatements.

- We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.

- Guarantees, whether written or oral, under which the Plans are contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.

- Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.

- Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.

- The methods and significant assumptions used to determine fair values of financial instruments result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

- We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

- With respect to actuarial assumptions and valuations:

    - The Plans' management agrees with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the total pension liability and has no knowledge or belief that would make such methods or assumptions inappropriate in the circumstances. We did not give any, nor cause any, instruction to be given to the Plans' actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of the Plans' actuary.

- There were no omissions from the participant data provided to the actuary for the purpose of determining the total pension liability and other actuarially determined amounts in the financial statements.

- We have identified all changes in the actuarial methods or assumptions used in calculating the amounts recorded or disclosed in the financial statements. There have been no changes in plan provisions between the actuarial valuation date and the date of this letter.

- We are not aware of any present legislative intentions to terminate the plans.

Information Provided

- We have provided you with:
  - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
  - Additional information that you have requested from us for the purpose of the audit.
  - Unrestricted access to persons within the Plans from whom you determined it necessary to obtain audit evidence.
  - Complete minutes of the meetings of the board of directors and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - Actuarial reports prepared for the Plans during the year under audit.
- All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the Plans and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others when the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Plans' financial statements communicated by employees, former employees, regulators, or others.

- We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts and grant agreements, or abuse whose effects should be considered when preparing financial statements.

- We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments, that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.

- There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.

- We have disclosed to you the identity of the Plans' related parties and all the related party relationships and transactions of which we are aware.

- The Plans have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as made known to you and disclosed in the financial statements.

- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Plans, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

- There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

- The Plans have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

- We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

- Investments, derivative instruments, and land and other real estate held by the Plans are properly valued.

- The values of non-readily marketable investments represent good faith estimates of fair value determined by the Plans based on amounts provided by its investment managers.

- Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

- We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

- We acknowledge our responsibility for presenting the schedules of administrative and investment expenses and the statements of plan net position and changes in plan net position for the Employees' Retirement System, Retirement Savings Plan, and Deferred Compensation Plans, (collectively, the supplementary information) in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.

Signature: Timothy L. Firestine Title: CAO

Timothy L. Firestine, Chief Administrative Officer

Signature: Title: Executive Director

Linda Herman, Executive Director

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INDEPENDENT AUDITORS' REPORT

The Honorable County Council of Montgomery County, Maryland
Board of Trustees
Montgomery County Consolidated Retiree Health Benefits Trust
Rockville, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the Montgomery County Consolidated Retiree Health Benefits Trust (Trust), which comprise the statements of fiduciary net position as of June 30, 2018, and the related statements of changes in fiduciary net position for the year then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The Honorable County Council of Montgomery County, Maryland
Board of Trustees
Montgomery County Consolidated Retiree Health Benefits Trust

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Trust as of June 30, 2018, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of changes in the net OPEB liability and related ratios, employer contributions and investment returns and related notes, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018, on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 16, 2018

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INDEPENDENT AUDITORS' 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
Board of Trustees
Montgomery County Consolidated Retiree Health Benefits Trust

We have audited, in accordance with the 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, the financial statements of the Montgomery County Consolidated Retiree Health Benefits Trust (Trust), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 16, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Honorable County Council of Montgomery County, Maryland
Board of Trustees Montgomery County Consolidated Retiree Health Benefits Trust

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 16, 2018

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Board of Trustees
Montgomery County Consolidated Retiree Health Benefits Trust
Rockville, Maryland

We have audited the financial statements of the Montgomery County Consolidated Retiree Health Benefits Trust (the Trust) as of and for the year ended June 30, 2018, and have issued our report thereon dated November 16, 2018. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Trust are described in Note B to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2018.

We noted no transactions entered into by the Trust during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were significant estimates in the valuation of alternative investments and the calculation of the actuarial information included in the footnotes and required supplementary information.

The valuation of alternative investments, including private equity and real asset investments, are a management estimate which is primarily based upon net asset values reported by the investment managers and comprise 11% of the total investment portfolio. The values for these investments are reported based upon the most recent financial data available and are adjusted for cash flows through June 30, 2018. Our audit procedures validated this approach through the use of confirmations sent directly to a sample of investment managers and the review of the most recent audited financial statements for these funds. Furthermore, we reviewed management's estimate and found it to be reasonable in relation to the financial statements taken as a whole.

The actuarially calculated information was based on the assumptions and methods adopted by the Board, including an expected investment rate of return of 7.5% per annum compounded annually. The discount rate was a Single Discount Rate (SDR) of 6.26%. The SDR is required when assets are not projected to be sufficient to meet future benefit obligations. The SDR reflects (1) the expected investment rate of return on pension plan investments during the period in which the fiduciary net position is projected to be sufficient to pay benefits and (2) a tax-exempt municipal bond rate based on a bond buyers general obligation 20 year municipal bond index as of the measurement date (3.87%), to the extent that the contributions for use with the long-term expected rate of return are not met.

The valuation takes into account all of the promised benefits to which members are entitled as of July 1, 2018 as required by the Montgomery County Code. Our audit procedures included reviewing the actuarial valuation and related assumptions used therein and we believe the estimate to be reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated November 16, 2018.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Trust's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the Trust's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

This communication is intended solely for the information and use of the Board of Trustees, Management, and others within the Trust and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 16, 2018

BOARD OF TRUSTEES

November 16, 2018

CliftonLarsonAllen LLP
1966 Greenspring Drive, Suite 300
Timonium, Maryland 21093

This representation letter is provided in connection with your audit of the financial statements of the Montgomery County Consolidated Retiree Health Benefits Trust (the Trust), which comprise the fiduciary net position of the Trust as of June 30, 2018, and the related changes in fiduciary net position for the year ended June 30, 2018, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of November 16, 2018, the following representations made to you during your audit.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of Amendment #3 to Contract Number 425820958, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the Trust as required by generally accepted accounting principles to be included in the financial reporting entity.

- We acknowledge and have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

- We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions used in making those estimates, and we believe the estimates (including those measured at fair value) and the significant assumptions used in making those accounting estimates are reasonable.

- Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.

- Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

- No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

- We have not identified or been notified of any uncorrected financial statement misstatements.

- We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.

- Guarantees, whether written or oral, under which the Trust is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.

- Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances or similar arrangements, have been properly recorded or disclosed in the financial statements.

- Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.

- The methods and significant assumptions used to determine fair values of financial instruments result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.

- We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net position.

- With respect to actuarial assumptions and valuations:

    - The Trust's management agrees with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the total OPEB liability and has no knowledge or belief that would make such methods or assumptions inappropriate in the circumstances. We did not give any, nor cause any, instruction to be given to the Trust's actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of the Trust's actuary.

- There were no omissions from the participant data provided to the actuary for the purpose of determining the total pension liability and other actuarially determined amounts in the financial statements.

- We have identified all changes in the actuarial methods or assumptions used in calculating the amounts recorded or disclosed in the financial statements. There have been no changes in plan provisions between the actuarial valuation date and the date of this letter.

- We are not aware of any present legislative intentions to terminate the Trust.

Information Provided

- We have provided you with:

    - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.

    - Additional information that you have requested from us for the purpose of the audit.

    - Unrestricted access to persons within the Trust from whom you determined it necessary to obtain audit evidence.

    - Complete minutes of the meetings of the board of directors and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

    - Actuarial reports prepared for the Trust during the year under audit.

- All material transactions have been recorded in the accounting records and are reflected in the financial statements.

- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- We have no knowledge of any fraud or suspected fraud that affects the Trust and involves:

    - Management;

    - Employees who have significant roles in internal control; or

    - Others when the fraud could have a material effect on the financial statements.

- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Trust's financial statements communicated by employees, former employees, regulators, or others.

- We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts and grant agreements, or abuse whose effects should be considered when preparing financial statements.

- We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments, that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.

- There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.

- We have disclosed to you the identity of the Trust's related parties and all the related party relationships and transactions of which we are aware.

- The Trust has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as made known to you and disclosed in the financial statements.

- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Trust, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

- There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

- The Trust has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

- We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

- Investments, derivative instruments, and land and other real estate held by the Trust are properly valued.

- The values of non-readily marketable investments represent good faith estimates of fair value determined by the Trust based on amounts provided by its investment managers.

- Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

- We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Signature: Timothy L. Firestine Title: 11/16/18

Timothy L. Firestine, Chief Administrative Officer

Signature: Title: 11/16/18

Linda Herman, Executive Director

DEPARTMENT OF FINANCE

Isiah Leggett
County Executive

Alexandre A. Espinosa
Director

November 16, 2018

CliftonLarsonAllen LLP
1966 Greenspring Drive, Suite 300
Timonium, Maryland 21093

This representation letter is provided in connection with your audit of the financial statements of the Montgomery County Consolidated Retiree Health Benefits Trust (the Trust), which comprise the fiduciary net position of the Trust as of June 30, 2018, and the related changes in fiduciary net position for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of November 16, 2018, the following representations made to you during your audit.

Financial Statements

- The estimated liability for claims incurred but not reported was computed using methods consistent with the prior year and considered factors such as increasing claims costs and trends of recent experience. We are not aware of any significant potential claims which were not considered in computing the estimated liability.

Signature: ______________________
Title: Controller for Montgomery County

MONTGOMERY COUNTY, MARYLAND

REPORT ON SINGLE AUDIT

YEAR ENDED JUNE 30, 2018

MONTGOMERY COUNTY, MARYLAND
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YEAR ENDED JUNE 30, 2018

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' 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, in accordance with the 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, 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, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 30, 2018. The County's financial statements include the financial statements of the Montgomery County Public Schools, Montgomery County Community College, Housing Opportunities Commission of Montgomery County, Montgomery County Revenue Authority, and the Bethesda Urban Partnership, Inc. as described in our report on the County's financial statements. Our audit described below did not include operations of these entities because these entities engaged for their own separate audit in accordance with *Government Audit Standards* and Bethesda Urban Partnership and Montgomery County Revenue Authority were not audited in accordance with *Government Audit Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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. 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.

The Honorable County Council
of Montgomery County, Maryland

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 30, 2018

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Montgomery County, Maryland's (the County) compliance with the types of compliance requirements described in the *OMB 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, 2018. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The County's financial statements include the operations of the Montgomery County Public Schools, Montgomery County Community College, Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County and the Bethesda Urban Partnership for the year ended June 30, 2018, component units which may have received federal awards, and which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2018. Our audit described below did not include the operations of these entities. We were separately engaged to perform and have separately reported on the results of our audits of the Montgomery County Public Schools, Housing Opportunities Commission of Montgomery County, and Montgomery County Community College, in accordance with Uniform Guidance, if required. Other auditors were engaged to perform audits of Montgomery County Revenue Authority and Bethesda Urban Partnership, if required, in accordance with Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of 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, 2018.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

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. 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 the County, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated November 30, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The County's financial statements include the operations of the Montgomery County Public Schools, Montgomery County Community College, Montgomery County Revenue Authority, Housing Opportunities Commission of Montgomery County and the Bethesda Urban Partnership for the year ended June 30, 2018. The federal expenditures, where applicable, for the Montgomery County Public Schools, Montgomery County Community College, Housing Opportunities Commission of Montgomery County, Montgomery County Revenue Authority and Bethesda Urban Partnership are not included in the schedule of expenditures of federal awards. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 basic 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 basic financial statements or to the basic 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 basic financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
March 7, 2019

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

Grant Title	Federal CFDA Number	Pass-through Agency	Federal/State Grant Number	Federal Expenditures	Total Expenditures Per Federal CFDA Number	Passed Through to Subrecipients
Department of Agriculture:						
SNAP Cluster -						
State Administrative Matching Grant for Food Stamps	10.561	Maryland Department of Human Resources	MD. State HB 669	$ 7,404,378	$ 7,404,378	$ -
Total SNAP Cluster					7,404,378	-
Total Department of Agriculture					**7,404,378**	**-**
Department of Commerce - National Institute of Standards and Technology (NIST):						
Arrangements for Interdisciplinary Research Infrastructure	11.619	Direct		27,456	27,456	-
Total Department of Commerce					**27,456**	**-**
Department of Defense - Office of Economic Adjustment:						
Maryland Crossing Route 355	12.600	Direct		32,922,431		
Maryland Crossing Route 355	12.600	Maryland State Highway Administration	None	4,559,346	37,481,777	-
Base Realignment and Closure (BRAC)	12.607	Direct		173,026	173,026	-
Total Department of Defense					**37,654,803**	**-**
Department of Housing and Urban Development:						
CDBG Entitlement Grants Cluster -						
Community Development Block Grant (CDBG)	14.218	Direct		4,438,980	4,438,980	157,701
Total CDBG Entitlement Grants Cluster					4,438,980	157,701
Emergency Solutions Grant Program	14.231	Direct		329,988	329,988	-
HOME Investment Partnership Program	14.239	Direct		3,234,295		
Balance of Outstanding Loans as of 6/30/2017	14.239	Direct		36,742,575		
HOME Investment Partnership Program	14.239	Direct		381,673	40,358,543	-
Housing for People With AIDS (HOPWA)	14.241	Maryland Department of Health	AD658HOP	903,303	903,303	-
Continuum of Care Homeless Assistance Competition	14.267	Direct		38,155	38,155	-
Total Department of Housing and Urban Development					**46,068,969**	**157,701**

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See accompanying Notes to Schedule of Expenditures of Federal Awards.

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Grant Title	Federal CFDA Number	Pass-through Agency	Federal/State Grant Number	Federal Expenditures	Total Expenditures Per Federal CFDA Number	Passed Through to Subrecipients
Department of Justice:						
FY17 US Marshalls	16.111	Marshall's Office	JLEO-16-0128	$ 11,496	$ -	$ -
FY18 US Marshalls	16.111	Marshall's Office	JLEO-18-0128	25,701	37,197	-
Victim Assistance Services (VOCA)	16.575	Governor's Office of Crime Control and Prevention	VOCA-2015-0010	359,607		
Victim Assistance Services (VOCA)	16.575	Governor's Office of Crime Control and Prevention	VOCA-2015-1616	8,336		
Victim Assistance Services (VOCA)	16.575	Governor's Office of Crime Control and Prevention	VOCA-2016-0059	141,707		
Multicultural Intervention for Victims of Child Abuse	16.575	Governor's Office of Crime Control and Prevention	VOCA-2016-0014	294,310	803,960	-
S.T.O.P. Violence Against Women Act	16.588	Governor's Office of Crime Control and Prevention	2017-WF-AX-0012	62,063		
Protective Order Enforcement	16.588	Governor's Office of Crime Control and Prevention	VAWA-2017-0059	41,233		
Lethality Assessment Advocate	16.588	Governor's Office of Crime Control and Prevention	VAWA-2017-0065	15,698		
Lethality Assessment Advocate	16.588	Governor's Office of Crime Control and Prevention	VAWA-2016-0071	13,517	132,511	-
COPS Universal Hiring Program	16.710	Direct		11,588	11,588	-
Gang Reduction Initiative	16.738	Governor's Office of Crime Control and Prevention	BJAG-2015-0033	23,292		
Homicide Reduction Training	16.738	Governor's Office of Crime Control and Prevention	BJAG-2014-0038	1,906		
Law Enforcement Training Scholarship	16.738	Governor's Office of Crime Control and Prevention	BJNT-2014-0002	5,039		
Cannabis Seminar Training	16.738	Governor's Office of Crime Control and Prevention	BJNT-2014-0005	2,710		
Legal Liability Training	16.738	Governor's Office of Crime Control and Prevention	2018 BJ-0015	561		
Naloxone Award	16.738	Governor's Office of Crime Control and Prevention	BJAG-2014-0054	19,993	53,501	-
DNA Backlog Reduction	16.741	Direct		126,234	126,234	-
Second Chance Act Reentry Initiative	16.812	Direct		166,557	166,557	-
Equitable Sharing Program	16.922	Direct		1,412,227	1,412,227	-
Total Department of Justice					2,743,775	-
Department of Transportation:						
Transit Service Cluster -						
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	Maryland Transit Administration	None	67,684	67,684	-
Total Transit Services Programs Cluster					67,684	-

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See accompanying Notes to Schedule of Expenditures of Federal Awards.

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Grant Title	Federal CFDA Number	Pass-through Agency	Federal/State Grant Number	Federal Expenditures	Total Expenditures Per Federal CFDA Number	Passed Through to Subrecipients
Department of Transportation, continued:						
Highway Safety Cluster -						
SHA Safety Award	20.600	Maryland Highway Safety Office (SHA)	LE 17-031	$ 18,987	$ 18,987	$ -
Law Enforcement	20.616	Maryland Motor Vehicle Administration	LE 17-013	3,996	3,996	-
Total Highway Safety Cluster					22,983	-
SHA Safety Award	20.608	Maryland Highway Safety Office (SHA)	LE 17-031	51,280	51,280	-
Hazardous Materials Emergency Preparedness	20.703	Maryland Emergency Management Agency	17-SR8852-04	5,500	5,500	-
Total Department of Transportation					147,447	-
Institute of Museum and Library Services:						
Library Services and Technology Act	45.310	Maryland State Department of Education	171386	15,414		-
Library Services and Technology Act	45.310	Maryland State Department of Education	171609	18,000	33,414	-
Total Department of the Treasury					33,414	-
Department of Education:						
Special Education Cluster -						
Infants and Families with Disabilities	84.027A	Maryland State Department of Education	180345	642,770	642,770	64,111
Infants and Families with Disabilities	84.173A	Maryland State Department of Education	170127	61,370	61,370	-
Total Special Education Cluster					704,140	64,111
Infants and Families with Disabilities	84.181A	Maryland State Department of Education	170244	820,767		-
Infants and Families with Disabilities	84.181A	Maryland State Department of Education	180359	1,380,784	2,201,551	624,891
Total Department of Education					2,905,691	689,002
Department of Health and Human Services:						
Special Programs for the Aging - Ombudsman Services	93.041	Maryland Department of Aging	AAA-14/FY18	78,170	78,170	-
Special Programs for the Aging - Ombudsman Services	93.042	Maryland Department of Aging	AAA-14/FY17	33,175	33,175	-
Title III, Part D - Supportive Services and Senior Centers	93.043	Maryland Department of Aging	AAA-14/FY17	16,300		
Title III, Part D - Supportive Services and Senior Centers	93.043	Maryland Department of Aging	AAA-14/FY18	52,677	68,977	-

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See accompanying Notes to Schedule of Expenditures of Federal Awards.

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Grant Title	Federal CFDA Number	Pass-through Agency	Federal/State Grant Number	Federal Expenditures	Total Expenditures Per Federal CFDA Number	Passed Through to Subrecipients
Department of Health and Human Services, continued:						
Aging Cluster -						
Title III, Part B - Supportive Services and Senior Centers	93.044	Maryland Department of Aging	AAA-14/FY17	$ 194,245	$ -	$ -
Title III, Part B - Supportive Services and Senior Centers	93.044	Maryland Department of Aging	AAA-14/FY18	682,360	876,605	-
Title III, Part C - Nutrition Services	93.045	Maryland Department of Aging	AAA-14/FY17	409,585		-
Title III, Part C - Nutrition Services	93.045	Maryland Department of Aging	AAA-14/FY18	1,234,400	1,643,985	-
Title III, Part C - Nutrition Services	93.053	Maryland Department of Aging	AAA-14/FY17	3,608		-
Nutrition Services Incentive Program	93.053	Maryland Department of Aging	650517/14	37,421		-
Nutrition Services Incentive Program	93.053	Maryland Department of Aging	650518/14	277,982	319,011	-
Total Aging Cluster					2,839,601	-
Senior Medicare Patrol	93.048	Maryland Department of Aging	None	16,655	16,655	-
National Family Care Giver Support	93.052	Maryland Department of Aging	AAA-14/FY17	60,481		-
National Family Care Giver Support	93.052	Maryland Department of Aging	AAA-14/FY18	268,684	329,165	-
Public Health Emergency Preparedness	93.069	Maryland Department of Health	CH822PHP	713,896	713,896	-
Medicare Improvement for Patients & Providers	93.071	Maryland Department of Aging	653717/14	8,657	8,657	-
Title IV-E Guardianship	93.090	Maryland State Department of Human Resources	MD. State HB 669	2,257	2,257	-
System of Care	93.104	Direct		1,390,635	1,390,635	-
Tuberculosis Control	93.116	Maryland Department of Health	CH015TBF	204,982	204,982	-
PATH - Transition from Homelessness	93.150	Maryland Department of Health	MH170OTH	110,356	110,356	-
Detection Control	93.283	Maryland Department of Health	FH438CBC	9,627	9,627	-
Senior Health Insurance Assistant Program	93.324	Maryland Department of Aging	651518/14	78,942	78,942	-
Immunization Hep - B	93.539	Maryland Department of Health	CH354IMM	343,344	343,344	-
Promoting Safe and Stable Families	93.556	Maryland Department of Human Resources	Md. State HB 669	100,848	100,848	-

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See accompanying Notes to Schedule of Expenditures of Federal Awards.

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Grant Title	Federal CFDA Number	Pass-through Agency	Federal/State Grant Number	Federal Expenditures	Total Expenditures Per Federal CFDA Number	Passed Through to Subrecipients
Department of Health and Human Services, continued:						
Temporary Assistance for Needy Families Cluster -						
Temporary Assistance for Needy Families	93.558	Maryland Department of Human Resources	Md. State HB 669	$ 4,266,162	$ 4,266,162	$ -
Total Temporary Assistance for Needy Families Cluster					4,266,162	-
Child Support Warrants	93.563	Maryland Department of Human Resources	None	8,320		-
Title IV-D - Child Support	93.563	Maryland Department of Human Resources	Md. State HB 669	314,387		-
Child Support Enforcement	93.563	Maryland Department of Human Resources	CSEA/CRA-17-043	744,001	1,066,708	-
Support Services to Central American Families	93.566	Maryland Department of Human Resources	FIA/0RA-17-512	28,131	28,131	-
Child Care and Development Fund (CCDF) Cluster -						
Infant and Toddler	93.575	Maryland Family Network	None	63,276		-
Child Care Resource & Referral	93.575	Maryland Family Network	None	135,238		-
Early Childhood Mental Health Consultation For Children Birth to Five	93.575	Maryland State Department of Education	180725	148,500		-
Early Childhood Mental Health Consultation For Children Birth to Five	93.575	Maryland State Department of Education	None	1,592	348,606	-
Total Child Care and Development Fund (CCDF) Cluster					348,606	-
Low Income Home Energy Assistance	93.568	Maryland Department of Human Resources	Md. State HB 669	1,006,034	1,006,034	-
Community Services Block Grant - FY17	93.569	Maryland Department of Housing and Community Development	None	237,348		-
Community Services Block Grant - FY18	93.569	Maryland Department of Housing and Community Development	None	462,975	700,323	-
Head Start	93.600	Direct		4,771,937	4,771,937	4,360,523
Foster Care Title IV-E Administration	93.658	Maryland Department of Human Resources	Md. State HB 669	2,719,028	2,719,028	-
Title IV-E - Adoption	93.659	Maryland Department of Human Resources	Md. State HB 669	43,351	43,351	-
Child Abuse and Neglect	93.669	Maryland Department of Human Resources	Md. State HB 669	839	839	-
Domestic Violence Shelter and Supportive Services	93.671	Governor's Office of Crime Control and Prevention	FVPS-2017-1723	182,000	182,000	-
Addressing Chronic Diseases in Health System	93.757	Maryland Department of Health	FHE75ACD	125,678	125,678	-

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See accompanying Notes to Schedule of Expenditures of Federal Awards.

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Grant Title	Federal CFDA Number	Pass-through Agency	Federal/State Grant Number	Federal Expenditures	Total Expenditures Per Federal CFDA Number	Passed Through to Subrecipients
Department of Health and Human Services, continued:						
Children Insurance Program (CHIP)	93.767	Maryland Department of Human Resources	MD. State HB 669	$ 361,361	$ -	$ -
Medical Assistance - Admin Care Coordination	93.767	Maryland Department of Health	MA020EPS	85,300		-
State Children Insurance Program	93.767	Maryland Department of Health	MA286ACM	255,416	702,077	-
Medicaid Cluster -						
Nursing Home Reimbursment	93.777	Maryland Department of Human Resources	None	840,788	840,788	-
MFP - Options Counseling	93.778	Maryland Department of Aging	None	56,638		-
Title XIX - Certification	93.778	Maryland Department of Human Resources	MD. State HB 669	6,124,650		-
Title XIX - Health Related Services	93.778	Maryland Department of Human Resources	MD. State HB 669	304,761		-
Federal Financial Participation - Title XIX	93.778	Maryland Department of Human Resources	None	4,546,810		-
Federal Financial Participation - Title XIX	93.778	Maryland Department of Human Resources	None	5,813,603		-
Federal Financial Participation - Title XIX	93.778	Maryland Department of Human Resources	None	3,587,215		-
Medical Assistance - Medicaid Transport	93.778	Maryland Department of Health	MA366GTS	1,637,986		-
State Children Medicaid Program	93.778	Maryland Department of Health	MA286ACM	1,618,906		-
Medical Assistance - Admin Care Coordination	93.778	Maryland Department of Health	MA020EPS	394,553		95,078
Employer Group Waiver Plan (EGWP)	93.778	Centers for Medicare & Medicaid Services	None	4,230,361		-
Connector Entity Program for Navigator Services	93.778	Maryland Health Benefit Exchange	05-0X1-FY2018	599,909		-
Medical Assistance Program	93.778	Maryland State Department of Education	None	2,676,876	31,592,268	-
Total Medicaid Cluster					32,433,056	95,078
Research and Development Cluster -						
Microbiology Infectious Disease Research - HIV Positive Women	93.855	Georgetown University	412399_GR412234-MCH	64,442		-
Microbiology Infectious Disease Research - HIV Positive Women	93.855	Georgetown University	None	52,499	116,941	-
Total Research and Development Cluster					116,941	-
Early Detection & Control of Breast Cancer	93.898	Maryland Department of Health	FH438CBC	598,696	598,696	-
Ryan White Part A - FY17	93.914	Maryland Department of Health	None	432,990		-
Ryan White Part A - FY18	93.914	Maryland Department of Health	None	123,567	556,557	-
Ryan White Part A - FY17	93.917	Maryland Department of Health	None	21,460		-
HIV Care Formula	93.917	Maryland Department of Health	AD486RWS	1,088,909		-
AIDS Case Management	93.917	Maryland Department of Health	AD672CMA	16,387	1,126,756	-

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See accompanying Notes to Schedule of Expenditures of Federal Awards.

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Grant Title	Federal CFDA Number	Pass-through Agency	Federal/State Grant Number	Federal Expenditures	Total Expenditures Per Federal CFDA Number	Passed Through to Subrecipients
Department of Health and Human Services, continued:						
HIV Prevention Services	93.940	Maryland Department of Health	AD348PRV	$ 465,169	$ -	$ -
HIV Prevention Activities Health Department Based	93.940	Maryland Department of Health	CH632STD	10,403	475,572	-
Community Mental Health Services	93.958	Maryland Department of Health	MH234OTH	415,285	415,285	-
Overdoes Misuse Prevention	93.959	Maryland Department of Health	AS060MP	63,583		-
Prevention and Treatment of Substance Abuse	93.959	Maryland Department of Health	MU525ADP	277,721		-
Prevention and Treatment of Substance Abuse	93.959	Maryland Department of Health	AS241FED	561,431		-
Integration of Sexual Health & Recovery	93.959	Maryland Department of Health	AD680INT	72,351		-
Adminstrative Services	93.959	Maryland Department of Health	AS357ADM	158,289		-
HIV Testing in BH	93.959	Maryland Department of Health	AD724TBH	58,784	1,192,159	-
HIV Partner Services	93.977	Maryland Department of Health	CH632STD	20,804	20,804	-
Targeted Health Funding - Maternal and Child Health	93.994	Maryland Department of Health	None	586,793		-
Children with Special Needs	93.994	Maryland Department of Health	CH501CSN	48,282	635,075	-
Total Department of Health and Human Services					**59,861,062**	**4,455,601**
Corporation for National and Community Service:						
Retired and Senior Volunteer Program	94.002	Direct		39,378		-
Retired and Senior Volunteer Program	94.002	Direct		15,588	54,966	-
Maryland Volunteer Generation Fund	94.021	Governor's Office on Services and Volunteerism	14VGHMD001	7,977	7,977	-
Total Corporation for National and Community Service					**62,943**	-
Department of Homeland Security:						
Hurricane Harvey	97.025	Direct		371,167		-
FY18 FRS Hurricane Irma	97.025	Direct		107,683		-
FRS 2017 FEMA US&R Grant	97.025	Direct		556,241		-
FRS 2016 FEMA US&R Grant	97.025	Direct		37,165		-
FRS 2015 FEMA US&R Grant	97.025	Direct		327,394		-
FRS US&R Hurricane Maria	97.025	Direct		382,233	1,781,883	-

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See accompanying Notes to Schedule of Expenditures of Federal Awards.

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Grant Title	Federal CFDA Number	Pass-through Agency	Federal/State Grant Number	Federal Expenditures	Total Expenditures Per Federal CFDA Number	Passed Through to Subrecipients
Department of Homeland Security, continued:						
Emergency Management Performance	97.042	Maryland Emergency Management Agency	17-SR-8852-01	$ 362,144	$ 362,144	$ -
Assistant to Fire Fighters Grant	97.044	Direct	EMW-2016-FP-00527	79,659	79,659	-
FY15 UASI Infectious Disease Sanitation Equipment	97.067	DC - Homeland Security and Emergency Management Agency	15UASI535-06	15,919		-
FY15 Joint Command Vehicle for Law Enforcement (MDERS)	97.067	DC - Homeland Security and Emergency Management Agency	15UASI535-09	5,456		-
FY15 UASI Response Enhancement for Health Services	97.067	DC - Homeland Security and Emergency Management Agency	15UASI535-15	130,673		-
FY15 Radio Cache Equipment Refresh	97.067	DC - Homeland Security and Emergency Management Agency	15UASI535-18	3,199,980		-
FY16 Exercise & Training Officer	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-01	53,285		-
FY16 NIMS Compliance Officer	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-02	52,156		-
FY16 Volunteer & Citizen Corps Programs	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-03	234,317		-
FY16 Regional Planning	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-04	116,732		-
FFY16 Hospital Cache	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-05	98,250		-
FFY16 Hospital Surge	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-06	115,750		-
FFY16 LinX	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-07	678,695		-
FY16 Radio Cache -Maryland (Continuation)	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-08	116,875		-
FFY16 Medical Cache	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-09	183,975		-
FFY16 SWAT Vehicles	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-11	209,256		-
FFY16 Planning Cont. MD 5%	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-12	41,528		-
FFY16 Program Administration	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-13	47,928		-
FFY16 Public Safety	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-14	31,000		-
FFY16 Courthouse Video Sec.	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-15	223,521		-
FFY16 Correctional Facility	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-16	156,000		-
FFY16 Command Post Communications Equipment (MD 5%)	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-17	100,514		-
FFY16 EOC Exercises-MD 5%	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-18	100,786		-
FFY16 Tactical Medical Equip	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-19	290,251		-
FY16 Tactical Emergency Casualty Care (TECC) Kits Cont	97.067	DC - Homeland Security and Emergency Management Agency	16UASI535-20	119,798		-
FFY17 E&T Officer	97.067	DC - Homeland Security and Emergency Management Agency	17UASI535-01	67,936		-
FFY17 NIMS	97.067	DC - Homeland Security and Emergency Management Agency	17UASI535-02	56,931		-
FFY17 LinX	97.067	DC - Homeland Security and Emergency Management Agency	17UASI535-05	38,032		-

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See accompanying Notes to Schedule of Expenditures of Federal Awards.

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Grant Title	Federal CFDA Number	Pass-through Agency	Federal/State Grant Number	Federal Expenditures	Total Expenditures Per Federal CFDA Number	Passed Through to Subrecipients
Department of Homeland Security, continued:						
FFY17 Regional Planning	97.067	DC - Homeland Security and Emergency Management Agency	17UASI535-04	$ 148,295	$ -	$ -
FFY17 Volunteer	97.067	DC - Homeland Security and Emergency Management Agency	17UASI535-03	15,220		-
FFY17 Program Admin-Montgomery County Continuation (MD 5%)	97.067	DC - Homeland Security and Emergency Management Agency	17UASI535-13	9,665		-
FY17 UASI Radio Cache Continuation	97.067	DC - Homeland Security and Emergency Management Agency	17UASI535-06	6,676		-
Emergency Management Performance	97.067	Maryland Emergency Management Agency	17-SR8852-02	13,089		-
State Homeland Security Grant Program	97.067	Maryland Emergency Management Agency	15-GA8852-03	38,574		-
State Homeland Security Grant Program	97.067	Maryland Emergency Management Agency	16-SR8852-02	138,467	6,855,530	-
FY16 FRS Safer Grant Award	97.083	DC - Homeland Security and Emergency Management Agency	EMW-2016-FH-00482	215,211	215,211	-
FRS Securing the Cities Grant	97.106	DC - Homeland Security and Emergency Management Agency	HS-14-DNDO-106-001-03	19,664	19,664	-
Total Department of Homeland Security					9,314,091	-
TOTAL EXPENDITURES OF FEDERAL AWARDS					$ 166,224,029	$ 5,302,304

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See accompanying Notes to Schedule of Expenditures of Federal Awards.

MONTGOMERY COUNTY, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

NOTE 1 BASIS OF PRESENTATION

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

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

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

NOTE 2 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 the Uniform Guidance, are presented in the Schedule of Expenditures of Federal Awards.

NOTE 3 MARYLAND STATE DEPARTMENT OF EDUCATION (MSDE)

MSDE awarded grants from three different federal agencies. The total federal expenditures passed-through MSDE for FY 2018 was $5,766,073. The expenditures are presented in the Schedule under the Department of Education, (CFDA numbers 84.027, 84.173, 84.181), the Institute of Museum and Library Services, (CFDA number 45.310) and the Department of Health and Human Services (CFDA numbers 93.575, 93.778).

NOTE 4 INDIRECT COST

The County did not elect to use the 10-percent de minimis cost rate for indirect costs.

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Section I – Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
   - Material weakness(es) identified? ______ yes __x__ no
   - Significant deficiency(ies) identified not considered to be material weaknesses? ______ yes __x__ no
   - Noncompliance material to financial statements noted? ______ yes __x__ no

Federal Awards

1. Internal control over major federal programs:
   - Material weakness(es) identified? ______ yes __x__ no
   - Significant deficiency(ies) identified not considered to be material weaknesses? ______ yes __x__ no
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 510 (a)? ______ yes __x__ no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
93.558	Temporary Assistance for Needy Families
10.561	Supplemental Nutrition Assistance Program
93.777, 93.778	Medicaid Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $ 3,000,000

Auditee qualified as low-risk auditee? __x__ yes ______ no

MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None noted.

LANDFILL CLOSURE AND POST-CLOSURE COSTS
MONTGOMERY COUNTY, MARYLAND

INDEPENDENT ACCOUNTANTS' REPORT ON AGREED-UPON PROCEDURES

YEAR ENDED JUNE 30, 2018

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

The Honorable County Council of
Montgomery County, Maryland

We have performed the procedures enumerated below, which were agreed to by the management of Montgomery County, Maryland (County), solely to assist the County in evaluating management's assertion, contained in the Chief Financial Officer's letter (the Letter), including attachments, dated November 30, 2018, Annual Certification of Financial Assurance Mechanisms for Local Government Owners and Operators of Municipal Solid Waste Landfill Facilities (Attachment A), which addresses the County's compliance with the Federal Register (40 CFR Part 258, Subpart G) Criteria For Municipal Solid Waste Landfills – Financial Assurance Criteria. The County's management is responsible for the areas and information listed in this report. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purposes.

LANDFILL CLOSURE AND POST-CLOSURE COSTS

The agreed-upon procedures and associated findings are as follows:

A. Obtain the Letter from the Director of Finance that demonstrates financial assurance for closure and post-closure care costs as specified in 40 CFR §258, Subpart G, Financial Assurance Criteria:

   1. Compare the data and statements, as specified in the State Support Document for the Local Government Financial Test (prepared by the Environmental Protection Agency), contained in the accompanying letter with the audited financial statements of Montgomery County, Maryland as of and for the year ended June 30, 2018.

      No exceptions noted. The June 30, 2018 financial statements were audited by CliftonLarsonAllen LLP.

B. Determine that compliance with 40 CFR §258, Subpart G, Financial Assurance Criteria with respect to the Local Government Financial Test is met by completing the following:

   1. Obtain the total remaining closure and post-closure, costs to be assured and the local government's total annual revenue. Calculate the ratio of remaining closure and post-closure costs to total annual revenue and determine this ratio satisfies the requirement of being less than or equal to 43%.

      No exceptions noted. The closure and post-closure costs are within 43% of the local government's total annual revenue.

2. Inquire as to whether the County assumes other environmental obligations, including those associated with Underground Injection Control (UIC) facilities under 40 CFR 144.62, petroleum underground storage tank facilities under 40 CFR Part 280, Polychlorinated Biphenyls (PCB) storage facilities under 40 CFR Part 761, and Hazardous Waste Treatment, storage and disposal facilities under 40 CFR Parts 264 and 265. If yes, review the total remaining closure and post-closure costs from B1 above and determine costs for other environmental obligations are included.

   No other environmental obligations were noted.

3. If costs in B1 or B2 above exceed the 43% limits, obtain evidence that an alternate financial assurance instrument exits, which includes a letter of credit, insurance or other collateral or guarantee.

   Not applicable. The costs in B1 or B2 above did not exceed the 43% limits.

4. If there are outstanding, rated, general obligation bonds that are not secured by insurance, a letter of credit or other collateral or guarantee, obtain the current bond rating from Moody's and Standard and Poor's rating agencies and determine these ratings satisfy the following requirements:

   a. Moody's – Aaa, Aa, A, or Baa OR
   b. Standard and Poor's – AAA, AA, A, or BBB.

   No exceptions noted. The bonds are currently rated Aaa by Moody's and AA+ by Standard & Poor's.

5. If the bond rating requirements in B4 have not been met, recalculate the following ratios:

   a. A ratio of cash plus marketable securities to total expenditures greater than or equal to 0.05;
   b. A ratio of annual debt service to total expenditures less than or equal to 0.20.

   This calculation is not required as the County has met the bond rating requirements in B4 above.

6. Obtain the Comprehensive Annual Financial Report and by reading the independent auditor's report, determine that:

   a. The County prepares its financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and they are audited by an independent Certified Public Accountant.
   b. An adverse opinion, disclaimer of opinion, or other modified opinion was not issued from the independent Certified Public Accountant auditing the Comprehensive Annual Financial Report.

   No exceptions noted. The County prepares its financial statements in accordance with generally accepted accounting principles (GAAP), are audited by CliftonLarsonAllen, LLP and the County received an unmodified opinion as of and for the year ended June 30, 2018.

7. Through inquiry with management determine that the County is not currently in default on any of its outstanding general obligation bonds.

   No exceptions noted. Through inquiry with management, the County is not currently in default on any of its outstanding general obligation bonds.

8. Obtain the total annual revenues and total annual expenditures for the County for the past two fiscal years. Calculate the operating surplus or deficit for each year by subtracting the total annual expenditures from the total annual revenues. If the County operated at a deficit for either of the past two fiscal years, determine that the deficit was not equal to 5% or more of its total annual revenue.

   No exceptions noted. The County, as indicated in the letter and attachments, was not operating at a deficit for each of the years ended June 30, 2018 and 2017, per review of the financial statements.

9. Obtain and read the footnote(s) for closure and post-closure costs, determine that the following is disclosed in the audited financial statements:

   a. Nature and source of closure and post-closure care requirements;
   b. The reported liability of closure and post-closure costs at the balance sheet date;
   c. The estimated total closure and post-closure care costs remaining to be recognized;
   d. The percentage of landfill capacity used to date;
   e. The estimated landfill life in years.

   No exceptions noted. All items noted above are disclosed in the June 30, 2018 financial statements.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on Montgomery County's compliance with the reporting requirements as specified by the U.S. Environmental Protection Agency (EPA) pursuant to 40 CFR §258, Subpart G, Financial Assurance Criteria with respect to the Local Government Financial Test for the year ended June 30, 2018. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use by management and the County Council of Montgomery County, Maryland, and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 30, 2018

CliftonLarsonAllen

CliftonLarsonAllen LLP
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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

The Honorable County Council
Montgomery County, Maryland

We have performed the procedures enumerated below, on the application of the requirements of the Federal Transit Administration (FTA) as set forth in its applicable National Transit Database (NTD) Uniform System of Accounts (USOA) by Montgomery County, Maryland (the County) for the fiscal year ended June 30, 2018. Such procedures, which were agreed to by the Montgomery County Council, management of the County and the FTA, were performed to assist the County and FTA in determining conformance with USOA requirements based on the following assertion by the County's management:

> The accounting system from which the NTD reports for the year ended June 30, 2018, were derived, uses the accrual basis of accounting and is directly translated, using a clear audit trail, to the accounting treatment and categories specified by the USOA.

The County's management is responsible for conformance with the requirements described above. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The agreed-upon procedures and associated findings are as follows:

1. Procedure: NTD Crosswalk

a. Obtained the following NTD Reporting Forms prepared by management for the year ended June 30, 2018:
   - NTD Form F-10, Sources of Funds – Funds Expended and Funds Earned (USOA Section 2)
   - NTD Form F-20, Uses of Capital (USOA Section 3)
   - NTD Form F-30, Operating Expenses (USOA Section 4, 5, and 6 and Appendix A)
   - NTD Form F-40, Operating Expenses Summary

b. Obtained the reconciliation documentation management prepares (referred to as "the crosswalk" throughout this report) to reconcile the chart of accounts, general ledger, and/or trial balance and other supporting documents such as Excel spreadsheets (collectively referred to as the accounting system) to the respective NTD Reporting Forms identified above.

c. Inquired of management as to whether the crosswalk obtained in procedure 1.b is supported by the accounting system.

d. For a transit agency that is part of a larger reporting entity, inquired of management as to whether the crosswalk includes the full cost of providing transit service, including costs incurred by the larger reporting entity to specifically support the agency's transit service.

e. Inspected the crosswalk to determine that it incorporates NTD reporting using the applicable modes and types of service identified in the bulleted list below:

- Sources of Funds, Form F-10 – Funding sources, passenger fares by mode and service type, passenger fares by passenger paid or by organization paid fares, revenue object class, and funds expended on operations and capital fund types
- Uses of Capital, Form F-20 - Type of use, asset classifications, and modes and service types
- Operating Expenses, Form F-30 - Modes, service types, object classes and functions
- Operating Expenses Summary, Form F-40 - Expense reconciling items

Findings:
No exceptions were found as a result of this procedure.

2. Procedure: Accrual Accounting

a. Obtained the most recent audited financial statements that include the transit agency and inspected the notes to the financial statements to determine whether the accrual basis of accounting was used.

b. Inquired of management as to whether the accrual basis of accounting has continued to be used since the last audited reporting period and that it is used for NTD reporting in the current period.

c. If the notes to the financial statements indicated that an accrual basis of accounting is not being used, or the results of the inquiry to management in procedure 2.b indicates the accrual basis of accounting is not being used in the current period, inspected the crosswalk to determine that the transit agency made adjustments to convert to an accrual basis for NTD reporting.

Findings:
No exceptions were found as a result of this procedure. The accrual basis of accounting was used.

3. Procedure: Sources of Funds (Form F-10)

a. Traced and agreed total sources of funds from Form F-10 to revenue reported in the accounting system using the crosswalk.

b. Inspected the crosswalk for a written reconciliation between total revenues reported in the audited financial statements or the accounting system and the total revenues reported on Form F-10.

c. Traced and agreed the two largest directly generated fund passenger fare revenue modes (all service types) from Form F-10 to the accounting system.

d. Traced and agreed the largest revenue object class (other than passenger fares) in the following major categories of funds from Form F-10 to the accounting system: (1) Local Government; (2) State Government; (3) Federal Funds; and (4) Other Directly Generated Funds (i.e., 4100 and 4200 combined).

e. Inspected the crosswalk to determine that it identified, evaluated, and classified financial transactions into categories of funds expended on operations and funds expended on capital (USOA Section 2) for the reporting year.

Findings:
No exceptions were found as a result of this procedure.

4. Procedure: Uses of Capital (Form F-20)

a. Obtained accounting system documentation on capital asset additions for the reporting period.

b. Traced and agreed total uses of capital from Form F-20 to the crosswalk reconciliation of total capital asset additions.

c. Traced and agreed types of use (existing service and expansion of service) from Form F-20 to the crosswalk or other supporting documentation reflecting the nature of the uses of capital.

d. Traced and agreed asset classifications (guideway, revenue vehicles, etc.) from Form F-20 to the crosswalk or other documentation reflecting the assets classes of capital additions.

e. For the largest mode/service type, traced and agreed the type of use classification and asset classification from Form F-20 to the crosswalk or other documentation reflecting the uses of capital.

f. If capital projects support multiple modes/types of services and/or asset classifications, inquired of management as to whether management reported the use of capital considering the predominant use rules as described in the "Predominant Use" section of the 2018 NTD Policy Manual.

g. If capital projects involve: 1) Rehabilitation/Reconstruction/Replacement/Improvement for Existing Service; and 2) Expansion of Service; inquired of management as to whether project costs were allocated between the two project purposes and whether such allocation was documented in the crosswalk or other supporting documentation.

Findings:
No exceptions were found as a result of this procedure.

5. Procedure: Operating Expenses (Form F-30)

a. For the two largest modes/type of services, traced and agreed functions (vehicle operations, vehicle maintenance, etc.) from Form F-30 to the crosswalk or other written documentation of functional expenses.

b. For the two largest modes/type of services, traced and agreed object classes (natural expenses) from Form F-30 to the crosswalk or other written documentation of object class categories.

The Honorable County Council
Montgomery County, Maryland

c. If management allocated shared operating expenses, inquired of management as to whether (1) the operating expenses are split between direct and shared costs; (2) shared costs were allocated across modes, services types and functions, (3) the allocation was documented in the crosswalk or other supporting documentation; and (4) the driving variables used are updated annually.

Findings:
No exceptions were found as a result of this procedure.

6. Procedure: Operating Expenses Summary (Form F-40)

a. Obtained total expenses from the accounting system for the reporting period. Traced and agreed total expenses from Form F-40 to the accounting system using the crosswalk.

b. Traced and agreed the reconciling items appearing on Form F-40 through the crosswalk to the accounting system.

Findings:
No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, the County's conformance with the requirements described above, for the year ended June 30, 2018. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of the Montgomery County Council, management of the County and the FTA and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
December 12, 2018

MARYLAND 911 EMERGENCY NUMBER SYSTEMS PROGRAM MONTGOMERY COUNTY, MARYLAND

SCHEDULE OF MAINTENANCE AND OPERATING REVENUES AND EXPENDITURES

YEAR ENDED JUNE 30, 2018

MARYLAND 911 EMERGENCY NUMBER SYSTEMS PROGRAM
MONTGOMERY COUNTY, MARYLAND
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INDEPENDENT AUDITORS' REPORT

The Honorable County Council
of Montgomery County, Maryland
Maryland 911 Emergency Number Systems Program
Rockville, Maryland

Report on the Financial Statements

We have audited the accompanying Schedule of Maintenance and Operating Revenues and Expenditures of the Maryland 911 Emergency Number Systems Program of Montgomery County, Maryland (the County 911 Program) for the year ended June 30, 2018, and the related notes to the schedule.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this schedule based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The Honorable County Council
of Montgomery County, Maryland
Maryland 911 Emergency Number Systems Program

Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the revenues and expenditures of the County 911 Program for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, 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, the basic financial statements of Montgomery County, Maryland as of and for the year ended June 30, 2018 and our report thereon, dated November 30, 2018, expressed an unmodified opinion on those financial statements.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
November 30, 2018

MARYLAND 911 EMERGENCY NUMBER SYSTEMS PROGRAM
MONTGOMERY COUNTY, MARYLAND
SCHEDULE OF MAINTENANCE AND OPERATING
REVENUES AND EXPENDITURES
YEAR ENDED JUNE 30, 2018

REVENUES	
Revenue Remitted to the County	$ 6,793,404
Pre-paid Revenue Remitted to the County	906,649
Interest	42,267
Total Revenues	7,742,320
EXPENDITURES	
Salary, Wages and Fringe Benefits	15,815,869
Overtime	1,836,557
Training	12,350
Supplies and Materials	30,832
Travel	510
Telephone	1,194,552
Equipment - Replacement	1,366
Repairs and Maintenance	68,175
Fuel and Utilities	345,995
Building Expenses	858,434
Other Miscellaneous	468,899
Total Expenditures	20,633,539
OPERATING EXPENDITURES IN EXCESS OF REVENUES	$ (12,891,219)

See accompanying Notes to Schedule of Maintenance and Operating Revenues and Expenditures.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

911 is the three-digit telephone number that has been designated for public use throughout the United States in requesting emergency assistance. The 911 System (the System) allows an individual to reach a centralized dispatch center for all emergency services, eliminating the need to recall the separate 10-digit numbers for each emergency service provided in a political jurisdiction. Generally, each political jurisdiction maintains a centralized dispatch center.

Basis of Accounting and Financial Statement Presentation

The Schedule of Maintenance and Operating Revenues and Expenditures is prepared on the modified accrual basis of accounting whereby revenues are recorded when susceptible to accrual, which is defined as when the revenues are both measurable and available. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon thereafter to pay liabilities of the current period (i.e., within 60 days after year-end). Expenditures are recorded when the liability is incurred.

The accompanying Schedule of Maintenance and Operating Revenues and Expenditures was prepared to present the maintenance and operating revenues and expenditures of the County's 911 System centralized dispatch center pursuant to Section 1-312 of the Code, which prescribes accounting procedures for 911 maintenance and operating revenues and expenditures, and establishes limits on the types and amounts of revenues that can be used for personnel and other maintenance and operating expenditures.

The Schedule of Maintenance and Operating Revenues and Expenditures reflects the designated revenue from the Emergency Number Systems Board of the Maryland Department of Public Safety and Correctional Services (the Board) and the expenditures incurred to run the System. The County funds the difference between the Board revenue and total expenditures.

Statutory Reporting

The reported revenues and expenditures of the Program are included in the County's General Fund and include the following:

Revenues

A County fee (additional charge) of $.75 per month per subscriber to 911-accessible service and a prepaid wireless fee of $.60 per retail transaction is deposited into the State 911 Trust Fund and distributed (on a quarterly basis) to Montgomery County by the Maryland Department of Public Safety and Correctional Services for eligible operation and maintenance costs. The County fee is pursuant to Title 1, Subtitle 3, Section 1-311 and Section 1-313 of the Annotated Code of Maryland. Distribution of any interest earned is done so at the discretion of the Board.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statutory Reporting (Continued)

Expenditures:

Reported expenditures for eligible operation and maintenance costs include telephone company charges, equipment costs or equipment lease charges, system enhancements, repairs, utilities, personnel costs, and appropriate carryover costs from previous years (Maryland Annotated Code, Public Safety Article Section 1-312(b)).

CONTRACT AMENDMENT #4
CONTRACT NUMBER 425820958

This Amendment is entered into between MONTGOMERY COUNTY, MARYLAND, on behalf of the County Council for Montgomery County, Maryland ("Council"), and CliftonLarsonAllen LLP, 1966 Greenspring Drive, Suite 300, Timonium, MD 21093 ("Contractor").

BACKGROUND

1. The Council and the Contractor entered into Contract No. 425820958 on May 17, 2016. The current contract expires on August 16, 2019.
2. The purpose of this Contract is to provide for auditing services as required by Section 315 of the Montgomery County Charter.
3. The Auditor's services are needed to conduct the Fiscal Year 2019 audit. This Contract Amendment renews the contract for the final of the three (3) one-year renewal periods allowed under the Contract.
4. Under this Contract, Article V. "Payments", Paragraph F. Payments in Subsequent Years., the Contractor may request a price adjustment based on the CPI for all urban consumers issued for the Washington-Baltimore, DC-MD-VA-WV Metropolitan area by the United States Department of Labor, Bureau of Labor Statistics. The Auditor did not request a price adjustment for conducting the Fiscal Year 2019 audit.

CHANGE

1. Article V. "Payments", Paragraph A., Subparagraph 1. Payment for Subparagraphs 1, 2, 3, 4, 11a, and 12a:

   - County Government Basic Financial Statements Audit
   - Single Audit
   - Maryland State Uniform Financial Report
   - Fiscal Year Closing
   - Management Letter
   - Assistance with GFOA Certificate of Achievement for Excellence in Financial Reporting

   is amended by adding the following:

   d. The County will pay the Contractor a fixed fee not to exceed $221,220 for Fiscal Year 2019 audit services performed under this portion of the Contract. The Council will pay the Contractor on a monthly basis for work completed during the month, on the condition that the Contract Administrator determines, in his or her sole discretion, that the Contractor is making satisfactory progress toward completing all auditing services. The Independent Audit Non-Departmental Account is the source of funds. The Contract Administrator is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

2. Article V. "Payments", Paragraph A., Subparagraph 2. Payment for Subparagraph 5 – Agreed-Upon Procedures for the National Transit Database Report is amended by adding the following:

   c. The County will pay the Contractor a fixed fee not to exceed $8,350 for Fiscal Year 2019 audit services performed under this portion of the Contract. The County will pay the Contractor in two equal installments, with the first installment paid upon completion of the Contractor's field work, and the second installment paid after the Council accepts the deliverables described in Article II. "Deliverables", Paragraph B., Subparagraph 5. The Independent Audit Non-Departmental Account is the source of funds. The Contract Administrator is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

3. Article V. "Payments", Paragraph A., Subparagraph 3. Payment for Subparagraph 6 – Agreed-Upon Procedures for the Chief Financial Officer's Annual Certification of Financial Assurance Mechanisms for Local Government Owners and Operators of Municipal Solid Waste Landfill Facilities is amended by adding the following

   c. The County will pay the Contractor a fixed fee not to exceed $2,860 for Fiscal Year 2019 audit services performed under this portion of the Contract. The County will pay the Contractor after the Council accepts the deliverables described in Article II. "Deliverables", Paragraph B., Subparagraph 6. The Solid Waste Disposal Fund will be the source of funds. The Department of Environmental Protection is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

4. Article V. "Payments", Paragraph A., Subparagraph 4. Payment for Subparagraph 7 – 9-1-1 System Audit is amended by adding the following:

   c. The State of Maryland will pay the Contractor a fixed fee not to exceed $4,310 for Fiscal Year 2019 audit services performed under this portion of the Contract. The State will pay the Contractor upon the Emergency Number Systems Board's acceptance of the deliverables described in Article II. "Deliverables", Paragraph B., Subparagraph 7. Emergency Number Systems Board funds will be the source of funds. The Emergency Number Systems Board is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

5. Article V. "Payments", Paragraph A., Subparagraph 5. Payment for Subparagraphs 8, 11b and 12b:

   - Employee Retirement Plans Basic Financial Statements Audit
   - Management Letter
   - Assistance with GFOA Certificate of Achievement for Excellence in Financial Reporting

   is amended by adding the following:

   c. The County will pay the Contractor a fixed fee not to exceed $40,010 for Fiscal Year 2019 audit services performed under this portion of the Contract. The County will pay the Contractor on a monthly basis for work completed, on the condition that the Board of Investment Trustees' designee determines that the Contractor is making satisfactory progress toward completing all auditing services. The Employees' Retirement System, the Retirement Savings Plan, and the County's General Fund (on behalf of the Deferred Compensation Plan) will be the source of funds. The Contract Administrator and the Board of Investment Trustees' designee are responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

6. Article V. "Payments", Paragraph A., Subparagraph 6. Payments for Subparagraphs 10, 11c:

    - Montgomery County Union Employees Deferred Compensation Plan Audit
    - Management Letter

   is amended by adding the following:

   c. The County will pay the Contractor a fixed fee not to exceed $16,630 for Fiscal Year 2019 audit services performed under this portion of the Contract. The County will pay the Contractor on a monthly basis for work completed during the month, on the condition that the Contract Administrator determines, in his or her sole discretion, that the Contractor is making satisfactory progress toward completing all auditing services. The Independent Audit Non-Departmental Account is the source of funds. The Contract Administrator is responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

7. Article V. "Payments", Paragraph A., Subparagraph 7. Payments for Subparagraph 9:

    - Other Post-Employment Benefits

   is amended by adding the following:

   b. The County will pay the Contractor a fixed fee not to exceed $28,000 for Fiscal Year 2019 audit services performed under this portion of the Contract. The County will pay the Contractor on a monthly basis for work completed during the month, on the condition that the Contract Administrator and Board of Trustees' determines, in his or her sole discretion, that the Contractor is making satisfactory progress toward completing all auditing services. The Consolidated Retiree Health Benefits Trust is the source of funds. The Contract Administrator and the Board of Trustee's designee are responsible for approving invoices and paying the Contractor for services satisfactorily performed under this portion of the Contract.

8. This Contract is renewed for an additional term of one year from August 17, 2019 through August 16, 2020.

EFFECT

1. Existing Contract terms remain in effect unless specifically changed by this Amendment.
2. This Amendment is entered into prior to the expiration of the Contract.
3. This Amendment is entered into on the date of signature by the President of the County Council for Montgomery County, Maryland.
4. No goods or services are to be provided pursuant to this Amendment until it is signed by the President of the County Council for Montgomery County, Maryland.

(Signature Page Follows)

WITNESS

CliftonLarsonAllen LLP

BY:____________________________________ DATE _______________

Sean Walker, Principal
CliftonLarsonAllen LLP

Montgomery County, Maryland

BY:____________________________________ DATE _______________

Nancy Navarro, President
Montgomery County Council

Approved to as to form and legality:

BY:____________________________________ DATE _______________

Walter Wilson
Associate County Attorney

Resolution No.: ______________
Introduced: ______________
Adopted: ______________

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Audit Committee

SUBJECT: Renewal of Council Contract for Audit Services

Background

1. Section 315 of the Montgomery County Charter states that: "The Council shall contract with, or otherwise employ, a certified public accountant to make annually an independent post audit of all financial records and actions of the County, its officials and employees."

   The Montgomery County Code (Section 33-51(c)) indicates that: "An independent audit of the retirement system will be completed annually by the firm of certified public accountants under contract with the Council."

   The Montgomery County Code (Section 21-24(d)) states that: "Financial transactions involving County fire tax funds must be included in the annual audit required by the Charter."

2. Council Resolution No. 16-326, adopted October 2, 2007, established Council procedures for the selection of the independent auditor. The procedures direct the Council's Management and Fiscal Policy Committee to perform the functions of the Contractor Qualification and Selection Committee, including reviewing and evaluating proposals and recommending independent auditors to the County Council.

3. Council Resolution No. 16-826, adopted January 27, 2009, established a Council Audit Committee consisting of the members of the Management and Fiscal Policy Committee (currently known as the Government Operations and Fiscal Policy Committee) and the Council President and Council Vice President as ex officio members. The Audit Committee is charged with providing oversight of, among other things, County audit activities and fulfills the functions of the Management and Fiscal Policy Committee established in Council Resolution No. 16-326.

4. The procedures in Council Resolution No. 16-326 indicate that the final selection of the independent auditor will be made by the County Council.

5. The Audit Committee unanimously recommends that the Council renew the contract with the firm of CliftonLarsonAllen LLP to conduct the audit of the County Government financial statements for the fiscal year ending June 30, 2019; the audit of the Montgomery County Employee Retirement Plans financial statements for the fiscal year ending June 30, 2019; the audit of the Montgomery County Consolidated Retiree Health Benefits Trust for the fiscal year ending June 30, 2019; the audit of the Montgomery County Union Employees Deferred Compensation Plan financial statements for the calendar year ending December 31, 2019; and other tests, reviews and certifications. This is the last renewal for the contract with CliftonLarsonAllen LLP.

Action

The County Council for Montgomery County, Maryland approves the following resolution:

> The County Council for Montgomery County, Maryland authorizes the Council President to renew the contract with CliftonLarsonAllen LLP to conduct the audit of the County Government financial statements for the fiscal year ending June 30, 2019; the audit of the Montgomery County Employee Retirement Plans financial statements for the fiscal year ending June 30, 2019; the audit of the Montgomery County Consolidated Retiree Health Benefits Trust for the fiscal year ending June 30, 2019; the audit of the Montgomery County Union Employees Deferred Compensation Plan financial statements for the calendar year ending December 31, 2019; and other tests, reviews and certifications.

This is a correct copy of Council action.

____

Megan Davey Limarzi, Esq.
Clerk of the Council

Summary of Findings

Four individuals served in the position of Director of the Department of Economic Development between 1995 and 2016:

- DED Director 1 served from 1995 until 2006 during the creation of the Incubator Program[2], and subsequently served as Maryland Secretary of Business & Economic Development, as a Senior and Executive Vice President with different banks, and currently with Scheer Partners Management, Inc. (Scheer), a commercial office real estate firm and a sub-contractor to DED with whom he has served as a Senior Vice President since 2011. Former DED Director 1 was replaced as department director during the government transition that followed the election of County Executive Isiah Leggett.
- DED Director 2 succeeded DED Director 1, and served until 2009,
- The Former DED Director served between 2009 and 2015, and
- A person we will refer to as the Former Acting DED Director, who had served previously as the Director of the Rockville Economic Development Inc. (REDI) and as the former Deputy Director of DED, served as Acting DED Director from January 2015 until the DED was dissolved and replaced in 2016 by a non-profit, public-private partnership, the Montgomery County Economic Development Corporation (MCEDC) created with the recommendation of the County Executive and vote of the Council.

Finding 1 Former DED Directors used a 2006 agreement with a public entity to escape oversight by County government and create a standing reserve fund for use by the DED Director. The fund's availability increased the risk of improper financial transactions.

A 2006 Management Agreement (2006 Agreement) between Montgomery County and the Maryland Economic Development Corporation (MEDCO), a public entity[3], contains a Special Reserve Account funded from any royalties and annual operating surpluses, which provided the

[2] The Business Innovation Network traces its origins to the 1993 Montgomery County Technology Center in Rockville.

[3] County Code 11B-1 defines *Public entity* as: (1) the federal government; (2) a state government and any of its agencies; (3) any political subdivision of a state government and any of its agencies; (4) any board, commission, or committee established by federal, state, or local law; (5) any organization or association of the federal government, state governments, or political subdivisions of state governments; and (6) any other entity that is: (A) qualified as a non-taxable corporation under the United States Internal Revenue Code, as amended; and (B) incorporated by an entity under paragraphs (1) through (5) for the exclusive purpose of supporting or benefiting an entity under paragraphs (1) through (5)

DED with complete control of unused public funds available for the procurement of unspecified economic development projects approved at the sole discretion of the DED Director.

This arrangement circumvented management controls established by the County government, avoided transparency and oversight by elected County officials, and created a standing reserve fund for use by the DED Director. The County is required to follow County procurement law,[4] which does not require a public solicitation or justification for a public entity, non-competitive procurement. Contracting controls did, however, require that the Director of the Office of Procurement determine that the engagement was in the best interest of the County, and that the contract otherwise meets the legal and risk management review requirements set out under County procurement regulations.[5] DED circumvented all of these requirements, and was able to misuse the public entity contract with MEDCO to avoid existing management and financial controls.

The Special Reserve Account appears to trace its origin to the County's June 1998 Grant Agreement[6] with MEDCO to manage the Incubator Program housed in a facility that would result from MEDCO's issuance of Lease Revenue Bonds for the Maryland Technology Development Center.[7]

The 1998 Grant Agreement and 1998 Trust Indenture coordinated language to establish a Special Account at MEDCO to accumulate funds[8], the existence and amounts of which would not be readily apparent to management, the Council, or County residents (a relationship hereafter referred to as "Off-Book"). This Off-Book account appears to have been carried forward into the subsequent grant agreements for additional Incubator Program facilities and their renewals.[9]

After it entered into the management agreement with the County, MEDCO employed Scheer[10], the firm referenced above, as a subcontractor to provide facility management, accounting, and related services for the Incubator Program at that facility.

4 County Code, §11B, generally.

5 County Code, §11B-41. COMCOR §§11B.00.01.01.3 and 11B.00.01.09.2.

6 §1.1, Grant Agreement dated June 1, 1998 between The Maryland Economic Development Corporation and Montgomery County, Maryland. This agreement was recommended by then DED Director 1, and signed by then County Executive Doug Duncan.

7 Trust Indenture for the $4,490,000 Maryland Economic Development Corporation Taxable Lease Revenue Bonds (Maryland Technology Development Center Project), Series 1998, Dated as of June 1, 1998, between Maryland Economic Development Corporation, As Issuer, and Crestar Bank, As Trustee.

8 The agreements define the calculation of an "Operating Surplus" which may be deposited into a "Special Account" "only if the MIDFA Insurance Agreement is not in effect, MEDCO shall deposit the Operating Surplus into a separate interest bearing account (the "Special Account"), Monies deposited into the Special Account may only be used for economic development projects in Montgomery County, Maryland, as approved by the Director of the Montgomery County Department of Economic Development (the "Director")." 1998 Grant Agreement §1.1. 1998 Trust Indenture §4.08.

9 The Special Reserve Accounts (alternately, Special Account) remained as a feature in the 2006 revision of the DED Management Agreement (2006 Agreement) with MEDCO and subsequent 2007 and 2016 grant agreements.

10 This arrangement between MEDCO and Scheer occurred during DED Director 1's term. DED Director 1 currently serves as a Senior Vice President of Scheer.

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Finding 1(a)Essential segregation of duties were absent within DED.

"Segregation of Duties"

> Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.
>
> *Source: GAO-14-704G Federal Internal Control Standards*[11]

The 2006 Agreement specified that the DED Director could make decisions or authorize actions without additional consent or approval from the County, and could designate such authority to other individuals. The agreement, as created through MEDCO and Scheer by then DED Director 1, and implemented by later DED Directors, either through intentional design or unintended consequence, ultimately ensured that all financial transactions and information related to the Incubator Program, although available to other entities within the County, would pass through the DED COO.

Budget formulation, budget execution, vendor engagement and management, and invoice processing and approval are responsibilities normally expected to be implemented and managed with appropriate segregation of duties within individual departments and offices within County Government. Decentralized management relies on the design and execution of effective controls at departmental levels, and the existence of centralized oversight and monitoring functions. Prior to August 2017, segregation of duties under the County's decentralized management concept was expected but not required, nor was there an external system of enforcement.

Accordingly, there were no systems in place designed to detect deviations on the parts of the departments that could indicate the misappropriation of County funds. Further, the lack of a formal, documented procurement-exempt agreement policy resulted in a gap in oversight that failed to identify ineffective department controls and allowed for the misappropriation of County assets.

This put the DED COO in a position to act with the full authority of DED management, but outside its oversight and outside the purview of internal controls in place for transactions within the County's systems. DED management did not implement effective internal controls designed to exercise its oversight responsibility, monitor the department's control systems related to payment approval authorities, safeguard against unsegregated key duties, nor evaluate results.

11 Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government*, page 47. Government Printing Office, September 2014.

This situation represented a lack of segregation of duties that should have been recognized and corrected by DED management.

The agreements containing the Special Reserve Account arrangements were made openly, and seemingly with appropriate County approvals.[12] These circumstances, when combined with financial management control weaknesses (discussed later in this document) that existed within the County Department of Finance (DoF), left the County government vulnerable to losses from improper or inappropriate payments, and had future consequences.

Subsequent DED Directors either did not recognize or were unconcerned about the inherent operating vulnerabilities created by the 1998 and 2006 agreements. We found no indication that either the County Department of Finance or the County Office of Management and Budget were aware of or ever expressed concerns about these vulnerabilities.

Finding 1(b)Top-level DED management oversight was extremely weak.

In a voluntary interview during August 2018, the Former DED Director described his management of DED as "Hands Off". Other evidence we located indicates that the Former DED Director was not engaged in daily DED operations. In a June 2009 e-mail, the DED managers were advised to go through the Former DED Director's calendar and send him "a BRIEF e-mail updating him on any issue(s) that may be discussed during his meetings for that week." The purpose of the "bulleted" e-mails was to be sure that the Former DED Director was aware of what the staff reported they were doing in a concise fashion. This change followed an earlier message in which the DED COO had been directed to reduce the Director's weekly meeting with the department managers from one hour to one half-hour.

Politically appointed Directors are often short-tenured, focused on executing the policy objectives of an administration, and may not be either willing or qualified to manage career staff in a governmental organization. Career senior managers must be relied upon to carry out the agenda of the elected officials and their political appointees. However, those managers, especially those with financial responsibilities, should not be allowed to become entrenched in their program areas and immune to oversight and administrative or accounting controls.

[12] In June 1998, then DED Director 1 recommended a bond indenture agreement and Management Agreement, reviewed by an OCA Staff Attorney and signed by then County Executive Doug Duncan that established a Special Account at MEDCO to be funded by operating surpluses

"Tone at the Top"

> The oversight body and management lead by an example that demonstrates the organization's values, philosophy, and operating style. The oversight body and management set the tone at the top and throughout the organization by their example, which is fundamental to an effective internal control system. In larger entities, the various layers of management in the organizational structure may also set "tone in the middle."[13]
>
> *Source: GAO-14-704G Federal Internal Control Standards*

The Former DED Director acknowledged that he had provided his password to the DED COO and possibly to other staff members, although he could not specifically remember with which other staff members he might have shared his password. Access to the shared password would have given the DED COO the ability to log on to the County information technology system as the Former DED Director and conduct transactions, such as sending e-mails, under the Former DED Director's name.

It might have been possible under those circumstances for the DED COO to have hidden e-mails from the Former DED Director. However, attempting to cover the traces of e-mails so that the Former DED Director would not have been aware of them would have required numerous steps. It is probable that then Former DED Director would have detected any proxy e-mails, unless he seldom checked his own e-mail. Nonetheless, during the August 2018 interview, the Former DED Director was presented with hard copies of many e-mails that appeared to have originated from his e-mail address and been sent by him. Some of the e-mails he claimed not to remember. Some of the e-mails, he further claimed, did not appear to be his work products.

Montgomery County's Administrative Procedure 6-7 and Computer Security Guidelines direct that employees must not share identification passwords with others.[14] Connection and access to computing resources is controlled through unique user identification (user-ids) and authentication (passwords). The Administrative Procedure states *"Each individual granted this privilege is responsible and accountable for work done under their unique identifier"* (IG emphasis added).[15] Administrative Procedures caution that "A County employee who violates this administrative procedure may be subject to disciplinary action, in accordance with [applicable laws and regulations[16]]" and that "[v]iolation of this procedure is prohibited and may lead to disciplinary action, including dismissal, and other legal remedies available to the County."[17]

Further examples of inadequate management oversight are presented in the discussion of Finding 2.

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13 Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government*, §1.03, page 22. Government Printing Office, September 2014.

14 Administrative Procedure 6-7 6-7 §4.4(B), and Computer Security Guidelines §5.2.

15 Computer Security Guidelines §2.

16 Montgomery County laws and executive regulations, including Personnel laws and regulations, and Ethics Laws, currently codified at Chapter 33, COMCOR Chapter 33, and Chapter 19A of the County Code, respectively, and applicable collective bargaining agreements, as amended.

17 Administrative Procedure 6-7 §3.6

Recommendation 1: We recommend that County management provide and ensure implementation of specific and adequate guidance relating to public entity procurement regulations and guidelines for departments and agencies, to ensure they observe the intent of County public entity purchasing laws and appropriate use. It should be emphasized that serious consequences arise when an entity acts in any manner to circumvent contracting, financial, and procurement controls because the entity's management deems them to be an impediment to their operations.

Recommendation 1(a): County management should ensure that it divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Recommendation 1(b): Periodic rotation of staff with financial responsibilities is a fraud prevention and detection technique. Periodic rotation of managers is an accepted executive development and succession planning technique. We recommend the periodic rotation of career managers among departments to help prevent them from becoming entrenched in their program areas and immune to oversight and administrative or accounting controls.

Flawed Execution of Two Department of Economic Development BioScience Initiatives

BioSciences emerged as a strategic economic initiative for the County during the fall of 2008.[18] At that time, press releases and internal memoranda indicate that the County Executive, County Council, and County management were focused on stimulating economic growth from new and previously untapped opportunities that existed within the County.

In December 2008, then DED Director 2 distributed an economic development strategy entitled "A Vision for Economic Development in Montgomery County' (DED Strategic Plan). That plan presented reasonably well articulated and measurable goals, action items, and related accomplishments for economic development in Montgomery County. Bioscience initiatives were addressed in the document.

Execution of the Chungcheongbuk-do Initiative

The County, led by County Executive Isiah Leggett and accompanied by local business leaders and a DED contingent, undertook a trade mission in October 2008 to visit the Republic of Korea (Korea) and its Osong biotechnology cluster. The mission promoted Montgomery County to South Korean companies seeking North America strategic opportunities, and encouraged investment in County's life sciences and advanced technology sectors. During this visit, the Governor of Chungcheongbuk-do Province Korea (Chungcheongbuk-do) pledged $2 million to be used for the construction of the East County Center for Science and Technology.

In a November 6, 2008 memorandum regarding the *Montgomery County Business Development Mission to Korea and China* to then DED Director 2 and the DED COO, DED Business Development Staff observed that "[t]he core strategy deployed by the County thus far has been to highlight the strong presence of federal regulatory agencies and research institutes. A missing piece of the puzzle here is how international companies could leverage these assets to achieve success in the U.S." With respect to the $2 million pledge, they recommended that the County should "[f]inalize the proposed joint incubator development agreement with Chungbuk" to enable Chungcheongbuk-do to incorporate the pledge in its 2010 budget request. The

[18] In early 2009, County Executive Isiah Leggett also commissioned a 29-member Green Economy Task Force for the purpose of charting "a bold new course for Montgomery County focused on creating opportunities for new and existing 'green' businesses, spurring innovation, increasing employment, and developing next generation technologies."

Chungcheongbuk-do Provincial legislature subsequently adopted a budget in 2010 that included funds for the contribution.

It is not certain whether the DED had articulated any strategic expectation or explored the specific outcomes for international companies to leverage the presence of federal regulatory agencies and research institutes to stimulate biotechnology economic development in Montgomery County. It was apparent, however, that as initial cooperative efforts for the development of the East County Center began to falter, the DED COO led efforts within the County to repurpose use of the pledged funds. Correspondence among the DED COO, the executive directors of DED and MEDCO, and a Chungcheongbuk-do official began to explore use of the Chungcheongbuk-do investment for rent-free office and lab space at the County's Shady Grove Incubator.

The initial intent of the relationship was to establish and promote cooperative strategies and processes related to the development, implementation and operation of joint programs and projects to accelerate biotechnology and other high-tech economic development in both regions. By February 2010, however, officials from Montgomery County and Chungcheongbuk-do Province developed a Memorandum of Understanding (MOU) to repurpose the Chungcheongbuk-do pledge for use as additional funding for the County's Small Business Revolving Loan program in exchange for Chungcheongbuk-do future access and use rights in the East County Incubator.

The repurposing of Chungcheongbuk-do pledged funds was not subject to clearly established objectives, nor monitored for performance. Additionally, the Office of the County Attorney (OCA) Staff Attorney raised questions regarding the MOU as it appeared to be unusually one-sided in the County's favor. DED Management's push to fulfill a biotechnology-focused economic development vison absent strategic expectation or anticipated outcomes may have provided an opportunity for mismanagement of the Chungcheongbuk-do relationship for the benefit of the DED COO.

The Chungcheongbuk-do bioscience initiative, largely negotiated and managed by the DED COO, does not appear to have achieved any meaningful result, and Chungcheongbuk-do's entire monetary contribution was ultimately returned after four years, with interest and fees[19], and with much wasted effort on behalf of, but no apparent beneficial impact for, the County. In a subsequent e-mail exchange with a consultant, the DED COO reminisced "it took me nine years and three governors to finalize a partnership with Chungbuk province but I terminated it after 3 years due to their non actions and ridiculous demands. Similar with China. We have two MOUS but all BS."

[19] The interest returned to Chungcheongbuk-do did not observe the interest calculation set forth in the MOU, paying a portion of the interest (70% of ~4%) and 100% of the fees (1% of the principal amount of any loan) for the two loans made by the Small Business Revolving Loan Program. The MOU provided for the County to retain interest earned on the $2 million before its use as part of the SBRLP.

Finding 2 Over an eleven year period, the DED COO took advantage of control weaknesses to divert at least $7.2 million from the County's Incubator Program without apparent detection or impact on program operations.

Between 2007 and 2016, the DED COO directed payments from resources belonging to the Montgomery County government and incubator-licensee funded Incubator Program to a relative of his spouse, to a business owned by that relative and his spouse, and to a commercial checking account for a shell company established in 2009 - the Chungbuk Incubator Fund LLC (CBIF) and to business associates related to that shell company. Records show that the DED COO established the CBIF commercial checking account and was a member of the CBIF. The majority of the payments went to this fictitious business that he controlled. To date we have identified 30 payments totaling more than $7.2 million made that originated either from the County government or the Incubator Program.

Payments made to CBIF related entities by:	# of Payments	$ of Payments
Montgomery County Government	12	5,529,464.63
Scheer	8	1,163,987.63
MEDCO	10	549,200.00
Total	30	$7,242,652.26

In our August 2018 interviews with former DED Directors from the 2009-2016 time period, neither the Former DED Director nor the Former Acting DED Director acknowledged ever having approved of the establishment of, or even having heard of, the CBIF. We found no legitimate business purpose served by the establishment of the CBIF shell company and no legitimate reason that any of the funds should have been transferred to the commercial account of the CBIF shell company. The Office of the Inspector General (OIG) was advised by law enforcement investigators that the DED COO withdrew funds from the account of the CBIF shell company exclusively for his personal use and that none of the funds deposited to that account were used to support the objectives of the DED Incubator Program.[20]

DED staff voiced concerns at some point prior to 2014 about the actions of the DED COO to the MEDCO Director, who was alleged to have replied "this is [the DED COO's] money - the County's money to spend. We're not going to argue with them. It's not [my] role to monitor how Montgomery County spends their funds." Between 2007 and 2016, the DED COO directed MEDCO to make 10 payments totaling $549,200 to a relative of the DED COO's spouse, a

[20] The use and disposition of funds deposited in the CBIF checking account have been the subject of the investigation and legal proceedings by the United States Department of Justice and the Office of the State's Attorney for Montgomery County Maryland. We were advised that these agencies had identified payments benefitting the DED COO.

business owned by the relative and spouse, to the shell company, and to business associates related to that shell company.

In an interview with MEDCO, the OIG was told that the MEDCO Director had contacted then Former DED Director to confirm whether or not MEDCO was to accept instructions it received from the DED COO. In a separate interview, the Scheer COO reported that he, too, sought similar assurances. We were advised that the Former DED Director defended the authority of the DED COO, provided oral authorization, and purportedly provided the following July 22, 2010 e-mail as evidence of the DED COO's authorities:

> "This e-mail is to require that effective immediately, all budget, fiscal, procurement (commodity/service purchase, contract and MOU), and administrative and human resource (except for the division unique time sheet and comp time approval, and performance review and work program setting) issues must be reported to [the DED COO]. As the department's Chief Operating Officer, his concurrence/approval must be obtained before a decision is made.
>
> Most of you already work under this protocol. However, with the implementation of new Enterprise Resource Planning System and the new Procurement Regulation, together with the County government's renewed emphasis on accountability and operational efficiency, I want to ensure that there is a central and traceable process in all expenditures, commitments, and administrative decisions that DED makes.
>
> If [the DED COO] is not available for urgent issues, [a named, alternate individual], Senior Financial Specialist must be consulted for the next course of action.
>
> I appreciate your adherence to this requirement."

MEDCO asserted that the above e-mail ceded complete authority for the DED COO to act on behalf of DED. However, the language of the e-mail only provides for the DED COO's concurrence on operational matters.

Although both MEDCO and Scheer claimed to have questioned the Former DED Director about the DED COO's authority to instruct that payments be made to CBIF, neither MEDCO nor Scheer received contracts or other appropriate documentation between CBIF and the County prior to making those payments directed by the DED COO.

We obtained copies of financial reports and records related to the incubators that Scheer provided to the County. Despite our concerns about the reliability of the accounting data presented in those financial reports, they contained significant useful information including such things as payments made from the Incubator Program accounts.[21] They also indicate payments to the shell company. A manager reviewing those financial reports could have found sufficient concerns about the Incubator Program and the activities of the DED COO to at least raise questions. During his tenure, the Former DED Director was in a position to detect the existence of the shell company. The Former Acting

[21] Upon our recommendation, the Office of the County Attorney modified the scope of its forensic investigation engagement with the accounting firm Baker Tilley to include an investigation and reconstruction of the Incubator Program accounting records maintained by MEDCO and Scheer.

DED Director was also in a position to detect the existence of the shell company during her tenure. Yet we found no evidence to demonstrate that either the Former DED Director or the Former Acting DED Director personally reviewed any financial reports or took any action to seriously examine the actions of the DED COO.

It is somewhat surprising that the Former DED Director never reviewed financial statements of the incubator programs since, as he told us, he had to become personally involved in managing issues related to licensees whose past due rent payments were putting a financial strain on the program. Former Deputy Director and the Former Acting DED Director confirmed the Former DED Director's account of the need for his involvement attributable to the past due payments. However, during their August 2018 interviews, both stated that they had not reviewed the financial statements provided by Scheer.

Their management of the staffing and finances of the Department demonstrated a lack of attention and oversight. We noted that the non-merit Position Description for the DED Director, occupied as a political appointee, did not specify any supervisory, oversight or managerial duties or responsibilities related to the department. However, in interviews, both the Former DED Director and the Former Acting DED Director told us that as Department Directors, they approved the performance ratings of top managers, including the DED COO. Therefore, despite the position description, they evidently understood themselves to have had responsibilities for supervision and oversight of the senior Department staff.

The individuals responsible for ensuring that the licensees made timely payments and that the Incubator Program was financially sound were initially direct subordinates of the DED COO, who should have been held accountable for the financial mismanagement due to delinquent rents collection that was observed. It is therefore notable that despite Incubator Program management problems that had developed to such an extent that the Former DED Director's direct intervention was required to effect correction, the DED COO evidently suffered no adverse consequences as the result of his mismanagement. Instead, both the Former DED Director and the Former Acting DED Director acknowledged providing the DED COO with the "highest possible" performance evaluations during their respective tenures resulting from what each characterized as the DED COO's high level of competence, strong abilities, and responsiveness.

The DED COO was highly placed within the organization, had financial management responsibilities, and had significant authority as well as knowledge of existing internal controls and management. He was unusually well positioned to understand the opportunities presented by gaps in the system of controls in place at various points in time. Several examples follow, and are described in further detail in the *Evaluation of Findings* section

1. Between April 2007 and September 2009, DED COO instructed MEDCO to make $163,000 in payments to a relative (Relative) of the DED COO's wife (Spouse). These payments, purportedly for the Relative's work on a Feasibility Study related to the Life Sciences Center, were drawn upon County funds on deposit in the Special Reserve Account with MEDCO. We found no evidence to support that the Relative had been authorized to undertake a Feasibility Study, nor was there evidence that such a study had been delivered by the Relative.

2. In June 2008, the DED COO instructed MEDCO to draw upon County funds on deposit with MEDCO to make a $145,000 loan to a restaurant owned 20% by the Spouse, and 80% by the Relative (Spouse/Relative Business). It is notable that with full knowledge of the potential conflict of interest and public attention that was drawn to the 2007 $25,000 Economic Development Program Loan made openly to a company whose Chief Marketing Officer was the son of the then DED Director 2, the DED COO chose to use the public entity, MEDCO, to disburse the loan funding in a manner that hid the existence of the loan.
3. Between 2010 and 2016, knowledge of funds available in, and the operations of the Special Reserve Account at MEDCO allowed the DED COO, pursuant to his delegated discretion and authorities, to redirect the County's grant funding for the Incubator Program to the shell company CBIF while using Special Reserve Account funds to cover any cash shortfalls within the operations of the Incubator Program.
4. Between 2010 and 2016, the DED COO caused invoices to be generated by his shell company, CBIF, purportedly for grant funding and leasehold financial obligations of the Incubator Program. As the financial manager for DED, he would have known that invoices that had been designated with the "Rent/Lease" exempt commodity payments code would have likely, at that time, been processed by DoF Accounts Payable Section without question or challenge for the underlying vendor agreement that supported the payment request submission (even though that agreement did not exist).
5. From at least May 2013 through February 2016 the DED COO directed that rental payments from a sub-lessor of DED office space totaling $125,276.32 be sent to accounts held for the benefit of the Incubator Program. It is not clear whether this action occurred with the knowledge and approval of the Former DED Director. However, this resulted in a clear augmentation of the Department's appropriation outside the view of the County Budget staff and without the knowledge and approval of the County's Executive and Council.

The structure of the Incubator Program provided for budgets to be developed by DED to justify requests for funding during annual budget deliberations. However, prior to FY 2017, once appropriations were approved, the Incubator Program appropriations were not separately identified in the published Council approved budgets. Large "blanket" disbursements from the County were provided to MEDCO, which had the responsibility to further disburse the funds, as necessary to pay for debt repayment, facility leases, facility management fees, and other related expenses.

Once County resources were placed under the control of MEDCO and its subcontractor, Scheer, County accounting and budget staff were forced to rely upon the financial accounting records maintained by those entities or the financial information the DED COO provided regarding the Incubator Program.

We found no evidence that anyone within the County ever made an effort to determine the adequacy of the accounting systems of either MEDCO or its subcontractor, Scheer. Although periodic financial audits of the Shady Grove and Rockville incubator locations were conducted by MEDCO auditors for the preparation of that agency's annual financial reports, none were conducted at the Germantown location at which the County resources were primarily being manipulated by the DED COO. Three transactions the DED COO charged against the Shady Grove and Rockville accounts were not selected for testing during review by MEDCO's auditors.

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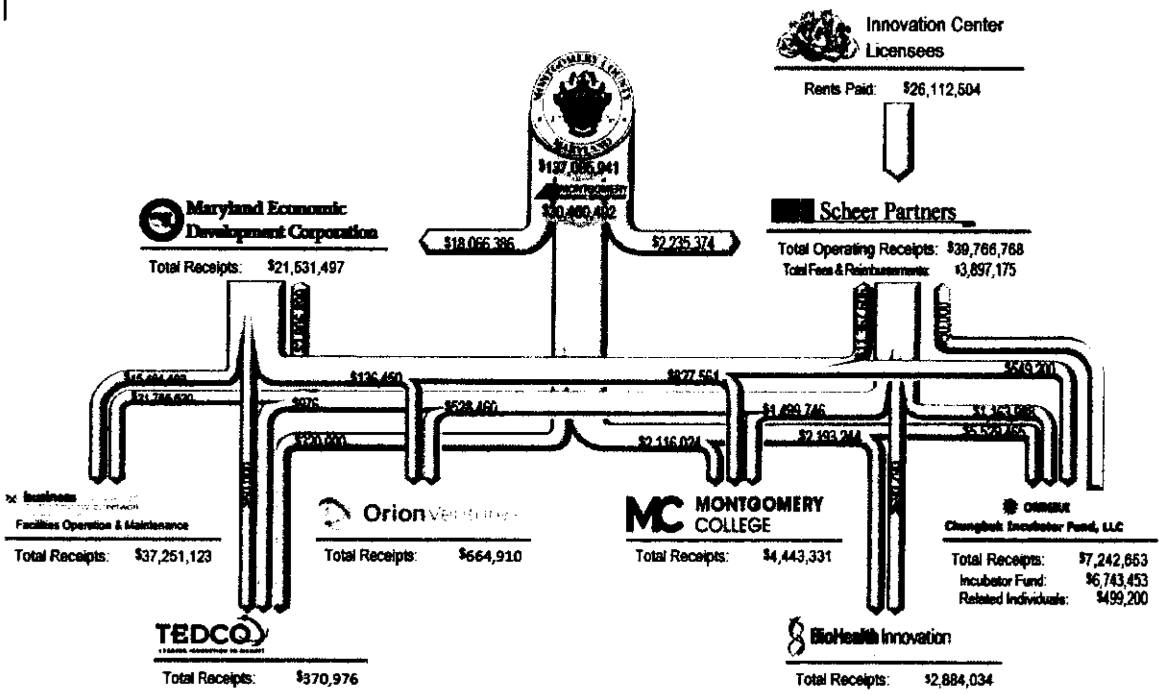
The County also had the authority to audit the financial records of MEDCO and its subcontractors relative to the Incubator Program, but did not do so. Had they audited the Incubator Program, it is possible that these control issues would have surfaced. Instead, it relied on the assurances provided from the DED COO's review of the financial records.

The DED COO was able, over time, to accumulate reserves from annual operating surpluses at the Incubator Program, derived from County funding and licensee fees. The composite net operating surpluses from the Incubator Program were retained within the MEDCO housed Special Reserves Account, and commingled with operating surpluses and funding activities from periods prior to the period between August 2006 and August 2017.

Based on data made available for our forensic review, net annual operating surpluses between FY2007 and FY2010 added $1.86 million to the Incubator Program funds, allowing the DED COO to cover and obscure any cash shortfalls created by the diversion of the County's annual funding payments for the Incubator Program to CBIF that he commenced in July 2011.

We found no documentary evidence that the Office of Management and Budget (OMB) identified or challenged the significant growth in funding requests (from FY11 to the peak incubator funding request, Germantown rose from $442,000 to $970,500 in FY15, and Shady Grove increased from $200,000 to $1,147,000 in FY16) when the payments were redirected to the CBIF. Neither did we find documentary evidence that OMB was aware of or considered funds available from annual operating surpluses that remained at year's end as a possible offset to new budgetary requests. During the period between August 2006 and August 2017, Montgomery County provided funding in excess of $30 million to its Incubator Program. The chart on the following page depicts the flow of those funds to MEDCO, Scheer, and other entities engaged in the operations of the Incubator Program:

Identified Funding and Cash Flows: FY07 – FY17*



* *August 22, 2006 - August 23, 2017*
Source: OIG Graphic from data provided by Montgomery County, MEDCO, & Scheer Partners

Excess reserves enabled the DED COO to submit invoices for legitimate DED departmental expenditures to be paid from the Incubator Program funding. The money that had been budgeted for these items at the DED departmental level was then available to enlarge the amount that the DED COO could direct as payment to CBIF.

Funding for the Incubator Programs was received as part of DED's annual County Council-approved appropriation. Incubator Program funding was not distributed to MEDCO until the DED received an invoice requesting the annual operating funding for each incubator. Evidence indicates that the DED COO routinely instructed MEDCO as to the Incubator Program funding amount that should be specified on the invoice. The funding amount was not routinely made available for public review, nor did it resemble the pro-forma budget requests prepared by Scheer and DED Staff. CBIF began to submit invoices to the County and receive the annual operating funding payments for the Germantown and Shady Grove Incubator Programs in FY2012.

The internal controls that should have detected or prevented the DED COO's activities were either missing or ineffective as implemented.[22] Although the internal controls present in the

[22] See the discussion of internal controls in the report *"Internal Control Review Procure to Pay – Specific Functions"*, prepared by SC&H Group under an engagement with the County's Internal Audit program, and the *Report of Forensic Audit to Montgomery County, Maryland* prepared by the firm of Baker Tilly Virchow Krause under an engagement with the Office of the County Attorney.

accounting system evolved over the period of approximately 10-years, primary responsibility for the failure to prevent the misappropriation of funds lies with the absence of oversight and management failure of DED Directors, the flawed structure of the Incubator Program, and its management agreements. Specific problems included the lack of segregation of duties, and the DED's deliberate construction of processes to circumvent contracting and procurement requirements, and management controls. It is likely that the budgetary and management system relied on inaccurate and unreliable information and could not effectively control Incubator Program resources or detect suspicious activities.

While DED's management actions and inactions may not at the time have presented an element of risk, over time, the cumulative effect of these decisions created the conditions that enabled the DED COO to opportunistically misappropriate at least $7.2 million of County economic development funding for his own personal benefit, including:

1. The availability of the public entity where funds could be parked, off books, and out of the direct control and scrutiny of the County procurement, legal, financial, and management and budget processes and systems;
2. the agreements with MEDCO and Scheer which institutionalized the creation of accounts within which budget surpluses could be hidden from the County, the ability of the DED Director to charge expenditures associated with programs unrelated to the incubators, and the ability of the DED Director to delegate operation of the incubator program;
3. the acquiescence of MEDCO and Scheer to the purported delegation of total authority for incubator program operations to the DED COO without authorizations from any other County officials;
4. the absence of management oversight and engagement in most DED operational activities which allowed the DED COO to act with impunity;
5. the DED COO's knowledge of accounts payable controls that allowed him to submit and approve payments to the shell company with little to no questioning about the legitimacy of the organization or use of the funds;
6. the absence of segregation of duties that placed the DED COO in a position that not only allowed him to be the central point of focus through which operational, financial, and strategic information flowed into and out of DED, but also allowed him to use accumulated and institutional knowledge that he possessed to navigate the system to his advantage;
7. ineffective Incubator Program performance metrics that apparently failed to detect any impact on program operations during the four-year period when the DED COO diverted the County's Incubator Program funding to the CBIF; and
8. agreements between the County and other parties that lacked a unique identifier, such as a contract or document number, to differentiate the documents by some method other than execution date and signatures of the authorized parties. The absence of a unique identifier made it difficult to match invoices to an appropriate contract, and allowed the DED COO to simply assert that a fictitious payment was authorized under an unrelated agreement.

Management revised accounts payable policies in April 2018, to match procurement payments authorizations to evidence of completion, and in August 2017, to strengthen segregation of duties and public entity payment controls.

Additional recommendations for improvement related to weaknesses identified in financial controls over payment approvals for pre-approved transaction types and contracts are detailed in the Office of Internal Audit's report on *Internal Control Review: Procure to Pay – Specific Functions*.

Recommendation 2

(a): The County should not disburse payment against any grant or contract prior to execution of a document that sets forth, at minimum:

- the terms and specific enumeration of quantifiable and measurable outputs,
- outcomes to be delivered, as well as when, how, and to whom they will be delivered, and
- Office of the County Attorney, Risk Management, and Office of Procurement contract requirements.

Management should require the awardee to submit verifiable evidence of having achieved the stated outputs and outcomes when submitting subsequent invoices for payment against the award.

(b): If the County is using the award to fund the delivery of an out-sourced program or operation, the County should additionally require the awardee to account for the use of the County's funds and require that any surplus funds at the end of the award period be identified and returned to the County, or reappropriated.

(c): *Audit and review of Third-party Providers*: Prior to awarding the responsibility for accounting for County funds, the County should require independent certification of the accounting systems that the public entity, public-private partnership, or subcontractor will use. Annual financial audits and reviews should be performed when expenditures reach significant (to be determined) dollar thresholds.

(d): *Ongoing Budget Execution Reviews* - County Management should ensure that:

- its analysts have the full and accurate information and the tools necessary to independently and continually monitor and compare actual expenditures to appropriated amounts to ensure that progress in programs is proceeding as intended,
- program surpluses or shortages are timely identified, and not allowed to accumulate unless approved by management and publicly reported,
- accounting controls are in place to ensure that any significant program expenditure variances can be apparent to budget analysts in both the Executive and Legislative branches, and
- Department Directors are required to document and report on significant program expenditure variances, as well as their effect on their programs, which are subject to judicious analysis.

(e): Because the elements of control listed below were missing or not evident at the time the questionable payments were processed, management should ensure that each element is addressed in a corrective action plan.[23]

- Enforce Evidence of Receipt: The payment system should ensure that evidence of receipt of goods or services is provided prior to approving any payment. Evidence should be provided that the purchase was authorized (e.g., via purchase requisition and matching purchase authorization) and received (e.g., receiving report).
- Unique identifier: Management should ensure that all contracts, MOUs, loans and mortgages, or other known recurring payments that cover multiple months and/or accounting periods (such as fiscal years) are recorded with a unique identifier in the accounting system. No payment should be allowed without reference to that unique identifier.
- Amounts established in the budget at the outset of each fiscal year for each unique identifier should be assigned a "funds control" such as an encumbrance and authorized payments per cycle (e.g., one payment per month). This is done both to ensure that the budgets are not over expended, and to ensure that the amount set aside for each expenditure is properly expended on the item for which the funding has been appropriated or otherwise intended. This process also guards against duplication of payments for any item since an inadvertent approval of a payment that exceeds funding available for the instrument should cause the payment item to be reviewed and confirmed prior to check issuance

[23] Many of these recommendations were shared and discussed with the County staff prior to the issuance of the first draft of this report. We also considered the recommendations contained in the Office of Internal Audit's report Internal Control Review: Procure to Pay – Specific Functions, as well as those contained in the Baker Tilly Virchow Krause Report of Forensic Audit to Montgomery County, Maryland referenced above. We believe that the County must develop corrective action plans to implement these recommendations.

Implementation of the BioHealth Innovation Initiative

In a second bioscience initiative that began in the fall of 2008, County Executive Isiah Leggett established a Biosciences Task Force (Task Force) "to help develop a strategy that will enable Montgomery County to more effectively leverage its rich asset base and become a global hub for life science research, development and technology commercialization." The forty-two person task force, whose membership included then Councilmember Mike Knapp and the Former DED Director, issued a December 2009 report, *Montgomery County's strategy for developing a world-renowned life science industry,* providing several recommendations. (See Appendix B: BioScience Task Force 2009 Report.) This OIG report does not evaluate the merit of the Task Force's report or its recommendations.

The Task Force report recommended the creation of a public-private partnership to augment the County's Business Innovation Network with an 'accelerator' that brings together capital resources with promising life science start-ups, and established five bioscience economic development objectives:

1. Enhance the environment for entrepreneurship and the creation of new life science companies.
2. Catalyze greater technology transfer and commercialization and leverage Montgomery County's federal and academic assets more effectively.
3. Foster a more enabling financial, regulatory, and business environment.
4. Enhance bioscience educational opportunities in Montgomery County and expand the higher education presence in Montgomery County to build a robust biosciences workforce and foster commercialization.
5. Market Montgomery County's biosciences sector nationally and internationally.

Finding 3 In implementing the BioScience initiative, DED management used public entities to fund the development and operations of a BioHealth intermediary without executing a formal MOU or Contract.

We sought to understand from County officials familiar with the process how the consultant ultimately selected was found and recruited. It is expected that the County would have solicited a highly qualified external expert to carry out the accepted task force recommendations. For such arrangements, the County Office of Procurement Guide indicates the issuance of a Request for Proposal (RFP). In this case, requirements would have been appropriate to identify and contract with an individual whose background demonstrates the appropriate technical or scientific expertise requisite to lead the process to develop and start up the public-private partnership and assist in engaging that entity's leadership. When we initially spoke with the Current Assistant Chief Administrative Officer Representative (ACAO Representative), we were told that the consultant was referred to the County by someone from Johns Hopkins University, which may be strictly accurate, but was misleading.

Instead of the above process, the Current ACAO Representative indicated that a consultant, the Founder, President, and CEO of the Philadelphia-based Innovation America (Consultant), was originally recommended to the County by an individual at Johns Hopkins University (JHU). Evidence we reviewed indicated the individual making the referral to be an associate of the DED COO with whom he had interacted since at least 2007. That individual was responsible for JHU real estate facilities and Great Seneca Life Sciences Center development initiatives.

We observed that during this same period, the Johns Hopkins University operated a technology transfer organization, then called Johns Hopkins Technology Transfer (JHTT) and currently called Johns Hopkins Technology Ventures (JHTV), was evidently already in existence and providing support similar to that intended by the BioScience Task Force. The County did not engage JHTT, an entity already engaged in biosciences and with a presence in Montgomery County, to lead the County's BioScience intermediary initiative. Instead, the DED turned to the JHU manager apparently responsible for the real estate development and management of the JHU Montgomery County Campus in the Great Seneca Science Corridor for input and recommendations.

We do not know why the DED relied on the individual from JHU's real estate facilities for a recommendation since neither his academic credentials nor his position at JHU are related to economic development, technology ventures, BioSciences, or any other area of science that could appear relevant to the Task Force recommendations. During interviews, we asked Former DED Directors and the Current ACAO Representative about JHTV and they claimed not to have knowledge of the entity.

During a telephone interview, the Current ACAO Representative did not profess to having personal knowledge about the Consultant's qualifications, but was able to provide documents provided by the Consultant. It appears from those documents that the Consultant was introduced to two County Council members via e-mail from the JHU real estate facilities contact as "...someone whom I believe is the best qualified person in the U.S. to advise Montgomery County on how TO PLAN AND EXECUTE our jobs and economic development strategy." According to the Consultant, the JHU real estate facilities individual approached him at a National Academy of Sciences event where the Consultant had been a speaker. They discussed a Montgomery County initiative and the Consultant was subsequently introduced to the Former DED Director. It appears that he was also introduced to other Council members, the County Executive, other County political appointees, and task force members based primarily on the Consultant's own marketing materials, website, and representations of his experience.

In examining the copy of the Consultant's resume provided by the Current ACAO Representative, we found both an absence of academic credentials as well as an absence of verified experience related to relevant BioScience endeavors. The resume lists numerous one-time presentations, membership on numerous boards and committees, and asserts a number of economic development activities since 2001, primarily within activities of which he was apparently the founder and CEO.

The Former DED Director confirmed that he personally "vetted" the Consultant. It is unclear when the vetting occurred. Further, the vetting process described to us appeared to have consisted of reviewing the websites of former entities at which the Consultant claimed to have numerous successes. It does not appear that anyone affiliated with the County independently verified anything listed on the Consultant's resume.

DED solicited external funding to pay for the Consultant's performance of services related to the BioScience initiative on the County's behalf. In late 2010, DED arranged for a series of two contracts to be entered between Rockville Economic Development Inc. (REDI), a public entity, and the Consultant to prepare a Task Force-recommended assessment and implementation plan.

In its relationship with the Consultant and the resultant Consultant-led bioscience intermediary BioHealth Innovation, Inc. (BHI), DED Management allowed REDI to appear to represent the County in deals and funding arrangements to which the County government was not a legal party. The funding of the operations of BHI via a contractor-identified Council grant nullified a requirement for a competitive process. BHI's activities were not subject to any written agreement, nor were the relationship's intent or anticipated outcomes that should accrue to the benefit of the County clearly articulated.

We found no evidence of an agreement or MOU between DED and REDI that provided for REDI to act on the County's behalf in contracting with the Consultant. We did locate a copy of an unsigned letter from the DED COO acknowledging REDI's participation and agreeing to make reimbursement for any administrative costs incurred. This engagement was entered into without any competitive process. Further, an e-mail from the DED COO to the executive director of REDI evidences an intent to circumvent the County's contracting process.

The DED COO wrote to the then executive director of REDI stating *"Due to the make-up of the Committee structure, [the Former DED Director] needs to be the contract administrator. However, given the nature of how the funding is arranged, the County can neither receive the funds nor place a contract with the Consultant. We believe that REDI, as a non-profit organization could receive the private donation and hold the contract. We are making this request not just to circumvent the system and make REDI an accounting conduit. Rather, we make this request because REDI is one of the key stakeholder and the beneficiary in the overall Opportunity Assessment and Implementation Plan development."*

When asked why he deliberately did not use the County procurement process, the Former DED Director said that it would have taken months. It is our observation that an engagement directly between the County and a consultant would have required following the County procurement process, including documentation of a competitive search process and DED's preparation of a statement of work that specified its requirements and for the initial consultant engagement, none of which was done in this case.

"Tone at the Top" - *continued*

> Management enforces accountability of individuals performing their internal control responsibilities. Accountability is driven by the tone at the top and supported by the commitment to integrity and ethical values, organizational structure, and expectations of competence, which influence the control culture of the entity. Accountability for performance of internal control responsibility supports day-to-day decision making, attitudes, and behaviors. Management holds personnel accountable through mechanisms such as performance appraisals and disciplinary actions.[24]
>
> *Source: GAO-14-704G Federal Internal Control Standards*

It is apparent, however, that the Former DED Director acted to "fast track" the development of the BioScience implementation plan and make the BioScience intermediary operational. To accomplish this, the Former DED Director turned to the DED COO, who was well positioned to understand the system of controls in place. **Evidence shows that the DED COO was provided wide discretion in his actions under the Former DED Director, who acknowledged that the DED COO was rewarded with the highest performance ratings and related salary adjustments.**

It is unlikely that the Former DED Director could have effectively exercised any oversight responsibilities knowing that a.) he had violated Information Technology policy by providing his password to the DED COO, and b.) he had knowingly allowed, if not directed, the DED COO to avoid County contracting mechanisms.

The DED drafted, $100,000 consultant contract was to be funded by donations from universities and private sector companies. REDI made payments for the consulting work directly to the Consultant to the extent funds had been collected. However, to cover donation shortfalls, the County made an interest free, $20,000 advance to REDI. Another interest-free advance of $12,500 was paid to the Consultant by Scheer with funds drawn upon the Incubator Program, even though the Former DED Director, in an earlier presentation to the Council Planning, Housing, and Economic Development Committee (PHED), had made assurances that no County dollars would be used for this initiative.

Although the County is not a named party to the contract, correspondence between the Consultant, DED, and REDI clearly articulated that the Consultant considered the County to be his client. DED did not dispute that contention.

The first contract between REDI and the Consultant covered the period of November 8, 2010 to January 31, 2011, and it appears to have addressed most of then Councilmember Knapp's recommendations for building upon existing County assets and implementing economic development initiatives. (See Appendix C: *Councilmember Knapp October 2009 Blog*.) The contract's scope of work required that the Consultant identify and affirm initial research opportunities and resources available to support biosciences commercialization efforts within Montgomery County and provide initial recommendations for a biosciences innovation intermediary.

[24] Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government*, §5.02. Government Printing Office, September 2014.

Summary of Findings

In March 2011, the Consultant published a *Montgomery County, Maryland Biosciences Cluster Competitive Literature Review* consistent with the scope of his contract with REDI.

The second contract between REDI and the Consultant, covering the period from July 1, 2011 to August 31, 2012 created and implemented an organizational development plan for a new nonprofit entity, the America's BioHealth Intermediary (ABHI) [OIG Note: The intermediary was subsequently renamed BioHealth Innovation.]

The Former DED Director and the Former Acting DED Director stated that the Consultant lobbied for the position of BHI CEO, and he was subsequently named to that position (from this point forward, we will refer to the "Consultant" as the "Consultant/BHI CEO"). In an interview, the Consultant/BHI CEO told us he was asked to take the position. He said he neither needed nor wanted the job but only agreed to take it until the County could find another suitable candidate. The Current ACAO Representative was appointed to represent the County and currently serves as a member of the BHI Board of Directors.

On August 22, 2011, the Consultant/BHI CEO delivered an *Implementation Plan for BioHealth Initiatives for Central Maryland Region* (Implementation Plan) consistent with the scope of his contracts with REDI. (See Appendix D: *Consultant's Implementation Plan*.) The document laid out a one-year implementation plan and a multi-year program for continuing activities targeting the biotechnology, medical devices, healthcare services, e-Health/ mobile health, electronic medical records/ health informatics/ and cyber security industries. The implementation plan set forth key objectives to:

1. Significantly increase the flow of private and public early stage capital to businesses/ entrepreneurs and scientists in the region by leveraging federal/ private/ university, foundation, and international funding resources to support and grow BioHealth companies.
2. Develop an active talent network of entrepreneurs, investors, and experienced managers and an integrated network of all technical and financial innovation and commercialization resources in the region by connecting the federal labs, university, and industry research and technology transfer offices.
3. Actively facilitate tech transfer and commercialization by identifying candidate BioHealth technologies from public, academic, and private sources of research and technologies/ underwriting candidate firms to determine market feasibility, managing and growing funded early stage companies, and facilitating marketing and distribution of products and services of early-stage companies to both domestic and global markets.
4. Create global public awareness of the region's world class BioHealth and technology assets through effective branding, marketing/ market research and public relations.
5. Ensure an adequate supply of knowledge workers to support regional growth of the BioHealth industry by working with educators and workforce development organizations.

After completion and delivery of the Implementation Plan, the County Council appropriated $250,000 for current year funding against a three-year, $1.5 million program commitment. The appropriated funds were paid by the County to REDI, who, in turn, paid BHI.

However, we found no evidence of any contract, memorandum of understanding, or other program management agreement[25] that created, or ever existed among any of the parties - the Consultant/BHI CEO, BHI, MEDCO, REDI, or DED - between July 2012 through July 2016 that set forth the terms, conditions, and deliverables expected of BHI's bioscience intermediary activities in exchange for $2.8 million in County funding awarded under a "non-competitive contract awarded to a contractor identified in a Council-approved appropriation".[26] On multiple occasions, the DED COO and BHI openly stated that no contract or MOU existed, and there was no evident intent that one should be established.

Instead of aligning BHI's performance goals with the Task Force's commercialization and innovation objectives, DED allowed BHI, and consequently the Consultant/BHI CEO, to focus on the attraction of financing for regional activity, much of which was provided from indirect County contributions to the public-private venture capital activities within BHI's wholly owned subsidiary, BHI Management, Inc. (BHIM).

Since April 2012, the Consultant/BHI CEO has provided BHI annual reports to the County Council PHED Committee that consistently reported regional results that did not highlight BHI's direct impact within Montgomery County. Further, the self-reported results bear little relation to the Task Force Report's objectives.

The available data we reviewed did not demonstrate whether BHI provides economic value to the County at a level that exceeded BHI's cost. No meaningful criteria or metrics were created by DED or subsequent County leadership that would create clear expectations for BHI linked to economic development of Montgomery County or a return on the investment by the County government and other contributors. Further, those measures that were created and reported were inconsistent from year to year, and were not independently verified or validated. Absent transparent expectations for any program's contribution to the County, management cannot evaluate the value of its investment of resources in the program and cannot determine whether the funds expended were either put to good use or wasted.

Absent clearly defined expectations and outcomes, specified in a formal contract or MOU, and consistent with the Task Force's recommendations, it is difficult for the Executive and the Council to determine if the results of the initiative are a.) providing sufficient economic impact to justify the expenditure, or b.) are meeting or exceeding expectations and worthy for consideration of additional investment.

BHI's success, and collaterally the Consultant/BHI CEO's personal success, are based on the amount of funding that BHI raises for support of its business operations and investment in its intermediary Portfolio of companies (which as noted below, many of which are not located in Montgomery County).

The publicly available, IRS Form 990 - Return of Organization Exempt From Income Tax returns we reviewed indicate that BHI had collected in excess of $15.2 million in revenue and

[25] There was evidence of an August 2011 draft *Implementation Plan for BioHealth Initiatives for Central Maryland Region*, although that document set forth non-binding 90-day and one year goals.

[26] Montgomery County Code § 11B-14(a)(4) Non-competitive contract award.

contributions, and reported expenses in excess of $11.7 million. Of the expenditures, wages and benefits for employees and independent contractors made up 68% ($8.0 million) of total expenses, and the Consultant/BHI CEO's personal compensation comprised 28% ($2.2 million) of all wages and benefits for employees and independent contractors. The Consultant/BHI CEO provided the County's CAO with information about his level of compensation relative to nine other organizations that he identified as comparable. We reviewed the IRS Form 990 returns for the organizations the Consultant/BHI CEO-identified as comparable and observed that at a reported 2016 revenue of $2.79 million, BHI recorded the second lowest revenues of the organizations, yet BHI's CEO and total staff salaries as a percent of revenues were greater than those of any other organization.

The Consultant/BHI CEO's annual reportable compensation (in excess of $500,000 for each year from 2014 through 2016) was roughly equivalent to the County's annual appropriation for BHI operating costs.

BHI's publicly available Form 990 returns for 2015 and 2016 indicated that grants and loans in excess of $2.4 million were extended from BHI to BHIM, a wholly owned, for-profit subsidiary established in 2014. BHIM, an organization with no reported employees or operating expenses, benefited from BHI-shared personnel valued at $2.2 million via which BHIM provided services to a portfolio of organizations in exchange for fees to or equity ownership by BHIM. Of the portfolio of companies presented on its website[27] and its April 2018 listing of clients[28], BHI identified 33 companies in which BHIM held equity positions. BHIM's stated equity ownership provides the appearance of a portfolio that consisted of 9 (27 %) business entities with a presence in Montgomery County, 17 (52%) businesses located within the Baltimore area, and 7 (21%) entities that were distributed among 5 states and 1 foreign country.[29] We also observed that on its website, BHI asserts credit for helping to launch eight companies that JHTV also lists among the companies it helped launch.

The Current ACAO Representative was appointed to represent the County on the Board of BHI. In a communication to her/him, the County Attorney articulated that the Current ACAO Representative was on the BHI Board to look after the County's interest. However, during the Current ACAO Representative's interview s/he stated that s/he did not feel compelled to report back to the County. Accordingly, it appears that the County did not receive significant financial information or insight about the activities of BHI other than in information provided by the Consultant/BHI CEO. Further, it appears that the information provided by the Consultant/BHI CEO was not verified or validated by the Current ACAO Representative or by the County.

Management has recently introduced Administrative Procedure No. 2-4 to address agreements between Montgomery County Government and other organizations by assigning

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27 http://www.biohealthinnovation.org/portfolio last accessed 27 August 2018,

28 FY 19 Operating Budget: Incubator Programs - Economic Development Partnership Non-Departmental Account (NDA), County Council Work session, May 10, 2018, analyst packet page ⑥.

29 Two of the entities reported by BHI could not be located through internet search, and we were thus unable to confirm either existence or location.

responsibilities and establishing general policies and procedures for the preparation, review, clearance, approval, and monitoring of agreements.

Management has taken some steps to address internal controls. However, funds that leave the County as grants to an external entity will remain difficult to control unless management has tied such payments to contracted expectations, deliverables, and outcomes.

Recommendation 3

(a): The County government should ensure that management safeguards and controls are not circumvented, and that effective remedial actions are taken and appropriate sanctions are applied when violations are identified.

(b): For all County-funded economic development programs, the County should clearly identify quantifiable and measurable outputs and outcomes, the successful completion of which should demonstrate specific economic benefit.

(c): For the programs addressed in this review, County Management should conduct an analysis of the programs that determine the relative economic benefit to the County compared to the cost of each program.

Actions Taken by the County to Strengthen Controls and Processes

County management provided us with a summary of the corrective actions it has taken or planned as of October 2018 to strengthen controls and processes in response to the issues that came to light surrounding actions of the former Department of Economic Development (DED) Chief Operating Officer. We have worked with the contractors engaged by management, and agree that conceptually most of the steps they presented are consistent with the recommendations we have made and would endorse. We have not independently conducted field work to confirm the implementation of management's actions to date, and have not yet assessed or tested the effectiveness of the new controls and processes. Our future work programs to check and evaluate management's representations will represent a significant undertaking for the OIG to be incorporated in the work plan for the immediate future.

The summary of the actions provided by County management is displayed below:

Internal Control Review. The County's Office of Internal Audit conducted an internal process and control review (review) of the County's Procure to Pay function focused on specifically-identified aspects of the County's economic development incubator program. This program had been exempted from normal County procurement requirements by virtue of an exemption in place at the time for economic development activities. Under this exemption, the County executed a memorandum of agreement ("Agreement") with the Maryland Economic Development Corporation (MEDCO); an instrumentality of the State of Maryland created by the General Assembly in 1984 to serve as a statewide economic development authority, to encourage, attract and retain business activity and commerce and promote economic development.

The review identified several control deficiencies related to the oversight of County funds disbursed through County programs managed by third party organizations, such as MEDCO; specifically:

- Lack of visibility into the ultimate disposition of funds by vendors responsible for operating a County program where funds are received in advance from the County ("externally-managed" program),
- Insufficient County oversight of department activity related to externally-managed programs, and
- Lack of effective management and control over the population of commodity/payment codes that are used as the basis to identify purchases deemed to be exempt, or otherwise not subject to, the County's procurement regulations.

The review also identified an ineffective segregation of duties that had existed within DED, in which one individual, the DED Chief Operating Officer, had responsibilities for budget formulation, budget execution, vendor engagement and management, and invoice processing and approval. The lack of appropriate segregation of duties – normally expected within individual departments and offices within County Government, increased the potential for one individual to avoid normal checks and balances in County financial processes.

Strengthening Existing Controls and Processes. As a follow-on to the internal control review, the County implemented changes in its existing processes to address and call attention to the control deficiencies identified above. Specifically:

Financial Controls. Finance published two policies (the first a revision to an existing policy) governing accounts payable operations. These policies, summarized below, are designed to build on existing procedures and processes, and enhance enforcement of the existing requirements:

- August 2, 2017 Accounts Payable Policies: Financial Governing Principles and Standards
  - Strengthened segregation of duties within each department by requiring that separate persons authorize the transaction, receive the services, and process the invoice. This critical internal control requirement supports three-way matching between authorizer, receiver, and invoice processor.
  - Required sufficient documentation supporting payments for exempt transactions, and sufficient information supporting basis for procurement exemption.
  - Centralized and improved controls over the Held Check process to require department director level authorization and workflow to identify specific individuals designated to pick up checks.
  - Vendor self-registration – Accounts Payable curtailed practice of accepting vendor information directly from departments. Implemented additional controls and authorizations to register vendors on a limited exception basis.
- April 1, 2018, Accounts Payable Section Policies: Authorized Payment (issued October 2017)
  - Direct payment of invoices (that is, invoices processed without a three-way match and receiving in the system as evidenced by a Purchase Order or Direct Purchase Order) no

longer authorized unless pre-determined on a limited basis to be exempt from this requirement.
    - Authorized payments via the County Purchasing Card (P-Card), Direct Purchase Order, or Purchase Order.
    - The policy ensures purchases are made by authorized individuals, supports segregation of duties, and increases transparency because purchases are reported earlier and/or with more detailed information in the County's financial system.
- Implemented an expanded checklist used by AP supervisor and staff to review payment request packages to increase oversight over payment processing and easily facilitate management review.
- We would note that even prior to the facts of the DED situation being known, in January 2017 Finance implemented automated forensic review of disbursements prior to payments being issued as a means to detect questionable payments.

New Compliance Unit to be Established. Finance is establishing a Compliance Unit by January 1, 2019, responsible for:

- Reviewing and approving department requests to enter into procurement exempt transactions. The purpose will be to validate the exemption or determine whether the request is subject to procurement prior to the acquisition of the goods or services and whether it otherwise complies with County rules and regulations.
- Ensuring direct purchase orders have appropriate support including a legally binding agreement if warranted.
- Performing post-payment audits to ensure payments were properly supported and authorized.
- Analyzing a series of tests run by forensic software that are designed to detect irregular payment transactions such as invoices with questionable amounts, purchases occurring at unexpected times, transactions that may have been designed to avoid procurement thresholds, and other identified fraud risks.

Public Entity Procurements and Procurement Exemptions. A joint effort by Finance, County Attorney, and Procurement resulted in strengthened controls in the following areas:

- Public Entity Checklist – by including all elements required to enter into a procurement transaction with a public entity and ensuring adequate support for the Director of Procurement to authorize a purchase order for the transaction. On April 6, 2018, the County provided guidance and direction to departments concerning use of procurement contracts with public-entities. That guidance emphasized that entering into a non-competitive contract with a public entity cannot be used as a means of circumventing the ordinary contracting requirements and procedures set forth in County Code and in the County Procurement Regulations. Such contracts are, with a few exceptions, subject to the entirety of the County's Procurement laws and regulations; and must be approved as to form and legality by the Office of the County Attorney, have approval by Risk Management as to applicable insurance requirements, and be executed by the Office of Procurement on behalf of the County.
- Revised exempt commodity/payment code list to clarify the legal basis for an exemption, eliminate codes that no longer have a legal basis, and to link the list to relevant Finance and Procurement policies that cross-reference to the list.

Summary of Findings

New Procedures Governing Agreements. On September 11, 2018, the County issued procedures (Interim Administrative Procedure (AP) 2-4, Agreements between Montgomery County Government and Other Organizations) tightening controls in several areas, including:

- Establishment of a standard review and clearance process for all non-procurement contractual agreements requiring the signature of the Chief Administrative Officer (or designee). Major requirements of this standard clearance process include:
  - Assignment of a unique County identification number (like the requirement already in place for procurement contracts) to facilitate review of payment invoices with the associated agreement.
  - Mandatory review by the Department of Finance (Finance), particularly with respect to agreements involving "advance payment" of funds prior to services being rendered. For agreement involving an advance payment, the AP also requires Finance to determine any specific audit requirements (with resourcing of such audits by the responsible department) that must be in place to protect County interests and ensure appropriate use of funds.
- Establishment of a standard set of required terms and conditions that include
  - Requirement for description of the work to be conducted; and, where applicable, performance measures, deliverables, and a schedule of milestones.
  - Right to audit clause.

Additional Internal Control Reviews. The County also undertook two additional reviews to ensure that situations similar to those found within DED's management of the incubator program were not present in other County departments/programs:

- A review of other purchases under procurement-exempt commodity codes – which found no instances in which a lack of segregation of duties and/or oversight by County personnel resulted in inappropriate payments of County funds to vendors. Changes to require improved documentation were already being implemented as part of the County's actions in response to the DED situation.
- A review of the alignment of financial and program management responsibilities/duties across all County departments and offices – which determined that appropriate segregation of duties was present in all major County departments and programs.

Forensic Audit. At the request of the Chief Administrative Officer, the County Attorney hired and audit firm to conduct a forensic audit of the County's economic development activities, including the incubator program, since 2007. The audit is comprised of two phases. In the first phase of the audit, the auditors determined the amount of County's funds the former DED COO misappropriated from DED. In the second phase of the audit, the auditors determined the amount of County's funds the former DED COO misappropriated through MEDCO and Scheer. In reviewing the incubator program, the auditors analyzed the County's transactions with MEDCO, Scheer, Rockville Economic Development, Inc., and Biohealth Innovation, Inc. (BHI). The forensic audit confirms the amount of misappropriated funds the County had identified during its own internal investigation and reinforces/supports the findings of the County's internal control review conducted earlier this year. The forensic audit also acknowledges the County's efforts to strengthen existing financial management policies and procedures to address gaps or weaknesses in processes and internal controls. The auditors are preparing two reports and that they expect to finalize shortly.

County Manager Training. The County conducted training on October 15, 2018, for all managers concerning their responsibilities to ensure effective internal controls and management oversight of financial transactions, including the importance of appropriate segregation of duties, identification of potential "red flags" of employee fraud and misappropriation of funds, and what to do if such allegations or issues are identified or brought forward as allegations by other employees.

Management of Incubator Program. Finally, the County is in the process of strengthening its oversight and management of the business incubator program by unwinding its relationship with MEDCO. This includes the following:

- Refinanced and assumed MEDCO debt on two County incubators.
- Terminated MEDCO as incubator manager effective December 31, 2018 for the following incubators: Rockville Innovation Center, Germantown Innovation Center, and Silver Spring Innovation Center.
- Contracted with Launch Workplaces, LLC to perform property and portfolio management of the Silver Spring Innovation Center as of September 1, 2018.
- Terminating, effective November 30, 2018, Scheer Partners, MEDCO's subcontracted incubator property manager. Scheer has already discontinued its operations at the Silver Spring Innovation Center. The County will have a property management contract in place by December 1, 2018 for the Rockville and Germantown Innovation Centers.
- Effective November 1, 2018, the County will invoice, collect, and deposit rent/fees from tenants of the Rockville and Germantown Innovation Centers directly into County accounts. After December 1, 2018, the County will directly oversee and account for the financial operations of the Rockville and Germantown Innovation Centers.
- Upon termination of MEDCO and Scheer, accounts held by those third parties will be closed and residual funds remitted to the County.
- The County will contract directly with entities providing economic development services, including BHI.

We would note that immediately following discovery of the misappropriation of County funds, the Department of Finance suspended grant payments to MEDCO and initiated a careful review of projected incubator and related program spending and funds held by MEDCO on behalf of the County, resulting in the following:

- Deferred most of MEDCO's FY18 appropriated grant funding (only disbursed $1.64 million of $3.4 million appropriation).
- Indefinitely suspended all of MEDCO's FY19 appropriated grant funding ($3.6 million).
- Advance repayment to the Maryland Technology Development Corporation (TEDCO) for a four-year liability that otherwise would have been paid by the County through MEDCO.

MCIA-17-1
Department: Community Use of Public Facilities (CUPF)
Audit Report Title: Program Assessment of CUPF – Before and After School Childcare Programs in Public Schools (MCIA-17-1; 9/2/2016)
Total Recommendations: 10
Open Recommendations (2):

#1. Once the Child Care and Early Education Officer position in DHHS is filled, CUPF should meet with DHHS, and the two organizations should establish an agreement that would delineate the role this position will perform in the Before and After School Childcare Program.
Status Update (3/31/2017): **COMPLETE.**

#2. Enhance the Conflicts of Interest policy to clarify/define how conflicts of interest will be handled (e.g. via email, phone call, or meeting), examples of allowable and unallowable conflicts of interest, factors used to determine of disqualification of a selection member, formal documentation of decisions made, and the proper format for documentation to be maintained. Further, the policy should explore options to alleviate bias by parents who currently have children utilizing services with an applicant childcare provider (or have used their services in the past). For example, consider an additional section on the Conflict of Interest form to flush out potential biases or additional disclosures for parents. Further, these discussions and decisions should be formally documented in an email or memo to the Principal, with the Principal acknowledging receipt and agreement with decisions made via email reply or signature. This documentation should be maintained by CUPF to evidence compliance with the Regulation and provide an audit trail for any protests/inquiries.
Status Update (9/30/2016): COMPLETE.

#3. CUPF should document an internal policy as it relates to the preparation of the summary score sheets to be fair, consistent, and timely to ensure no errors or miscommunications were made by selection committee members. Furthermore, the following should be considered for inclusion in the formalized summary score sheet policy:

- How the averages and deviations are to be calculated and displayed on the summary score sheet
- What should be documented (i.e. which committee member's scores were discussed, timing, whether scores were changed, etc.)
- Where these discussions should be documented (i.e. internally in CUPF's calculation tool and/or in an internal memo),
- What will be communicated and provided to childcare providers

Further documentation will ensure consistent handling of summary score sheet, greater transparency, and an audit trail.
Status Update (9/30/2016): COMPLETE.

#4. CUPF's policies should be updated for improved clarity regarding what information is relevant and necessary for the childcare provider to have access to as well as what format this information/documentation should be shared with childcare providers. The specific document/s that can be provided should be defined and consistently applied to ensure providers are receiving consistent levels of information. Further, CUPF should ensure that providers receive the non-privileged documentation they need to be able to assess whether the process was fair and compliant. These areas need to be defined to appropriately balance the childcare provider's need for transparency, protection of applicants' proprietary information, and CUPF's needs for efficiency. CUPF should also consider documenting and offering a formal de-briefing to any requesting unsuccessful childcare providers. As an example, the debriefing information could include the overall evaluated technical rating of the successful

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respondent and the debriefed respondent; any relevant past performance information on the debriefed respondent, the overall ranking of all respondents, and a summary of the rationale for the award.
Status Update (3/31/2017): **COMPLETE.**

#5. The County, in conjunction with other stakeholders, should re-evaluate the current Regulation appeal process (§7. Review of CUPF Process and Remedies) and consider revising the Regulation to be consistent with other competitive bid appeals processes; for example, stating that an applicant may seek review of their non-selection under a solicitation.[1]
Status Update (3/31/2017): **COMPLETE.**

#6. CUPF should ensure there are multiple cross-trained employees to assist with the administration of the Before and After School Child Care Program in Public Schools. This will serve to improve employees' skill sets thereby enhancing CUPF's capacity to respond with more flexibility to fluctuating workflows. Also, step by step documentation should be created and maintained by the individual responsible for administration of the Program to ensure transparency, consistency, and to aid in cross-training of employees.
Status Update (3/31/2017): **COMPLETE.**

#7. Before the childcare providers are notified that they have been selected for interview and before the childcare provider has been notified that they won/lost the re-bid, calculations should be re-performed by a different CUPF staff person or manager to check the math and decisions. Further, at the completion of the re-bid packet, a self-audit/compliance checklist should be made to ensure all key documents were obtained, signed, checked, and reviewed. This self-audit/checklist should then be reviewed by CUPF
Status Update (12/31/2016): **COMPLETE.**

#8. CUPF should consider establishment of a process involving stakeholders/users to develop a Program Plan, approved by the ICB and MCPS (given MCPS' responsibility under State law for the Before and After School Child Care Program), identifying short term and long term goals and objectives for the Before and After School Program, such as improving customer service scores, increasing new providers. Establishing such a process offers the opportunity for CUPF to improve current customer/stakeholder relations and to address concerns about transparency and accountability. The Program Plan, with specific goals/objectives and performance metrics can serve as a way to clearly communicate the program's objectives, successes and challenges, and to drive employee behavior in a consistent, focused manner. Timelines should be shared on CUPF's website including estimated completion dates to improve transparency. Key information related to the achievement of timelines should be tracked and reported to evidence efficiency and effectiveness.
Status Update (7/31/2017): *IN PROGRESS. (Q3 FY 2018)*

#9. CUPF should consider alternatives for improving the current issue reporting, tracking and resolution process for childcare providers. One alternative would be to have all complaints submitted go to one organization, to eliminate confusion, who would own the intake of complaints. Complaints would be logged and then assigned to the appropriate individual (e.g., within CUPF or at MCPS) to investigate and address consistent with their respective responsibilities under the Program. Once the investigation is completed, a resolution should be agreed upon with the childcare provider. The resolution and closing

[1] This recommendation acknowledges that if the Regulation is subsequently revised to permit a review on the merits of a provider's non-selection – and not just a review of "CUPF's compliance with its responsibilities under this regulation" [§7. *Review of CUPF Process and Remedies*], the appropriate organization to receive and respond to such requests for review would need to be MCPS, which is responsible for the selection decisions made under the Regulation.

of the complaint should be documented and time-stamped. This information can be used for trending of common issues and timeliness of issue resolution by both CUPF and MCPS.
Status Update (7/31/2017): IN PROGRESS. *(Q3 FY 2018)*

#10. CUPF should consider making updates to the website to be more clear, concise and understandable for key stakeholders. A frequently asked questions section and a concise introduction to CUPF's role may aid in improving transparency and comprehension. Explaining their role in more simple terms may alleviate the confusion and frustration faced by parties submitting complaints about CUPF. Also, whenever there is a key process change, these should be clearly communicated on their website (e.g. a "What's Changed" section) to ease frustrations and improve perception.
Status Update (3/31/2017): **COMPLETE.**

MCIA-17-2
Department: Community Use of Public Facilities (CUPF)
Audit Report Title: Program Assessment of CUPF – Reservation of Public Facilities Process (MCIA-17-2; 8/5/2016)
Total Recommendations: 12
Open Recommendations (4):

#1. CUPF should establish a short term and long term business/strategic plan, with specific goals/objectives, and strategies that can drive CUPF's resource (workforce and investment) planning. Further, CUPF should establish and communicate specific performance measures for key functions within CUPF, such as customer service, productivity, etc. By setting a desired goal of performance achievement, these metrics can serve as a way to clearly communicate the organization's objectives, successes and challenges, and to drive employee behavior in a consistent, focused manner.
Status Update (7/31/2017): IN PROGRESS. (Q2 FY 2018)

#2. CUPF should undertake a workforce/succession planning effort for the loss/transition of these key critical employees including documenting critical duties performed, enhancing procedural desktop documentation, and increasing opportunities for staff development and cross training.
Status Update (3/31/2017): **COMPLETE.**

#3. CUPF should undertake a workforce/resource planning effort to identify appropriate resource levels and needs to allow CUPF to fulfill their mission requirements effectively, including adapting to the changing service demands and needs of the County's community and to improve their perception and reputation by building relationships.
Status Update (3/31/2017): **COMPLETE.**

#4. CUPF should conduct an annual review of their actual prior end-of-year fund balance and their projected current end-of-year fund balance, and determine appropriate investments or rate structure changes to address strategic business plan needs and to remain compliant with the County's CUPF enterprise fund balance policy; or propose amendments to the policy.
Current Status: **COMPLETE.**

#5. CUPF should explore options to enhance their website delivery of information and enhance the user's experience, especially for first-time/infrequent users. Their homepage can be enhanced to describe their roles, responsibilities, and clarify their mission, vision, and objectives. Further, links to frequently asked questions should be more easily accessible, such as its own menu item or on the homepage, instead of

under the "Resources" Tab. Frequently asked questions should also address common questions or areas of complaints such as CUPF's roles and responsibilities, CUPF's organization, purpose of fees, etc.
Status Update (7/31/2017): **COMPLETE.**

#6. CUPF should seek opportunities to make the reservation process more consistent, simple, and streamlined. Key procedural differences between building types should be documented and shared with public on CUPF's website to increase transparency. CUPF should document why the process is different, how the process is different, key contacts for each type of reservation, different/additional fees associated with building types, and key timing, deadline, and turnaround time variances for permitting approvals. Including M-NCPPC and Recreation Department processes would also be helpful to improve clarity. These should be accumulated, documented, and communicated in a clear and concise way for users to easily access and understand.
Status Update (12/31/2016): **COMPLETE.**

#7. CUPF should allocate necessary resources to develop a staff development plan and formal training program. Further, all employees that are required to communicate directly with customers should be required to attend periodic and targeted customer service training to enhance their skill sets.
Status Update (3/31/2017): **COMPLETE.**

#8. CUPF should research options to improve their issues resolution process, including opportunities for further automation and tracking. With additional tracking, CUPF should be able to analyze issues to continually improve business practices, evaluate their responsiveness, and communicate results to the public and the ICB more effectively.
Status Update (7/31/2017): IN PROGRESS. (Q3 FY 2018)

#9. CUPF should create and communicate an issues resolution process including examples of types of issues and how they should be submitted to CUPF for resolution. This should be clearly documented on their website.
Status Update (7/31/2017): IN PROGRESS. (Q3 FY 2018)

#10. CUPF should consider utilizing a public outreach/education campaign to effectively communicate their roles, responsibilities, and mission to the community. CUPF should consider dedicating resources to engaging communities, building relationships, and educating the County of their role and service offering. Having a more interactive role with the community it serves and educating the public on who they are and what they do, may alleviate the confusion and frustration faced by parties submitting complaints about CUPF. Further, a marketing and education campaign could lead to growth and increase in the community utilizing public facilities.
Status Update (7/31/2017): **COMPLETE.**

#11. CUPF should maintain documentation, track, and report on the frequency, nature, and resolution of permits and users/groups that were forcibly cancelled for priority use. These results can be analyzed and used to improve business processes.
Status Update (7/31/2017): IN PROGRESS. (Q3 FY 2018)

#12. CUPF should seek opportunities to further streamline their fee structure. CUPF should consider having another fee study done to identify opportunities to change its fee structure to address feedback received from customers. Further, CUPF should consider providing more tools and assistance on their website to assist users in calculating their own fees.
Status: **COMPLETE.**

Department: Multiple (ECC, DGS, OEMHS, MCIA)
Audit Report Title: 9-1-1 Service Interruption: Investigative Services MCIA-17-3; 11/15/2016
Total Recommendations: 19
Open Recommendations (5):

1. DGS should replace the existing AC unit with an optimally sized and configured commercial AC system that provides adequate redundancy and capacity.
   Status Update (12/31/2016): ***COMPLETE.***

2. DGS should identify best practices for effective asset management and implement a more structured asset management process (and system) that would enable comprehensive inventorying of building systems (including their age, life expectancy, service schedule and history, and planned replacement schedule), effective/timely preventive maintenance, and planning/budgeting for asset replacement prior to asset failure. Assessment of alternative system solutions, including the potential for adoption/development of an enterprise asset management system for the County, should be conducted in conjunction with DTS, and be subject to the County's IT review process.
   Status Update (7/31/2017): *IN PROGRESS. (Q4 FY 2018)*

3. DGS should identify best practices requiring the use of formal checklists for building system servicing, particularly for mission-critical facilities, and implement appropriate changes in policies and procedures; to include appropriate documentation and review of service performed. The checklist should be aligned to address and adhere to manufacturer recommended checks and maintenance schedules (if applicable).
   Status: **COMPLETE.**

4. DGS, DTS and ECC should continue efforts to diagnose and correct BAS stability issues, and should effect their planned actions to provide redundant monitoring of building system conditions, including the following:
   a. Continue regular physical monitoring of AECC, including UPS room temperatures.
   b. Continue planned installation (in coordination with DTS as appropriate) of redundant BAS at AECC and PSCC to provide additional monitoring points and signal transmission through a different network path.
   c. Continue DTS efforts, partnering with DGS and the BAS vendor, to monitor, diagnose and correct the BAS performance issues. In addition, the ongoing role/ responsibility of DTS with respect to the BAS system (and any associated resource implications) should be agreed to and documented between DGS and DTS given the importance of this BAS across the County enterprise.
   d. Continue planned installation of prominent visual notifications at AECC on 1st and 3rd operations floors to provide alerts to ECC management/staff of key building systems' conditions.
   e. ECC should institute procedures requiring checklist of facility areas/conditions that must be physically checked at the start and midpoint of each shift; designate individual(s) required to conduct/document these checks in a centrally-available/maintained log, and verify that procedures are being followed.

   Status Update (12/31/2016): ***a & e: COMPLETE***
   Status Update (7/31/2017): ***b: COMPLETE.*** *c & d: IN PROGRESS. (Q2 FY 2018)*

5. DGS should develop and implement procedures that require DGS staff to notify program officials when risk conditions at a facility increase risks to operations, and should coordinate with program officials the procedures for physical monitoring of facility conditions as warranted.
   Status: **COMPLETE.**

6. ECC should deploy back-up phones (which may include POTS phones) at AECC site as a back-up should the 9-1-1 system go down.
   Status: **COMPLETE.**

7. DGS should program breakers on all PDUs at the AECC to be in "auto reset" mode, and should ensure that DGS Technicians receive appropriate training on the availability and use of this feature. DGS should also identify other facilities where use of this breaker feature should be implemented and take appropriate steps to program the breakers to this mode.
   Status: **COMPLETE.**

8. ECC should revise COOP procedures to be able to mobilize from either site to the "alternate" site effectively, including timely activation of the back-up phone lines at either the PSCC or AECC, as required.
   Status: **COMPLETE.**

9. ECC (with vendor – and DTS support as needed) should create appropriate documented protocols regarding steps that should be taken should similar events (interruption/loss of power to phone system servers and/or call-taking workstations) occur under the current (new Intrado) phone system. ECC management/staff and IT staff should be trained on these protocols, and these protocols should be readily available to all staff who must take action. ECC should also address any vendor-related issues that may have contributed to initial delays in diagnosing and correcting the situation at the AECC.
   Status Update (7/31/2017): **COMPLETE.**

10. ECC and the phone system vendor should conduct appropriate testing to ensure that call system routing can be easily transferred without impact to operations in the event the phone servers at one location go down (e.g., due to interruption/loss of power or other event). The goal of testing is to ensure the redundancy works and to develop any associated protocols for ECC staff.
    Status Update (7/31/2017): IN PROGRESS. (Q2 FY 2018)

11. ECC should ensure that an Operations Manager is on duty during all shifts of ECC operations to coordinate decisions and notifications.
    Status Update 3/31/2017: ***COMPLETE.***

12. OEMHS, MCPD, and MCFRS should continue their efforts to develop more coordinated messages across social media and other public messaging channels. These efforts must include development of pre-planned messages/scripts, and improved processes for timely notification to/involvement by OEMHS of incident/facts.
    Current Status (12/31/2016): **COMPLETE.**

13. OEMHS should also continue their efforts to improve the outreach, timeliness and quality of information communicated through other public notification channels; including the use of (a) Wireless Emergency Alert system and (b) Emergency Alert System as messaging channels, either as alternatives to or in parallel with AlertMontgomery, in the future. OEMHS should also work with the AlertMontgomery vendor to address delays in issuing messages.
    Status Update (3/31/2017): ***COMPLETE.***

14. The CAO should establish a policy/practice regarding any enhanced levels of notification to Council members and mayors regarding such incidents.
    Current Status (as of 12/31/2016): ***COMPLETE.***

15. The ECC should ensure that appropriate "event-based" COOP table-top exercises are planned and conducted, and should ensure relevant incident-response partners (e.g., DGS, DTS, OEMHS) are identified and participate in the exercises. OEMHS, given their role and experience in emergency response planning and incident management, should take a more active role in assisting ECC management in planning and monitoring the conduct of such exercises.
Status Update 3/31/2017: ***COMPLETE.***

16. DGS should consider establishing a "mission critical facility team" that would be responsible for facility maintenance and services at the PSCC/AECC, Data Center, PSHQ (and potentially 3-1-1 center). Specific service level expectations should be established for these facilities between DGS and the management of the programs at each facility.
Status Update (7/31/2017): IN PROGRESS. (Q4 FY 2018)

17. MCIA should conduct a more extensive Infrastructure assessment of the AECC and the PSCC facilities using best practices and applicable standards to identify all current areas of risks and deficiencies.
Corrective Actions Taken and/or Planned: *On October 13, MCIA awarded a task order with SC&H Group, a*
Status Update: **COMPLETE**

18. MCIA should conduct an assessment, including the use of best practices and benchmarking, of the current transition project (current status of transition, challenges with completing consolidation, and support that may be needed to successfully complete the transition timely), and provide the resulting recommendations to County leadership for decision and action. The County should designate this as a major project, and implement best practices for effective/timely project implementation and completion.
Status Update (12/31/2016): **COMPLETE.**

19. ECC should assess alternatives for a secondary back-up COOP plan (which could include exploring assistance from regional partners to assist in call-taking/dispatching; or educating/directing the public to contact police/fire stations directly).
Status Update (7/31/2017): In PROGRESS. (Q4 FY 2018)

Department: Multiple (OEMHS, HHS, PIO, REC)
Audit Report Title: Silver Spring Apartment Fire: County Response/Recovery Effort and Lessons Learned
MCIA-17-4; 12/9/2016
Total Recommendations (14):
Open Recommendations (8):

1. Activation of the EOC. For all emergency events where large numbers of residents are impacted and the scope (in terms of types and duration of services needed) of the response/ recovery effort is extensive, OEMHS should activate (at a minimum, full remote activation) the EOC (or other comparable process) and ensure that regular (at least daily or twice daily) conference calls are conducted to facilitate improved awareness, coordination and planning across the County. **(Lead: OEMHS)**
Current Status (2/10/2017): **COMPLETE**

2. EOP 'Scenario-Based" Drills/Exercises. The County should develop and conduct a future table-top exercise (1) based on a scenario the same as or similar to the Silver Spring apartment fire, (2) involve appropriate County and non-profit/community partners that would be involved in the response/recovery effort, and

(3) include the challenges identified in this report. As part of this exercise, the following issues should be explicitly discussed and worked through with the community organizations:

- The scope and breadth of human services impacted residents should expect from the County;
- The roles the County will directly perform, and the roles specific community/non-profit organizations need to be prepared to perform;
- How concerns and problems should be raised to the County, and how the residents and community organizations should expect the County to coordinate and address these concerns.

(Leads: OEMHS and HHS)
Status Update (7/31/2017): IN PROGRESS. (Q3 FY 2018)

3. Overall Management of Sheltering Operation: Incident Command Structure. HHS, as the Primary Department for ESF #6, should revise their internal emergency response procedures to require that a clear incident command/management chain of command be established and documented in the event of an emergency, to include: who (by name) is in overall command of incident management, and who below this person has primary responsibility for specific response activities. The documented incident management list should also identify the back-ups to the primary leads, and provide contact information to provide clearer lines of authority/accountability and improved timely coordination when needs or questions arose. **(Lead: HHS)**
Status Update (3/31/2017): **COMPLETE.**

4. Overall Management of Sheltering Operation: Coordination within County, between County and Red Cross, and with Community/Non-profit Organizations. HHS should ensure that their internal emergency response procedures require conducting regular (for example, twice daily) coordination meetings among the County and the external partners to facilitate ongoing coordination and resolution of issues/needs. Such meetings should also identify planned visitors/events occurring the next day/several days to ensure any appropriate planning (including support access by visitors) occurs. The meetings should have a designated "scribe" (a person who does not have program accountability for shelter operations) to document actions/decisions/issues. **(Lead: HHS)**
Status Update (7/31/2017): IN PROGRESS. (Q3 FY 2018)

5. Shelter Operations: Conducting Press Conferences at Shelter. The County should avoid, as a matter of protocol, conducting press conferences at shelter sites, when there are large-scale sheltering operations underway at the site. **(Lead: PIO)**
Status: **COMPLETE.**

6. Shelter Operations: Planning and Preparation. Drawing on the lessons learned from this incident, HHS in coordination with Recreation should develop a plan to address telecommunications and logistics issues at each of the Community Centers (and other facilities that are identified as potential shelter facilities) that impacted or could impact sheltering operations. **(Lead: REC)**
Status Update (7/31/2017): IN PROGRESS. (Q3 FY 2018)

7. On-Scene Coordination/ Triaging for Victims/Residents. The County should review its current emergency response protocols and plan, and consider having a more visible "triaging" or "aid station" operation (tent, mobile unit, etc.) to help triage people who did not need medical care to the shelter operations. **(Lead: OEMHS)**
Status Update (7/31/2017): IN PROGRESS. (Q2 FY 2018)

8. Information Sharing with Shelter Residents. HHS should examine its current sheltering protocol, and consider having a "bulletin" board available to the shelter residents with information posted in

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appropriate languages regarding resources available to them, events planned at the shelter (e.g., the Resource Fair conducted), or other information of use to the residents. **(Lead: HHS)**
Status Update (3/31/2017): **COMPLETE.**

9. Financial Assistance to Victims: Model the Lessons Learned from the Victims' Fund. Using the guidelines/principles developed by MHP in its management of the victim fund for the Silver Spring apartment fire, the County should model this approach in the management of future "victim funds." **(Lead: OEMHS)**
   Corrective Actions Taken and/or Planned: OEMHS has brought in additional contract support to develop a
   Status Update (7/31/2017): IN PROGRESS. (Q2 FY 2018)

10. Non-Financial Donation Management. The County should develop "activation agreements" – with non-profit organizations who are capable and willing to take the lead on specific categories of donation management for incidents similar to the Silver Spring fire, including an activation agreement for each of the following areas of need: victim funds, clothes, food, furniture/mattresses. **(Lead: HHS)**
    Status Update (7/31/2017): IN PROGRESS. (Q3 FY 2018)

11. Volunteer Management. The County should assess potential enhancements to the volunteer management capacity (previously available through the Volunteer Center) to facilitate a more active and effective mobilization of volunteer services when needed in an emergency response. Such a program/system would optimally identify volunteer services the County might need as part of a response/recovery of this magnitude and would similarly allow individuals to register (and identify specific skills/experience), as volunteers in these areas in advance of (preferably) or at the time of (if specific service needs are identified for a specific emergency) the County's need for services during an emergency. **(Lead: OEMHS)**
    Status Update (7/31/2017): IN PROGRESS. (Q3 FY 2018

12. Potential Gaps in "Case Management" and Social Support Network. HHS should review the case management approach followed in response to the Silver Spring fire, and determine whether modifications to the approach should be made for the future to address some of the perceived "gaps" identified by several community partners. **(Lead: HHS)**
    Status Update (3/31/2017): **COMPLETE.**

13. Post-Shelter Operations: Coordination. The County should consider conducting regular (e.g., weekly) coordination meetings between the County and the community partner organizations after the shelter closes to facilitate identification and resolution of ongoing recovery and service delivery concerns. **(Lead: HHS)**
    Status Update (7/31/2017): IN PROGRESS. (Q3 FY2018)

14. Non-Profit Community Partners: Resource Impacts. The County should establish a process to consider a request for additional funding from a non-profit community organization receiving County community grant funding if that organization believes the response/recovery efforts they provided during this incident cannot be supported under existing funding sources (either County or other organizations, such as foundations) without causing significant adverse impacts to other programs/services specifically supported under the County's community grant funding. Such a process should be sufficiently robust (i.e., requiring appropriate documentation of: additional costs incurred, response/recovery services performed, funding being requested/received from other sources, and impacts on other programs supported by the County's existing community grant funding) to support consideration of the request/need. **(Lead: HHS, with support from the County's Office of Management and Budget and the Department of Finance, as appropriate, to develop this process and make recommendations on specific funding requests to be considered through the existing County budget/supplemental funding process.)**

Status: **COMPLETE.**

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Department: MCPD (ECC)
Audit Report Title: Assessment of 9-1-1 Consolidated Emergency Communication Center Transition Plan; MCIA-17-5; 3/20/2017
Total Recommendations (8):
Open Recommendations (5):

1. **ECC Staffing and Training.** We recommend that the ECC management implement the training program that is included in this report as the roadmap to train sufficient ECC staff as Unified Call Takers (UCT). We also recommend that the ECC management continue to implement the hiring and staffing plan that is included in this report. Although this plan does not project to employ the full complement of ECC staff before FY2020, the plan does increase the staffing by 24% from current staffing levels, while minimizing the risks associated with expanding the staff too quickly and reducing quality and service delivery metrics.
Status Update (7/31/2017): **COMPLETE.**

2. **Update and Adopt Project Charter.** We recommend that the County update the project charter with the end-state goal and the key steps required to implement the charter, within an agreed upon timeline. As stated above, we understand that a new, updated project charter is in development. We recommend the following issues be addressed in the new charter:
   - Document the end-state definition for the consolidation project, defining what will constitute a consolidated 9-1-1 Center. Based on establishing the definition, metrics and milestones can be better established and managed.
   - Define a governing organizational structure for managing the consolidation project at all levels to include stakeholder roles and responsibilities, and reporting and accountability requirements. We believe that this structure should include an Executive Steering Committee (ESC) with senior management representative from key stakeholder departments – to provide the appropriate level of oversight and accountability.
   - Include a detailed schedule that is linked to specific plans and updated regularly, to include a progress reporting schedule.
   - Include a formal communications plan for communicating key information and progress regarding the consolidation project to ECC staff.

   Status Update (7/31/2017): IN PROGRESS. (Q3 FY 2018)

3. **Updated Project Schedule.** We recommend that the County update and adopt a new, more realistic project schedule that factors in progress to-date, validated assumption regarding the planned training schedule, and other factors. [NOTE: We have been advised by ECC management that this process is currently underway.]
Status: **COMPLETE.**

4. **Management of the Training (and UCT Staffing) Schedule.** We recommend that the training schedule developed in conjunction with ECC management be formally reviewed and adopted by the County. We further recommend that performance against this training/project schedule be regularly reported monitored by the County. Since successful achievement of the training schedule and related metrics (including numbers of successfully-trained and certified UCTs) is key to the success of the consolidation project, it is essential that the County closely monitor this "critical path" item. Additionally, as the training project progresses, management should look for ways to increase the number of UCT trainees.

Status Update (7/31/2017): IN PROGRESS. (Q3 FY 2018)

5. **Future Consolidated ECC Governance Agreement and Structure.** We recommend that the stakeholders begin discussion on the future governance of the ECC in its relations with its primary stakeholders. Planning for the new ECC organization and how it will work with MCPD and MCFRS field units has not been addressed. As a key element of the end-state vision of the consolidated center, the future role and responsibilities of all the stakeholders must be defined – particularly given the mission-critical nature of ECC operations. [NOTE: This is separate and distinct from the governance structure during the project management phase to achieve consolidation.] This Governance Agreement should define the roles and responsibilities of the key stakeholders in managing the consolidated Emergency Communications Center following completion of the consolidation project. We also recommend that the County establish this Agreement and structure on a timeline that will allow for sufficient time to meet any budgetary or organizational changes so as not to delay full consolidation. This is driven by the following considerations, each of which have budgetary and organizational implications:
    - Identifying what organizational functions may need resources and related budget estimates, and FTE requirements
    - Providing a guideline for identifying short and long term organization changes are required within the ECC allowing the ECC management sufficient time to manage the changes and obtain authorizations that may be required In regard to the Agreement and the supporting organizational structure, we recommend:
    - The Agreement should provide the operational basis for continuing support and services from the MCPD-led ECC and the MCFRS field operations, as well as MCPD field operations.
    - The County should establish a formal management structure (for example, an Executive Steering Committee (ESC)) to oversee ongoing implementation of the governance agreement, particularly during early stages following consolidation. The ESC will provide strategic oversight and support for the ECC and include, in addition to MCPD and MCFRS other County government stakeholders that can contribute to managing the strategic needs of the ECC such as the CAO's office, facilities, budget, human resources and other County agencies. This body will also oversee the transition among the key stakeholders and coordinate strategic needs between the MCPD managed ECC and the MCFRS operational needs. The ESC could meet on a quarterly, or as needed, basis.

    Status Update (7/31/2017): IN PROGRESS. (Q3 FY 2018)

6. **Operations Committee.** The ECC currently utilizes the *ECC – Patrol Services Committee* to formally discuss procedural changes impacting call taking and dispatching. MCFRS and the ECC use a similar forum. These practices are aligned with NENA's best practices for managing PSAP relations with public safety operational units. We recommend that the ECC continue this practice within a formal Operations Committee that will facilitate this collaboration within the overall Governance structure. This is a typical approach utilized by consolidated centers and is considered a best practice.
    Status Update (7/31/2017): IN PROGRESS. (Q3 FY 2018)

7. **Use of Sworn Fire Staff.** As a long-term measure, we recommend that the County leadership consider allowing MCFRS to assign sworn staff to the ECC to serve as Fire Liaison Officers (FLO) overseeing fire and EMS dispatching as a short-term ECC consolidation goal. The MCFRS FLOs will coordinate fire and EMS dispatching functions as expert dispatch operations, as well as managing major incidents and mutual aid responses. In the short term, Fire sworn staff would need to continue to "fill in" as fire dispatchers, as there was not a specific schedule to train civilian staff to completely take over this role. That would occur after UCT was "complete." The use of the FLOs to oversee fire and EMS dispatching is used in multiple PSAPs across the country. The ECC personnel serving as fire dispatching staff would report to the ECC MCPD management. This recommendation will reduce risk to the dispatching operation and ensure continuity between the ECC and fire and rescue field units and facilitate the consolidation process.

Status Update (7/31/2017): ***COMPLETE.***

PSCC Facility. We recommend the County continue, and, if possible, accelerate the process to identify a site and budget for a new primary PSAP, as well as identifying the back-up facility to the new primary PSAP. The PSCC and the AECC facilities have reached their physical capacity and must be considered a potential constraint on the consolidation process and future operations at the PSCC or the AECC. From a staffing perspective, the size of PSCC and AECC's 9-1-1 operations areas is a constraint on operations, in that there is no more room to expand operations to accommodate County population growth, and any
Status Update (7/31/2017): *IN PROGRESS. (Q4 FY 2018)*

Department: Office of Human Rights
Audit Report Title: Assessment of County's Implementation Plan for Minimum Wage Law for Tipped Employees – Bill 24-15 (MCIA-17-6; 5/30/2017)
Total Recommendations: 4

#1. Clarifying Authority Under Law. OHR should take appropriate steps to determine and, as appropriate, clarify OHR's authority under Bill 24-15 (or other applicable law) to (a) audit employer quarterly wage reports, and (b) take appropriate enforcement action (including define what enforcement actions are specifically authorized) if employers do not submit quarterly wage reports timely or if the County determined that an employer did not pay their tipped employees at least the minimum wage as required under Bill 24-15.
Status Update (10/31/2017): *IN PROGRESS. (Q3 FY 2018).*

#2. DLLR Data for Employer Inventory. OHR should coordinate with DLLR and the County's Department of Finance to determine whether the current data sharing agreement can be amended to include the OHR's intended use for data; or alternatively pursue with DLLR the establishment of a new data sharing agreement specific to Bill 24-15 uses. [NOTE: The following fields were identified as critical when receiving data from DLLR and has been verified as available: business name, business address, # of employees, business owner name, business owner phone number, business owner e-mail address, and NAICS code.]
Status Update (10/31/2017): *IN PROGRESS. (Q3 FY 2018).*

#3. Online Reporting System. OHR should pursue, in coordination with the County's Department of Technology Service, the feasibility of acquiring and implementing a more robust online reporting system to support the requirements of Bill 24-15. [NOTE: Based on the initial fact-finding conducted by the audit firm, it is estimated that such a solution could be acquired for less than $50,000, with a minimal monthly fee of less than $100 per OHR user.]
Status Update (10/31/2017): *IN PROGRESS. (Q2 FY 2018).*

#4. Resource Assessment. Using the results of this program assessment, OHR should re-assess the resources currently available to determine whether Bill 24-15's requirements can be effectively implemented with existing resource levels.
Status: **COMPLETE.**

Department: ACAO
Audit Report Title: HIPAA Compliance – Phase 1 Risk Assessment (May 30, 2017; MCIA-17-7)
Total Recommendations: 9
Open Recommendations: 9

#1. Administrative Procedure 8-2. We recommend that the completion and approval of the updated HIPAA Policies be given the highest priority by the Deputy Privacy Official and the Privacy Official, and that departments revise, develop or update department-specific procedures as soon as County-wide policies are formally updated. This will require that the County Attorney's office provide timely guidance to the Deputy Privacy Official and the HIPAA Workgroup for any and all areas which require clarification to finalize the Policies. Additionally, the Department of Technical Services should review and update the Information Resources Security (AP 6-7) to ensure that it addresses all HIPAA required Security Polices.
Status Update (10/31/2017): CAP under development.

#2. Sanctions Policy. Subsequent to the updating and approval of county-wide HIPAA Policies, required sanctions policies should be developed and formally approved.
Status Update (10/31/2017): CAP under development.

#3. Periodic Review of Policies/Procedures. The County should institute an annual review requirement for both County-level policies/procedures, as well as department-level procedures to ensure that policies and procedures are timely updated to reflect current HIPAA requirements.
Status Update (10/31/2017): CAP under development.

#4. Protection of PHI/ePHI – Attestation Reports. Best practices indicate that third party attestation reports (such as SOC No.2) should be obtained annually for hosted systems that support operations and procedures relevant to storing, transmitting, processing and securing PHI/ePHI. The reports should be reviewed by knowledgeable County personnel to assess if the third-party provider has required controls in place and if they are operating effectively. The County should also assess if it has controls in place to sufficiently address the Complimentary User Control Considerations identified in the reports.
Status Update (10/31/2017): CAP under development.

#5. Protection of PHI/ePHI - Encryption. The County should ensure that all documents containing PHI/ePHI which are transmitted via email are sent with encryption.
Status Update (10/31/2017): CAP under development.

#6. Business Associate Agreements. We recommend that the County perform a comprehensive assessment of the status of BAA's across all Covered Entities of Montgomery County.
Status Update (10/31/2017): CAP under development.

#7. Recommended Assessment – Information Security and Controls. In order to ensure that the County departments which store and transmit PHI are in fact following established security procedures, we recommend that the County perform detailed Information Security and Controls Assessments for the systems in place which store and transmit data, with a focus on HIPAA and other protected information. We recommend that priority be given to the systems in place in the Department of Health and Human Services.
Status Update (10/31/2017): CAP under development.

#8. Business Continuity/Disaster Recovery Audits. The County is required to develop and maintain policies and procedures for a Contingency Plan as required by 164.308a7i. This requirement was covered under the Administrative Procedure 6-7, Information Resources Security (dated May 4, 2005). We recommend that the County perform Business Continuity/Disaster Recovery Audits for all four County departments which are considered Covered Components.
Status Update (10/31/2017): *CAP under development.*

#9. Future HIPAA Compliance Audits. We recommend a detailed HIPAA Compliance Audit focused on HHS in order to comprehensively assess compliance with HIPAA requirements and whether the established controls are operating effectively for the following areas of HHS:

- Child Welfare Services
- Behavioral Health and Crisis Services
- Public Health Services
- Special Needs Housing

Status Update (10/31/2017): *CAP under development.*

OIG

Advisory Memorandum on Communication of Building Permit Information to SDAT (Report # OIG-17-01; August 25, 2016)
Total Recommendations: 3
Open Recommendations: 0

Recommendation 1: DPS should continue to work toward incorporating SDAT account numbers into the building permit information it communicates to SDAT.
CAO Response: In partnership with MNCCPC, effective August 2, 2016, we began including tax ID numbers in the reports submitted to SDAT. We recommend that SDAT also check these reports against its own address and database since it creates the tax ID numbers for addresses and maintains that database. **COMPLETE**

Recommendation 2: DPS should determine what changes are necessary to improve the accuracy of the estimated costs.
CAO Response: DPS will explore developing a program to provide a calculation based upon square footage of construction, type of construction, and an assumed estimated construction cost based on tables created for the purpose of estimating permit fees. However, it is important to note that cost information is useful in processing of permits when permit fees are based upon cost of improvements, which is no longer the case for new commercial construction and has not been the case for residential permits. The published ICC 2015 Building Valuation Data table provides, "ICC has developed this data to aid jurisdictions in determining permit fees. It is important to note that while this BVD table does determine an estimated value of a building (i.e., Gross Area x Square Foot Construction Cost), this data is only intended to assist jurisdictions in determining their permit fees. This data table is not intended to be used as an estimating guide because the data only reflects average costs and is not representative of specific construction." Thus, the tables were not intended to be accurate estimated cost information. Furthermore, assessments are based upon fair market value which is what a willing buyer will pay a willing seller in the open market, which is not the same thing as construction costs. See, Lane v. Supervisor of Assessments of Montgomery County, 447 Md. 454 (2016).

Status Update (3/1/2017) DPS did explore recommendation #2 and determined that implementing such a program is not feasible at this time. **COMPLETE**

Recommendation 3: DPS should continue to work toward communicating to SDAT when residential properties are ready for occupancy.
CAO Response: Occupancy permits are issued when construction is completed and has passed final inspection. DPS began providing occupancy permit reports to SDAT in April 2016, following their request for this information. **COMPLETE**

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Lawrence Court Halfway House Meal Provision to Residents (OIG PIM #17-001; October 6, 2017) - No recommendations requiring additional corrective actions.

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Final Draft Advisory Memorandum: Montgomery County Department of Health - Healthcare Billing Practices (Report # OIG-17-002, November 30, 2016)
Total Recommendations: 2
Open Recommendations: 1

Finding 1: While DHHS reports that the implementation of the NextGen Electronic Health Record (EHR) has resulted in a better ability to track a number of analytics regarding medical billing, DHHS did not present a formal plan to hold staff and management accountable for successful and timely billing as recommended in the HMC report.
Recommendation #1: DHHS should develop a formal plan to hold managers and staff accountable for accurate, timely, and effective billing and collection.
Status Update (7/31/2017): **COMPLETE.**

Finding 2: While HMC recommended that DHHS seek reimbursement for a number of medical services provided by the Crisis Center and Access Program, medical billing has been fully implemented in only one of the 5 feasible areas recommended by the contractor.
Recommendation #2: In consultation with the CAO, DHHS should determine which of the contractor's recommendations should be implemented and begin billing for those services.
Status Update (7/31/2017): IN PROGRESS. (Q3 FY 2018)

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Confidential Final Draft Report "Montgomery County Information Systems Security" (Report # OIG-16-004: 9/19/2016) - DTS
Total Recommendations: 2
Open Recommendations: 2

Recommendation #1

- Perform and document the results of a risk-based assessment of the need for and optimal timing of encryption measures to safeguard sensitive data in or on laptops, email messages, removable media, and databases (including test data). Prioritization of risk and timing of implementation of controls is significant in a cost-conscious environment. We recommend that County Stat work with DTS to develop a risk-based plan and to monitor its implementation.

- Assess the available commercial solutions (Endpoint Protection Platforms) that impose centralized technical controls as a component of a comprehensive strategy for Mobile Data Protection. These controls may include, but are not limited to, placing restrictions on the types of devices that can be connected to machines, enforcing controlled use of USB ports, and blocking copy or transfer of certain files or sensitive data based on enterprise data classification.

CAO Response: DTS will work with CountyStat to develop a risk-based plan and to monitor its implementation with regard to the optimal timing of encryption measures to safeguard the County's sensitive data. In addition to the above recommendations, the County has undertaken efforts to review the need to generate and retain paper and electronic records beyond their useful life. Also, using cross-program synergies (e.g., with the County's open data program), data sets are being classified based on sensitivity following the Maryland Public Information Act. This will drive the order in which data is encrypted in the databases and in flight, such as on mobile devices.

The County will also assess the available commercial solutions that impose centralized technical controls as a component of a comprehensive strategy for Mobile Data Protection. Currently, the County's practice is to move away from the use of such media like USB drives for collaboration and sharing information, especially sensitive information. In addition, the County is encrypting sensitive emails using the Microsoft-hosted Office 365 platform, as the report notes.

Status Update (7/31/2017): IN PROGRESS. (Q4 FY 2018).

Recommendation #2

We recommend the county review County Administrative Procedure 6-7, *Information Resources Security*, and update it, as appropriate.

CAO Response: We are presently reviewing the policies referenced in the draft report; and, these policies will be updated, as appropriate, to reflect the direction the County is taking to reduce its information security risk, not only in the areas where the County rated at maturity Level 2 ("Reactive") but also in the many areas where it rated Level 3 ("Proactive"). In addition to the above recommendations, the County has undertaken efforts to review the need to generate and retain paper and electronic records beyond their useful life. Also, using cross-program synergies (e.g., with the County's open data program), data sets are being classified based on sensitivity following the Maryland Public Information Act. This will drive the order in which data is encrypted in the databases and in flight, such as on mobile devices.

Status Update (7/31/2017): IN PROGRESS. (Q4 FY 2018)

Response to Confidential Final Draft: Managing Alcohol Inspections (Report #OIG-17-003; January 6, 2017)
Total Recommendations: 3
Open Recommendations: 1

Recommendation 1: DLC should develop and management should review periodic, for example monthly, reports of compliance or noncompliance with State law, BLC regulations, and DLC procedures regarding twice-annual, monthly, and final inspection requirements.

CAO Response: As you know, there are several sources of information and systems retaining the related data on all aspects of the Department of Liquor Control's (DLC) inspection and licensing activities. Currently, we are in the process of developing a comprehensive single tracking and reporting system to monitor all DLC inspections and licensing and compliance with laws, regulations, and procedures. In addition, beginning in January 2017, the Board of License Commissioners will take a more proactive role in monitoring of license inspection reporting.

Status Update (7/31/2017): ***COMPLETE.***

Recommendation 2: DLC Management should track whether each newly licensed licensee has received the required monthly inspections for the first year of licensure and should see that the required inspections are performed.
CAO Response: Please note that the intent of the monthly inspection is to monitor that the businesses selling liquor are meeting the food-to-alcohol ratio requirement as well as to add guidance and counsel to assist the new licensees. Beer, Wine, and Liquor (BWL) licensees that are required to have monthly inspections for the first year are also required to submit monthly food-to-alcohol ratio reports. These reports are successfully tracked. Additionally, BWL license holders certify on their annual renewal applications that the food-to-alcohol ratio requirements are being met. Effective December 1, 2016, immediately after DLC's Licensure, Regulation, and Education (LRE) division issues a BWL license, the licensing process includes a reoccurring e-mail alert sent to individual inspectors to complete monthly inspections at the facility. In addition, a monthly "check box" will be added to the routine inspection reports thereby reducing under reporting issues previously encountered during these checks. Finally, inspectors are now tracking monthly inspections on spreadsheets while we pursue a comprehensive single tracking system to monitor and report on all inspections.
Status Update (7/31/2017): ***COMPLETE.***

Recommendation 3: (a) DLC management should track whether each licensee has received the required 2 inspections per year and should see that the required inspections are performed. (b) The BLC should consider amending its Regulations to indicate that the fiscal year is the time period in which at least two inspections are required, for ease of monitoring whether facilities are inspected twice annually.
CAO Response: Moving forward, DLC will track twice annual inspections by fiscal year. This will allow for progress reports to be used by management to ensure all facilities receive two checks annually. New licenses issued before the commencement of the fiscal year would have met the twice annual inspection requirement for the prior fiscal year by virtue of the pre-hearing and final inspection.
Currently, the compliance manager is tracking twice annual inspections on a hard copy list of businesses while we pursue a single comprehensive tracking system to monitor and report on all inspections.
Status Update (7/31/2017): (a) **COMPLETE.** (b) *IN PROGRESS. (Q3 FY 2018).*

Administration of Contracts Awarded to Maryland Treatment Centers (Report # OIG-17-005; January 30, 2017)
Total Recommendations: 2
Open Recommendations: 2

Recommendation 1: The County should continue to require that MTC comply with the terms of its contract, including the payment of back wages and proper meal service.

CAO Response: The DHHS has made many improvements and continues to work to strengthen its contract monitoring practices as well as to reinforce the training its contract monitors receive. For example, the creation of the DHHS's Compliance Unit has significantly increased the department's ability to ensure fiscal compliance on their contracts. We are committed to continuing to work on strengthening this area of contract monitoring.
Status: IN PROGRESS (Q4 FY 2018).

Recommendation 2: DHHS contract monitors should be alert to County Wage Requirements Law requirements and inquire of MTC regarding instances of suspected noncompliance. Concerns regarding noncompliance should be reported to PRO/DBRC so that appropriate enforcement action may be taken.

CAO Response: The DHHS concluded a review of MTC's payrolls for Fiscal Year (FY) 2016 and provided the Office of Procurement (PRO) with that information. Based on that audit, PRO determined that MTC violated several provisions of the Wage Requirement Law (WRL) and is in the process of requiring MTC to take corrective action. The DHHS is currently conducting a review of MTC's FY15 and FY14 payrolls. When those reviews are complete, the DHHS will submit its findings to PRO to determine whether MTC was in compliance with the WRL during those periods, and PRO will determine whether MTC will be required to take corrective action. Please note, PRO routinely performs audits to determine whether MTC is in compliance with the WRL and to determine if repayment is required.
Status: IN PROGRESS (Q4 FY 2018).

Follow-Up Review: Preventative Maintenance and Compressed Natural Gas Tank Inspections of Ride-On Buses (Report # OIG-17-006; 3/20/2017)
Total Recommendations: 3
Open Recommendations: 0

We agree with the recommendations and have already implemented them. Following are the answers to the Draft's recommendations:

Recommendation 1: **Require FMS to identify the causes precluding preventative maintenance inspections and CNG tank inspections from occurring on time.**
CAO Response: The target compliance rate set for Fleet Management Services (FMS) to conduct Preventative Maintenance (PM) inspections and Compressed Natural Gas (CNG) tank inspections within a stipulated period is 80 percent. The stipulated period for PM inspections is between 6,000 and 6,600 miles, and CNG tank inspections are to be performed every 36,000 miles. OIG found that in 2014 inspections were conducted at a rate of 74 percent and 71 percent, respectively. The PM compliance rate of 80 percent is an FTA requirement but there is no guideline for CNG tank inspections. The 80 percent target for tank inspections was created only to be consistent, but there is no industry guideline or 'best practice' insofar as we know. FMS staff identified several causes that hinder the ability to perform a scheduled inspection: (1) a bus scheduled for inspection may need to remain in service to meet the Ride On bus count, (2) unavailability of parts for older buses prolongs a PM process creating a ripple effect on scheduling, and (3) vehicle unavailability due to accidents. A revision to the PM process lengthened each inspection, affecting the compliance rate. However, it also resulted in improved vehicle performance, reliability, and an improved "mean distance between failure." CNG tank inspections are performed by a third party who requires a minimum number of buses per inspection.
COMPLETE

Recommendation 2: **Develop a plan to correct and address FMS' identified causes that impact its ability to conduct inspections on-time.**
CAO Response: Following the 2014 OIG report, DGS implemented measures to address compliance including staffing a Total Quality Assurance (TQA) unit, and developing procedures and practices to ensure that inspections are performed on time. The report indicates that the PM inspection rate increased from the prior OIG report from 65 percent to 74 percent over the 20-month period of November 2014 through June 2016. While the PM compliance rate *averaged* 74 percent over the reporting period, the improvement is even more significant when comparing end-of-period performance to that of the beginning. Specifically, the compliance rate from November 2014 through July 2015 was 65 percent while performance from July 2015 through June 2016 increased to 90 percent. CNG tank inspection compliance also increased significantly by 82 percent, from 39 percent to 71 percent. This improvement is attributed to several newer vehicles being introduced into in the fleet, implementing improved processes, and incorporating the TQA in the new vehicle acceptance review. FMS also established part kits for the new units; worked directly with vendors to ensure sufficient parts

inventory to support the fleet; and implemented vendor specific training focusing on common bus out-of-service issues. The corrective actions implemented by DGS have been effective, as demonstrated by the significant improvement for PM inspections and CNG tank inspections. However, transit operational needs may continue to prevent full compliance at the 80 percent guideline. DGS reviewed the internally set CNG tank inspection interval of 36,000 miles. This interval is derived from an automotive application that FMS applies to buses. FMS is now using the automated PM scheduler to schedule tank inspections based on routine maintenance intervals. The result is that tank inspections are now triggered at 24,000 miles, well less of the automotive guideline, and provides for a cushion in scheduling with the third-party inspector to ensure inspections take place prior to the 36,000 goal. Current target compliance exceeds 90 percent. **COMPLETE**

Recommendation 3: Require FMS' TQA unit to conduct periodic reviews to test the compliance with on-time regulations of both PM and CNG Tank inspections.
CAO Response: As stated above, only PM inspections are based on a regulatory requirement. The tank inspection target is based on an automotive guideline. TQA is now conducting monthly mileage reviews of all CNG buses. Mileage reports are reviewed daily to achieve timely PM compliance, which now averages over 95 percent. Nevertheless, operational needs, or other interruptions to the routine as addressed above, may prevent 100 percent compliance. DGS has implemented recommendations from the previous update resulting in the significant improvement to the rate of timely inspections, and the TQA unit continues to monitor PM and CNG tank inspection. **COMPLETE**

Office of Community Partnerships – 2016 People of Distinction Humanitarian Awards (OIG Preliminary Inquiry Memo #17-002; March 22, 2017)
No recommendations requiring additional corrective action.

OIG PIM #17-003
Department: DOT
Report Title: Yellow Signal Timing (6/1/2017)
Total Recommendations: 1
Open Recommendations: 1

1. MCDOT should develop a formal schedule with a defined completion date for yellow signal retiming. The schedule should include a mechanism for routinely reporting progress to SHA.
   Status Update (7/31/2017): IN PROGRESS. (Q2 FY 2019)

OIG-17-008
Department: Office of Procurement and Wheaton Urban District
Audit Report Title: Improper Procurement of Gateway Signage by the Wheaton Urban District (Report #OIG-17-008; 6/19/2017)
Total Recommendations: 3
Open Recommendations: 3

Recommendation 1: Management should hold WUD managers accountable for failing to observe the County's procurement regulations and guidelines, and take appropriate remedial actions.

CAO Response: We concur that WUD management should have demonstrated better documentation and support of procurement actions and that Department of Finance (Finance) authorization should have been received before any advance payments for the procurement of goods and/or services were made. The County Council included funds in the FY14 operating budget toward replacement of the five existing Wheaton signs, which were weathered and aging, and which the Wheaton Urban District Advisory Committee had been advocating to be replaced. As the amount added to the budget was ultimately insufficient to replace all five signs, WUD management decided to replace only three of the signs at that time. Additionally, since the County procures certain streetscaping and street maintenance services from the Bethesda Urban Partnership (BUP), WUD management chose to use BUP to assist in the procurement of the three gateway signs. However, not all three gateway signs could be installed after the purchase. The State Highway Administration (SHA) jurisdictional gateway signing guidelines had changed since the original signs had been placed, preventing the new signs from being installed in the same State property locations as the original signs. This resulted in the need to identify new locations. To date, WUD management has researched several alternative locations for the third gateway sign, has been unable to identify the most appropriate location, and is continuing the research and outreach. Of particular significance in this matter is that the guidelines contained in the Public Entity Procurement Checklist, Office of Procurement (Procurement) Form PMMD-108 (see Attachment) were not followed with the purchase. Although WUD management had determined that the purchase was in the best interest of the County, as provided for in Montgomery County Code (MCC) §11 B 41, WUD management did not explicitly comply with other provisions of the checklist. Had these guidelines been followed, the terms of the agreement between the County and BUP would have been clearly documented, including the justification for non-competitive procurement, description of the goods, and dollar value of the procurement, in addition to other terms and authorizing signatures.
Corrective Actions Taken and/or Planned: WUD management will take several corrective measures to address this recommendation. They will ensure that appropriate WUD staff take the Contract Administrator training and ensure that public entity procurements are subject to documented and approved rationale and justification. They will also ensure that public entity procurements are executed using the Procurement Public Entity Procurement Checklist and will work with the Office of the County Attorney (County Attorney) and Finance to implement the requirements of the checklist. **LEAD: WUD.**
Status: *IN PROGRESS. (Q3 FY 2018).*

Recommendation 2: Management should hold WUD managers accountable for the mismanagement of public funds and take appropriate remedial actions.
CAO Response: We believe this recommendation is addressed in our response to Recommendation #1. We will ensure that current WUD management take appropriate action going forward to work with Procurement, the County Attorney, and Finance, as appropriate, for all future procurement-related matters and to ensure the proper and most efficient management of public funds.
Corrective Actions Taken and/or Planned: See Recommendation #1. **LEAD: WUD.**

Recommendation 3: COMCOR and the Procurement Guide should provide the specific and adequate guidance necessary to ensure that public entity procurements observe the requirements intended by the purchasing laws of the County.
CAO Response: County procurement regulations and guidelines currently provide direction on the use of public entity procurements. Montgomery County Code § 11B-41 states that the County may enter a non-competitive contract with a public entity. The types of federal, state, and local entities which may be eligible for public entity designation are found within Montgomery County Code § 11B-1. In addition, and as referenced in

response to Recommendation #1, Procurement has provided guidance and support for these purchases through the publication of a Public Entity Procurement Checklist. This checklist, maintained on the Procurement intranet site, provides step-by-step guidance to using departments that enter into public entity contracts, including the requirement of a formally documented Memorandum of Agreement that includes specific terms and contains specific authorizing signatures.

Corrective Actions Taken and/or Planned: Procurement will review its existing guidance, and the content of the Contract Administrator training program, to determine if any clarification or updates regarding public entity contracting is warranted. **LEAD: Procurement.**

Status: *IN PROGRESS. (Q3 FY 2018).*

OLO

Draft OLO Report 2016-8: MC311 Performance and Data (July 12, 2016)
Total Recommendations: 5
Open Recommendations: 2 (CountyStat and PIO)

#1. Request that the County Executive provide additional data on service request accuracy, first-call resolution rates, and data from the new Workforce Optimization tool when it is available. Three data points additional to existing metrics may assist both the County Council and the Executive Branch in better understanding opportunities for improvement in MC311 request intake:

- First-call resolution rates by department area and sub-area;
- Manual returns of inaccurate requests from departments to MC311 by department area and sub-area; and
- Call quality data from the Workforce Optimization Tool planned for implementation in 2016.

CAO Response: We will use the information that OLO collected from our internal MCG customers to evaluate and implement new processes to continue to improve our 73% satisfaction rating on first-call resolution and service request accuracy; and, we look forward to launching our new Workforce Optimization system by the end of the calendar year.

Status Update (7/31/2017): IN PROGRESS. (Q4 FY 2018)

#2. Request that the County Executive review whether additional metrics or revised targets may be useful for assessing service request performance on complex topics. In a few complex request topics, performance can be impacted by the time required to investigate multiple issues, the speed of third parties responding to requests, and/or whether legal action is necessary to compel performance. Additional performance metrics, such as department response times, can assist in monitoring performance and managing customer expectations.

CAO Response: It mirrors findings and discussions in prior MC311 and departmental performance reviews. MC311 and CountyStat will explore how to best incorporate the requested metrics such as department response time in future annual MC311 performance reviews and will continue its ongoing work on process analytics of the more complex types of requests and/or those involving third parties.

Status Update (7/31/2017): IN PROGRESS. (Q4 FY 2018)

#3. Request that the County Executive explore ways to reach a wider audience when measuring MC311 customer satisfaction, including a formal community survey of residents. OLO found examples in other jurisdictions of different methods to sample a 311 audience, including post-call surveys, policies to call customers at request closure, and formal community surveys.

CAO Response: With respect to exploring ways to reach a wider audience when measuring customer satisfaction as stated in recommendation #3, MC311 is intentional in its survey implementation and successfully balances our need to collect useful feedback with our customers' limited time. **COMPLETE**

#4. Request that the County Executive report on the technical feasibility and cost of implementing MC311 system enhancements, including increased system integration, tracking duplicate requests, GIS and field access capabilities, and a mobile app. Staff indicate that long-term, strategic investment would be necessary to modernize the MC311 system and implement enhancements, including increased system integration, tracking duplicate requests, GIS and field access capabilities, and a mobile app.
CAO Response: The County currently takes full advantage of the 311 tools and technology at its disposal. There are plans to interface between MC311 and departmental systems, though these adjustments must be phased in. We are upgrading the MC311 system to accommodate field access and are continuing to assess opportunities in GIS integration via ArcGIS. There is an MC311 mobile app in place that allows submission of requests from mobile devices, and since the County has opened MC311 data, we will be reevaluating, and with possible third-party involvement, building an app with the ability to view requests. We recognize an ideal system would avoid the need for duplicate request entries, but to incorporate such increased technical capabilities would require a major redesign and a significant investment of resources and funding. **COMPLETE**

#5. Request that the Executive explore ways to standardize the use of the MC311 performance data in the budget process. MC311 data can serve to help frame discussions around the resources needed to provide specific levels of service along with other sources of program data. Currently, responsibility for utilizing MC311 data in budgeting requests falls on the departments, and the application of MC311 performance metrics varies by department.
CAO Response: The report recognizes that County departments interact with and rely on MC311 to varying degrees; therefore, it is not unusual that the application of MC311 data in the budget process would also vary by department. We will continue to build on the practices already employed by OMB and departments and on the success stories conveyed in the OLO report with respect to leveraging this important data source, with an emphasis on the departments with high volumes of MC311 Service Requests for Fulfillment. **COMPLETE**

OLO Draft Report 2016-6: School-to-Prison Pipeline in Montgomery County (3/1/2016) – NO RECOMMENDATIONS

Draft OLO Report 2016-10: The Experience and Effect of County-Administered Enterprise Zones (8/2/2016) – NO RECOMMENDATIONS

Draft OLO Report 2017-1: Impact of Montgomery County's Safe Routes to School Program (10/25/2016) – NO RECOMMENDATIONS

Draft OLO Report 2016-9: Performance Review of Transportation Management Districts (7/19/2016)
Total Recommendations: 7
Open Recommendations: 3

<u>OLO Recommendation #1</u>: Request that MCDOT enhance its methods and structures for TMD performance reporting by completing required reports, adopting a set of performance measures, and developing an online performance dashboard.

MCDOT's Commuter Services Section maintains an abundance of program-level and TMD-specific output and performance data, yet much of that data is not routinely published or readily accessible. OLO recommends the following:

OLO Recommendation #1a: Ensure that biennial reports are completed for each TMD as required by Chapter 42A of the County Code.

<u>Response</u>: Reports to cover the missing years are in the process of being completed, and a concerted effort is planned to issue these reports on a biennial basis. Monitoring effectiveness of programs and policies, and reporting on outcomes, has been occurring throughout this period within the Department, the Division of Transit Services (of which Commuter Services was a part until last year), and in other information and briefings provided to County Council, M-NCPPC, and to Advisory Committees for each TMD, as well as in reporting to regional and state programs.

<u>Status Update (7/31/2017)</u>: **COMPLETE.**

OLO Recommendation #1b: Create and publish a formal list of goals and performance measures to be reviewed and updated periodically, either as part of a strategic planning process or separately.

<u>Response</u>: As has been noted in the report, MCDOT/Commuter Services currently tracks a wide variety of performance measures. MCDOT will work with CountyStat to identify additional performance measures that can be tracked to provide an assessment of how the County is performing with regard to the three broad goals for transportation demand management established by County Code, including (1) provision of sufficient transportation capacity to achieve land use and economic development objectives; (2) reducing demand for road capacity, and promotion of traffic safety and pedestrian (and bicycle) access; and (3) reductions in vehicular emissions, energy consumption and noise levels.

<u>Status Update (3/31/2017)</u>: MCDOT has discussed with CountyStat opportunities to include identification of additional performance measures for Transportation Demand Management and plans to work with them to identify measures for inclusion in a future work program. In the meantime, the three broad types of goals for TDM listed by OLO are being addressed in the context of reporting on the TMDs, and are discussed in the TMD reports referenced above.

<u>Status Update (7/31/2017)</u>: IN PROGRESS. (Q4 FY 2018)

OLO Recommendation #1c: Develop an online performance dashboard that summarizes key performance measures across all TMDs to make data readily available to the public, policy-makers, employers, and commuters.

<u>Response</u>: MCDOT will explore with CountyStat and other internal and external resources the opportunity to create an online dashboard to summarize performance metrics for TMDs. We
agree with OLO that if such a system can be created it could be effective as a tool to publicize the benefits of TMDs and non-auto modes of transportation to commuters, employers, and residents.

<u>Status Update (3/31/2017)</u>: **COMPLETE**

<u>OLO Recommendation #2</u>: Request that MCDOT enhance its data collection efforts and review the commuter survey practices and procedures.

MCDOT maintains significant data on transportation management districts in the County; however, there may be opportunities to expand and improve upon current performance measurement efforts.

OLO Recommendation #2a: Explore calculating and reporting performance data on reductions in vehicle miles traveled, vehicle trips, and estimated emissions specific to Montgomery County.

Response: Calculation and reporting of data on reductions in vehicle miles traveled, vehicle trips and emissions benefits can be part of the expanded performance measurement and reporting effort and dashboard discussed above. It should be noted, however, that these measures do not directly reflect the NADMS or transit use goals adopted in the master/sector plans for the TMDs.
With regard to emissions measures, MCDOT will explore with Metropolitan Washington Council of Government (MWCOG) opportunities to provide local versions of regional modeling outputs and the costs for such efforts.
Status Update (3/31/2017): ***COMPLETE.***

OLO Recommendation #2b: Include performance and evaluation components into individual program delivery where possible, particularly for new programs and/or those with an identifiable budget allocation.
Response: We agree that data should be collected wherever possible on individual programs to allow for comparison of the effectiveness of particular programs or services, and we have generally tried to incorporate such measurement into both existing and new programs. MCDOT has worked with the Department of Technology Services to assist with this effort as part of the employer-based reporting programs. With the restart of Fare Share program in FY17, program guidelines call for requiring participating employers to assist with collection of pre- and post-program data in order to evaluate the program's impact and to assist with cost/benefit analysis. **COMPLETE**

OLO Recommendation #2c: Review the commuter survey practices, procedures, and timing to ensure data collection meets what is needed for the performance measurement and reporting.
Response: MCDOT will review the commuter survey with a focus on aligning data collection more closely with expanded performance measures and will also consider changing survey timing and approach in accordance with OLO's recommendations. The current survey, including frequency and approach, was formulated over the course of several years using both employer feedback and expert survey consultant input; and, Commuter Services has been working with a consultant to continue to address the approach and other challenges to the survey process. One concern with conducting the survey in alternate years is that some employers/worksites provide inadequate initial survey responses. Therefore, conducting the survey every other year leads to a two-year gap in collecting adequate results from these employers/worksites.
Status Update (7/31/2017): *IN PROGRESS. (Q3 FY 2018)*

OLO Recommendation #3: Review and discuss with MCDOT and staff from other agencies the implications of working to achieve residential mode share goals on programming, budgets, and data collection.
Response: More extensive focus on multi-unit residential areas within TMDs will require an entirely different approach to staffing and marketing, and will undoubtedly require greater allocation of resources. We will discuss different approaches, and based on resource priorities, may considering exploring further.
Status Update (7/31/2017): *IN PROGRESS. (Q3 FY 2018)*

Draft OLO Report 2017-3: Mapping the Montgomery County Procurement Process (11/8/2016)
Total Recommendations: 3
Open Recommendations: 0

Recommendation #1: Request that the County Executive evaluate the staffing level in the Office of Procurement and determine whether the current workload and additional procurement process requirements are met with current staffing levels.

CAO Response: During FY15 and FY16 we reviewed staffing levels in the Office of Procurement (PRO). As a result of the review, PRO has been granted the authority to hire several new positions, including one full-time administrative specialist and two half-time positions to assist with operations and compliance. PRO is also in the process of filling a vacancy created by a retirement. Further, PRO received a transfer of a senior employee to assist with initiatives such as outreach and business development. PRO, when fully staffed, will reassess and reassign its workload in an effort to continue to improve operational efficiency throughout the department. **COMPLETE**

Recommendation #2: Request that Office of Procurement consider amending procurement law and/or policy to increase efficiency in the procurement process.
CAO Response: Many of the draft's suggested amendments to the County's procurement process are underway. In FY16, PRO implemented several policy and procedure changes to improve operational efficiency and to increase process transparency, including implementing a streamlined community grant contract template; simplifying and shortening the Request for Proposal (RFP) template; updating the informal solicitation request form; and, increasing signature delegation authority for procurement specialist levels to streamline review and approvals for various actions. However, it should be noted that changes such as permitting automatic renewals of some contracts and/or increasing the term length of certain contracts may undermine competition and present challenges in the County's effort to secure the best value for goods or services. **COMPLETE**

Recommendation #3: Request that the Office of Procurement enhance its current training opportunities for Using Department staff who develop, administer, or manage contracts to include more training on what the Office of Procurement is looking for in the development of a solicitation package/contract, perhaps as part of the current training available in the Contract Administration Learning Path.
CAO Response: As noted in the draft, in 2014 PRO updated and expanded the contract administration training curriculum, Using Department staff indicated that the current training is effective for learning the procurement process and policies, and department staff reported a desire for more specific training. PRO recognizes that many contract administrators serve in the "other duties as assigned" capacity, and to assist these employees in such a role, PRO provides an overview of the process and a checklist for multiple procurement methods, each of which includes the necessary steps needed for that method. Additionally, with RFPs & Invitation for Bids (IFBs), examples of contracts are scanned and available on the Intranet through Zyimage for any department employee to view, obtain sample language, and use as a resource tool. PRO will continue to work with the Using Departments to determine and provide the most useful types of additional tools and training. **COMPLETE**

OLO Memorandum Report 2016-11: Out of School Time and Children's Trusts (9/20/2016) –NO RECOMMENDATIONS REQUIRING ACTION

OLO Draft Report 2017-8: Student Loan Refinancing Authority - NO RECOMMENDATION REQUIRING ACTION

Draft Office of Legislative Oversight Report 2017-13: Housing for Adults with Developmental Disabilities -- NO RECOMMENDATION REQUIRING ACTION
