Audit Committee #1, #2, #3
November 15, 2012
Briefing

MEMORANDUM

November 13, 2012

TO: Audit Committee

FROM: Sue Richards, Senior Legislative Analyst
Leslie Rubin, Legislative Analyst
Office of Legislative Oversight

SUBJECT: Updates from the Office of the Inspector General and the Office of Internal Audit, and Status Report on the Enterprise Resource Planning (ERP) System and the FY12 CAFR

On November 15th, the Audit Committee will receive briefings from the Office of the Inspector General and the Office of Internal Audit about their ongoing activities and reports and have a discussion with staff from the Department of Finance about the ongoing implementation of the Enterprise Resource Planning system and the FY12 Comprehensive Annual Financial Report (CAFR). The participants expected to attend the worksession and the location of the supporting materials for each item are listed below.

Item #	Topic/Representatives	Discussion on page -	Materials on © page
1	**An update from the Office of the Inspector General** • Edward L. Blansitt III, Inspector General, Office of the Inspector General (OIG)	1	©1-30
2	**An update from the Office of Internal Audit** • Fariba Kassiri, ACAO • Larry Dyckman, Manager, Office of Internal Audit	2	©31
3	**Discussion with Executive staff** – Status reports on Enterprise Resource Planning (ERP) and the FY12 CAFR • Joseph Beach, Director, Department of Finance • Karen Hawkins, COO, Department of Finance • David Crow, General Accounting Manager, Department of Finance • Linda A. Herman, Executive Director, Montgomery County Employer Retirement Plans, Board of Investment Trustees	2	©32-36 ©37-39

ITEM #1: UPDATE FROM THE INSPECTOR GENERAL

The Inspector General, Edward L. Blansitt III, will update the Committee on the activities of the Office. Mr. Blansitt provided a handout, attached beginning at ©1, that summarizes the highlights of his presentation. Of note are the IG Advisory Group Work Plan recommendations. A copy of the 2012 annual report of the OIG, released on October 1, 2012 is attached beginning at ©9.

ITEM #2: UPDATE FROM THE OFFICE OF INTERNAL AUDIT

Assistant Chief Administrative Officer Fariba Kassiri, and Larry Dyckman, Manager of the Office of Internal Audit, will update the Committee on the activities of the Office. Ms. Kassiri provided a summary of the Office's new and ongoing audits, attached beginning at ©31

ITEM #3: UPDATE ON ISSUES WITH THE ENTERPRISE RESOURCE PLANNING (ERP) SYSTEM AND THE FY12 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The replacement of the County's outdated accounting systems with a new ERP system has created management challenges for the Department of Finance and others and contributed to findings of weaknesses and filing delays in the County's financial reports and audits. The FY11 CAFR, which was the first CAFR that the County completed using the new ERP system, was delayed by three months (from December 31st, 2011 to March 31st, 2012) and when the Audit Committee reviewed the FY11 CAFR this past April, 8 of the 10 findings of material weakness or significant deficiencies identified by the Independent Auditor were ERP related.

At its meeting on June 11, 2012, Committee members voiced concerns about the ongoing implementation of the ERP systems that support the audit and the CAFR. The Committee requested an update about the impact of these issues on the FY12 CAFR. The Department of Finance and the Executive Director of Montgomery County Employee Retirement Plans, Linda Herman, have prepared powerpoint presentations for today's Committee meeting. The Finance presentation begins at ©32, followed by two charts summarizing closed issues (at ©35) and open and in-progress issues (at ©36). The Employee Retirement Plan presentation begins at ©37.

Background – Department of Finance. This past April, Finance stated it had developed an inventory and tracking system to manage identification and resolution of ERP implementation issues that affected the completion of the FY11 CAFR. Finance is using the same system to track ERP implementation issues for the FY12 CAFR. The tracking system identifies whether the issues are substantive; the impact of the issue on the audit or the CAFR; whether a workaround has been identified and the implementation status of the solution. The table below explains the priority scale Finance uses to triage the resources it allocates to address these issues.

Oracle Financial Reporting and Business Process Issue Tracking System: Priority Scale Definitions

Priority Scale	Characteristics of Issue	Workaround Identified?
1A	• Issues could or has contributed to a material weakness or significant deficiency in the audit	No
1B	• Issues could contribute to a material error in the CAFR	No
1C	• Issues could contribute to a material error in the CAFR	Yes
2A	• FY13 issue identified in FY12 • Issue has General Ledger impact • Will require a workaround solution for next year's CAFR.	No
2B	• FY13 issue • No or no significant General Ledger impact	No
3	• FY13 issue or later	No

Source: Department of Finance

Finance has refreshed its priority list approach to triage and manage the resolution of ERP issues for the FY12 audit and CAFR. (See the tables on ©35and ©36 list of ERP issues by status and category.) The table below summarizes these two tables. The current ERP issue inventory totals 169 items, including 59 closed items and 110 open and in-progress items. A review shows:

- The 59 closed items include 40 items classified as high priority or as having a direct impact on the audit or CAFR (Priority 1). 13 as medium priority (Priority 2) and 6 as low priority (Priority 3).
- The 110 open and in progress items include 15 high priority items (Priority 1); 72 medium priority items (Priority 2) and 23 low priority items (Priority 3).
- Together, 69 items have solutions that have been identified, tested – 59 of these (i.e. the closed items) have moved to production. Among the open items, 10 still need to be moved to production; solutions are in progress for 29 items and solutions are not being actively pursued for 71 items.

Oracle Financial Reporting and Business Process Summary:

Priority Scale	Characteristics of Issue	Number of Identified Issues							
		Closed			Open and In Progress				
		Closed Dup.	Closed Resolved	Sub Total	Closed Pending	In Progress	Open	Sub Total	Grand Total
1A	• Possible finding of audit material weakness or significant deficiency; no identifiable workaround	5	22	**27**	7	3	0	**10**	**37**
1B	• Possible material error in the CAFR, and no identified workaround	2	4	**6**	1	0	0	**1**	**7**
1C	• Possible material error in the CAFR, and workaround identified	3	4	**7**	0	3	1	**4**	**11**
2A	• FY13 issue has General Ledger impact and requires workaround solution for next year's CAFR	3	2	**5**	1	9	35	**45**	**50**
2B	• FY13 issue has no impact or no significant General Ledger impact	5	3	**8**	1	8	18	**27**	**35**
3	• FY13 issue or later	2	4	**6**	0	6	17	**23**	**29**
	TOTALS	**20**	**39**	**59**	**10**	**29**	**71**	**110**	**169**

Source: Department of Finance

Staff from Finance note that transitions of this type, i.e. from mainframe to ERP systems, typically require a multi-year post-implementation period to stabilize the system. The Committee may want to ask Finance to address how it expects these issues to affect the audit process and CAFR in FY13 and beyond. The Committee may also want Executive staff to address the relationship between its upcoming audit of ERP and these issues.

Montgomery County Employee Retirement Plans. Outstanding ERP issues exist related to PeopleSoft and Oracle. The reports needed to prepare the valuation were generated from PeopleSoft at the end of September and the actuary believes the valuation will be produced in time for the CAFR to be updated to meet the December 31st filing deadline.

LIST OF ATTACHMENTS

Description	Circle pages
Inspector General Update to the Council Audit Committee, November 2012, Edward L. Blansitt III, Inspector General	1-8
Annual Report of Activity for the Fiscal Year Ended June 30, 2012. Office of the Inspector General, October 1, 2012	9-30
Office of Internal Audit Status Report to Audit Committee, November 2012, Office of the County Executive	31
Status of ERP and FY12 CAFR Council Audit Committee November 15, 2012. Department of Finance Technology Modernization Project Office	32-34
Summary of Closed Oracle Financial Reporting and Business Process Issues	35
Summary of Open and In Progress Oracle Financial Reporting and Business Process Issues	36
ERP & FY 12 CAFR – Status Update Council Audit Committee, November 15, 2012, Montgomery County Employee Retirement Plans	37-39

f:olo/sue/audit/auditcommittee 2012/11-15-12 Packet – Audit Comm. #5 DRAFTv11-13-12.doc

Inspector General Update to Council Audit Committee

November 2012

- **Annual Report of Activity for the Fiscal Year Ended June 30, 2012**
- **Status of Fiscal Year 2013 Work Plan**

  New OIG Initiatives and Impact

  Revisions to Work Plan

Inspector General Update to Council Audit Committee - November 2012

FY 2012 Initiatives:

•***Form an informal Inspector General Advisory Group -*** first met May 2012; provided independent recommendations of priority audit topics the IG should consider in implementing the FY 2013 work plan.

•***Convert operation of the OIG fraud hotline from a fully contractor-supported activity to a fully staff-supported activity -*** engage each caller, get contact information; conduct a more in depth interview. Save approx. $10,000/year.

•***Use contract audit support to conduct specific performance audits -*** used 4 specialists to assist in audits.

•***Leverage resources by use of referrals -*** referred 14 new matters for which we requested a formal response. Received responses to five additional matters which were referred during the last two months of FY 2011.

•***Proactively identify opportunities for improvement -*** met with individuals and community groups, Montgomery County, State, and other local government officials; Inspector General Advisory Group is a significant part of this effort.

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FY 2012 Work Plan items:

- **Non-public safety vehicle fleet acquisition and management -** November 2011.
- **Financial information provided by Montgomery County Public Schools in support of funding decisions regarding annual operating budget -** January 2012.
- **The Ethics Commission's procedures and effectiveness** - April 2012.
- **Selected property acquisitions and related payment transactions including purchase cards -** May 2012.

FY 2012 items to be completed in fall/winter FY 2013:

- **Internal controls over the Public Library collection acquisitions -** October 2012
- **Selected real property tax collections and related matters** - by January 2013.

Inspector General Update to Council Audit Committee - November 2012

Non work plan items:

•92 incident reports

•42 initially credible, deserving at least some preliminary inquiry

•7 will result in audits/reports, 4 in an investigation, and 14 in new referrals

•19 matters referred for which responses were received (includes responses to five matters referred during the last two months of FY 2011)

•1 investigation closed; 14 inquiries closed

•Report on Auditor independence

Performance:

•**administrative actions** including restitution of funds, were taken by the County and County funded agencies in five cases

•**recommendations** 10 of 16 total were implemented or are in progress: 3 are fully implemented, 7 are partially implemented

•**Service Quality Performance Measures:** Exceeded targets for all 6 measures

New OIG Initiatives and Impact

- **Publish reports of significant preliminary inquiries**
- **Implement recruitment of intermittent employees to work on a project by project basis.**
- **Revise FY 2013 work plan considering IG advisory group recommendations, and other external input**

IG Advisory Group Work Plan Recommendations

HIGHER PRIORITY INITIATIVES

•**Selected revenue collections and related controls.** The Group considers this to be a critical area for the IG to review, and Group members have specific recommendations as to departments that should be considered.

•**Selected payments, possible improper payments, and related controls.** The Group believes that this is an important area for consideration, and would like to understand what specific risk criteria the IG will use to select disbursements for testing.

•Audits of M-NCPPC and Department of Liquor Control. The Group believes that these two audits should be the IG's top priorities once FY 2012 Plan items are completed.

•Economic Development Fund audit. The Group strongly supports the IG's plan to audit this fund.

ADDITIONAL AREA FOR CONSIDERATION

•In addition to our recommendations related to the Plan items, the Group suggests that, considering recent citizen complaints, the IG consider a post-election review of the Montgomery County Board of Elections' processes related to the addition and deletion of voters from its voter rolls.

IG Advisory Group Work Plan Recommendations

LOWER PRIORITY INITIATIVES

•Department of Permitting Services implementation of technology initiatives. We assess this project as a relatively low priority, in the absence of specific complaints regarding cost or time overruns.

•Risk Management Programs - Report on Workers' Compensation. The Group's sense is that this project would be complex and long-term, and that, if implemented, this review should focus on specific complaints or a limited area of the County's insurance purchases.

•Selected construction projects. To the extent the IG engages in his proposed review of possible improper payments throughout the County's disbursements cycle, the Group agrees that an audit of selected construction projects should be undertaken only if the IG has information that indicates a particularly high risk of irregularities in one or two specific projects.

•Selected service contract awards and oversight. We agree with the OIG staff's assessment that this project may be too ambitious at this time and should be a lower priority. However, if they were to receive specific complaints, this may be an area of interest.

Proposed deletions. We agree with the IG's preliminary decision to delete the **"Selected reviews of housing programs" and "County enforcement of prevailing wage laws"** from the Plan, assuming that no credible citizen complaints have been received to date in these areas.

Status of Fiscal Year 2013 Work Plan

Defer to future year:

- **Selected construction projects-Selected reviews of housing programs**
- **County enforcement of prevailing wage laws**

Ongoing reviews:

- **Implementation of technology initiatives**—internal controls using Data Analytics
- **Selected service contract awards and oversight**-contract management complaint
- **Review from 2012 plan; Economic Development Fund review; 5 investigations; 5 inquiries (1 closed); 6 referrals (1 closed)**

- **Selected payments, possible improper payments, and related controls**- review and related analysis planned to start Jan. 2013
- **Selected revenue collections and related controls**– review planned March 2013

MONTGOMERY COUNTY MARYLAND
OFFICE OF THE INSPECTOR GENERAL

Annual Report of Activity

for the

Fiscal Year Ended June 30, 2012

October 1, 2012

(9)

A Message from the Inspector General

Montgomery County Code §2-151 requires the Inspector General to submit to the County Executive and Council an annual report on the activities of the Office and its major findings and recommendations during the previous fiscal year. This message presents a summary of our report for the fiscal year ended June 30, 2012.

Fiscal year 2012 (FY2012) is the first full fiscal year of my tenure as Inspector General for Montgomery County. During the first half of FY 2012, my Deputy and I met many County Department Heads and began to gain an understanding of the County's operations. We created a new work plan, and recruited three full and part-time staff members to complete our staff by December, 2011.

During FY 2012 we documented 92 incident reports through various sources, of which we found 42 to be appropriate for at least preliminary inquiry by this Office of Inspector General (OIG). We referred 14 of these matters to County or State agencies, (presented in Appendix A, which includes responses received in FY 2012 to 5 matters referred in FY 2011), and we initiated 7 audits/reviews and 4 investigations.

We developed reports that addressed each of the six audit issues identified in our FY 2012 Work Plan. The following list includes the four reports we issued as well as two reports for which we completed significant work during FY 2012 and which will be issued early in FY 2013:

- **Non-public safety vehicle fleet acquisition and management** was addressed in our first report, entitled *Review of the Vehicle Management Practices of the Fleet Management Services Division's Administrative Vehicle Light Fleet* (November 2011).
- **Financial information provided by Montgomery County Public Schools in support of funding decisions regarding annual operating budget** was addressed in our report entitled *Evaluation of Budget and Financial Information Provided by Montgomery County Public Schools* (January 2012).
- **The Ethics Commission's procedures and effectiveness** was addressed in our report entitled *Review of Certain Montgomery County Ethics Activities* (April 2012).
- **Selected property acquisitions and related payment transactions including purchase cards were reviewed in** our report entitled *Office of Human Rights' Management of Purchasing Cards and Space Renovation* (May 2012).
- **Internal controls over the Public Library collection acquisitions** were reviewed in our report entitled *Review of the Montgomery County Public Libraries Collection Management Procurement Internal Controls* which will be issued in FY 2013

- **Selected real property tax collections and related matters** are addressed in our review of real property tax assessments focused on a selected commercial property. The report will be issued in FY 2013.

During FY 2012 we also substantially completed a non-audit report, *Conclusion on Clifton Larson Allen Independence* (July 2012), that addresses the independence of Clifton Larson Allen in providing non-audit services to the County while auditing the County's financial statements for the fiscal year ended June 30, 2011.

Our Work Plan for Fiscal Year 2012 described five ongoing initiatives we have undertaken: (1) *form an informal Office of Inspector General Advisory Group,* (2) *convert operation of the OIG fraud hotline from a fully contractor-supported activity to a fully staff-supported activity,* (3) *use contract audit support to conduct specific performance audits,* (4) *leverage resources by use of referrals,* and (5) *proactively identify opportunities for improvement.* I am especially pleased to have held initial meetings with our OIG Advisory Group, a body of talented County citizens who have volunteered to provide us their independent advice going forward.

Summaries of the reports issued, related current results to date, and our progress in addressing each initiative are detailed in the body of this annual report.

The activities identified in this annual report evidence the value of this office in furthering the County's efforts to ensure integrity as well as effective and efficient use of County resources. I believe such efforts increase citizen satisfaction and confidence in their County government.

I recognize the significant support provided to this office by Council members, the County Executive, other elected and appointed County leaders and their staffs during this year. I appreciate and look forward to their continued assistance and support.

Respectfully submitted,

Edward L. Blansitt III
Inspector General

Table of Contents

Mission and Goals

The mission of the Office of the Inspector General (OIG) is to conduct objective and independent audits, inspections, and investigations relating to the programs and operations of Montgomery County Government (MCG) and independent County agencies to:

- promote economy, efficiency, and effectiveness
- prevent and detect fraud, waste, and abuse
- promote legal, fiscal, and ethical accountability
- strengthen professional relationships
- inform stakeholders of problems and corresponding corrective actions

Statutory Responsibilities

Our office was established by the Montgomery County Council in 1997. We are an independent office that relies on Government Auditing Standards[1] and the Quality Standards for Inspection and Evaluation[2] to address the following responsibilities prescribed by Montgomery County Code §2-151:

1. review the effectiveness and efficiency of programs and operations of County government and independent County agencies
2. prevent and detect fraud, waste, and abuse in government activities
3. propose ways to increase the legal, fiscal, and ethical accountability of County government departments and County funded agencies[3]

To carry out our responsibilities, we:

- maintain an independent objective organization to conduct audits, reviews, and investigations
- take appropriate action to prevent and detect fraud, waste, and abuse
- receive and investigate credible complaints from any person or entity
- report possible criminal violations of law to the appropriate law enforcement agency
- review existing and proposed legislation and regulations to strengthen controls and increase accountability
- submit reports with recommendations, as appropriate, to County leaders

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[1] Government Auditing Standards: U. S. Government Accountability Office.

[2] *Quality Standards for Inspection and Evaluation*, issued by the Council of the Inspectors General on Integrity and Efficiency (January 2011).

[3] In addition to the Executive Branch, the County funded agencies include the Montgomery County Public Schools, Maryland-National Capital Park and Planning Commission, Washington Suburban Sanitary Commission, Montgomery College, Housing Opportunities Commission, Revenue Authority, and any other governmental agency (except a municipal government or a State-created taxing district) for which the County Council appropriates or approves funding, sets tax rates, or approves programs or budgets.

Our Challenges

Our primary challenge in FY 2012 was that of accumulating knowledge about the County. None of the staff members who had been part of the previous Inspector General team remained as full-time staff to facilitate the transition to a new Inspector General. This situation resulted in both challenges and opportunities. The challenges created by the absence of experienced staff were a knowledge gap and a lack of institutional continuity. The opportunities were those of reaching out to the two previous Inspector Generals and some of their former staff members to learn from their experiences and of recruiting a new team with the skills we determined will be needed to perform our work effectively.

Since our small staff cannot have all the varied, specialized skills needed to approach all complex investigations and reviews, we fill any skill gaps with contractor specialists and temporary staff who provide investigative, information technology, and specialized audit skills.

Audit and Investigative Standards/Professional Development

Our team members are well qualified to address the statutory responsibilities and initiatives of the FY 2012-2013 Work Plan. During FY 2012, members of our staff received continuing professional education and other training sponsored by government entities, academic institutions, and recognized professional associations in areas that included financial and performance auditing; fraud, waste, and abuse investigations; performance management; and ethics.

Professional Relationships

During FY 2012 OIG staff met periodically with Councilmembers; the County Executive; the Chief Administrative Officer and senior Executive staff; the County Attorney; the Council Staff Director and senior Council staff; and senior staff from the Office of Legislative Oversight and Montgomery County Public Schools. We met with upper management of the Housing Opportunities Commission, the Maryland-National Capital Park and Planning Commission, and the Washington Suburban Sanitary Commission. Finally, we met with State and Federal auditors and prosecutors, and the City of Baltimore Inspector General. During these meetings, standards applicable to the inspector general community were discussed along with other matters of mutual interest. As in prior years, FY 2012 discussions helped ensure that OIG audits and investigations did not duplicate or conflict with other efforts.

Implementation of Fiscal Year 2012 Work Plan

Our Work Plan for Fiscal Year 2012 described five initiatives we intend to address. Our status on each follows.

Form an informal Inspector General Advisory Group

We actively sought resumes from interested County residents and selected six members for the initial group. This diverse group, from both the public and private sectors, offers backgrounds in management, information technology, financial, audit, and legal disciplines (names and backgrounds of each member are available on the IG web site through a link on our home page). The group met once during the fiscal year and again in July and September 2012. In the first meeting, we shared each team member's background and skills. We also reviewed the group's Charter (see Appendix B).

In the second and third meetings, we agreed on ways the group might best help further the mission of the OIG. The group's initial charge is to consider issues generated from various sources, and provide independent recommendations of the priority audit topics the IG should consider in implementing the FY 2013 work plan.

Convert operation of the OIG fraud hotline from a fully contractor-supported activity to a fully staff-supported activity

The fraud hotline, established in late 2006, was operated by a contractor in Georgia for several years. We terminated that contract effective January 1, 2012 and began answering hotline calls ourselves. Since then, we believe County residents get more personalized service, because we can engage each caller, get contact information so that we can reach the caller when necessary, and conduct a more in depth interview to obtain the information we need and better assess the severity and urgency of each issue. We can explain the pros and cons of remaining anonymous. We can also, if appropriate, answer questions or refer the caller on-the-spot to another government agency if the issue is outside our scope of authority. It is our policy to advise each caller of the results of our actions taken related to his or her complaint.

Our total call volume has increased. In the last six months of FY 2012, we received 25 phone calls that offered credible concerns. This compares with 43 such calls received for the full year FY 2011. We have not determined the reason(s) for this increase.

Use contract audit support to conduct specific performance audits

We employed four separate specialists during FY 2012 year to help us achieve our goals:

- We engaged one CPA with experience in fleet management audits to assist us in performing the field work on our review of the County's management of the non-emergency light fleet, on which a report was issued in November 2011;
- An individual experienced in Operations and Information Technology Management performed the field work on our review of the Ethics Commission, on which a report was issued in April 2012;

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- An independent CPA who assessed Clifton Larson Allen's audit independence following the recordkeeping assistance that firm provided to the County, on which a report was issued in July 2012;
- A CPA with specific training in forensic auditing assisted us in performing field work for our review of the Library Collection Management Procurement Internal Controls, which will be issued in FY 2013.

These individuals performed their tasks well. We intend to continue using outside personnel with specialized skills as needed.

Leverage resources by use of referrals

In May 2011, we initiated a formal process of referring specific issues, where appropriate, to the County's Chief Administrative Officer, or to County-funded agencies or State agencies for resolution. Prior to making any referral, we usually perform sufficient preliminary work to ensure the allegation merits further investigation, and provide the referee with reasonable information with which to continue the investigation.

In many cases, we request a response by a certain date. In all cases, we reserve the right to follow up. For minor management issues brought to our attention which are not appropriate for our review, we may refer the matter without specific request for response.

During FY 2012, we referred 14 new matters for which we requested a formal response and received responses to five additional matters which were referred during the last two months of FY 2011. Descriptions of each referral are presented in Appendix A.

Proactively identify opportunities for improvement

During FY 2012, in addition to the many meetings with Montgomery County and State and other local government officials described earlier under "Professional Relationships" we met with several individuals and community groups, either to provide general presentations or to address specific issues. We also consider the informal Inspector General Advisory Group to be a significant part of this effort.

Specific Audit Issues

The FY 2012 Work Plan identified the following six specific audit issues we intended to address in FY 2012.

- **Non-public safety vehicle fleet acquisition and management** was addressed in our first report, entitled *Review of the Vehicle Management Practices of the Fleet Management Services Division's Administrative Vehicle Light Fleet* (November 2011).
- **Financial information provided by Montgomery County Public Schools in support of funding decisions regarding annual operating budget** was addressed in our report

entitled *Evaluation of Budget and Financial Information Provided by Montgomery County Public Schools* (January 2012).

- **The Ethics Commission's procedures and effectiveness** was addressed in our report entitled *Review of Certain Montgomery County Ethics Activities* (April 2012).
- **Selected property acquisitions and related payment transactions including purchase cards** were reviewed in our report entitled *Office of Human Rights' Management of Purchasing Cards and Space Renovation* (May 2012).
- **Internal controls over the Public Library collection acquisitions** were reviewed in our report entitled *Review of the Montgomery County Public Libraries Collection Management Procurement Internal Controls* which will be issued in FY 2013
- **Selected real property tax collections and related matters** are addressed in our review of real property tax assessments focused on a selected commercial property. The report will be issued in FY 2013.

Incident Processing and Resolution

During FY 2012, we received 92 incident reports through various sources. Our policy is to develop a written description ("write up") of each case on which we spend some time on behalf of the caller. We do not write up wrong numbers or immediate referrals of incoming misdirected calls. Of the 92 cases that we logged, we found 42 to be initially credible, deserving at least some preliminary inquiry. Of the cases where we performed preliminary work, 7 will result in audits/reports (two additional audits conducted in FY 2012 were initiated in FY 2011), 4 in an investigation, and 14 in new referrals (responses were also received to 5 additional matters referred in FY 2011 and are presented in Appendix A).

***Review of the Vehicle Management Practices of the Fleet Management Services Division's Administrative Vehicle Light Fleet* (November 2011)**

Background

The replacement cost to the County for automobiles and trucks in the fleet as of June 17, 2011 was approximately $11 million. Improvements to fleet management can yield significant returns with modest effort. We limited our review to the non-public safety vehicle pool to enable a swift analysis. The objective of our review was to determine whether internal controls are documented, implemented, and effective as designed, as well as to identify the impact of any control deficiencies.

Key Points in the OIG Report

We found a significant backlog of non-public safety vehicles slated for replacement by the end of FY 2012. Specifically, approximately 51% of the fleet, with an estimated cost to the County of approximately $5.6 million, is due for normal replacement by June 30, 2012. The County's current system for assigning vehicles is based on application of relatively limited requirements to requests from individual departments, and has produced a high percentage of underutilized vehicles. As increased numbers of vehicles approach their normal disposal age, the County has an opportunity to avoid significant new investment in fleet assets by implementing more aggressive and rigorous methods of determining the appropriate size and composition of the fleet.

We also found that not all County agencies tested adhered to Administrative Procedure (AP) 1-4, Sections 5.0.B, 5.2.A, and 5.2.B, which generally require each agency to obtain the driving record of every approved driver each January; maintain a log of each driver's license number and status; and review each driving record to identify suspensions or revocations. Failure to enforce compliance with policies pertaining to driving records and employee eligibility to operate County vehicles creates an unnecessary vulnerability for the County.

We recommended that, in an effort to continue managing vehicle costs, the County should consider utilizing a Vehicle Allocation Methodology as a best practice for purchasing new vehicles and for usage of current vehicles, especially since so many vehicles are due for replacement. FMS needs to scrutinize vehicle usage (by considering odometer readings and other possible criteria) and evaluate whether each vehicle is absolutely necessary for efficient operations versus occasionally paying mileage to employees for use of personal vehicles. FMS should ensure that each agency complies with Administrative Procedure 1-4, Sections 5.0.B, 5.2.A, and 5.2.B to ensure that personnel operating County vehicles are properly licensed and have maintained a safe driving record.

Key Points in the County Chief Administrative Officer's Response

The Chief Administrative Officer agreed with our recommendations

Key Outcomes

The Chief Administrative Officer reports that a new Fleet Management Services (FMS) Division Chief was hired in May 2012. He is in the process of finalizing a 5-year strategy, scheduled to be completed by the end of the 2nd quarter of FY13, using a lifecycle methodology to control operational costs and using refined replacement criteria to include age, mileage, maintenance, condition and mission criticality, as well as taking into consideration departmental utilization, mission requirements, fuel efficiency, and resale. Optimal lifecycles are to be developed for each class of fleet equipment to enable the creation of an optimal fleet replacement plan, reduction in total lifecycle costs, and immediate budget savings through reduced fleet size, fuel consumption, and maintenance costs. The reinstatement of the vehicle replacement program is to be an essential component of this effort.

An updated version of AP 1-4 was issued on January 31, 2012 which replaced the March 29, 2011 version. It is anticipated that a more updated version of AP 1-4 will be issued by October 15, 2012. The Chief Administrative Officer's staff will work closely with and monitor the progress of County departments/offices that are implementing the AP.

Evaluation of Budget and Financial Information Provided by Montgomery County Public Schools (January 2012)

Background

Authority to establish policies, employee salaries and benefits for Montgomery County Public Schools (MCPS) is reserved to the elected County Board of Education (BOE). However, funding for MCPS is provided from revenues appropriated by the County Council. The County Executive's fiscal year (FY) 2012 recommendations included, among other things, that County government pay a smaller portion of the costs of employee health insurance benefits and retirement plans. The Executive recommended that governing boards of the County funded agencies support a similar approach to promote equity among County funded employees but did not incorporate such changes in the budget levels proposed. For FY 2012, the County Council recommended increasing the share of health benefits costs paid by school employees, and approved funding for MCPS they thought supported that decision. The BOE subsequently announced that due to lower-than-originally-projected health benefit costs in FY 2011 it would not be necessary to increase the share of health benefits costs contributed by school employees in FY 2012. Questions were raised about why the Council did not receive information regarding the lower health benefits costs. These circumstances evidenced the need for a broad review by the Office of Inspector General (OIG) to ensure that relevant financial and budget information is provided by MCPS in the future to decision makers and their analysts.

Key Points in the OIG Report

We had four major findings:

1) The Monthly Financial Reports MCPS provides to County elected leaders present the estimated year-end financial results of MCPS relative to the budget. The reports display differences between amounts budgeted and estimates of revenues and expenditures but should present more complete actual revenue and expenditure data for analysis.
2) The actual information reported in the Comprehensive Annual Financial Report (CAFR) differs from the data presented as "actual" in the operating budget submissions. MCPS is able to reconcile the amounts but reconciliations are not presented in MCPS documents. Internal service fund information is only presented in the CAFR.
3) Although Maryland State law requires that the County appropriate funds by specified categories, and that the BOE request and report by these categories (as it does in the Monthly Financial Reports and the CAFR), fewer than 25 out of over 1,000 pages in the MCPS operating budget present data related to the State categories. The budget documents do not clearly link the State categories to the operating or program budget data. The presentation makes it difficult to evaluate the request by State categories and determine the impact of funding decisions. However, we noted that in the December, 2011 submission of the Superintendent's FY 2013 Operating Budget, MCPS included a new pie chart addressing "Where the Money Goes by State Category."
4) At the time the Council made its final decision on the MCPS appropriation for FY 2012, the Council staff had not been provided updated information regarding the projected health benefits costs in FY 2011. The information was not presented to the Council Education Committee or the Council for review and consideration.

We recommended the Superintendent of Schools work closely with the BOE, Executive and Council to ensure that: 1) they have the information needed to continually improve oversight and that they and the public receive meaningful financial status reports; 2) information reported in the budget documents and other financial reports is reconciled to the CAFR and present complete information; 3) they agree on budget narratives and exhibits to enhance the BOE budget request; and 4) all relevant information needed by decision makers and their key staff members is consistently communicated and documented.

Key Points in the MCPS Chief Operating Officer's Response

The response generally defends the adequacy of existing financial and budget information provided by MCPS. However, it does not disagree with any of the recommendations in the report and MCPS agrees to provide additional information if it is desired by elected officials.

Key Outcomes

The BOE's Fiscal Management Committee and the Council's Education Committee considered and implemented some changes to MCPS' Monthly Financial Reporting in July 2012. Discussions have taken place and continue between the MCPS and Council staff. MCPS developed a sample revised monthly financial report they plan to begin submitting at the end of September, 2012 and agreed to provide other reports that address the recommendations of the OIG report. During the summer, the Council Education Committee held a hearing at which the Committee discussed the revised reports MCPS planned to provide and the extent to which those reports satisfy or fall short of providing information needed by the Council. A follow-up hearing is scheduled for late October, 2012. Further discussions and additional actions are anticipated.

Review of Certain Montgomery County Ethics Activities (April 2012)

Background

Montgomery County has enacted a Public Ethics Law applicable to its elected officials, public employees, and members of Boards, Commissions, and Agencies. This Law also sets requirements for private individuals who seek to influence the actions of the County. The Inspector General, Deputy Inspector General, and Assistant Inspector General each had difficulty accessing the County's Financial Disclosure System to complete an initial financial disclosure, and became concerned following a July 15, 2011 meeting, in which the newly appointed Ethics Commission Staff Director/Chief Counsel acknowledged problems with the process, and suggested that the Office of Inspector General conduct an independent review.

The objectives of our review were to determine whether a.) required procedures are documented and in compliance with State of Maryland and Montgomery County Codes, and b.) implemented procedures and internal controls are consistent with required procedures.

Key Points in the OIG Report

We found widespread noncompliance with financial disclosure filing deadlines, due to poor communications, poor coordination among County departments and systems, and enforcement shortcomings. 86% of the initial financial disclosure reports we tested were not submitted within the statutory deadline of 15 days after commencing service with the County. 29% of all 2010 annual financial disclosure reports were submitted after the extended deadline of May 15, 2011, and 4% had not been submitted as of January 17, 2012 - the date of our final testing. 30% of the final disclosure reports we tested were filed after the last day of employment–the statutory deadline.

There is no overarching entity within Montgomery County Government that has the authority, accountability, and control to ensure that the financial disclosure reporting process operates in accordance with the Public Ethics Law. For example, hiring departments must submit timely notices of employment changes, department managers must ensure their staff members submit timely disclosures, and other departments must correct system interface errors. We found that the financial disclosure system (FDS) does not provide adequate follow-up notifications to filers and reviewing managers. We observed that a significant number of initial and final financial disclosure reporting delinquencies resulted from filers' inability to access the FDS, precluding them from timely, on-line disclosure submission. We found that the County does not enforce the Public Ethics Law's mandatory and discretionary penalties for delinquent filers and non-filers. We found that the Ethics Commission office has not put its many manual procedures in writing, which is an operating risk, given the office has only two staff members.

To effectively implement the Public Ethics Law, the causes that contribute to delay in completing Financial Disclosure forms must be addressed. We recommended that the County Executive and Council work with the Ethics Commission Staff Director/Chief Counsel to ensure authority, accountability, and control for the logistical operation and enforcement of the financial disclosure filing process is clearly designated. Steps should be undertaken to modify the design of the Enterprise Resource Planning/FDS interface that routinely transfers data from the County's human resources systems to its financial disclosure system in order to eliminate any manual re-entry of data. The process to identify, approve, and distribute notifications to individuals subject to annual financial disclosure reporting should be modified to eliminate operational delays that now exist. The assignment of system access privileges should be modified to eliminate delays for initial filers to gain access to the disclosure system. An alternative, manual financial disclosure process should be developed as a failsafe back up to the current on-line system. The Ethics Commission should reduce manual processing workloads by streamlining procedures, and further automating its financial disclosure, lobbyist registration, and outside employment systems.

Key Points in the Ethics Commission Staff Director and County Chief Administrative Officer's Responses

The CAO and Chief Counsel/Staff Director of the Ethics Commission were each asked to respond to the majority of the report's findings. Three findings were directed solely to the Ethics Commission. Generally, the CAO and Chief Counsel agreed with the report's findings, with each stating his reasoning for partial concurrence with a few recommendations. The CAO's response provided discussion of corrective actions, systems enhancements, and procedural changes that would be undertaken, while the Chief Counsel's response addressed several policy considerations and anticipated procedural changes given the limited resources of the Commission.

Many of the CAO's anticipated corrective actions were predicated upon the mutual agreement between the CAO and the Ethics Commission to transfer logistical operation of the Financial Disclosure System to the Executive Branch.

Key Outcomes

The report's findings and recommendations were agreed to by the CAO and the Ethics Commission in a manner that was consistent with the actions we had recommended. On May 3, 2012, the Government Operations and Fiscal Policy Committee of the County Council requested that the CAO and Ethics Commission reverse their decision to transfer logistical operation of the

Financial Disclosure System to the Executive Branch, reaffirming its preference that all disclosure activities remain within the purview of the Ethics Commission. The Council authorized additional human and funding resources to aid the Ethics Commission in its effort to address the report's recommendations.

On August 20, 2012, the CAO distributed a memorandum to Executive Branch Department and Office Directors announcing "Internal Process Changes to Ensure Compliance with the Public Ethics Law" designed to ensure conformity with the Public Ethics law. The memorandum additionally announced a partnership with the Ethics Commission to determine a more comprehensive solution for handling required disclosure filings.

The CAO memorandum puts in place a new process for initial and final filers and includes creation of online compliance reports as well as an automated bi-weekly delinquency report to both reviewers and HR liaisons. By August 2013, the CAO will start annual reporting on the percentage of initial fillings submitted within 15 days of hire to track progress.

A task order is in place for documenting the current system and business processes. The initial draft is to be completed by December 2012 and, in coordination with the Ethics Commission, will be finalized by March/April of 2013. In the meantime, County's newly implemented internal process changes, including creation of the online compliance reports and an automated bi-weekly delinquency report to both reviewers and HR liaisons, will improve the process.

In September, 2012, a meeting was held with key representatives from the office of the CAO, the Ethics Commission, the County Council staff, and the OIG in attendance. Implementation of those steps contained in the August 20, 2012 memorandum, and the future steps to address each OIG recommendation were discussed.

Office of Human Rights' Management of Purchasing Cards and Space Renovation (May 2012)

Background

The Montgomery County Office of Human Rights (OHR) investigates complaints of discrimination, provides staff support to County commissions, and conducts educational and other programs to promote equal rights and opportunities. The Office of the Inspector General (OIG) received allegations regarding misuse of OHR's Purchasing Cards (P-Cards). The OIG also received reports expressing concerns about the potential waste of taxpayer dollars for renovation of space for OHR's use. Our objectives were to determine: 1. If OHR's use of P-Cards was in compliance with County policies and procedures, 2. If OHR's space renovation project adhered to the County's policies and procedures, 3. If the costs associated with OHR's space renovation were in compliance with contractual language, and 4. If P-Cards were used for the space renovation.

Key Points in the OIG Report

We questioned almost 45% of the transactions made with OHR's P-Cards, either because the transactions were not in compliance with the County's policies and procedures governing P-Card use with respect to documentation requirements, or because they were questionable with respect to the purposes of the purchases. We found that OHR also did not comply with County P-Card transaction review policy. We found that OHR's space renovation project in 2009 adhered to the County's procedures governing the expansion or renovation of office space. The renovation costs were consistent with contractual terms associated with the project. However, the amount of space occupied following the renovation may exceed OHR's current requirements. We did not find any indication or evidence that P-Cards were used to pay for the renovation.

We recommended that OHR ensure that all merchandise ordered has been received and no duplicate payments have been made, that OHR review all purchases to determine their value and require the responsible parties to make restitution to the County for purchases that did not further the business of the County, and that OHR comply with County P-Card policies with respect to all future purchases. We recommended that OHR ensure that transaction reviewers make sure that documentation is attached and purpose is reviewed before approving the transaction, and that transaction reviewers are trained in transaction reviews. This training should highlight responsibilities of transaction reviewers. We recommended that OHR examine its available space and determine whether it is appropriate for OHR's current needs.

Key Points in the County Chief Administrative Officer's Response

The Chief Administrative Officer (CAO)'s response to our report indicated agreement with all of our recommendations relating to P-Cards. The CAO stated that his office reviewed all of OHR's transactions from September 2008 to December 2010. The review found that all services and merchandise purchased were fully received, and it verified the accuracy of payments. The CAO stated that the County was fully reimbursed for the cost of questionable transactions determined by the CAO to be non-compliant with County policies, procedures, laws, or regulations. The CAO also stated that the OHR office space referenced in the OIG report is currently fully occupied, because Community Engagement Cluster employees have recently been relocated there.

Key Outcomes

The CAO reports that OHR Staff, Management and the County's purchase card administrator reviewed all transactions and confirmed that no duplicate payments had been made and that all ordered items had been received. A review of all transactions was performed by the purchase card administrator through which inappropriate purchase items were identified and appropriate reimbursements were made to the County.

Internal processes and procedures have been modified to ensure that all documentation and necessary justifications are in place prior to proceeding with various phases of purchasing using the card.

The Office now has reduced the number of cards available from 5 to only 1, making oversight easier. OHR is to ensure that transaction reviewers log into the Purchase-card system in a timely manner and ensure proper justification is selected and proper comments are entered in the comment field of each transaction, and that each transaction is marked as reviewed in the P-card system

A comprehensive training session on the use of cards was conducted by the County's purchase card administrator covering all the topics recommended in the OIG report. The attendees included OHR director, as the primary approver of the single card assigned to OHR, one other OHR manager, as the backup approver, and one staff employee who is the OHR's official card holder.

An examination was conducted of all office space in the suite and the CAO determined that the space is fully occupied by the two program activities that share the space: the Office of Human Rights and the newly formed Community Engagement Cluster.

Clifton Larson Allen LLP Auditor Independence

Key Points in the OIG Report

Clifton Larson Allen LLP (CLA) audited the County's financial statements as of and for the fiscal year ended June 30, 2011 and issued their opinion thereon in March 2012. CLA also, using a different team of people who observed certain agreed-upon protocols, assisted the County in cleaning up its books of account which provided support for elements of those financial statements. We were asked to comment on this arrangement, particularly as to whether CLA's performing the additional work impaired the independence of the CLA audit team.

We decided to use an outside Certified Public Accountant to objectively review this matter. His report concludes that CLA did not, by doing such work, impair its staff members' or the firm's independence. We concur with his conclusion.

Chief Operating Officer's Response

We provided a draft of this report to the County's Chief Administrative Officer for review. He informally responded that his office had no issues with the report. He was not requested to and did not provide a formal written response.

Performance Measures

The OIG work plan prioritizes investigating matters of concern and responding to stakeholders as to those matters. Fiscal Year 2012 was a baseline year in which we established a measure of performance against which we will compare ourselves in the future. We included the following measures of performance in our FY 2013 budget request. Our FY 2012 actual results are shown in italics.

Outcomes:

- Survey the results of stakeholders' views of the OIG:

  We developed a survey, the results of which we intend to use for baseline purposes starting in FY 2013. When completed, the survey will be made available via a link on our website.

- Quantify the potential savings resulting from implementation of OIG recommendations:

  We estimated potential savings in our Review of the Vehicle Management Practices of the Fleet Management Services Division's Administrative Vehicle Light Fleet at $1,437,832. We understand that two of our reports/referrals will also result in restitution of several thousand dollars (most of our FY 2012 reports recommend improvements in effectiveness, the financial benefits of which we are unable to quantify).

Workload/Outputs:

- Number of complaints received:

  OIG logged 92 incident reports in FY 2012.

- Number of administrative actions taken by management in response to investigations involving mismanagement, misconduct, fraud, waste, and abuse:

  Such actions, including demanding restitution of funds, were taken by the County and County funded agencies in five cases.

- Number of audit/inspection recommendations implemented:

  10 of 16 total recommendations were implemented or are in progress: 3 are fully implemented, 7are partially implemented.

- Number of significant findings reported through audit and investigative activities:

  We reported 16 significant findings with additional sub-findings.

Service Quality Performance Measures:

Performance Measure	Budget	Actual
Financial benefits resulting from implementation of OIG recommendations:	$1.00 million	$1.56 million
Percent of complaints reviewed and action initiated within 5 business days:	90%	95%
Complete inquiries within 60 days:	70%	80%
Percent of complaints resolved or referred to management within 90 days:	70%	94%
Percent of audit/inspection/investigation reports completed within 6 months:	50%	89%
Percentage of audit/inspection/ investigation recommendations accepted:	67%	95%

Financial benefits include cost reductions, savings, questioned costs, or County funds put to different use.

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APPENDIX A

REFERRALS

In May 2011 we initiated a formal process of referring issues of a managerial nature to the County's Chief Administrative Officer, or, where appropriate, to County-funded agencies or the State of Maryland for resolution. Prior to making any referral, we perform significant investigatory work to ensure the allegation is credible, and the referee will continue the investigation.

In the cases presented below, we request a response by a certain date. In all cases, we reserve the right to follow up.

During FY 2012, the following matters were referred and responses received.

Intake Dated	Referred To	Nature of Complaint or Allegation	Resolution
3/21/11	Director of Housing and Community Affairs	A Complainant alleged that attendees at a First-Time Homebuyer class required for applicants to the County's Moderately Priced Dwelling Unit program were requested to complete a form asking whether they had disabilities. The complainant thought collecting the disability information was irrelevant, intrusive, and could result in unlawful discrimination. The County has arranged for a private company, Housing and Community Initiatives, Inc. (HCI), to conduct the First-Time Homebuyer classes. The County requires that applicants to its Moderately Priced Dwelling Unit program attend one of these classes.	The OIG was advised that disability information would no longer be collected at these classes, and this was confirmed at the Oct. 29, 2011 class an OIG investigator attended.
6/10/11	MCG Department of General Services	A Complainant alleged that a County employee was using a County vehicle for personal use.	MCG found the employee had misused the vehicle and took appropriate action
9/21/11	County Chief Administrative Officer	A complainant alleged that two county employees in the County Department of Transportation worked short days but were not required to take leave for time away from work.	Per response received, the allegation has been addressed by management.
2/16/11	OIG Investigative Supervisor, State of Maryland Department of Human Resources	A Complainant alleged that an individual was fraudulently receiving welfare benefits from Montgomery County. While the matter may have been a violation of regulations, the OIG determined the matter fell within the jurisdiction of the State to investigate.	The State responded that they were seeking restitution of State overpayments.
6/5/11	County Chief Administrative Officer	A Complainant alleged that a County employee was working a second job, and had not obtained County approval to do so.	The OIG learned that the subject employee submitted a letter of resignation from County government employment.
8/4/11	County Chief Administrative Officer	A Complainant alleged that her son was beat up at a Summer Fun Center Camp sponsored by the Montgomery County Department of Recreation, and sought discipline and reprimand for the camp director.	Per response received, this allegation was addressed by management.
9/21/11	OIG Investigative Supervisor, State of Maryland Department of Human Resources	A complainant alleged that a Montgomery County family was committing welfare fraud. While the matter may have been a violation of regulations, the OIG determined the matter fell within the jurisdiction of the State to investigate.	The State OIG acknowledged receipt of the information and their intention to review the matter.
9/26/11	Maryland-National Capital Park and Planning Commission, and Montgomery County Public Schools	A Complainant alleged a conflict of interest in the selection of an artificial turf product as the standard for fields at M-NCPPC and Montgomery County Public Schools (MCPS). The firm M-NCPPC tasked with evaluating and recommending the artificial turf standard was alleged to have had a partnership with the selected product's provider.	Both M-NCPPC and MCPS addressed the role of the contractor in their responses to the OIG. The OIG is evaluating the responses.
11/21/11	Montgomery County Public Schools	A Complainant alleged that when all MCPS elementary schools applied for a grant from the USDA, the application stated that the schools did not deny recess to students as punishment for misbehavior. The complainant provided information indicating that two elementary schools did deny recess as punishment. The OIG found that 13 MCPS elementary schools denied recess as punishment, according to their policies posted on the internet.	MCPS responded that staff were reviewing local school discipline policies, that steps were being taken to remedy inconsistencies with Board of Education policy and MCPS regulations, and that guidelines regarding recess would be developed.
11/30/11	OIG Investigative Supervisor, State of Maryland Department of Human Resources	A Complainant alleged that his former wife was using aliases to commit welfare fraud through Temporary Cash Assistance and avoid paying child support.	The Complainant reported that the Division of Program Fraud indicated they were opening a criminal investigation.

Intake Dated	Referred To	Nature of Complaint or Allegation	Resolution
12/13/11	Montgomery County Public Schools	A Complainant alleged that school teachers who were residents of other counties and had enrolled their children in MCPS were not paying non-resident tuition. The OIG determined that MCPS enrollment policy would require payment of discounted tuition for children of non-resident teachers, and that the subjects of the allegation appeared to maintain primary residency outside Montgomery County.	MCPS reported a thorough investigation that confirmed the allegation, and indicated that appropriate actions have been taken, including plans for restitution.
11/1/11	Housing Opportunities Commission of Montgomery County	A Complainant alleged that a tenant receiving a Housing Opportunities Commission of Montgomery County (HOC) subsidy apparently fraudulently omitted real estate ownership from an income certification form. The form required the listing of real estate and other assets. Land records indicated that the tenant owned real estate. The form states that the applicant is signing under penalties of perjury and that false or incomplete information on the form may result in the termination of the lease agreement. HUD regulations require that HOC consider income and imputed income from assets when determining subsidy amounts.	HOC took action.
3/19/12	Housing Opportunities Commission of Montgomery County	A Complainant alleged that the decision letter from a hearing officer did not contain a reason for the hearing officer's decision. Staff of the HOC had determined that a tenant should not continue to receive an HOC subsidy, because of the tenant's criminal activity. The tenant appealed, and an HOC hearing officer overturned the staff's determination. HUD regulations and the HOC Plan require that hearing decisions include reasons for the decisions. The OIG reviewed 16 recent decision letters, and in 6 of them, the hearing officer overturned staff decisions without giving reasons.	HOC agreed that all future decision letters will include reasons. Recent decision letters, including the one the complainant referenced, were revised to have reasons inserted.
2/1/12	Montgomery County Public Schools	A Complainant reported seeing an alleged County vehicle (with an "LG" license plate) during morning commutes from West Virginia on two separate occasions. Through inquiry to the Department of General Services, the OIG determined the vehicle was assigned to MCPS.	MCPS reported that its policy prohibits take-home vehicles to be driven to out of state residences and that it would investigate the allegation.
5/2/12	OIG Investigative Supervisor, State of Maryland Department of Human Resources	A Complainant alleged that inaccurate information was intentionally entered into a program database.	The MDDHR responded that they are investigating the food stamp issue and will advise us of the outcome upon their conclusion.
6/1/12	MCG Risk Management	A Complainant alleged a county employee made a Workers Compensation claim based on the fraudulent assertion that he was injured while on the job when the injury actually occurred during non-working hours.	The MCG Risk Management Division accepted the referral, but upon investigation could find no one willing to be named who would corroborate Complainant's allegation that the injury occurred when the employee was not working.
6/12/12	MCG Risk Management	A Complainant alleged that a public safety officer claimed and received Service Connected Disability Retirement Benefits when he could possibly have performed a "desk job". The OIG contacted MCG Risk Management Division and confirmed the identified retiree is receiving Service Connected Disability Retirement benefits.	MCG Risk Management division accepted the referral and is investigating the allegation.
6/21/12	County Chief Administrative Officer	A Complainant alleged that a property owner had submitted two separate condominiums as a "principal residence" for a Homestead Act exemption.	The MCG Department of Finance accepted the referral and is investigating the allegation.
6/25/12	MCG Risk Management	A Complainant alleged that a County employee who appeared to be healthy was receiving payments from Workers Compensation funds.	MCG Risk Management Division accepted the referral and is reviewing the allegation.

APPENDIX B

Montgomery County, Maryland
Office of Inspector General Informal Advisory Group Charter

Official Name

The official title is the Office of Inspector General (OIG) Advisory Group.

Objective

The objective of the OIG Advisory Group is to provide oversight and insight to the OIG in developing annual plans for executing and reporting on audits and investigations; determining position and skill needs of the department; and assessing its budgetary needs.

Time Period

The OIG Advisory Group will be established informally and continue in existence until abolished by the Inspector General.

Membership

The OIG Advisory Group is composed of five to seven County residents who are independent recognized community leaders, serve on an uncompensated volunteer basis, and are free from any relationship that would interfere with the exercise of independent judgment as a member of the Group. The members shall be appointed by the Inspector General. Collectively, the members should have expertise in: financial management and reporting, including expertise applicable to the local government environment; operations and controls; information technology; performance measurement; and public policy and administration. Members shall serve two years and may be re-appointed for additional two-year terms. The Chair and Vice-Chair shall be elected by the Group members. The Inspector General and Deputy Inspector General shall be ex-officio members of the Group.

Communication Responsibilities

The OIG Advisory Group is expected to provide objective and independent commentary to the OIG as to the annual audit plan, the annual budget request, and specific audit / investigation reports, as requested. The OIG will use the OIG Advisory Group as a "sounding board" for various issues that may arise.

Meetings

The OIG Advisory Group shall meet at least twice per year, as determined by the Inspector General. The Group may invite representatives of management and County Council to attend meetings and provide pertinent information, as needed. Minutes will be prepared.

Office of the County Executive
Office of Internal Audit Status Report to Audit Committee
November 2012

New Audit reports issued since last Audit Committee meeting:

All issued reports: http://www.montgomerycountymd.gov/exec/internal_audit.html

- **Pension Benefits Payments Employees' Retirement System** (issued 7/30/12)

Ongoing Audits

- **Five Separate Audits - Contract and Grant Monitoring** ***(identified as high risk in County-wide Risk Assessment)*****:** The objective of these audits are to review and test the effectiveness of contract and grant monitoring policies and procedures followed by five County departments, excluding HHS, which was audited earlier. The five selected departments are DGS, F&RS, MCPD, MCDOT, and DEP. We are reviewing the departments' internal controls to monitor contractors' program performance and financial accountability. All five audits are in the implementation phase. Starting late this year and ending March 2013, a separate report for each of the five departments will be issued.
- **Disability Program Compliance** ***(identified as high risk in County-wide Risk Assessment)*****:** This audit involves determining whether disability payments are being made to recipients in accordance with applicable County laws, regulations and labor agreements, including eligibility requirements. The audit is in the implementation stage. A final report is scheduled to be issued in February/March 2013.
- **ERP Post Implementation** ***(identified as high risk in County-wide Risk Assessment)*****:** This audit's overall objective is to evaluate the effectiveness of the ERP implementation. The audit involves determining whether (1) the ERP system supports the operations of the County and meets end user requirements, (2) current business processes are aligned with the ERP system as implemented, (3) there are plans to address any remaining challenges to complete the ERP implementation, and (4) payments to primary ERP contractors are for services received and comply with applicable contracts. A final report is scheduled to be issued in March/April 2013.
- **Living Wage Law Compliance Audit** (***law provides for periodic audits by the County***)**:** We recently began an audit of an MCDOT maintenance contractor. The audit will determine whether the contractor is in compliance with the law as well as reviewing the adequacy of DGS oversight responsibilities. A final report is scheduled to be issued in March/April 2013.
- **CIP PSSM Radios** ***(CIP is identified as high risk in County-wide Risk Assessment)*****:** The audit deals with the public safety radios purchased under the Public Safety Systems Modernization Program (PSSM), a CIP initiative. The objectives of the audit are to (1) evaluate the effectiveness of contracting policies and procedures by the County to ensure compliance with County regulations and procedures regarding vendor selection and monitoring of contractor performance, including invoice payments and (2) review and test the effectiveness of County's management and tracking of the new radios to ensure that they are properly safeguarded. A final report is scheduled to be issued in March/April 2013.

Status of ERP & FY12 CAFR
Council Audit Committee

November 15, 2012
Department of Finance
Technology Modernization Project Office
www.montgomerycountymd.gov/finance

ERP Update

- CAFR Status: 12/31/12
- ERP Issues impacting the CAFR
  - All issues prioritized (with focus on CAFR impact) and classified by type (e.g. fix to General Ledger, Workaround Process, Permanent Solution)
- Regular weekly meeting of ERP and Controller Staff, and consultants, to address progress, resolve impediments, etc.
  - Additional weekly management meeting to address impediments and agree on resolution.
- Resources allocated based on priorities: e.g. Priority 1A & 1B have a CAFR impact.
- Key areas of issues relate to tight integration required of system modules (e.g. Procurement and Accounts Payable, and Projects/Grants)
- Team approach when possible: ERP staff/consultants and home office staff
- Resolution efforts focused on end-to-end nature of system and issues
  - Researching/assessing issues;
  - Identifying solutions;
  - Testing; and
  - Implementing changes in production environment.
- Has provided opportunity to identify enhancements to internal controls (e.g. additional cross validation rules)

ERP Update

- Progress:
  - 20 Priority 1A & 1B closed or substantially closed in last 30 days
  - 59 total priorities closed, including 33 priority 1A and 1B directly affecting the CAFR
  - Additional priorities closed earlier in the process
- Status:
  - Priority 1A/1B – Impact CAFR
    - 8 Pending Closed items, with only final minor steps left
    - 3 In Progress; 0 Open
  - Priority 2A – Permanent solution required, where workarounds will be needed for each future CAFR until resolved
    - 45 Total
    - 9 In Progress; 1 Closed Pending

ERP Update: CAFR

- Timeframe available towards closing/CAFR (after closing the prior year):
  - FY11 – 15 months (1/1/11 – 3/31/12)
  - FY12 – 9 months (4/1/12 – 12/31/12)
- Key CAFR processes completed significantly earlier than FY11
  - Mass encumbrance liquidations which is liquidation of unused purchase orders completed in August v. January last year
  - Bank Reconciliations completed 4 to 5 months earlier compared to last year
- Major funds completion compared to <u>FY10</u>
    - 4 funds earlier
    - 4 funds within 2 weeks
    - 1 fund 6 wks later (MHI – significant addt'l controls (enhanced reconciliations, confirmations) implemented based on FY11 findings
- Working with new Audit Team

ERP Update: Looking Forward

- Staff enhancement and realignment in Controller's Division intended to:
  - Broaden Oracle based skill set
  - Expedite knowledge transfer from consultants to staff
  - Reduce reliance on outside contractors and consultants
- Center of Excellence: Consulting, problem solving, and collaboration with other departments to improve financial analysis, use of ERP capabilities, timely and accurate compliance with financial processes, and greater understanding of Departmental, Fund, and overall County financial position.

Summary of Closed Oracle Financial Reporting and Bussiness Process Issues

Status	Category	Priority 1			Priority 1 Total	Priority 2		Priority 2 Total	Priority 3	Priority 3 Total	Grand Total
		A	B	C		A	B				
Closed Duplicate	Accounts Payable (AP)	2	2		4						4
	General Ledger (GA)	1			1		2	2			3
	Payroll (PR)			2	2				1	1	3
	Projects and Grants (G)	2			2	2	2	4	1	1	7
	Purchasing (P)			1	1	1	1	2			3
Closed Duplicate Total		**5**	**2**	**3**	**10**	**3**	**5**	**8**	**2**	**2**	**20**
Closed Resolved	Accounts Payable (AP)	1	2		3		1	1	1	1	5
	Enterprise Asset Management (E)	2			2						2
	Fixed Assets (FA)	2			2						2
	General Ledger (GA)	5	1		6	1		1			7
	General/Miscellaneous (M)			2	2						2
	Payroll (PR)	3		1	4						4
	Projects and Grants (G)	7			7	1	2	3	2	2	12
	Purchasing (P)	2	1	1	4						4
	Treasury/Accounts Receivable/Cash Management (T)								1	1	1
Closed Resolved Total		**22**	**4**	**4**	**30**	**2**	**3**	**5**	**4**	**4**	**39**
Grand Total		**27**	**6**	**7**	**40**	**5**	**8**	**13**	**6**	**6**	**59**

Legend

Priority Scale:

1A	FY12 CAFR Could contribute or has contributed to a material weakness or significant deficiency in an audit and no identifiable workaround
1B	FY12 CAFR Could contribute to a material error in the CAFR and no identified workaround
1C	FY12 CAFR Could contribute to a material error in the CAFR but identified workaround
2A	FY13 started in FY12 Has a GL impact, so until permanent solution implemented this issue results in new GL and /or W requirements/issues each year)
2B	FY13 Ideal goal was to be implemented by July 1,2012 -no or no significant GL impact.
3	FY13 or later

Status:

Open	New issue identified or is not being actively pursued
In Progress	Issue is being actively pursued
Pending Closed	Final solution identified, tests successful, need to do move to production
Closed	Issue is closed. Solution identified and implemented

Summary of Open and In Progress Oracle Financial Reporting and Business Process Issues

Status	Category	Priority 1			Priority 1 Total	Priority 2		Priority 2 Total	Priority 3	Priority 3 Total	Grand Total
		A	B	C		A	B				
Closed Pending	Fixed Assets (FA)	2			2						2
	General Ledger (GA)	1	1		2						2
	Projects and Grants (G)	4			4						4
	Purchasing (P)					1		1			1
	Treasury/Accounts Receivable/Cash Management (T)						1	1			1
Closed Pending Total		**7**	**1**		**8**	**1**	**1**	**2**			**10**
In Progress	Accounts Payable (AP)	1			1	3	1	4	1	1	6
	Fixed Assets (FA)	1			1	2		2			3
	General Ledger (GA)			1	1	1		1			2
	Payroll (PR)	1			1	1	3	4	2	2	7
	Projects and Grants (G)			1	1		3	3	1	1	5
	Purchasing (P)			1	1	1	1	2			3
	Treasury/Accounts Receivable/Cash Management (T)					1		1	2	2	3
In Progress Total		**3**		**3**	**6**	**9**	**8**	**17**	**6**	**6**	**29**
Open	Accounts Payable (AP)					6	6	12	3	3	
	Fixed Assets (FA)					5		5			
	General Ledger (GA)					11	3	14	5	5	
	General/Miscellaneous (M)					3	2	5	3	3	
	Payroll (PR)					2	1	3			
	Projects and Grants (G)			1	1	2	4	6	2	2	
	Purchasing (P)					3		3	2	2	
	Treasury/Accounts Receivable/Cash Management (T)					3	2	5	2	2	
Open Total				**1**	**1**	**35**	**18**	**53**	**17**	**17**	
Grand Total		**10**	**1**	**4**	**15**	**45**	**27**	**72**	**23**	**23**	

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Legend

Priority Scale:

1A	FY12 CAFR Could contribute or has contributed to a material weakness or significant deficiency in an audit and no identifiable workaround
1B	FY12 CAFR Could contribute to a material error in the CAFR and no identified workaround
1C	FY12 CAFR Could contribute to a material error in the CAFR but identified workaround
2A	FY13 started in FY12 Has a GL impact, so until permanent solution implemented this issue results in new GL and /or W requirements/issues each year)
2B	FY13 Ideal goal was to be implemented by July 1,2012 -no or no significant GL impact.
3	FY13 or later

Status:

Open	New issue identified or is not being actively pursued
In Progress	Issue is being actively pursued
Pending Closed	Final solution identified, tests successful, need to do move to production
Closed	Issue is closed. Solution identified and implemented

W 6

ERP & FY 12 CAFR – Status Update
Council Audit Committee

November 15, 2012

Montgomery County Employee Retirement Plans

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ERP - Update

- ***PeopleSoft - Outstanding Issues***
  - *Retirement Benefit Calculation System*
    - *Elimination of manual overrides*
    - *Integration with other modules (i.e. Oracle employee payroll)*
    - *Modification of existing employee calculation worksheets*
    - *New County Code changes – disability benefits*
  - *Retiree Payroll*
    - *Generating required reports*
    - *Minor other post-implementation programming changes*
- ***Oracle – Outstanding Issues***
  - *Employee & Non-employee Business Groups*
    - *Converting employee from active to retired via interface*
    - *Generating required reports*
    - *Tax reporting*
- ***Status***
  - *Weekly meetings with consultants/contractors to discuss resolution of the issues*
  - *Agreement on priority of issues between ERP team and MCERP*
  - *All outstanding issues should be resolved in early 2013*

CAFR - Update

- ***Actual Valuation***
  - *All reports needed by the actuary to prepare the valuation were generated from PeopleSoft at the end of September*
  - *ERS' actuary believes the valuation will be produced by November 22nd in time for the CAFR to be updated to meet the December 31st filing w/GFOA*
- ***Remaining Open Items***
  - *Retirement contribution reconciliation*
  - *Finalizing of footnotes (information provided by actuarial valuation)*

(W
b)