

MEMORANDUM

November 20, 2009

To: County Council

Via: Duchy Trachtenberg, Chair *DT*
Management and Fiscal Policy Committee Meeting as the Audit Committee

From: Sue Richards, Senior Legislative Analyst *SR*
Leslie Rubin, Legislative Analyst *LR*
Office of Legislative Oversight

Subject: **2009 End-of-Year Report to Council**

In January 2009, the Council established an Audit Committee in response to the results of a review of County oversight practices conducted by the Office of the Inspector General (OIG). The Council's charge to the Committee was to strengthen oversight of the Council's and County Government's financial reporting, management control, and audit activities.

The Council passed Resolution 16-826 giving the MFP Committee the responsibility to meet as the Audit Committee (the "Committee") at least four times a year. The Council President and Vice President both sit as *ex officio* members of the Committee and the Office of Legislative Oversight provides staff support.

The Committee is required to submit a report to the Council each December. This memorandum serves as the Committee's end-of-year report to the Council. It is organized as follows:

- **Section A** lists the topics discussed by the Committee; and
- **Section B** describes information presented to and discussed by the Committee in 2009; and
- **Section C** lists recommended Committee agenda items for 2010.

A. Topics Discussed in 2009

The Committee met five times during 2009: in March, April, and September, and twice in November. The table below (continued on the next page) lists the primary topics discussed by the Committee in these meetings.

Discussion Topic	Staff
March 2009	
Functions and operations of an Audit Committee	Inspector General
Changes to the staffing structure of the Office of Internal Audit (in the Office of the County Executive) – reducing County Government staff and hiring contract staff	Chief Administrative Officer
Changes to the staffing structure of the Office of the Inspector General – reducing County Government staff and hiring contract staff	Inspector General
Risk assessment of County Government finances	Chief Administrative Officer

Discussion Topic	Staff
April 2009	
Report on the external audits of the County Government's financial statements, the financial statements of the County Government's retirement plans, and the financial statement of the local fire and rescue departments	Staff from Clifton Gunderson LLP and Rager, Lehman & Houck, P.C.
September 2009	
Update on effort to hire contract staff to work with the Office of Internal Audit (see March 2009)	Assistant Chief Administrative Officer Staff, Office of Internal Audit
Changes to DHHS' contract administration and fiscal monitoring practices	Director of DHHS
November 10, 2009	
Description of work by the new DHHS Contract Monitoring Workgroup	Director of DHHS
Committee discussion of Bill 40-09, Personnel - Audits - Trust Fund	Council Staff
Briefing on the development of a new four-year work plan by the Office of the Inspector General	Inspector General
November 24, 2009 (scheduled)	
Committee discussion of Bill 40-09, Personnel - Audits - Trust Fund (see November 10, 2009)	Council Staff

The Committee also developed a list of recommended agenda items for its 2010 meetings (see page 4).

B. Description of Information Reviewed by the Committee in 2009

The Committee learned that there are three primary sources for audit information for Montgomery County Government – two inside County Government and one external to County Government. These are the Office of Internal Audit located in the Offices of the County Executive, the Office of the Inspector General, and the Council's contracts for an independent external audit (of the County Government's financial statements, the financial statements of the County Government's employee retirement plans, and the financials statements of the local fire and rescue departments (LFRD)). In FY09, the approved budgets for these three activities totaled approximately \$2 million, and in FY10 these budgets totaled approximately \$1.7 million.

Internal Audits. The Office of Internal Audit (OIA) and the Office of the Inspector General (OIG) conduct reviews of County Government programs and activities. Both offices base a portion of their reviews on an assessment of the programs' or activities' risk for abuse. Areas of the County Government that both offices considered to be high risk for potential abuse include: procurement; capital projects; major information technology systems; payroll; overtime; disability; and health care benefits.

The Office of the Inspector General intends to publish a new four-year work plan by the end of 2009. In FY10, the Office of Internal Audit began the process of hiring staff by contract and expects to finalize a contract by the end of 2009. Staff in the Offices of the County Executive expect that the contractor will have completed the development of a risk assessment and multi-year work plan by the spring of 2010.

External Audits. In April 2009, the Committee received reports from staff at Clifton Gunderson LLP and Rager, Lehman & Houck, P.C. (“Rager”). Clifton Gunderson conducts the audits of the County Government’s financial statements and of the employees’ retirement plans. Rager conducts the audits of the financials statements of the local fire and rescue departments.

Clifton Gunderson found that both the County Government’s and the retirement plans’ financial statements present fairly, in all material respects, their respective financial positions. In its Report on Internal Control, Clifton Gunderson reported one significant deficiency related to liquor inventory at the County Government’s liquor warehouse. In its Management Letter, Clifton Gunderson noted three matters to bring to the County Government’s attention, related to bank accounts, third-party administrators, and vulnerability testing.

In its review of the 18 County local fire and rescue departments (LFRDs), Rager, Lehman & Houck issued management letters for each LFRDs. A management letter identifies potential problems with an entities financial statements or practices and categorizes a problem based on the degree of risk it poses to the County Government. The table below summarizes the number and types of management letter comments presented for each LFRD.

Summary of the Number and Type of Management Letter Comments on the Local Fire and Rescue Departments by Rager, Lehman & Houck

Local Fire and Rescue Department	of Critical Deficiencies	of Significant Deficiencies	of Material Weaknesses
	Lowest Risk	—————>	Greatest Risk
Bethesda Fire Department, Inc.		1	7
Burtonsville Volunteer Fire Department, Inc.*			
Cabin John Park Volunteer Fire Department, Inc.		1	
Chevy Chase Fire Department, Inc.	2		
Damascus Volunteer Fire Department, Inc.	6		
Gaithersburg-Washington Grove Fire Department, Inc.	3		
Germantown Volunteer Fire Department, Inc.	4		
Glen Echo Volunteer Fire Department, Inc.	3		
Hillandale Volunteer Fire Department, Inc.	1		
Hyattstown Volunteer Fire Department, Inc.	2		
Kensington Volunteer Fire Department, Inc.	3		
Laytonsville District Volunteer Fire Department, Inc.	2		
Rockville Volunteer Fire Department, Inc.	2		
Sandy Spring Volunteer Fire Department, Inc.	7		3
Silver Spring Volunteer Fire Department, Inc.	2	1	
Takoma Park Volunteer Fire Department, Inc.	2		
Upper Montgomery County Volunteer Fire Department, Inc.	8		
Wheaton Volunteer Rescue Squad, Inc.	3	1	

*The Auditor identified one “matter for consideration” for Burtonsville Volunteer Fire Department.

Other Topics. In addition to matters of internal and external audits, the Committee discussed other items.

- Beginning in September 2009, the Committee began a discussion of the Department of Health and Human Services' contract monitoring and financial oversight practices and changes intended to strengthen these practices; and
- In November 2009, the Committee began a discussion of Bill 40-09, Personnel - Audits - Trust Fund, which would require an annual independent audit of each deferred compensation plan and the Retiree Health Benefits Trust Fund.

C. Recommended Agenda Items for 2010

At the Committee Chair's request, staff solicited new agenda items to supplement 2009 discussions that will carry over into the new year. These recommendations are listed in the table below.

List of Recommended 2010 Audit Committee Agenda Items

	Description	Sponsor
1.	Adequacy of financial reporting practices for investment plans, retirement plans, etc.	CM Andrews
2.	Methods Montgomery County Government employs to ensure it consistently applies best practices for financial reporting	CM Andrews
3.	Montgomery County Government's definition of best practices for contract documentation given to and required from contractors	CM Ervin
4.	Status of Montgomery County Government's departmental fiscal monitoring standards for contractors (other than DHHS)	CM Navarro
5.	Montgomery County Government contract management practices for large technology investments, e.g. MC311	CM Trachtenberg
6.	Relationship between work of CountyStat and development of best practices in Montgomery County Government departments	CM Trachtenberg