



OFFICE OF INSPECTOR GENERAL

Thomas J. Dagley
Inspector General

MEMORANDUM

November 29, 2007

TO: Duchy Trachtenberg, Chair
MFP Committee


FROM: Thomas J. Dagley
Inspector General

SUBJECT: FY 2009 Budget – Office of Inspector General

The purpose of this memorandum is to advise you of proposed changes to the OIG operating budget – changes that will begin to address requirements of the new results-based budgeting initiative announced by the Council and Executive at the beginning of the FY 2009 budget process. This memorandum also identifies key issues that need to be addressed by the Council and Executive to establish meaningful OIG budgets beyond FY 2009 in order to fulfill requirements set forth in MCC§2-151 (the County's Inspector General law).

My FY 2009 request totals \$690,915, \$16,015 (2.2%) below the MARC issued by OMB on September 21, 2007. When compared to the assumptions used by OMB to prepare the MARC, my request has two key differences: 1) eliminate position #14918 (Legislative Analyst III) for FY 2009 and reallocate \$60,000 from personnel to non-personnel (Sub-Object 2095); and 2) increase the work year from .5 to 1.0 and related personnel costs for position #14646 (Public Administration Intern). These changes represent what should be a temporary reduction in the number of OIG positions from 7 to 6 and work years from 6.5 to 6.0, pending clarification of three issues (described below) that directly impact the development of a meaningful OIG budget for FY 2010 and whether the inspector general model can be effectively implemented for all County-funded agencies¹.

¹ The County-funded agencies include the Montgomery County Public Schools, the Maryland-National Capital Park and Planning Commission, the Washington Suburban Sanitary Commission, Montgomery College, the Housing Opportunities Commission, the 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.



The following issues, which have been previously reported to the Council, are grounded in the assumption that the inspector general model remains in the early stages of deployment and integration with the County's governance² system, even though MCC§2-151 was passed 10 years ago:

- OIG authority to conduct audits, reviews, and investigations in all County-funded agencies needs to be clarified. For example, although approximately 50 percent (\$2 billion) of the FY 2008 operating funds appropriated by the Council supports the programs and activities of the Montgomery County Public Schools (MCPS) and Planning Board (which operate under the State's Education Article and Article 28, respectively), senior leadership for these agencies does not acknowledge the County OIG as a watchdog to help protect taxpayer dollars. Similar barriers exist for the OIG to help protect more than \$2 billion in taxpayer dollars approved by the Council for a six-year period for capital improvements program (CIP) projects involving MCPS, WSSC, and Montgomery College.

I do not believe the OIG can effectively serve the Council and taxpayers when these County-funded agencies believe they are exempt from OIG oversight.

- In order to protect all taxpayer dollars appropriated by the Council, employees and contractors of all County-funded agencies should have the same opportunity to report allegations of fraud, waste, and abuse to an independent OIG. Currently, use of the Hotline to prevent and detect fraud, waste, and abuse is limited to approximately 9,000 MCG employees and contractors. Expansion of the Hotline to all County-funded agencies will more than triple the number of employees and contractors covered by this service. Guidance on this issue is available from a variety of professional associations, including the Government Finance Officers Association (GFOA), Maryland Association of Certified Public Accountants, Association of Inspectors General (AIG), and Association of Certified Fraud Examiners (ACFE).

² Governance refers to the system of management and controls exercised in the stewardship of all County-funded programs and activities. The governance system includes the responsibilities of the governing body(s) and all senior leaders. Responsibilities include ensuring that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that independent auditors and investigators, through their own review, objectively assess management practices. For government agencies with a statutory OIG, governance includes the responsibilities of the OIG to prevent and detect fraud, waste, and abuse.

- MCG's current project to revise the Montgomery County Personnel Regulations (MCPR) needs to clarify the OIG's role to ensure the independent investigation of allegations of illegal activity or serious misconduct by managers and other employees. Currently, County regulations do not require management to report legal, fiscal, or ethical breaches to the OIG. As a result, unlike many other government organizations who use their statutory OIG as an independent and objective investigative resource, MCG management typically assigns these cases to the Office of the County Attorney (OCA), without notice to the OIG. Under the current practice, the OCA has conducted the investigation, participated in management's decision-making process, and represented the County in ADR or MSPB hearings – this has generated conflict of interest concerns and complaints to the OIG. Guidance on this issue is available from the GFOA, AIG, ACFE, and other professional organizations.

During FY 2009, the last year of my four-year appointment, I recommend the Council, Executive, and OIG systematically address and resolve these weaknesses and gaps to ensure the County's inspector general model is capable of being fully deployed beginning in FY 2010. Full deployment of the inspector general model will require significant changes to several County practices. However, once changed, the Council, Executive, and OIG will be in a position to develop a meaningful projected four-year OIG budget (covering FYs 2010-13).

TD:dg

cc: Marilyn Praisner, Council President
Steve Farber, Director, Council Staff
Tim Firestine, Chief Administrative Officer
Joseph F. Beach, Director, OMB
Helen Vallone, Budget Specialist, OMB

Dept Mission Statements and Program Descriptions

Inspector General

Mission Statement:

The mission of the Office of Inspector General is to promote the effectiveness and efficiency of programs and operations of County government and independent County agencies; prevent and detect fraud, waste, and abuse in government activities; and propose ways to increase the legal, fiscal, and ethical accountability of County government and County-funded agencies.

Inspector General

The Inspector General conducts independent audits, reviews, and investigations; receives and investigates credible complaints; reports violations of the law to the State's Attorney for Montgomery County or other appropriate office; notifies the County Council and Executive of serious problems in programs; reviews legislation and regulations to strengthen controls and increase accountability; and submits reports with recommendations to the Council and Executive. The Inspector General conducts projects jointly with other government agencies and contractors.

Results Areas, Productivity Improvements, Accomplishments and Initiatives

Inspector General

Results Areas

- A Responsive, Accountable County Government
- Strong and Vibrant Economy
- Vital Living for All of Our Residents

Productivity Improvements

- The OIG's proposed budget of \$690,915 (2.2% below the MARC) has two key differences when compared to the approved FY 2008 budget - when considered together, the two differences allow the OIG to submit a request that is 2.2% below the MARC and to procure specialized expertise needed to perform certain priority audits, reviews, and investigations.

The differences involve abolishing (for FY 2009 only) position #14918 and reallocating \$60,000 of its salaries & benefits from personnel to non-personnel (sub-object 2095). The second change is increasing the work year from .5 to 1.0 for position #14646. The net difference is a reduction in the number of OIG positions from 7 to 6 and work years from 6.5 to 6.0. These changes are designed to improve OIG productivity in FY 2009 by ensuring a consistency of plans, processes, information, resource decisions, actions, and results to support key goals. It is requested these changes be decided as a package. The backup request is to retain both positions as anticipated when the MARC was calculated, pending development of a meaningful budget beginning in FY 2010 to fully implement the inspector general model to all County-funded agencies.

Accomplishments and Initiatives

See narrative on page two.

Inspector General

- Accomplishments & Initiatives

FY 2009 represents the last year of the Four-Year Work Plan issued in August 2005 to comply with MCC 2-151. The Plan identifies more than 15 action items categorized according to three key OIG performance objectives: increase efficiency and effectiveness; prevent and detect fraud, waste, and abuse; and increase ethical, fiscal, and legal accountability. To date, 6 formal reports have been issued and approximately 25 fraud, waste, and abuse investigations have been reported to the Council or senior management for corrective action.

Highlights of quantifiable outcomes derived from this work include: the reallocation of \$14 million in CIP school construction funds by the Council in May 2006 (see pages 3 and 8, 2006 Annual Report for more details); the identification of \$1.1 million in questionable County overtime payments, and reduction of the Executive's recommended FY 2008 FRS overtime budget by \$3 million by the Council in May 2007 (see pages 4-6, 2007 Annual Report); court-ordered restitution totaling \$65,000 to the County following the criminal investigation of a recovery agent scheme against the County's Department of Finance and others by a North Carolina resident; the reversal of a contract award totaling more than \$500,000 in April 2007 by a MNCPPC hearing officer following a bid protest involving electrical/lighting services for 4 ball fields at a County park (see page 7, FY 2007 Annual Report); and, court-ordered restitution of \$11,000 following a criminal investigation of a pyramid scheme in which a County employee used the County's email system to victimize co-workers and others (see page 7, FY 2007 Annual Report).

In addition, in FY 2008, the OIG completed an audit of selected CIP projects involving proposed Clarksburg development district funding totaling \$17 million. The OIG reported three findings and made recommendations to address needed improvements in the County's administration of development districts, including use of competitive bidding requirements to strengthen internal controls, and to increase accountability by improving management's handling of related infrastructure road construction projects. Other County oversight agencies including OLO also studied the Clarksburg development district and reported significant results to the Council. A Council decision to give its final approval to the \$17 million in bond funding or to terminate the Clarksburg development district because of implementation deficiencies is expected in 2008.

In the second half of FY 2008 and in FY 2009, the OIG expects to plan and complete at least 3 audits/reviews included as action items in its Four-Year Work Plan. The OIG anticipates performance results from these action items that are comparable in stakeholder value to those described in this Item and in the FY 2005-2010 Performance Measures spreadsheet included with this budget submission.

The accomplishments and initiatives described in this Item are closely aligned with the Executive's and Council's priority for a responsive accountable County government, a strong and vibrant economy, and vital living for all of our residents.

- In the Four-Year Work Plan, the OIG recommended the County establish an OIG Fraud Hotline as a tool for employees, contractors, and others to report fraud, waste, and abuse. In December 2006, such a Hotline was activated by the OIG for MCG employees and contractors with the participation of the Council and Executive. Through November 2007, more than 50 reports have been received by the OIG through a third-party contractor who provides a customized, toll-free number. The Hotline has directly contributed to the effectiveness of OIG audits, reviews, and investigations in accomplishing the OIG's performance objectives outlined in the Four-Year Work Plan. For example, we conducted an investigation in May-June 2007 which disclosed a lack of management oversight and other deficiencies regarding the handling of gift cards by Child Welfare Services, Department of Health and Human Services. HHS management agreed with our assessment and recommendations, stating corrective action would be taken. Similar fraud hotline reports are under investigation at this time, including the County's handling of competitive and non-competitive contracts and grants and other activities where strong internal controls are needed to ensure accountability for management actions and transparency in operations.

