

MEMORANDUM

July 7, 2014

TO: Audit Committee

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

SUBJECT: Updates from the Office of the Inspector General and the Office of Internal Audit

On July 10th, 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. The participants expected to attend the worksession and the location of the supporting materials for each item are listed below.

Item #	Topic/Representatives	Materials on © page
1	An update from the Office of the Inspector General <ul style="list-style-type: none">• Edward L. Blansitt III, Inspector General, Office of the Inspector General (OIG)	©1-5
2	An update from the Office of Internal Audit <ul style="list-style-type: none">• Fariba Kassiri, ACAO• Larry Dyckman, Manager, Office of Internal Audit	©6

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. The presentation will focus on a review of FY14 activity and the work plan and budget for FY15. Copies of released reports are available on the OIG website (<http://www.montgomerycountymd.gov/OIG/igproduct.html>).

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 ©6.

MCIA has released three reports since they were last before the Audit Committee in January 2014 (Contract and Grant Monitoring by DED; Non-Competitive Procurements and The Carryout Bag Tax); and there are 13 ongoing audits. Copies of released reports are available on the MCIA website (http://www.montgomerycountymd.gov/exec/internal_audit.html)

Update - Office of the Inspector General

Montgomery County Council Audit Committee, July 10, 2014

Topics of Discussion

- Review of FY 2014 Activity
- FY 2015 Work Plan Update & Budget



MONTGOMERY COUNTY MARYLAND

OFFICE OF THE INSPECTOR GENERAL

Update to the Montgomery County Council Audit Committee - July 10, 2014

FY 2014 Activity at a Glance

Complaints - 76

Source:

- 7 OIG Hotline
- 18 other telephone calls
- 42 mail & e-mail
- 6 walk-ins
- 3 referrals

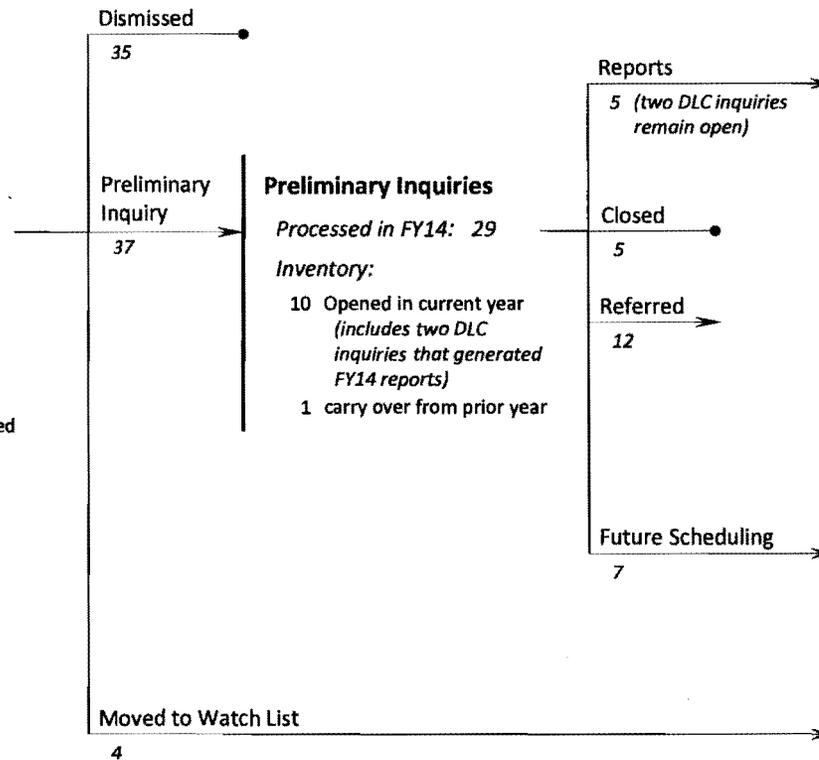
Nature:

- 27 Potential violation of law, regulation, or rule
- 5 Potential misconduct by County official or entity
- 19 Misdirected complaints
- 25 Investigation not warranted

Prior Year Carryover

Inventory:

- 1 Preliminary Inquiry
- 4 Reports in Progress
- 6 Parking Lot
- 1 Watch List



Preliminary Inquiries

Processed in FY14: 29

Inventory:

- 10 Opened in current year
(includes two DLC inquiries that generated FY14 reports)
- 1 carry over from prior year

Reports Issued in FY 14 - 7

Originating in FY 2014:

- Inspection: DLC - One-Day Alcoholic Beverage Licenses
- Inspection: DLC - Management Controls Over Inspectors
- Advisory: OHR & DOF - Employee Leave Balances

Originating in FY 2013:

- Inspection: DGS - Silver Spring Transit Center
- Inquiry: DED - Bethesda Cultural Alliance
- Inquiry: Office of Consumer Protection
- Review: MCPS - Acquisition of Interactive Technology Systems

Reports in Progress - 2

- Investigation: Conduct of Public Employee at County Agency.
- Investigation: DOT - Fleet Management & Inspection

Parking Lot - 13

Inventory:

- 7 Opened in current year
- 6 carry over from prior year

Watch List - 5

Inventory:

- 4 Opened in current year
- 1 carry over from prior year



Update to the Montgomery County Council Audit Committee - July 10, 2014

Update: FY 2014 - 2017 Work Plan Initiatives

Use data analytics to identify management/internal control weaknesses or deficiencies of organizations and technology systems that could leave organizations vulnerable to errors or fraud:

FY 2014: Data collected and analyzed for Department of Liquor Control and Department of Permitting Services work programs.

Use contract subject matter experts to assist in conduct of specific audits and investigations:

FY 2014: Subject Matter Expert engaged for Silver Spring Transit Center work program.

Follow-up on selected audit recommendations made in prior-year OIG reports:

FY 2014: Currently engaged in follow-up on FY 2011 report *Review of Montgomery County Government Procurement and Payment Practices for Selected Contracts*



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Update to the Montgomery County Council Audit Committee - July 10, 2014

FY 2015 - Planned Activity

Work in Progress – Carryover from FY 2014

Conduct of Public Employee at County Agency
 Fleet Management & Inspection

Department or Agency

Undisclosed County Agency
 Department of Transportation

Planned Work – FY 2015

Review of Purchase Card Procedures
 Impact of Standards & Specifications on Limiting Competition in Procurements
 Security & Protection of Sensitive Information
 Administrative Process Review

Department or Agency

Multiple County Agencies and Departments
 Multiple County Agencies and Departments
 Montgomery County Government
 Department of Liquor Control

Ongoing Activity

Complaint Intake & Preliminary Inquiries
 Follow-Up on Implementation of Prior Report Recommendations



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Update to the Montgomery County Council Audit Committee - July 10, 2014

FY 2015 Budget

	FY14 Appropriation	FY15 Appropriation
Personnel Expense	\$662,005	\$688,744
Operating Expense	\$168,095	\$68,302
Total Expense	\$830,100	\$757,046
Change vs Prior FY	\$42,727	(\$73,054)
Staff Work Years	5.0	5.0



Office of the County Executive
Office of Internal Audit Status Report to the Audit Committee
July 2014

New Audit Reports Issued Since Last Office of Internal Audit Appearance before the Audit Committee in January 2014: All issued reports are on:

http://www.montgomerycountymd.gov/exec/internal_audit.html

1. DED Contract Monitoring (3/6/14)
2. Non-Competitive Procurements (4/29/14)
3. Bag Tax (5/6/14)

Ongoing Audits (13)

- **DLC Inventory Controls** (*identified as high risk in County-wide Risk Assessment*): This audit was requested by DLC and Finance because of the recognition that inventory controls needed upgrading. The audit reviewed DLC inventory control procedures, including those at the warehouse and in retail stores. A final report is scheduled to be issued in July 2014.
- **Business Continuity Planning** (*identified as high risk in County-wide Risk Assessment*): The audit's objective is to determine how effectively the County is planning for business continuity in the event of a disaster. The audit includes high level reviews the continuity of operations (COOP) plans of all departments as well as a more in-depth review of selected plans. We expect to issue a report in July 2014.
- **Police Cash Receipts** (*identified as medium risk in County-wide Risk Assessment*): This audit which was requested by MCPD is aimed at assisting the department upgrade its controls over cash receipts. The department is in the process of upgrading systems and controls at all of its locations that process cash and credit card payments. The audit is assessing MCPD's efforts and is evaluating the new cash receipts system. Expected issue date is August 2014.
- **Health Claims** (*identified as high risk in County-wide Risk Assessment*): The audit involves a detailed review of selected health claims to assess the accuracy and consistency of claims payments made by one of the major third party vendors administering a health plan to County employees and retirees. We expect to issue a report in August 2014.
- **DOCR Inmate Funds** (*identified as medium risk in County-wide Risk Assessment*): At the request of the Director DOCR we are performing an audit of the internal controls, including the accuracy of balances, over DOCR's inmate and pre-release fund accounts. We plan to issue a report in July 2014.
- **Miscellaneous Cash Receipts** (*identified as high to medium risk in County-wide Risk Assessment*): At the request of the Director, Department of Finance we are identifying and assessing the policies and procedures of departments' receipts from cash and credit cards to better ensure funds are properly safeguarded, deposited and recorded. The review involves developing and executing a detailed on-line questionnaire to be sent to all executive and judicial branch departments and major offices. Based on the questionnaire results and follow up interviews we will prepare an inventory along with a risk assessment of each department or office's funding source and corresponding procedures. We plan to issue a report by September 2014.
- **Contract and Grant Monitoring at 3 Departments** (*identified as high-medium risk in County-wide Risk Assessment*): This audit is a continuation of our efforts to evaluate contract and grant monitoring by County departments. We will review and test the effectiveness of contract and grant monitoring policies and procedures followed by

three County departments-- **Economic Development, Recreation, and Housing and Community Affairs**. The audit will seek to determine whether contractor performance is contractually compliant, being effectively tracked, contract changes and extensions are being properly managed, and invoices are properly reviewed before payment. The audit will include reviewing monitoring by departments for both program performance and financial accountability. We issued a report on DED in March 2014; we expect to issue Recreation in July and Housing in September.

- **Wage Law Compliance Potomac Disposal (required by law)**: This audit was requested by DGS and will ascertain whether Potomac Disposal has been complying with the Wage Law. We expect to issue a report in August 2014.
- **Wage Law Compliance Unity Disposal and Recycling (required by law)**: This audit was requested by DGS and will ascertain whether the Unity has been complying with the Wage Law. We expect to issue a report in September 2014.
- **Supplies and Equipment (identified as medium risk in County-wide Risk Assessment)**: This audit will review internal controls over security of and accounting for supplies and equipment (S&E) held by major departments and determine the accuracy of reporting of S&E in the comprehensive annual financial report (CAFR).
- **Conference Center Financial Analysis (area not in the County-wide Risk Assessment)**: The audit which was requested by DED, is examining various FY 2013 financial transactions and policies of Marriott to ensure that the County's interests are being protected. It started in June 2014 and is scheduled to be completed by October 2014.
- **Treasure Follow Up (identified as high risk in County-wide Risk Assessment)**: This audit will assess the adequacy of corrective actions that Treasury/Finance has taken in response to recommendations in a 2009 Internal Audit risk assessment, and also report on any other internal control weaknesses observed during this follow up engagement that need corrective action. The audit is scheduled to be completed in October 2014.
- **IT Risk Assessment (identified as high to medium risk in County-wide Risk Assessment)**: In response to recent disclosures by the national press and industry sources that any large organization's most crucial IT systems may be vulnerable to unauthorized access by persons wishing to do harm, DTS requested that we immediately begun a high-level risk assessment (RA) audit of the County's estimated 600 IT systems. The urgency of the audit is increased due to the fact that various County systems contain Public Health Information (PHI) or other sensitive information that must be carefully safeguarded. The RA audit is being performed in two phases—a planning and implementation phase. The first phase started in June 2014 and the second phase is targeted to begin in September. The specific objectives of the RA are to: (1) Identify information-related vulnerabilities including potential data privacy and security compliance issues. We plan to group the County's systems into tiers based on risk. We will also advise the County if the RA identifies any critical risks that require immediate attention by the County. (2) Recommend a penetration testing and remediation strategy along with a timeline for the County based on risk, budget, and any other factors deemed appropriate. (3) Develop cost range estimates for carrying out the penetration testing strategy, with emphasis on those systems placed in the highest risk tier.