

MEMORANDUM

April 14, 2015

TO: Government Operations and Fiscal Policy Committee
FROM: ^{JCA} Jean C. Arthur, Legislative Analyst
SUBJECT: **FY16 Operating Budget: Office of the Inspector General**

Those expected to attend this worksession include:
Edward Blansitt, Inspector General
Crystal Brockington Sallee, OMB

Relevant pages from the FY16 Recommended Operating Budget are attached on ©1-3.

Budget Summary:

- The increase in the County Executive's recommendation for the Office of the Inspector General's budget is due to general compensation adjustments. The Executive recommends a decrease in operating expenses from which the OIG contracts with subject matter experts.

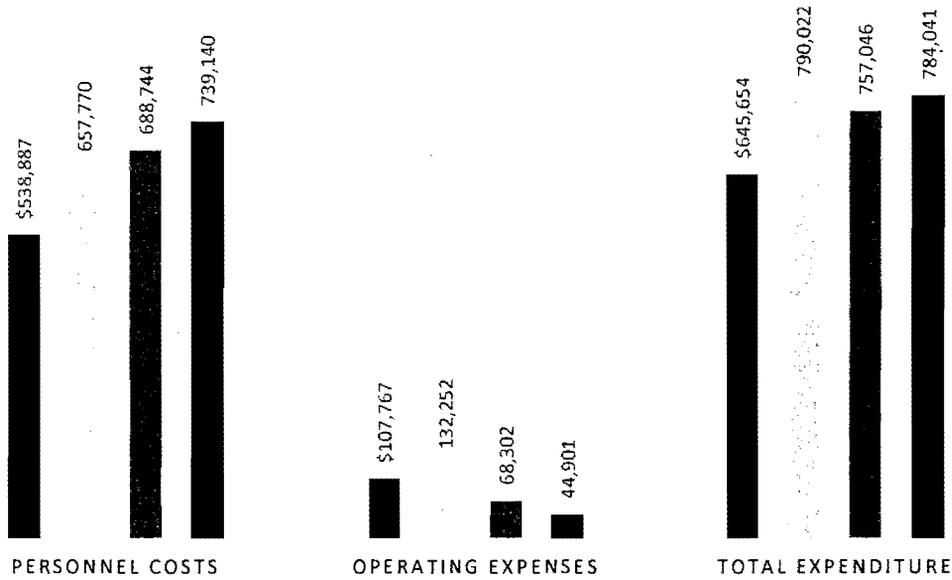
Council Staff Recommendation:

- **Staff recommends adding \$23,401 to the Reconciliation List for operating expenses to give the Inspector General the flexibility to contract with experts as necessary. This amount will bring operating expenses to the same amount as the FY15 budgeted amount.**

Overview

For FY16, the County Executive recommends a total of \$784,041, an increase of \$26,995 or 3.6 percent from the FY15 approved budget of \$757,046. The recommended budget funds four full-time positions and five FTEs.

BUDGET SUMMARY



	<i>FY14 Actual</i>	<i>FY15 Approved</i>	<i>FY16 Recommended</i>	<i>% Change FY15 - FY16</i>
<i>Expenditures by fund</i>				
General Fund	\$790,022	\$757,046	\$784,041	3.6%
<i>Expenditures by type</i>				
Personnel Cost	\$657,770	\$688,744	\$739,140	7.3%
Operating Expenses	\$132,252	\$68,302	\$44,901	-34.3%
<i>Total Expenditures</i>	\$790,022	\$757,046	\$784,041	3.6%
<i>Positions</i>				
Full-Time	5	4	4	
Part-Time				
<i>FTEs</i>	5	5 ¹	5 ¹	

¹One FTE is a pooled position; a group position which is counted as an FTE, but is not as either a full-time or part-time position. See ©1.

FY16 Expenditure Issues

Operating Expenses			Changes	
	FY15 App.	FY16 Rec.	\$	%
<i>Operating Expenses</i> (General Fund)	\$68,302	\$44,901	-\$23,401	-34.3%

The County Executive recommends a large reduction in the operating expenses budgeted to the OIG. OIG uses operating expenses to hire subject matter experts as needed for investigations.

OIG prepares and presents to the Council a work plan each year. In addition, OIG times conducts investigations that were not included in the original work plan. For all those investigations, OIG may need to hire outside expertise. With a staff of five FTEs including one pooled position, OIG does not have in-house expertise to cover all subjects. Operating expenses provide the flexibility to hire experts as necessary. The amount the County Executive recommends will allow for only minor project support from subject matter experts.

Council Staff Recommendation: Staff recommends that \$23,401 for operating expenses for OIG be placed on the Reconciliation List.

FY15 Office of the Inspector General Reports

- February 19, 2015

Department of Liquor Control
Warehouse Inventory Management
Report of Inspection: OIG Report #15-005
- February 5, 2015

Department of Environmental Protection
Water Quality Protection Charge
Preliminary Inquiry Memorandum #15-005
- January 12, 2015

Department of Liquor Control
Compliance Money
Preliminary Inquiry Memorandum #15-004
- December 23, 2014

Department of Liquor Control -
Internal Control Matters,
68302-44901
Preliminary Inquiry Memorandum #15-003

Presentation to the Montgomery County
Council Ad Hoc Committee on Liquor Control,
March 6, 2015

December 12, 2014	Department of Housing and Community Affairs Housing Opportunities Commission Crossway Communities, Inc., Preliminary Inquiry Memorandum #15-002
December 12, 2014	Department of Housing and Community Affairs Housing Opportunities Commission Property Acquisition Preliminary Inquiry Memorandum #15-001
December 2, 2014	Housing Opportunities Commission Allegations of Misconduct by Certain Commissioners Report of Inspection: OIG Report #15-004
November 20, 2014	Department of General Services Preventive Maintenance and Compressed Natural Gas Inspections of Ride-On Buses Advisory Memorandum: OIG Report #15-003
October 27, 2014	Montgomery County Fire and Rescue Service - Sick Leave Usage Report of Inspection: OIG Report #15-002 Presentation to a Joint Session of the Montgomery County Council Government Operations & Fiscal Policy and Public Safety Committees, January 15, 2015
October 10, 2014	Department of General Services Implementation of Recommendations for Procurement and Payment Training Report of Follow-Up: OIG Report #15-001 Presentation to the Montgomery County Council Government Operations & Fiscal Policy Committee, March 12, 2015
September 30, 2014	Office of the Inspector General Fiscal Year 2014 Annual Report

Work Plan

The OIG's specific planned audits and investigations in FY15 and FY16 include:

FY 2015:

- Selected reviews of procurements and acquisition practices.
- Review of Risk Management.
- Analyses of selected financial and non-financial data.
- Selected administrative processes.

FY 2016:

- Selected payments, possible improper payments, and related controls.
- Selected contract awards and oversight.
- Analyses of selected financial and non-financial data.
- Selected administrative processes.

The OIG's FY14 – FY17 work plan is attached on circles 4-11.

Staffing Projection

The OIG submitted its four-year work plan to the Council in August 2013. The plan projects that the OIG will need at least 5 staff years to accomplish the tasks. The recommended budget includes that staffing.

Inspector General

MISSION STATEMENT

The mission of the Office of Inspector General (OIG) 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.

BUDGET OVERVIEW

The total recommended FY16 Operating Budget for the Office of Inspector General is \$784,041, an increase of \$26,995 or 3.6 percent from the FY15 Approved Budget of \$757,046. Personnel Costs comprise 94.3 percent of the budget for four full-time positions, and a total of five FTEs. Total FTEs may include seasonal or temporary positions and may also reflect workforce charged to or from other departments or funds. Operating Expenses account for the remaining 5.7 percent of the FY16 budget.

LINKAGE TO COUNTY RESULT AREAS

While this program area supports all eight of the County Result Areas, the following are emphasized:

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

DEPARTMENT PERFORMANCE MEASURES

Performance measures for this department are included below. The FY15 estimates reflect funding based on the FY15 approved budget. The FY16 and FY17 figures are performance targets based on the FY16 recommended budget and funding for comparable service levels in FY17.

Measure	Actual FY13	Actual FY14	Estimated FY15	Target FY16	Target FY17
Program Measures					
Percent of recommendations accepted	100%	86%	90%	90%	90%
Percent of complaints reviewed and action initiated within 5 business days	96%	100%	98%	98%	98%
Percent of initial inquiries (with no reports or memo) completed within 60 days	72%	85%	85%	85%	85%
Percent of Preliminary Inquiry Memorandums issued to management within 90 days	N/A	N/A	20%	50%	50%
Percent of audit/inspection/investigation reports completed within 180 days	50%	43%	25%	50%	50%

ACCOMPLISHMENTS AND INITIATIVES

- ❖ **The OIG will continue to use contracted Subject Matter Experts (SMEs) to assist in the conduct of specific audits and investigations. The OIG will only use SMEs in those areas where the technical issues are beyond the expertise of OIG staff. The specific subject matter expertise required and the related costs will depend on external circumstances that the OIG can neither predict nor control.**
- ❖ **The OIG will use data analytics to the fullest extent possible to identify management/internal control weaknesses or deficiencies of organizations and technology systems; to allow auditors to review 100 percent of available data rather than just a smaller statistical sample; and to detect "needles in a haystack" instances of fraud.**
- ❖ **In addition to addressing issues arising from complaints, the OIG will in FY 2016-2017 focus on acquisitions/procurements and ultimate accountability of the County government, Independent County agencies, and others receiving County funds.**

PROGRAM CONTACTS

Contact Ed Blansitt of the Office of Inspector General at 240.777.8241 or Crystal B. Sallee of the Office of Management and Budget at 240.777.2778 for more information regarding this department's operating budget.

PROGRAM DESCRIPTIONS

Inspector General

The Inspector General conducts independent audits, reviews, and investigations; receives and investigates credible complaints; reports possible violations of the law to law enforcement or another appropriate organization; 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 appropriate officials. The Inspector General periodically conducts projects jointly with other government agencies and contractors.

BUDGET SUMMARY

	Actual FY14	Budget FY15	Estimated FY15	Recommended FY16	% Chg Bud/Rec
COUNTY GENERAL FUND					
EXPENDITURES					
Salaries and Wages	544,608	569,225	584,091	614,713	8.0%
Employee Benefits	113,162	119,519	111,102	124,427	4.1%
County General Fund Personnel Costs	657,770	688,744	695,193	739,140	7.3%
Operating Expenses	132,252	68,302	69,678	44,901	-34.3%
Capital Outlay	0	0	0	0	—
County General Fund Expenditures	790,022	757,046	764,871	784,041	3.6%
PERSONNEL					
Full-Time	5	4	4	4	—
Part-Time	0	0	0	0	—
FTEs	5.00	5.00	5.00	5.00	—

FY16 RECOMMENDED CHANGES

	Expenditures	FTEs
COUNTY GENERAL FUND		
FY15 ORIGINAL APPROPRIATION	757,046	5.00
Other Adjustments (with no service impacts)		
Increase Cost: FY16 Compensation Adjustment	28,974	0.00
Increase Cost: Annualization of FY15 Personnel Costs	10,078	0.00
Increase Cost: Group Insurance Adjustment	1,164	0.00
Decrease Cost: Printing and Mail	-397	0.00
Decrease Cost: Retirement Adjustment	-521	0.00
Decrease Cost: Operating Expenses	-12,303	0.00
FY16 RECOMMENDED:	784,041	5.00

FUTURE FISCAL IMPACTS

Title	CE REC.					
	FY16	FY17	FY18	FY19	FY20	FY21
(5000's)						
This table is intended to present significant future fiscal impacts of the department's programs.						
COUNTY GENERAL FUND						
Expenditures						
FY16 Recommended	784	784	784	784	784	784
No inflation or compensation change is included in outyear projections.						
Labor Contracts	0	5	5	5	5	5
These figures represent the estimated annualized cost of general wage adjustments, service increments, and associated benefits.						
Subtotal Expenditures	784	789	789	789	789	789



Office of the Inspector General

**Fiscal Years 2014-2017
Work Plan
&
Projected Budget**

October 2013

A Message from the Inspector General

The Montgomery County Council appointed me to serve as the County Inspector General for the four-year term beginning July 1, 2013 and ending June 30, 2017. Montgomery County Code §2-151 requires the Inspector General to submit to the County Executive and Council a projected work plan and budget for the Office of the Inspector General (OIG) for the entire term.

This document presents an operating strategy, work plan, and projected budget for the period covered by my term. In developing the work plan, I have considered the views of key stakeholders with whom I met during my first term, including the County Executive, Council Members, County employees, individuals, and members of community organizations.

The work plan is detailed on pages 1-4. The projected budget needed to perform this work is presented on page 5. Contractor resources needed to support our recurring efforts are included in the budget as operating expenses.

I have also included OIG performance measures in this document. The measures are aligned with priorities described in the work plan and, when populated with performance results, will help communicate OIG activities and value to the County Council, Executive, and other key stakeholders through OIG annual reports.

Edward L. Blansitt
Inspector General
October 31, 2013

Office of the Inspector General Operating Strategy

Mission

Consistent with the goals, authority, and duties found in Montgomery County Code §2-151, the mission of the Office of the Inspector General (OIG) is to promote the integrity, 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 independent County agencies.

Vision

The OIG will contribute to the continued improvement of County government.

Objectives

The OIG will:

- deliver valuable products to serve the public and inform elected leaders and County decision-makers;
- serve as a catalyst for creation of positive changes throughout the County;
- establish effective working relationships with and earn the trust of our stakeholders; and
- address allegations or complaints raised by County leaders, employees and/or residents regarding a wide variety of issues and/or concerns.

FY 2014-2017 Work Plan

The OIG works to safeguard public resources. We provide an independent means for determining whether management actions are effective and are in compliance with all appropriate statutes, ordinances, and directives. We will address all complaints made to our office that involve County resources, County employees serving in their official capacities, and County activities.

Our work will address the following questions:

- Is the activity effective in accomplishing its stated goals/objectives?
- Is the activity efficiently using resources to accomplish objectives?
- Are costs reasonable and accurately reported?
- Is the activity in compliance with all applicable legal and policy requirements?

Internal OIG Management Initiatives

In addition to unanticipated issues arising from complaints, the OIG will focus on two areas: acquisitions and procurements, and accountability of County Government, independent County agencies, employees and others receiving Montgomery County funds.

Use data analytics to identify management/internal control weaknesses or deficiencies of organizations and technology systems.

To improve our ability to focus on the areas cited above, our intent is to use data analytics to the fullest extent possible in our future activities. The County's transition to Enterprise Resource Planning has increased availability of online databases, which presents significant opportunities for detecting waste, fraud, and abuse through rigorous analysis of data sets. Data analytics allow auditors to test 100 percent of available data rather than just a smaller statistical sample.

Because data analytics are designed to seek out anomalies, the tools are more appropriate for the detection of such "needles in a haystack" as fraud than are the more typically employed judgmental and statistical sampling methods. Such anomalies may also indicate errors that result from weak system controls and weaknesses in financial or management controls.

Investment in data analytics programs should, over time, be highly cost effective. Once data sets have been identified, put in proper form for analysis, and refined, analytic testing can be reapplied to data in future time periods to provide for continuous or repetitive monitoring of the activities of that program.

During FY 2012 and 2013, using contractor support, the OIG initiated two reviews based on development and use of data analytics tools. In order to reduce reliance on contractor support, all OIG staff members are being trained in the use of data analytics tools.

The progress of our reviews using data analytics has been slow - industry experience shows that the introduction of these programs can take years - but the return on investment can be significant. Proponents argue that data analytics represent the future of auditing.

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

As necessary and cost effective, we will supplement staff with qualified external subject matter expert contractors where specific expertise is required by OIG in order to address technical issues beyond the expertise of our staff. The specific subject matter expertise required and the related costs will depend on external circumstances that the OIG can neither predict nor control. Accordingly, while the one-time, non-recurring cost associated with acquisition of expertise for a major review was appropriated and is included in FY 2014, this cost is not included in amounts projected for FY 2015-2017.

Leverage resources

As appropriate, we will continue our efforts to make our reviews a partnership between our staff and the audited entity which will ultimately be charged with the task of implementing changes in response to our findings and recommendations. This approach will enhance our mutual understanding of the issues without sacrificing our independence or objectivity.

Work Plan Priorities

- Our highest priority in each year will be to promptly review each complaint that is received and respond to the complainant. Complaints will be evaluated to determine whether there are reasonable grounds to suspect waste, inefficiency, or a violation of policy or legal requirements.
- When OIG determines that sufficient suspicions exist, inquiries will be initiated to determine whether an investigation or audit should be initiated. Since investigations are normally time-sensitive they will receive the higher priority.
- When appropriate, OIG will refer complaints to management for appropriate review and action, or to a State or other appropriate law enforcement agency.
- Beginning in FY 2014, greater emphasis will be placed on review of audit and investigative recommendations made in prior-year OIG reports. These follow-up reviews will help ensure that recommendations made in OIG reports have been properly addressed and that effective improvements have been implemented.
- Specific planned audits conducted in each fiscal year will be selected based on time-sensitivity, vulnerability of organizations due to weak controls, and potential for enhanced efficiency and effectiveness of programs.

Specific Work Plans

The work planned for each year appears below. The specific reviews listed for FY 2014 are currently in progress. For each fiscal year, 2015-2017, cross-cutting issues are identified for review. In executing the work plan, we will attempt to ensure that the cross-cutting issues address the County government, as well as the independent County agencies for which the OIG has oversight responsibilities.

The work plan will be modified as necessary, to ensure that unanticipated or urgent issues arising during each period are promptly addressed.

FY 2014-2017:

Recurring Work plan activities:

- Preliminary inquiries related to complaints received by the OIG.
- Referrals to management or law enforcement agencies of complaints received by the OIG.
- Follow-up on select audit recommendations made in prior-year OIG reports.

Specific planned audits and investigations:

FY 2014:

- Reviews of the Department of Liquor Control.
- Review of project controls for the construction of the Silver Spring transit center.
- Review of the Montgomery County Public Schools acquisition of interactive whiteboard technology.
- Review of selected Department of Permitting Services data.

FY 2015:

- Selected reviews of procurements and acquisition practices.
- Review of Risk Management.
- Analyses of selected financial and non-financial data.
- Selected administrative processes.

FY 2016:

- Selected payments, possible improper payments, and related controls.
- Selected contract awards and oversight.
- Analyses of selected financial and non-financial data.
- Selected administrative processes.

FY 2017:

- Selected reviews of housing and social programs.
- Implementation of technology initiatives.
- Analyses of selected financial and non-financial data.
- Selected administrative processes.

FY 2014-2017 Projected Office of the Inspector General Budget

For FY 2014, five positions, supplemented by contract audit support, were authorized in the OIG Budget. As of the beginning of FY 2014, the personnel complement consisted of four full-time staff members, including the Inspector General and Deputy Inspector General, and three part-time investigators whose combined work hours constitute the equivalent of one full-time work-year.

To ensure quality work, accurately capture the essence of interviews, and protect the integrity of OIG processes, staff members are normally able to work effectively on no more than two projects simultaneously.

The projected operating budget, displayed in the table below, presents those resources necessary to support this OIG work plan. Contractor resources used to support our efforts are included in the budget as operating expenses.

This budget projects a reduction in total funding between FY 2014 and FY 2015. That reduction is associated with the one-time operating expense appropriated to the OIG for support on the OIG review of the Silver Spring transit center. The FY 2015 increase in personnel cost reflects the mandatory cost increases projected by the County Office of Management and Budget. No increase in either total funding or the number of full-time positions is projected at this time for fiscal years 2015-2017. However, specific subject matter expertise and additional staff may be required, and related funding may be requested as those needs arise and are recognized.

*Office of the Inspector General
Projected Budget*

Fiscal Year	Total Work Years	Personnel	Operating Expenses	Total	Increase over Prior FY
2014 Approved	5.0	\$662,000	\$168,100	\$830,100	N/A
Each year, 2015-2017	5.0	\$672,500	\$68,100	\$740,600	-10.8%

Performance Measures

The OIG work plan places our priorities on responding to issues raised by stakeholders and investigating matters of concern. The OIG proposes to include the performance measures identified below in the budget requests and to report related results during fiscal years 2015-2017.

OIG Performance Measures
<p>Outcomes:</p> <ul style="list-style-type: none">• Results of annual survey will indicate improved stakeholders' views of the OIG.
<p>Service Quality:</p> <ul style="list-style-type: none">• Percent of complaints reviewed and corresponding decisions made within 5 business days.• Percent of inquiries completed within 60 days.• Percent of complaints resolved within 90 days.• Percent of audits/inspection/investigation reports completed within 6 months.• Percent of recommendations implemented.

The Office of the Inspector General invites the County Council, County Executive, and other key stakeholders to provide comments to (ig@montgomerycountymd.gov)

