

MEMORANDUM

September 15, 2015

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 September 17th, the Audit Committee will receive a briefing from the Office of the Inspector General and from the Office of Internal Audit about each office's 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
2	An update from the Office of Internal Audit <ul style="list-style-type: none">• Fariba Kassiri, ACAO• William Broglie, Manager, Internal Audit	©61

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's handout, attached beginning at ©1, summarizes highlights from the *Inspector General's Annual Report for Fiscal Year 2015 & Mid Term Report of Activities for the two fiscal years ended June 30, 2015*. This document is attached beginning at ©11 and also at <http://www.montgomerycountymd.gov/OIG/igproduct.html>. Of note,

- The IG has made the evaluation and appropriate response to complaints a priority. The synopsis of 40 preliminary inquiries, referrals and reports in the IG's Annual Report covers 13 County Government departments and two agencies. The list of work efforts (at ©16-17) shows the breadth of oversight provided by the OIG hotline and complaint process.
- The IG states that his Office will use resources provided by the Council to work with MCPS and Board of Education Officials to provide appropriate levels of oversight. The Audit Committee previously discussed MCPS oversight with the IG last October and may want to ask the IG to elaborate on his plans.

ITEM #2: UPDATE FROM THE OFFICE OF INTERNAL AUDIT

The Assistant Chief Administrative Officer, Fariba Kassiri, will update the Committee on the activities of the Office of Internal Audit. Mr. Broglie, the new Manager of Internal Audit, provided a summary of the Office's audit activities, attached beginning at ©61. He and Ms. Kassiri will be available to answer questions. Of note,

- MCIA has released six reports since they were last before the Audit Committee in October 2014: (Contract and Grant Monitoring by DHCA; Follow-up Audit of the 2009 Treasury Risk Assessment, Cash Receipts Informational Questionnaire, Audit of Montgomery County Conference Center, Montgomery County Police Department Cash Receipts Internal Controls, Audit of Wage Requirements Law Compliance – Unity Disposal & Recycling, LLC). See the MCIA website (http://www.montgomerycountymd.gov/exec/internal_audit.html) for copies of these reports.
- MCIA has six ongoing reviews. Four of these reports, including two more wage requirement law compliance audits, a CIP personnel cost allocation assessment and a Water Quality Protection Charge Program Assessment, are expected to be issued by October 2015. Tasks for the other two items – an Internal Control Review of Transfer Station Cashier Operations and a Risk Assessment to generate a new risk based multi-year audit plan – were just awarded.
- There is one planned new review for FY2016, a Program Assessment of Community Use of Public Facilities. An award for this task is expected by the end of September.

Inspector General Update – September 2015

Presented to the Montgomery County Council Audit
Committee

September 17, 2015

OFFICE OF THE INSPECTOR GENERAL

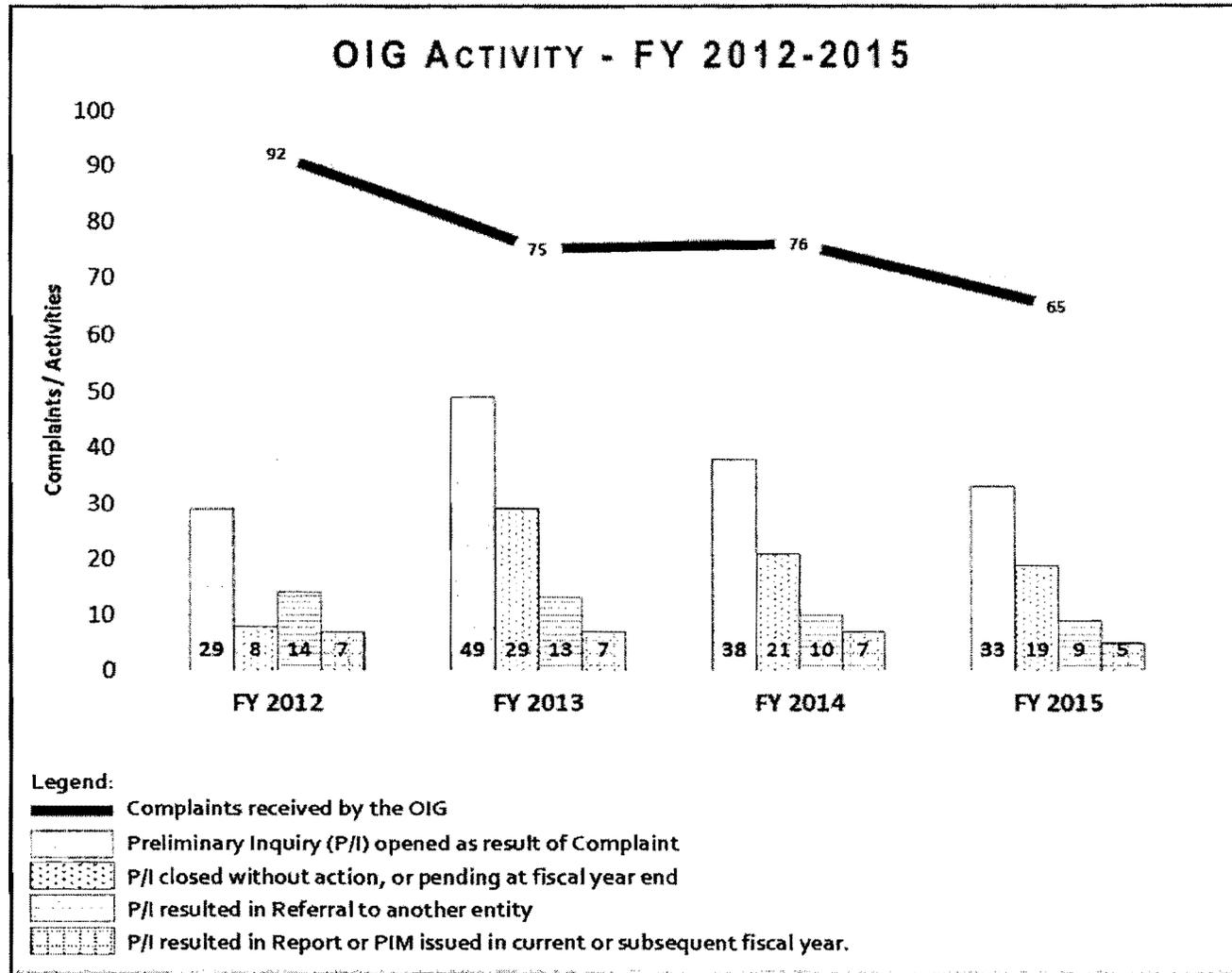
Areas of Discussion:

- FY 2015 Annual Report & Mid-term Report of Activity for the two fiscal years ended June 30, 2015
- FY 2016 Reports In Progress
- FY 2016 Work Plan
- Peer Review of OIG by Association of Inspectors General
- Audit of OIG Invoices by Department of Finance
- OIG Resources in Context

Inspector General Update to Council Audit Committee - September 2015

Percentages of :	Goal	2014 Actual	2015 Actual
incident reports reviewed and action initiated within 5 business days:	90%	100%	94%
inquiries completed within 60 days:	70%	92%	86%
incident reports resolved or referred to management within 90 days:	70%	96%	95%
audit/inspection/investigation reports completed within 6 months:	50%	29%	55%
audit/inspection/ investigation recommendations accepted:	67%	90%	93%

Inspector General Update to Council Audit Committee - September 2015



OIG Activity

During FY 2015 we initiated the practice of issuing Preliminary Inquiry Memorandums (PIMs) when appropriate.

July 1, 2013 to June 30, 2015:

--received 141 complaints

--opened 71 Preliminary Inquiries.

--issued 31 reports (including PIMs) and referrals.

--five audits, investigations, inquiries, or referrals in progress as of June 30, 2015.

--completed and made publicly available eighteen reports and PIMs which are summarized in the annual report by organization;

Reports issued, referrals made, and inquiries closed during FY 2014-15 may have originated from complaints dating from FY 2013 or earlier

FY 2016 Reports in Progress

Work items:

- **21 new incident reports between July 1 –Aug. 31-2015.**
 - **11 found initially credible, deserving at least some preliminary inquiry;**
 - **5 were reviewed and referred of which 1 is completed;**
 - **6 were in progress as of August 31, 2015.**
- **Draft Reports of Purchase Cards and Small Purchase Policies and Procedures of Montgomery County Government and Independent County Agencies are in process.**

FY 2016 Work Plan:

Recurring annual 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 reviews: increased dialogue with and attention to MCPS and independent county agencies as appropriate.

- Reviews of selected procurements and acquisition practices; contracts/oversight.
- Review of social program operations
- Analyses of selected financial and non-financial data.
- Reviews of selected administrative processes.

Inspector General Update to Council Audit Committee - September 2015

Peer Review of OIG by Association of Inspectors General

- Code of Montgomery County Sec. 2-151. Inspector General specifies that: "In each project of the Office, the Inspector General should uphold the objective of complying with applicable generally accepted government auditing standards".
- These standards require independent peer review of OIG every 3 years.
- The Association of Inspectors General will conduct the Peer review during the week of September 27, 2015.
- A signed final report will be provided within thirty (30) days following the review reflecting our compliance or non-compliance with the standards.

Audit of OIG Invoices by Department of Finance

1. Incorrect invoice numbers put in system
2. Payment made from a quote/pro forma invoice as opposed to an official invoice

OIG Resources in Context

	Professional FTE
County Government Internal Audit*	1
County Public Schools	4
Housing Opportunities Commission	1
MD-Nat. Cap. Park & Planning Comm	5
Wash. Suburban Sanitary Commission	6
Subtotal Internal Audit Activities	17
Inspector General**	7
	24

* supplemented by Contract auditors

** supplemented by non-auditor SMEs

Supplemented by external financial statement
and A-133 audits; some state audits

**Inspector General's
Annual Report**

for Fiscal Year 2015

&

**Mid-Term
Report of Activity**

*for the two Fiscal Years ended
June 30, 2015*

July 2015

Montgomery County Maryland
Office of the Inspector General





A Message from the Inspector General

Montgomery County Code §2-151 requires the Inspector General to report annually on the activities of the Office of the Inspector General and its major findings and recommendations during the previous fiscal year. This report satisfies that requirement.

County Code also establishes a four-year term for the Inspector General. June 30, 2015 marks the mid-point of my four-year term. This report describes the Office of the Inspector General's accomplishments relative to the work plan we implemented during FY 2014 and 2015, as well as our opportunities and directions.

Our Challenges:

County Code charges the Office of the Inspector General (OIG) with goals and responsibilities for reviewing the activities of County government, independent County agencies, and County-funded agencies¹.

Per County Code, "independent County agency" means:

- (1) the County Board of Education and the County school system;
- (2) The Maryland-National Capital Park and Planning Commission;
- (3) the Washington Suburban Sanitary Commission;
- (4) Montgomery College;
- (5) the Housing Opportunities Commission;
- (6) the County Revenue Authority; and
- (7) any other governmental agency (except a municipal government or a state-created special taxing district) for which the County Council appropriates or approves funding, sets tax rates, makes levies, or approves programs or budgets.

¹ The goals of the Inspector General are to:

- (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; and
- (3) propose ways to increase the legal, fiscal, and ethical accountability of County government departments and County-funded agencies.

Although the County Code assigns these responsibilities to the Inspector General, the timely access to data and information related to independent County agency and County-funded programs/activities has evidently been a significant challenge to some Inspector General activities in past fiscal years. However, in our current, ongoing review of purchase cards and small purchases policies and procedures of all the County independent agencies, we are receiving cooperation from each agency.²

In addition to OIG oversight, independent County agencies including Maryland-National Capital Park and Planning Commission; Housing Opportunities Commission (HOC); and Washington Suburban Sanitary Commission have independent internal audit groups of from one (HOC) to five or more staff members who conduct investigations and audits of operations and finances. County departments are subject to reviews by the County Executive's Internal Auditor. Montgomery County Public Schools (MCPS) has an internal auditor devoted to oversight of its independent activity funds.

The County Council has responded to the calls for stronger MCPS oversight by providing additional staffing resources to the OIG, while recognizing that these resources are available to be used at the OIG's discretion. These resources will make it possible for our office to work with MCPS and Board of Education Officials to provide appropriate levels of oversight and I intend to employ them in that manner.

Our Impact:

While we endeavor to increase accountability and efficiency in each project we undertake, much of our work has a direct, observable impact on County operations, County residents, or employees. Examples follow.

1. *Crossway Community, Inc.* (December 2014) detailed resident allegations of mistreatment in a County-owned housing complex offering federally-supported housing, day care, and education benefits to low and moderate income, one-parent families. The complex is managed by a nonprofit which contracted with the Department of Housing and Community Affairs. Following our inquiry, the Housing Opportunities Commission (HOC) revoked the federal voucher subsidies associated with the property for violations of federal regulations. HOC then assisted individual residents in retaining their housing subsidies while relocating from the facility.
2. *Sick Leave Usage* (October 2014) described a pattern of sick leave abuse by retiring members of the Montgomery County Fire and Rescue Service (MCFRS). We found multiple instances

² On July 10, 2006 the office of the Attorney General of Maryland issued an opinion concluding that the county may authorize the inspector general to audit the board of education's financial transactions and accounts, but may not require the board to submit to a performance audit by the inspector general without the board's assent. If the board and county cannot agree on such an audit by the inspector general, and the county desires to have the benefit of a performance audit, it may request that Maryland State Department of Education (MSDE) contract for a performance audit of the county school system. Also, effective October 1, 2009, State law regarding the Washington Suburban Sanitary Commission (WSSC) was amended, authorizing the County Council or its duly authorized agents to audit and examine the books and records of the WSSC. The amendment clarifies the authority of the OIG under MCC 2-151. This amendment was introduced, at least in part, in response to a March 2008 OIG memorandum regarding WSSC's refusal to provide requested expenditure data to the OIG.

where upper management approved long periods of sick leave without requiring medical certification for employees who were close to retirement. The County Chief Administrative Officer stated that the County will take all necessary steps to ensure that MCFRS managers are held accountable for enforcing sick leave rules.

3. *Allegations of Misconduct by Certain Commissioners of the Montgomery Housing Opportunities Commission* (December 2014) detailed conflict of interest issues that arose for two HOC Commissioners. The OIG conducted this inquiry in partnership with the Montgomery County Ethics Commission. Both HOC Commissioners resigned while the Ethics Commission and OIG were looking into these matters. HOC agreed to provide ethics orientation and occasional refresher training to its Commissioners.
4. *Bethesda Cultural Alliance* (March 2014) contained recommendations to amend the laws and policies regarding the analyses required when considering Economic Development Fund grants. In submitting a proposed regulation to the Council on October 2, 2014, the County Executive wrote, "The proposed regulation amends and replaces Executive Regulation 47-95, which must be amended to address ... recommendations made by the Office of the Inspector General Report 14-005." The Council approved the proposed regulation. In addition, resolutions regarding Maryland Economic Development Assistance Authority and Fund (MEDAAF) financing that the County Executive proposed to the Council since our report, and that the Council approved, now provide clearer and more complete information about MEDAAF grant and loan requirements.
5. Our report on *One-Day Alcoholic Beverage Licenses* (May 2014) contained recommendations that the Department of Liquor Control (DLC) align its one-day license practices with the law and improve DLC's internal controls. On March 5, 2015, the Board of License Commissioners addressed one of our recommendations by adopting a motion permitting the Chief of Licensure, Regulation and Education to provide tentative approval of one-day licenses in certain circumstances. In addition, DLC asserts that it took several steps, such as numbering all licenses, securing checks received, and making daily deposits, in response to our recommendations.
6. *Water Quality Protection Charge* (February 2015) noted ambiguities in the regulations governing this program. Submitting a proposed amended regulation to the Council on March 24, 2015, the County Executive wrote, "This amended regulation... makes a number of technical and clarifying changes to current regulations governing the WQPC program to address issues outlined in a recent Preliminary Inquiry Memorandum (Memorandum) issued by the Office of the Inspector General (OIG) regarding the WQPC program." Executive Regulation 16-14AM was approved by the County Council, effective March 31, 2015.

Summary:

The activities identified in this report evidence the value of this office in furthering the County's efforts to ensure integrity and effective and efficient use of County resources. I recognize and appreciate the significant assistance and support provided to this office by Council members, the County Executive, other elected and appointed County leaders, and their staffs during this two-year period.

Respectfully submitted,



Edward L. Blansitt III
Inspector General

**Inspector General's Annual Report for Fiscal Year 2015
& Mid-Term Report of Activity
for the two Fiscal Years ended June 30, 2015**

July 2015

Montgomery County Maryland Office of the Inspector General

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**Inspector General's Annual Report for Fiscal Year 2015
& Mid-Term Report of Activity
for the two Fiscal Years ended June 30, 2015**

July 2015

Montgomery County Maryland Office of the Inspector General

Implementation of Work Plan:

Consistent with our FY 2014-2017 work plan, we have made evaluating and appropriately responding to complaints our highest priority. Accordingly, much of our work has focused on inquiries related to the complaints received by the OIG. In order to more quickly bring important issues to the attention of management, the County Executive, and the County Council, during FY 2015 we initiated the practice of issuing Preliminary Inquiry Memorandums (PIMs) when appropriate³. In many other cases, after conducting a sufficient level of inquiry, we made referrals to management to ensure legitimate concerns were addressed.

During the two-year period ended June 30, 2015, we conducted one follow-up review, finding that important and potentially cost-effective IG recommendations issued and accepted by management in 2011 had not been implemented. We also completed most of the significant planned audit activities identified in the FY 2014 section of our work plan. However, we deferred the planned review of procurement and acquisition practices identified in the FY 2015 section of our work plan in order to address complaints and complete other work in progress. We plan to make this review a priority during FY 2016.

Accomplishments in the First Half of My Term:

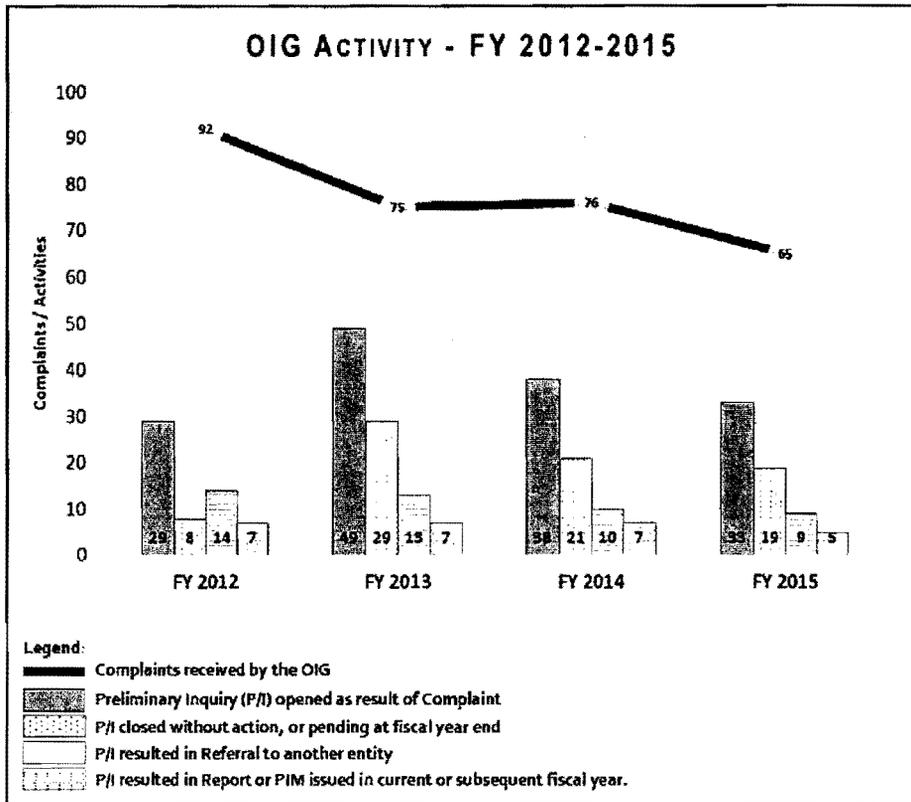
During the two-year period, the OIG completed the following efforts that I believe had significant positive effects:

- Between July 1, 2013 and June 30, 2015, we received 141 complaints from which we opened 71 Preliminary Inquiries. From these, we issued 31 reports (including PIMs) and referrals. Five audits, investigations, inquiries, or referrals continued in progress as of June 30, 2015.
- We completed and made publicly available eighteen reports and PIMs⁴ which are summarized in this report by organization;

³ A Preliminary Inquiry Memorandum (PIM) is appropriate in situations where we have, in reaction to a complaint, gathered and assessed sufficient information for us to draw limited conclusions related to the specific complaint. Since PIMs do not result from full inspections, investigations, or audits, it would not be appropriate for us to provide full findings and recommendations in PIMs. Instead, we may identify specific conditions, transactions, and events that management may want to continue to research from an investigative or policy standpoint.

⁴ Reports issued, referrals made, and inquiries closed during FY 2014-15 may have originated from complaints dating from FY 2013 or earlier.

- We consulted with County management on several issues that did not result in the issuance of a publicly released report;
- We completed many additional significant inquiries and referrals to the County and County-funded agencies, twenty of which⁵ are summarized in this report by organization and completion date.



The annual number of complaints decreased from 92 during my first full year of County service to 65 in the fiscal year just ended. There are two contributors to this decrease. First, FY 2012 was the last year the OIG outsourced its hotline. We found that the hotline service provider documented and submitted many items that did not rise to the level of a complaint. Second, as the institutional knowledge of OIG staff has grown, certain items are now addressed during the intake interview rather than being recorded as a complaint.

Beginning in FY 2013, an average of 55% of complaints were opened as Preliminary Inquiries and thus benefited from additional research by staff. On average, 43% of those inquiries resulted in the issuance of a report, a Preliminary Inquiry Memorandum (PIM), or a referral to be addressed by management or another entity.

⁵ *Ibid.*

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OIG Resources During This Period:

This is a very high level of quality output from an Office of the Inspector General that has held steady at five FTEs and roughly \$817,000 of expenditures per year (and under \$700,000 per year for my 4 years to date.).

OIG Resources		Budget	Expenditures	Unexpended	FTE
FY 2014	Personnel	666,860	657,770	9,090	5
	Operating (see note)	168,095	92,129	75,966	
	Appropriation	834,955	749,899	85,056	
	PY Encumbrance	175,000	175,000	0	
	Total Resources	1,009,955	924,899	85,056	
FY 2015	Personnel	696,569	689,390	7,179	5
	Operating	68,302	20,067	48,235	
	Appropriation	764,871	709,457	55,414	
	PY Encumbrance	1,616	1,616	0	
	Total Resources	766,487	711,073	55,414	
FY 14-15 Total Resources		1,776,442	1,635,972	140,470	5

Note: FY 2014 Unexpended Operating Funds contains a \$40,000 encumbrance for a Subject Matter Expert (SME) to assist with our continuing investigations into the Silver Spring Transit Center.

This level of funding permitted our five FTEs to satisfactorily address significant resident concerns and at the same time complete significant studies of operations like the Department of Liquor Control and the Silver Spring Transit Center. We are also proud that through careful management of resources, we have minimized costs and preserved an average unexpended balance of over \$70,000 each year.

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Measures of Our Two-Year Performance:

We continue to place a high priority on timely investigation of matters and responding to stakeholders as to those matters. In FY 2015, the measures of OIG performance showed continued high marks in those key areas with modest dips in timing. The measure of timely completion (inquiries completed within 60 days and incident reports resolved within 90 days) declined somewhat, largely due to the need to divert staff resources to give priority attention to more complex issues such as the Silver Spring Transit Center. The percent of reports completed within 6 months rose, however, due largely to the establishment of PIMs as reporting vehicles.

Performance Measures	Goal	2014 Actual	2015 Actual
Percent of incident reports reviewed and action initiated within 5 business days:	90%	100%	94%
Percent of inquiries completed within 60 days:	70%	92%	86%
Percent of incident reports resolved or referred to management within 90 days:	70%	96%	95%
Percent of audit/inspection/investigation reports completed within 6 months:	50%	29%	55%
Percentage of audit/inspection/ investigation recommendations accepted:	67%	90%	93%

Fulfillment of Our Statutory Goals:

Section 2-151 of the Code of Montgomery County establishes goals for the Inspector General to:

- review 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 departments and County-funded agencies.

During this period, the OIG has undertaken the following in furtherance of these goals.

Enhance effectiveness & efficiency (and economy) of operations:

It is not possible to estimate a realistic dollar value associated with the costs avoided and funds put to better use due to more effective and efficient operations. However, between July 1, 2013 and June 30, 2015, the OIG completed and issued the following reports intended either to ensure that taxpayer funds were used economically or to increase the effectiveness, efficiency, and economy of the operation of government services within the County.

- *Review of Montgomery County Public Schools' Acquisition of Promethean Interactive Classroom Technology* (November 2013)
- *Implementation of Recommendations for Procurement and Payment Training* (October 2014)
- *Preventive Maintenance and Compressed Natural Gas Inspections of Ride-On Buses* (November 2014)

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- *Preliminary Inquiry Memorandum: Department of Housing and Community Affairs/Housing Opportunities Commission Property Acquisition* (December 2014)
- *Preliminary Inquiry Memorandum: Water Quality Protection Charge* (February 2015)
- *Department of Liquor Control Warehouse Inventory Management from Product Receipt through Delivery* (February 2015).

Increase legal fiscal and ethical accountability:

During this term, the OIG completed the following reports intended to result in improved legal, fiscal, and ethical accountability within County departments and independent agencies:

- *Montgomery County Office of Consumer Protection* (July 2013).
- *Allegations of Misconduct by Certain Commissioners of the Montgomery County Housing Opportunities Commission* (December 2014)
- *Preliminary Inquiry Memorandum: Department of Housing and Community Affairs/Housing Opportunities Commission Crossway Community, Inc.* (December 2014)
- *Advisory Memorandum: Montgomery County Employee Leave Balances* (March 2014)
- *One-Day Alcoholic Beverage Licenses* (May 2014)
- *Preliminary Inquiry Memorandum: Department of Liquor Control, Compliance Money* (January 2015)
- *Preliminary Inquiry Memorandum: Renters Alliance* (May 2015).

Prevent & detect fraud, waste, and abuse:

Between June 1, 2013 and June 30, 2015, the OIG completed the following reports regarding the prevention and detection of fraud, waste, and abuse of County resources:

- *Montgomery County Department of Liquor Control—Review of Management Controls Over Inspectors* (January 2014).
- *Bethesda Cultural Alliance* (March 2014)
- *Project Management Deficiencies in Constructing the Paul S. Sarbanes Silver Spring Transit Center* (April 2014)
- *Sick Leave Usage Montgomery County Fire and Rescue Service* (October 2014)
- *Preliminary Inquiry Memorandum: Department of Liquor Control – Internal Control Matters* (December 2014).

Organizational Improvements:

Initiatives implemented during the two fiscal years include:

- a follow-up survey of Montgomery County employee attitudes toward the Office of Inspector General;
- creation of an Office Policy Manual that identifies generally accepted policies and practices as well as those that are unique to the Montgomery County Maryland Office of the Inspector General;
- performance of an internal quality control review of our office; and scheduling of a Peer review;

- implementation of an 8-week, volunteer summer legal intern program for the OIG which has employed seven students entering their second years at Georgetown and George Washington University law schools and the University of Baltimore School of Law;
- implementation of the Preliminary Inquiry Memorandum protocol as a mechanism for more quickly developing and distributing information to County leaders; and
- continuation of regular meetings of the OIG Advisory Group.

Significant Work in Progress:

The most significant on-going non-complaint driven effort in progress is our review of Credit Cards and Small Purchases Policies and Procedures of the County government and of each entity for which we have oversight responsibilities. Although much of the information has been collected, brief reports addressing each entity are being developed and will be shared with the entities before the final overview report is developed and issued. A number of unanticipated interruptions have delayed completion of the work. However, I hope to develop the reports more quickly as we commence the new fiscal year. Analysis of selected credit card data is also in progress.

Outreach:

During fiscal years 2014 and 2015, we participated as speakers and/or panelists at conferences of professional associations such as the Association of Government Accountants, the Maryland Association of CPAs, the Government Finance Officers Association, the Greater Washington Society of CPA's, professional groups such as the Federal Audit Advisory Council, and local groups such as Church groups.

We have also continued to meet with our Inspector General Advisory Group of county residents. During the last year we lost two members of this group. One member resigned from our group to become an Assistant Chief Administrative Officer for the Montgomery County Government and another was unable to continue as a member due to increasing personal and professional workload demands. The four current members of the group have completed their third full-year terms of service.

Going Forward:

Although the significance of the concerns identified in the complaints we received over the past two fiscal years has allowed the OIG to identify and address many important issues not specified in the Work Plan, the effort required to address those complaints consumed a significant portion of the resources available to this Office. Accordingly, it was necessary to defer certain Fiscal Year 2014 - 2015 Work Plan activities.

Council's commitment of additional resources to the OIG for FY 2016 should permit us to complete those activities identified in our Work Plan. These activities will address the County government as well as MCPS and the other entities for which we have responsibilities.

Summary of Significant Work Efforts by Organization

Montgomery County Government Departments

Department of Economic Development

Report: Bethesda Cultural Alliance

OIG Report # 14-005 (March 2014)

Background:

The OIG received a complaint regarding a County Economic Development Fund (EDF) grant of approximately \$1.8 million that had been made to the Bethesda Cultural Alliance (BCA) in 2006 for the purpose of renovating the Bethesda Theatre. Theatre productions had ceased temporarily after the theatre had been operating for only six months, and they ceased permanently approximately two years later. The theatre never became viable during the time BCA owned it. In early 2010, BCA closed the theatre and defaulted on its mortgage, resulting in an economic loss to the County.

Key Points in the OIG Report:

We found that the regulation governing the analyses of EDF applicants' financial viability lacked specificity, and its intent was unclear. County Regulation 20.73.01.05 requires that: "An economic benefit analysis and/or pro-forma analysis will be completed for all awards above \$100,000, the cost of which will be charged to the Fund. The economic benefit analysis will be used when the business prospect can clearly demonstrate its ability and commitment to perform on its proposed project. The pro-forma analysis will be completed for projects which require due diligence by the County to determine feasibility. This could include analysis of the project's financial feasibility by examining revenues and costs, appropriate market analysis, profit and loss projections, current and projected balance sheets and return on investment."

We felt that this Regulation is weak in several ways. Specifically, the terms "economic benefit analysis," "pro-forma analysis," and "business prospect" are neither defined nor described. The regulation states what a pro-forma analysis could contain, but it does not state what it must, at a minimum, contain. The regulation does not state who should prepare and review the analysis; this could be completed by Department of Economic Development (DED), the Department of Finance, or an outside expert. The regulation does not require that the economic benefit analysis or pro-forma analysis be provided to the Council.

We found that Council's consideration of the County EDF grant was based on information containing an incorrectly applied multiplier. A multiplier indicates the difference between the initial effect of a change and the total effects of that change. DED multiplied the direct effect by the multiplier to determine the indirect effect, instead of the total effect. DED then added this incorrectly large indirect effect (which was actually the total effect) to the direct effect and, as a result, calculated a total that was incorrectly large. This misapplication of the multiplier resulted in an approximately two-fold overstatement of the indirect benefit to the County economy: instead of being approximately \$13 million, the correct calculation yields a figure of \$6.5 million.

We also found that information provided to the Council regarding the Maryland Economic Development Assistance Authority and Fund (MEDAAF) grant for the theatre did not disclose (a) that the County would be the MEDAAF grant recipient, (b) that the County could be obligated to repay the State, or (c) other terms of the MEDAAF grant affecting the County.

At least six documents provided to the Council mentioned the grant recipient as "the Bethesda Theatre" and/or the "Nederlander Project," leading the Council and the public to believe that the grant was directly to the company, not to the County. The MEDAAF grant agreement, signed approximately two months after the Council endorsement of the grant, stated that the County was obligated if BCA defaulted on any indebtedness, but the Council was not informed that would be the case. As a result of not being told all the relevant facts, the County Council was not informed that the County could be obligated to provide not only the EDF financing, but also a repayment of the State financing, for a total of approximately \$2.6 million.

Key Points in the County Chief Administrative Officer's Response:

The CAO indicated that the following actions would be taken in response to our recommendations:

- By amending the Executive Regulation governing the EDF, the recommended clarifications/changes regarding the financial analyses of proposed EDF projects will be made.
- Directors of DED and the Department of Finance will ensure that all future EDF transactions involving "Economic Impact Analysis" using multipliers will be reviewed by outside experts for applicability and accuracy.
- DED will work with the State Attorney General's Office to modify the MEDAAF Resolution document, to clearly convey to the County Council the recommended information.

Key Outcomes:

The County Executive submitted proposed Executive Regulation 09-14 to the Council on July 16, 2014. The County Executive's cover memo stated that the proposed regulation addresses changes in the EDF law made in 2012 and recommendations made by the OIG report. We recently evaluated the County's measures taken in response to our recommendations. In many cases, the County eliminated requirements that were unclear. In other cases, the County implemented our recommendations.

Department of Environmental Protection

Preliminary Inquiry Memorandum: Water Quality Protection Charge

OIG PIM # 15-005 (February 2015)

Complaint Summary: In September 2014, the OIG received a complaint asserting that the Montgomery County Department of Environmental Protection (DEP) failed to respond to the complainant's request for reconsideration and correction of Water Quality Protection Charges (WQPC) assessed on the Complainant's properties. Later that day, the Complainant expanded the scope of his complaint with the assertion that wide-spread classification and assessment errors existed within the DEP's WQPC system. The Complainant presented eight properties as evidence of his assertions. Two of these properties were Complainant-owned.

Outcome: We tested the WQPC assessments on a non-random, non-statistical sample of 36 property tracts. The sample included the 8 properties cited by the complainant. Of the 36 property tracts reviewed, 11 (30%) appeared to correctly observe the classification and assessment guidelines set forth in the Code of Montgomery County Regulations (COMCOR). Within the remaining 25 property tracts in our sample, we observed 29 instances where it appeared that the classification or assessment was not consistent with Maryland Code, County Code, or COMCOR.

We reviewed each issue and discussed the information collected with DEP management. Our review of the sample properties suggests a large number of issues and ambiguities that could reasonably lead property owners to question the overall accuracy and fairness of the program. Management should consider undertaking a comprehensive review of these matters. We have seen evidence that the DEP has worked to address some of the issues raised within this memorandum and have been told that others are being addressed.

Department of Finance

Referral: Fraudulent disability claim

OIG-13-045 (June 2013)

Complaint Summary: Complainant reported that a Montgomery County firefighter has been on disability leave for several years due to an alleged injury to his back and told some friends he was waiting for full disability. The complainant does not believe the firefighter is disabled because the complainant viewed (and sent to the OIG) a You-Tube video of the firefighter vigorously dancing and lowering himself to his knees. In addition, the firefighter has a motorcycle which he rode to Philadelphia and Atlanta.

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Outcome: The OIG referred this matter to the Division of Risk Management, which advised the OIG that although the firefighter had been granted full disability, the County would conduct an investigation into the allegation. Subsequently, the County brought the firefighter's disability claim before the Worker's Compensation Commission (WCC). The County filed issues for consideration of betterment for this claimant. Through an error at the WCC, there was confusion at the hearing and the Commissioner dismissed the claimant from the proceeding before the County's attorney could stop the proceeding. The County subsequently decided to withdraw its issues, because the County is currently receiving an offset through the retirement program that is larger than the amount it would have to pay. For that reason, no worker's compensation payments are being generated to the firefighter at this point in time.

The County has stated that it will again file for betterment if it has substantiating evidence and the firefighter begins to receive disability retirement payments.

Referral: Property tax credits

OIG-14-009 (August 2013)

Complaint Summary: A complainant sent the OIG a list of 31 properties whose owners, the complainant believed, were improperly receiving property tax credits. These properties were recorded in the records of the State Department of Assessments and Taxation (SDAT) as Principal Residences, indicating that they were owner occupied, but the complainant found them listed for rent on the real estate multiple listing service (MLS). A property coded as a Principal Residence can qualify for the Homestead Property Tax Credit, which limits property tax increases when assessments rise more than 10%, and the Income Tax Offset Credit (ITOC). The complainant estimated that the County was losing \$21,452 per year on the ITOC on just these 31 properties.

Outcome: The OIG referred the matter to the Montgomery County Department of Finance (DOF). The DOF advised the OIG that they use MLS data and other databases to research whether properties are incorrectly coded in SDAT's system as Principal Residences. When SDAT gives DOF the approval to do so, they send verification letters to the property owners on behalf of SDAT. These letters state that proof of principal residency must be provided to SDAT within 30 days, or the property will be coded as not a Principal Residence. The DOF was in the process of sending these letters out to over 3,000 properties, including some of the 31 the Complainant had provided. DOF indicated that they would include other properties from that group of 31 that were incorrectly coded in its next update to SDAT. When the SDAT records are revised, SDAT provides DOF with a file for revised property tax bills to collect the ITOC from each non-compliant account.

Advisory Memorandum: Montgomery County Employee Leave Balances

OIG Report # 14-004 (March 2014)

Background:

The OIG received a complaint from a Montgomery County employee alleging that .01 hours of annual leave that was reported on the employee's pay stub as credited to the leave balance was not actually credited, and a similar issue with the crediting of earned hours to the sick leave balance.

Montgomery County Personnel Regulations (MCPR) outlines the amount of annual and sick leave to be earned by County employees. We analyzed leave accruals for 2 County employees within their first 3 years of County service. Based on the MCPR, both employees should have earned annual and sick leave at the rate of 120 hours per year. Thus, employees in their first 3 years of service should earn .05769230769 hours of both sick and annual leave for each hour worked, resulting in a full-time employee earning 4.61538461538 hours in each leave category per pay period.

Key Points in the OIG Report:

We found that on the paystubs of the two sampled employees, the annual and sick leave balance periodically increased by 4.60 hours even though their pay stubs indicated that 4.61 hours had been earned. Additionally, the 4.61 hours stated as earned was slightly less than what the MCPR provides. According to the earned leave column on paystubs, employees in their first 3 years of service are granted 4.61 hours of both annual and sick leave, resulting in 119.86 hours earned per year, which is less than the 120 hours that the MCPR states that the employees are eligible to earn.

Key Points in the County Chief Administrative Officer's Response:

The CAO agreed with our report and explained that the annual and sick leave rates originally implemented into Oracle, the County's leave-tracking system, resulted in leave amounts earned that were slightly less than stipulated in MCPR. The County reviewed the annual and sick leave accruals for all groups of employees and reported that, for the past 3.25 years, a small rounding issue impacted all employees' annual and sick leave accruals for employees with less than 16 years of service. To remedy the discrepancy, the County corrected the hourly accrual rates and granted a one-time credit for both annual and sick leave.

The CAO also clarified that the Oracle system calculates employee leave to the fourth decimal place, while employee paystubs display two decimal places. This accounts for the slight discrepancies between the earned leave and total leave balance displayed on the sampled paystubs.

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Key Outcomes:

The County adjusted the annual and sick leave accrual rates for the rounding issue noted in our report. The Office of Human Resources released a memorandum to all active County employees indicating that a one-time credit to leave balances would be made to address the previous rounding differences between accrual rates used in Oracle and those required by MCPR. The one-time credit was made and visible on the May 30, 2014 pay-slips.

Referral: Delayed Tax Property Refund

OIG-15-035 (January 2015)

Complaint Summary: The OIG received a complaint from a property owner indicating that in September 2014 he received notice from the County that he overpaid his 2010 real property taxes. The complainant expressed concern that it took the County three years to notify him of the overpayment, that he was required to file an excessive amount of paperwork to receive a refund, and that after filing the appropriate paperwork he still had not received a refund three months later.

Outcome: The OIG discussed the matter with a senior employee in the County Treasury Office and learned that the County did not contact taxpayers whose payments resulted in a credit balance regardless of the amount. At that time, the County simply waited three years until the Abandoned Property laws required notifications of taxpayers.

We were informed that beginning in February 2015 the County intended to begin to contact taxpayers who have one or more credit balances from one or more prior years. The County also indicated they planned to make it easier for taxpayers to claim their refunds.

The complainant told us that he received his refund.

Fire and Rescue Service

Inquiry: Improper Volunteer Fire Department expenditures

OIG-13-030 (June 2014)

Complaint Summary: The OIG received a referral from the Maryland Office of Legislative Audits, who received a complaint via email about expenditures approved by two supervisors in a Montgomery County Volunteer Fire Department (MCVFD). The complainant stated that for about 14 years, MCVFD had purchased alcohol with MCVFD funds, served alcohol to minors, purchased an ambulance without going through a required competitive process, purchased a fire

engine based on inflated seat count, used County vehicles for personal use and commuting, and used MCVFD funds for personal travel including overseas travel.

Outcome: The OIG worked with the Montgomery County Fire and Rescue Service (FRS) Office of Internal Affairs (OIA) to investigate these allegations. We learned that the two supervisors implicated in the allegations were no longer with that particular MCVFD. One supervisor had transferred to another MCVFD and the other supervisor had separated from County service.

Documents confirmed that the MCVFD purchases of departmental vehicles and emergency vehicles had followed the acquisition policies for the County; that in a former period alcohol had been purchased and served at the MCVFD annual banquet by a caterer who was responsible for ensuring that alcohol was not served to minors; that MCVFD funds were approved for a member of the MCVFD to attend a 2005 conference in Germany and that only personal funds were used to attend that conference in 2010.

Report: Montgomery County Fire and Rescue Service Sick Leave Usage

OIG Report # 15-002 (October 2014)

Background:

The OIG received a complaint alleging that allowing employees to use up or “burn” sick leave at the end of their careers has become common practice in the Montgomery County Fire and Rescue Service (MCFRS). The complainant further stated that a MCFRS Battalion Chief collected months of compensation for unused sick leave without any medical certification and had recently posted a message on his Facebook page, stating:

Today was my “unofficial” last day of work with MCFRS. From this point, I’ll be burning leave to the very end. It is soon to be the greatest 26 year ride ever...

Key Points in the OIG Report:

We found that after reporting on Facebook that he would be burning leave, the MCFRS Battalion Chief cited in the complaint had no hours in working status for 8 pay periods, roughly 5 months, immediately preceding his retirement. He submitted no medical certification supporting an illness.

We also reviewed a sample of 14 MCFRS employees retiring near the end of FY2014. The sampled retirees’ average FY2014 sick leave costs were over \$11,000 more than the average MCFRS employee. Twelve of the sampled employees had a lengthy incident of sick leave usage immediately preceding retirement or had a number of undocumented incidents of sick leave usage that should have cause them to be placed on notice and possible leave restriction. MCFRS reported that only one of the employees was counseled and none were placed on leave restriction.

We found that MCFRS policy appears designed to prevent inappropriate use of unscheduled leave during an employee's career but does not adequately address the prevention of leave "burning" as an employee nears retirement. Documentation of illness is required of Employees who have a lengthy incident of undocumented sick leave upon return to work. Therefore a retiring employee who does not return to duty status prior to retirement is not required to provide appropriate medical documentation.

We recommended employees misusing sick leave be appropriately disciplined and that managers be held accountable for upholding sick leave policy. We also recommended an expansion of policy to specifically address sick leave abuse as an employee approaches retirement. We suggested that the County attempt to recover losses attributable to abuse of sick leave.

Key Points in the Chief Administrative Officer's Response and Outcome:

The CAO agreed with our findings and recommendations and indicated they would take steps necessary to ensure the recommendations were analyzed and implemented. Additionally, the CAO stated the County attorney was working with MCFRS to explore legal options regarding the recovery of losses.

The County Chief Administrative Officer stated that the County will take all necessary steps to ensure that MCFRS managers are held accountable for enforcing sick leave rules.

Department of General Services

***Report: Project Management Deficiencies in Constructing
the Paul S. Sarbanes Silver Spring Transit Center***

OIG Report # 14-007 (April 2014)

Background:

The Paul S. Sarbanes Silver Spring Transit Center (SSTC) is a ground transportation facility located in downtown Silver Spring, Maryland designed to accommodate bus and taxi movements while loading and unloading passengers at the Silver Spring Metrorail and Maryland Area Regional Commuter (MARC) stations. Construction of the structure began in 2009 but project progress was severely delayed due to unforeseen contaminated soil and utility relocations. By November 2010, visible evidence of structural issues and concerns about durability had emerged, including: cracks discovered in the concrete slabs, beams and girders; concrete that broke away from the finished drive surface (spalling), revealing post-tensioned tendons and evidencing that an insufficient concrete cover had been placed over the tendons; issues related to post-tensioned tendon elongations and tensioning; and reinforcing bars that were incorrectly installed or partially omitted in a slab pour.

In June 2012, Montgomery County contracted with KCE Structural Engineers, P.C. (KCE) to conduct a document review and structural evaluation to determine the condition of the SSTC and to understand whether the structure as constructed satisfied the strength and durability requirements necessary to meet its intended use and service life. On March 15, 2013 KCE issued its report that identified a number of serious deficiencies in the structure, and determined that the SSTC required strengthening and repairs to meet Building Code and Washington Metropolitan Area Transit Authority (WMATA) requirements. In May 2013 the OIG began an inspection to determine which project management controls failed, how these controls should have functioned, why they failed, and what measures should be taken to ensure controls will be effective in future projects undertaken by Montgomery County.

Key Points in the OIG Report:

We found that fourteen of the 22 relevant construction project controls analyzed for adequacy of design, implementation, and effectiveness were either weak or ineffective.

We compared test results on concrete samples drawn at the testing station upon arrival of the concrete truck at the site to samples drawn from the same concrete as it was later poured into the structure (deck sample). Results of compressive strength tests conducted during construction were routinely lower for the deck sample, and the workability of concrete as measured by a slump test indicated greater workability for 19% of the slump tests taken on the deck – a result that is inconsistent with the passage of time and the inspector-asserted absence of added water. We found evidence in construction records indicating that supplemental heating was prematurely discontinued during some cold-weather pours, even though the gap between ambient and concrete temperatures was greater than the gap allowed by specifications. The effects of any undocumented added water and curing should have been detected during testing, but the majority of concrete specimen samples upon which test results relied was not representative of the in-situ concrete.

We found that construction team meeting notes and structural engineer of record memoranda repeatedly advised all parties to be mindful of the need for appropriate concrete cover, although no evidence was found that effective steps were taken to effectively address recurring, inconsistent concrete cover.

We determined that problems relating to structural design and construction were identified within weeks of the first pour of the elevated, post-tensioned levels. These problems were repeatedly discussed in subsequent Project Management Team meetings, but were not effectively addressed by either the design or the construction teams, thus allowing cracking to persist throughout the later stages of construction. We determined that the construction management functions were divided between the County and its three contractors and that this division of functions contributed to the difficulty in taking corrective actions.

We concluded that the County would have benefitted from employing an independent architectural and engineering firm to independently review design concerns early in the construction process. We also concluded that the County should have employed an independent construction manager to oversee the project from planning to completion and ensure that

necessary course corrections were made. We made several recommendations to address our findings, primarily as they relate to future projects the County undertakes.

Key Points in the County Chief Administrative Officer's Response:

The CAO maintained that the Contract Documents included clear specifications for the issues the OIG pointed out. Foulger Pratt (FP), the project's contractor, should have complied with the Contract Documents and Balter, the project's inspector, should have noted FP's failures to comply. In the future, the County Department of General Services (DGS) will utilize a Construction Management firm on complex construction projects for greater oversight of construction operations and to prevent issues such as those realized in the construction of the SSTC. The CAO agreed that FP should be held accountable for remediation and any increased maintenance costs resulting from their failure to comply with Contract Documents. In response to the OIG's recommendation of using independent peer reviews and construction managers, the CAO indicated that this practice has become more commonplace since the SSTC project started and that DGS now frequently employs independent peer review on large complex or unique projects. He noted that DGS has increasingly emphasized the use of construction managers and that were the SSTC construction to begin today, DGS would use a construction management firm.

Key Outcomes:

DGS has incorporated the use of a construction manager and peer review during the remediation activity that continues. Remedial work underway at the SSTC differs in nature from the construction work that was the subject of this report. As remedial actions to address design-related torsion and shearing force issues, work is underway to install well over 250 additional beams, and to fill slab cracks. The slab thickness deficiencies will be resolved by topping the elevated levels with a Latex Modified Concrete (LMC) overlay once the weather and temperatures permit. As of the date of this report there is no official estimate for the completion date.

***Report: Department of General Services Implementation of Recommendations
for Procurement and Payment Training***

OIG Report # 15-001 (October 2014)

Background:

In January 2011, the OIG issued a report entitled, "Review of Montgomery County Government Procurement and Payment Practices for Selected Contracts" to the Director, Department of General Services (DGS). In that report, the OIG recommended that DGS provide training to all contract administrators who are responsible for reviewing and approving invoices submitted by contractors. DGS concurred with the recommendations and provided a summary of actions

planned or in effect to address the OIG recommendations, including scheduling all Division of Facilities Management (DFM) contract administrators and project managers to attend, or re-attend, the County's Contract administrator training.

In this limited follow-up review, we intended to review DGS training policies and procedures for contract administrators, analyze whether DFM contract administrators attended training as DGS said they would, and identify the methods used to monitor training.

Key Points in the OIG Report:

Following issuance of the 2011 OIG Report, the County revised the Contract Administration curriculum for contract administrators. The previous training was a 5-day course, but there were frequent absences among those scheduled to attend. The new learning path is 6 separate courses that can take anywhere from 2 to 6 hours each. This learning path of 6 courses must be completed in 5 years by contract administrators who have not previously completed the 5-day training.

There is no individual in DGS specifically tasked with monitoring the training of DGS employees. Employee Performance Plans include a section on training so that supervisors can address training as part of the annual performance plan and appraisal process.

At the time of our report there were 36 DGS employees who functioned as contract administrators. Looking at training from CY 2009 to May 2014, eight current contract administrators had taken the previous 5-day contract administrator training. Of those 28 who did not take the 5-day training, 6 had taken at least one of the six courses and 4 of those had taken more than one. None had taken the Contract Administration Payment Process course, even though this course is only two hours in length and seems most likely to address our earlier recommendation. We concluded that our prior recommendation to DGS to train its contract administrators has been met in small part. However, much remained to be done.

We recommended the Director of DGS require each DGS employee functioning as a contract administrator to address Learning Path training in his/her annual Employee Performance Plan, to take at least one Learning Path course every year in the 5 year period, and that this performance metric be part of every annual Performance Evaluation. Additionally, we recommended DGS evaluate the effectiveness of the Contract Administrator Learning Path training in FY 2015. This could consist of, among other things, a review of student course evaluation forms.

Key Points in the County Chief Administrative Officer's Response and Key Outcomes:

The CAO agreed with our recommendations and outlined an expected action plan including the scheduling of additional training courses. Additionally, the CAO stated that since our review 42 DGS staff attended the Contract Administration Payment Process course.

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**Advisory Memorandum: Department of General Services Preventative Maintenance
and Compressed Natural Gas Inspections of Ride-On Buses**

OIG Report # 15-003 (November 2014)

Background:

Our office received several complaints alleging that Montgomery County's Division of Fleet Management Services (FMS) was not complying with County, State, and/or Federal inspection requirements for Montgomery County Ride-On Buses, including required preventive maintenance and compressed natural gas (CNG) inspections. The complainants stated that FMS was not performing required inspections in compliance with mileage requirements. Non-compliance could impair the safety of the fleet and potentially result in the termination of a grant the Federal Transit Administration (FTA) provides to fund the Ride-On program.

FMS maintains a Ride-On Bus fleet of over 300 buses, 94 of which as of our test date were fueled by CNG. CNG and other buses must undergo CNG and preventive maintenance inspections at various mileage intervals specified by the Federal and Maryland Transit Administrations. The FMS maintenance objective is to have greater than 80% of preventive maintenance inspections completed on time for the previous year at any given time.

Key Points in the OIG Report:

We found that FMS did not conduct preventative maintenance inspections of the Ride-On Bus fleet at the mileage intervals required. In a test of 60 preventive maintenance inspections performed by all three maintenance shops from September 2013 through March 2014, we found 65% compliant with mileage requirements, compared to the 80% compliance requirement.

Similarly, we found that FMS did not conduct CNG inspections at the mileage intervals required. In a review of maintenance inspections performed between January 1, 2013 and April 11, 2014, we found a 39% compliance rate for CNG tank-equipped buses.

In an interview, FMS asserted that, in a test of 60 randomly-selected inspections from March through August 2014, they obtained an 81% rate of compliance. FMS also stated that they created new policies and procedures based on federal compliance standards that were signed in April 2014. Rather than verify their assertions based on this different test period, we recommended the Department of General Services test FMS' assertions as to inspection compliance. We recommended that DGS take actions to ensure immediate and ongoing compliance with inspection regulations.

Key Points in the Chief Administrative Officer's Response and Key Outcomes:

The CAO agreed with our preventive maintenance finding, but believes our samples covered only a few months the CAO acknowledges were challenging due to low staffing levels and a relocation of the main transit shop. The CAO states that DGS did meet the required standard of 80% for the entire period of January 2013 through March 2014. We did not verify this assertion.

The CAO agreed with our CNG finding and acknowledged that it was not fully compliant with CNG tank inspections. DGS created a separate CNG tank inspection cycle, contracted with independent CNG tank inspectors, and began training additional “certified” CNG system inspectors within FMS.

Department of Health & Human Services

Referral: Medicaid payments made to facility after patient discharge

OIG-13-038 (June 2013)

Complaint Summary: A County resident reported that a brother was discharged from a medical facility where Medicaid was paying for all or part of his medical expenses. The resident believed that Medicaid continued to pay the facility after the brother was discharged. Since Medicaid is funded by the states, the OIG referred this complaint to the State of Maryland Department of Human Resources Office of Inspector General (DHR/OIG).

Outcome: The DHR/OIG referred this matter to the Office of Inspector General for the State of Maryland’s – Department of Health and Mental Hygiene (DHMH) for review. The DHMH conducted a review and determined less than \$300 was paid on behalf of the brother.

Referral: Misuse of County time and equipment

OIG-13-043 (June 2013)

Complaint Summary: A County employee alleged that a co-worker wrote two books on company time using a County computer, and printed the book with the office printer at work, with the supervisor’s knowledge. A second complainant confirmed the employee’s statements.

Outcome: The OIG referred this complaint to the Chief Administrative Officer (CAO) for appropriate action. The CAO responded that their investigation into the complaint confirmed the allegations which resulted in several recommendations, including reimbursement by the employee for the cost of the print job at work.

Referral: County employee conducting business at work

OIG-14-011 (August 2013)

Complaint Summary: An anonymous complainant alleged that a County employee was engaging in a private/personal business while using County time and resources. The Complainant asserted

that the employee sold Mary Kay products, and provided a catalog on which the County employee's office and cell telephone numbers were provided.

Outcome: The OIG referred this matter to the management of the employee's Agency. The Agency's management counseled the employee, who agreed not to use the County telephone number or do any work related to the selling of Mary Kay products during the employee's County work hours.

Referral: Dangerous Driver of County Vehicle

OIG-15-014 (October 2014)

Complaint Summary: A complainant alleged that a driver of a County-owned vehicle, possibly a Health and Human Services (HHS) Employee, was talking on the cell phone and failed to stop at a 4-way stop sign in a school zone while children were present at the intersection. After the traffic violation, the complainant reported observing the driver park at the Health Center on Dennis Avenue. The complainant provided pictures of the County vehicle and driver.

Outcome: The OIG referred the matter to the Division Chief of Fleet Management Services (Fleet Management) who indicated that they had a standard protocol for handling vehicle complaints. The OIG was informed that the HHS Division Chief took appropriate actions to investigate and counsel the staff member involved in the incident. Additionally, we were told that Fleet Management intended to conduct a driver safety training and policy review class for the HHS Dennis Avenue Staff.

Department of Housing and Community Affairs

Referral: Tenant no longer qualifies for assisted housing

OIG-14-028 (December 2013)

Complaint Summary: A complainant asserted that an individual participating in a County rental assistance program was renting a room in the sponsored County apartment. The complainant also asserted that the individual's significant other was living in the property and earning an income.

Outcome: The OIG referred this matter to the Department of Housing and Community Affairs (DHCA). They found that the individual resided in a Housing Initiative Funds-restricted unit and received Section 8 assistance. After a unit inspection, it appeared that there was one unauthorized occupant living in the second bedroom. Management of the property drafted a lease violation notice, which gave the individual 21 days to correct the violation or be asked to vacate.

Referral: Landlord not repairing property

OIG-14-050 (April 2014)

Complaint Summary: A complainant reported that a rental property was in very bad condition, and the landlord ignored repeated requests for repairs. The complainant stated that the County had recently completed a rental property inspection, which the property had passed.

Outcome: Shortly after the OIG received this complaint, the County Department of Housing and Community Affairs (DHCA) inspected, found violations on, and required repairs of the property.

Referral: Tenant improperly in Moderately Priced Dwelling Unit program

OIG-14-073 (August 2014)

Complaint Summary: An anonymous complainant alleged that a neighbor in an apartment complex was now, after moving into an apartment, living with a woman, and that their combined incomes exceeded Moderately Priced Dwelling Unit (MPDU) requirements.

Outcome: The OIG referred the complaint to the Manager of the Affordable Housing Section of the County's Department of Housing and Community Affairs (DHCA), who contacted the property manager of the apartment complex. DHCA was advised that, based on recent documentation, the resident's income does not exceed eligibility requirements and he has not been seen with any woman who may be residing in this unit.

Preliminary Inquiry Memorandum: Department of Housing and Community Affairs/Housing Opportunities Commission Property Acquisition

OIG PIM # 15-001(December 2014)

Note: This matter appears as a significant work effort for both the Department of Housing and Community Affairs and the Housing Opportunities Commission.

Complaint Summary: In June 2014, OIG received a complaint alleging that 2 private parties (a seller and a purchaser) colluded to create a phony \$3.5 million contract for the purchase of an apartment building in Bethesda. The complainant indicated that the contract was ratified at an inflated price in order to induce HOC to exercise its right of first refusal, pay the inflated price, and thereby permit the seller and listed purchaser to share the profit from the sale.

Outcome: OIG staff members worked with the Housing Opportunities Commission (HOC) and the Department of Housing and Community Affairs (DHCA) to investigate the allegations. We learned that in June of 2013, DHCA exercised the County's right of first refusal in order purchase a Bethesda apartment building consisting of 17-18 units. There was a pending contract between the seller and a private purchaser which indicated a sale price of \$3.5 million, and DHCA contracted to buy the property at that price. DHCA then offered the property to HOC.

With the agreement of HOC and the seller, in September of 2013, DHCA assigned its rights and obligations under the contract to HOC, and HOC bought the property for \$3.5 million.

The OIG found no evidence that would indicate collusion between the contract parties that would result in a bogus sale price. However, DHCA exercised its right of first refusal and HOC bought the property at a price that was twice the SDAT assessment, without having the property appraised. While DHCA and HOC appear to have complied with County law, we believe DHCA and HOC need written policies and procedures for deciding to purchase property in conjunction with an exercise of the right of first refusal. These procedures may include requiring an appraisal to guard against a fraudulently inflated price.

Preliminary Inquiry Memorandum: Crossway Communities, Inc.

OIG PIM # 15-002 (December 2014)

Complaint Summary: In October, 2014, an individual contacted the OIG to make numerous complaints regarding the school and residency programs at Crossway Community, Inc. (Crossway). This individual expressed concern about alleged abuse of children in the day care program and that program participants who complained were retaliated against and/or kicked out of the school or residency programs. Several other program participants subsequently expressed similar concerns to our office.

The Crossway Community program is housed in a County-owned building, formerly known as the Pleasant View Elementary School. In April, 1990, Department of Housing and Community Affairs (DHCA) entered into a Program Management Agreement with Crossway to provide a program to assist low- and moderate-income, one-parent families in making progress toward self-sufficiency by providing a residential opportunity, child day care supervision, and career and educational services. In April, 2007, Montgomery County entered into a Master Lease with the Housing Opportunities Commission (HOC), enabling Crossway residents to receive project-based rental subsidies under the US Department of Housing and Urban Development (HUD) Housing Choice Voucher Program.

Outcome: The OIG worked with DHCA and HOC to address the allegations. DHCA had previously been made aware of assertions that Crossway residents were threatened with the loss of their project-based Housing Choice Voucher Program subsidy if they did not complete the Crossway Family Learning Academy (FLA) program and enroll eligible children in the Crossway Community Montessori School childcare facility. HOC had also received similar allegations from Crossway residents and advised the OIG that if true, this could be a violation of HUD rules.

DHCA indicated that they were reviewing and redrafting both the Program Management and Property Management agreements to present to Crossway prior to the April 2015 anniversary of those agreements. Through those amendments, it is DHCA's intent to assure that residential

leasing terms will comply with County requirements and Crossway will be required to obtain HOC's concurrence in advance of any eviction.

The OIG learned that DHCA and HOC intended to host a Town Hall meeting, optimally held in March or April 2015 at Crossway Community, to discuss residents' rights under both the Crossway project-based Housing Choice Voucher Program and the Crossways educational, career, and day care services program. That meeting would also serve to inform residents that Crossway cannot revoke their Housing Choice subsidy status for non-housing related matters. The OIG requested an invitation to that meeting, and had also suggested attendance by representatives from the Maryland State Department of Education, Division of Early Childhood Development, and Office of Child Care.

In early April 2015, the OIG requested a status update from DHCA. DHCA stated that they were preparing an amendment to extend the Project Management agreement. DHCA had not yet held the intended Town Hall meeting. However, DHCA stated that, as a condition for extending the agreement, they were requiring Crossway to hold the meeting with residents, which will be attended by officials representing State and County agencies. DHCA indicated an intention to have the meeting in June 2015.

In June 2015, the OIG learned that DHCA permitted a one-year extension of the existing Project Management agreement. The renewal allows Crossway Communities to continue in its current capacity as program manager under the terms negotiated with DHCA in April 2007. The OIG confirmed that DHCA had not conducted the Town Hall meeting.

Note: Please see the HOC section of this report for further information relevant to HOC's revocation of Crossway's Project Based Housing subsidy.

Referral: Violation of MPDU Regulations

OIG-15-038 (January 2015)

Complaint Summary: A complainant reported that a Montgomery County Moderately Priced Dwelling Unit (MPDU) owner illegally rented out her unit while at the same time obtaining a housing subsidy on a separate rental apartment she occupied.

Outcome: The OIG referred this matter to the Department of Housing and Community Affairs (DHCA) for investigation and resolution. DHCA confirmed that a person who purchased a MPDU in December 2006 also rented an MPDU apartment in September 2014. DHCA stated that this action was in violation of the MPDU regulations, the covenants on the MPDU condominium she owns, and the rental agreement she signed for the rental apartment. DHCA informed the property owner that she was in violation and directed her to move back into the condominium that she owns. DHCA stated that Code Enforcement would be inspecting the unit to ensure compliance.

Preliminary Inquiry Memorandum: Montgomery County Renters Alliance, Inc.

OIG PIM # 15-006 (April 2015)

Complaint Summary: On February 13, 2015, the OIG received a letter from the Chair of a large privately owned property management company in the Baltimore-Washington area citing a number of allegations against Renters Alliance (RA), including noncompliance with State and County reporting requirements, fiscal reporting irregularities, and the possible use of County funds for lobbying efforts.

RA's principle source of funding is a County, non-competitive contract (Council grant) which the County has awarded each year from 2012 to 2015 through the Department of Housing and Community Affairs (DHCA).

Outcome: The contract between RA and DHCA identifies activities, outcome measures, and deliverables appropriate to support the stated mission of the contract. However, we were unable to obtain documentation RA is required to submit to the DHCA that should serve as evidence of the intended outcomes.

We questioned \$6,945 in costs (net) including charges for potential lobbying efforts for which, under the terms of the contract, public funds may not be used. We also found that funds had been significantly reallocated between the approved budget categories but did not find any documentation of the written request to move funds as required by the contract. We advised that DHCA should work with the RA to ensure compliance with the contract requirements.

Department of Liquor Control

Inquiry: Problem regarding use of gift cards at County Liquor Stores

OIG-13-039 (July 2013)

Complaint Summary: The OIG received a complaint from a County resident who attempted to apply the remaining balance of a Visa gift card to the purchase of an expensive bottle of liquor. The complainant did not know the exact balance remaining on the gift card, but gave the clerk both the gift card and a credit card on which to charge the amount of the purchase not covered by the gift card. The clerk processed the transaction and allegedly offered to dispose of the gift card used but the complainant decided to retain the gift card. When he later looked at his receipt, the complainant saw that the full amount of the purchase had been charged to his credit card and returned to the store to question what happened to the balance on his gift card. The complainant claimed he was told that the store had “taken” the balance and suggested he call the Department of Liquor Control (DLC) to discuss restoring the balance to the gift card. The store clerk’s offer to dispose of the gift card made the complainant suspect that the store clerk wanted to steal the remaining value of the card.

Complainant stated that he spoke with a supervisor at DLC who allegedly told him that when a gift card is used to purchase a product that costs more than the value of the card, the card balance is wiped out and cannot be restored. However, the DLC supervisor called the complainant four days later to tell him his gift card’s unused balance had been restored. Complainant stated that he sent his driver to a different liquor store to make a similar purchase splitting the cost between a gift card and a credit card and told us that the driver had the same experience as did the complainant, the entire purchase was charged to the credit card.

Outcome: OIG staff visited the first liquor store in question and was told by the clerk on duty that the type of gift card in question may only be used to purchase an item whose cost is either lower than or equal to the balance of the gift card. He further told them that if they wished to buy an item that costs more than the balance of the gift card, the clerk must be told the exact amount to charge to the gift card and the amount to be charged to a different card (or paid in cash) because if the cost of the item exceeds the balance of the gift card, the system will not charge any portion of the amount to the gift card. It will instead charge the full amount to the credit card and put a temporary (4-5 day) hold on the amount that is available on the gift card. He stated that he would not be able to determine the remaining value of the gift card.

OIG contacted several sources, including a Visa gift card customer service representative who explained that if there is an attempt by a vendor to charge an amount in excess of the balance available on a gift card, the card will reject the transaction. However, the representative asserted that no hold is put on the card balance and that it should be possible to use the card immediately. We noted that an audit of the DLC’s recently installed Point of Sale (POS) terminals apparently did not test similar gift card transactions.

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OIG made a test purchase from a DLC store using a Visa gift card and a personal credit card and found that the POS system worked as had been explained by the gift card representative. OIG sent an information memorandum to the DLC Director advising him of this situation and advising him to consider whether store clerks are sufficiently trained to understand and explain gift card procedures to customers. The complainant was advised of the OIG actions.

***Report: Montgomery County Department of Liquor Control -
Review of Management Controls Over Inspectors***

OIG Report # 14-003 (January 2014)

Background:

In March 2012, the OIG received complaints from several owners of Hispanic restaurants in Montgomery County licensed to serve alcoholic beverages. The owners complained that during 2011 and early 2012 one inspector from the County Department of Liquor Control (DLC) had been visiting their establishments on a frequent basis and issuing or threatening to issue alcohol violation citations to them based on false findings. They also claimed that DLC and the County Board of License Commissioners demonstrated bias against them. At the time the OIG received the complaints the inspector who was the subject of these complaints had been arrested for allegedly having extorted a Hispanic restaurant owner for \$1,000 in exchange for giving advance notice of future inspections and not submitting citations.

Maryland law requires that sellers of alcohol be licensed (with some small exceptions that do not apply to restaurants and stores in the normal course of business) and provides that County Boards of License Commissioners may issue licenses to sell alcohol, suspend or revoke licenses, and impose fines. Maryland law also provides that counties may have liquor control boards that purchase and sell alcoholic beverages; however, most county governments in Maryland have only license-issuing authority and do not participate in the sale of alcohol.

Currently, the DLC has five inspectors who inspect licensees for compliance with laws governing underage alcohol sales, sales to intoxicated individuals, keg registration requirements, and requirements that receipts from sales of food in restaurants be equal to or greater than receipts from alcohol sales. A police officer and a DLC inspector go together for most compliance checks. If an inspector deems that there has been a violation, the inspector issues a civil citation to the licensee, with a copy sent automatically to the DLC Division Chief.

Key Points in the OIG Report:

We found that DLC had improved internal controls over its inspections since 2011. However, management controls over the activities of inspectors remained weak.

Prior to 2012, all citations were documented on un-numbered paper forms. Potential inspector misconduct was facilitated by the ability of an inspector to create citations without submitting the forms to DLC.

The DLC put an iPad citation system into use in early 2012, after the inspector was arrested. Inspectors enter data on the licensees visited into the iPads. The iPads record the times citations are written and automatically send them to the DLC supervisor of the inspectors and file an electronic copy in the central database. Once the citation is completed, it cannot be deleted by the inspector. Despite improvements, controls over inspectors remain weak because the data is not used to generate timely, useful management reports on the activities or performance of inspectors.

The data analyzed by the OIG indicated that there were a disproportionate number of violations by Hispanic establishments in 2011 which did not occur in subsequent years. We analyzed violations data for 2011, 2012, and the first half of 2013. DLC's violations data demonstrate that in 2011, Hispanic establishments accounted for 27% of the violations, but only 13% of the licensees.

We also found that the acquittal rate of Hispanic establishments before the Board of License Commissioners was not significantly different from the acquittal rate for other licensees. Licensees were found not guilty in only 2 of 55 cases that were decided during calendar years 2011, 2012, and 2013 through June 20, 2014.

Key Points in the Chief Administrative Officer's Response and Key Outcome:

The Chief Administrative Officer (CAO) concurred with the OIG's recommendation that data available from iPads should be used to develop management reports for monitoring and managing inspections. The CAO also stated that the higher percent of citations for Hispanic establishments in 2011 was attributable to the higher level of enforcement and regulatory activity in the Wheaton business district that occurred in 2011.

Report: One-Day Alcoholic Beverage Licenses

OIG Report # 14-006 (May 2014)

Background:

In April 2013, Clifton Larson Allen (CLA), on behalf of the OIG, analyzed selected financial and informational data files of the Montgomery County Department of Liquor Control (DLC). The purpose of that analysis was to identify transactions or data relationships that appear to be inconsistent with County or DLC policies. CLA's results identified possible issues in several areas, including a number of issues concerning license fees collected from One-Day license holders. Montgomery County offers any "club, society or association" the opportunity to obtain a special One-Day license "to serve or sell alcoholic beverages" at a specific event.

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The objectives of this review related to the issuance of One-Day licenses were to evaluate DLC's current policies, procedures, and related internal controls from the standpoint of effectiveness, efficiency, and safeguarding of assets and determine whether there are any violations of law or regulation in the current procedures.

Key Points in the OIG Report:

We found there was little documentation of the processes or internal controls regarding the issuance of One-Day licenses and handling of financial instruments. One-Day license applications and fees received were not recorded at the time that they were received. The accounting entries for One-Day license applications were made after the Board considered the application, as a lump sum amount covering fees of all applications approved for that day. Checks received from One-Day license applicants were not being deposited daily, but instead were stored in an open, unlocked area until the Board considered the application.

We recommended that DLC create formal, written policies and procedures regarding issuance of One-Day licenses, including the handling of license payments. We also recommended DLC should maintain a daily log of all One-Day license applications received, including the date of receipt, name of the licensee, and fees collected or to be collected. Finally, DLC should reconcile the daily log with funds received and deposited. Checks received should be immediately restrictively endorsed and deposited daily.

The OIG also found multiple instances where DLC's practices regarding One-Day licenses appeared to conflict with Maryland law including:

1. One-day license cardstock does not include sequential license numbers. Maryland law requires that "Every license shall be appropriately numbered by the official issuing the same."
2. Cases where One-Day licenses were issued for more than 7 days, including periods up to 21 non-consecutive days. Maryland law states that a One-Day license can be issued "for a period not exceeding seven consecutive days from the effective date thereof."
3. When an application was submitted for a One-Day event less than 14 days in advance of the event, which does not leave enough time for Board of License Commissioners (Board) approval, the Office of Licensure, Regulation, and Education Division Chief approved the license without the Board voting on the matter. These licenses are then printed with the signature of the Chairman of the Board, creating the appearance that they were approved by the Board. Maryland law requires that at least three members of the Board "who are present at the voting session, must concur in the approval, denial, revocation, suspension, or reclassification of an alcoholic beverage license."
4. For One-Day licenses, DLC does not comply with the notice and posting requirements codified in Maryland law.

We recommended that DLC should align its practices with the requirements contained in Maryland law. DLC should consider the need to request that the Maryland Code be amended to exempt One-Day licenses from the notice and posting requirements.

Key Points in the County Chief Administrative Officer's Response and Key Outcomes:

The CAO agreed with many of our findings and recommendations, but disagreed on some others. The CAO agreed to develop and document the standard operating procedure for the issuance of One-Day licenses, to develop a daily log of license applications received and a reconciliation process with the related funds deposited, and to immediately adopt a policy wherein checks are restrictively endorsed upon receipt, kept in a locked cabinet, and routinely deposited.

The CAO agreed that current practices did not align with Maryland law in that One-Day licenses do not include a license number and have been issued for more than seven non-consecutive days.

The CAO did not agree that One-Day licenses should be approved only by the Board or that Maryland law requires One-Day license applicants to comply with notice and posting requirements. Although not expressly stated in the statute, the CAO interpreted Maryland law as exempting One-Day licenses in these and other areas.

The CAO's response stated that our report highlighted some understandable confusion on Article 2B of the Maryland Code regarding the requirements for regular (full time/annual) licenses versus the temporary, special event One-Day licenses that were the focus of this review. The CAO agreed to request clarification in this general area from the Maryland Attorney General.

On March 5, 2015, the Board of License Commissioners addressed one of our recommendations by adopting a motion permitting the Chief of Licensure, Regulation, and Education to provide tentative approval of one-day licenses in certain circumstances. In addition, DLC asserts that it took several steps, such as numbering all licenses, securing checks received, and making daily deposits, in response to our recommendations.

Preliminary Inquiry Memorandum: Department of Liquor Control Internal Control Matters

OIG PIM # 15-003 (December 2014)

Complaint Summary: Since November 2013, the OIG received complaints concerning the Montgomery County Department of Liquor Control (DLC) that warranted our performance of preliminary inquiry procedures. We also observed conditions at the DLC warehouse that were addressed in the PIM.

1. Multiple anonymous complainants alleged that a company owned by the spouse of the Division Chief of Licensure, Regulation, and Education (LRE Division Chief) was hired to cater DLC events. One complainant reported witnessing the spouse serving food at an event in September 2014.
2. An anonymous complainant alleged that some caterers operating in Montgomery County have been awarded a Montgomery County Beer, Wine, and Liquor Caterers License without paying the required county fee.

3. A DLC employee alleged that security cameras within the DLC warehouse were not operational and side doors were regularly left propped open, leaving the product stored within the warehouse vulnerable to theft.
4. DLC staff reported that “checkers” within the warehouse were not properly checking the contents of returning DLC delivery trucks.
5. We observed that DLC driver paperwork containing relevant information regarding truck shorts, overages, breakage, and returns was collected but not aggregated or analyzed.

Outcome: The OIG reviewed each issue and discussed the allegations with DLC management. We have seen evidence that DLC has worked to address some of the issues raised within this memo and have been told that others are being addressed.

1. We substantiated that over the past 5 years a company employing the spouse of the LRE Division Chief was hired by LRE staff to cater 3 DLC events. However, we found no evidence that the LRE Division Chief’s spouse had an ownership interest in the catering company. Additionally, we did not substantiate that the LRE Division Chief pressured or encouraged her subordinates to hire the caterer.
2. We verified that DLC issued at least 2 local caterers, already possessing an active Statewide Alcoholic Beverages license, a Montgomery County caterer’s (CAT) license without requiring them to pay an annual license fee. In response to an OIG request for guidance regarding whether the current procedures comply with the law, the Office of the County Attorney stated, “*Article 2B (section 6- 706.1(c)) and the Board’s rules (Rule 2.3(e)) state that the annual fee for the County’s CAT license is \$1,250. There is no provision for or against waiving the fee.*”
3. Shortly after the DLC director was informed of the warehouse security allegations, he took remedial steps to resolve the issues. A contracted security firm replaced or repaired non-functional cameras. Additionally, DLC is working to implement a program wherein they will be automatically notified when a camera needs repair. DLC warehouse staff were provided a memo directing them not to leave doors propped open.
4. Our limited analysis indicated that the content of DLC delivery trucks was not always properly reviewed upon return to the warehouse. DLC issued new policy and restructured staff assignments in order to address the issue.
5. Because available information regarding driver reported shorts, overages, and returns was neither aggregated nor analyzed, DLC was vulnerable to drivers falsely reporting shorted product. At this time, DLC has begun to aggregate and possibly evaluate the available data.

Preliminary Inquiry Memorandum: Department of Liquor Control Compliance Money

OIG PIM # 15-004 (January 2015)

Complaint Summary: The OIG received a complaint alleging that each fiscal year, the Montgomery County Department of Liquor Control (DLC), Division of Licensure, Regulation, and Education (LRE), Division Chief deposited funds issued for the Compliance Program (Compliance Money) into her personal, non-County bank account. Annually, DLC conducts approximately 600 compliance checks and budgets \$6,100 to be used to fund the program.

Outcome: The OIG worked with LRE to investigate the allegations. We reviewed records supporting Compliance Money transactions during FY2013 and FY2014. In each of those years the LRE Division Chief was issued a personal advance of \$6,100, during the first quarter of the fiscal year. The LRE Division Chief reported that because she was personally responsible for the funds, she deposited the checks in her personal account for safekeeping. Based on the documentation provided by DLC, it appears that the County has the right to deduct missing or improperly documented funds from the paycheck of the employee receiving the cash advance.

We reviewed the use of program funds and determined that DLC has established a system with multiple controls and a separation of duties regarding the use of Compliance Money. We found that Compliance Money expenditures were approved by an LRE Manager, adequately supported, properly reconciled, and reviewed by the Montgomery County Office of Finance.

***Report: Department of Liquor Control Warehouse Inventory Management
from Product Receipt through Delivery***

OIG Report # 15-005 (February 2015)

Background:

The OIG received numerous complaints regarding warehouse and delivery operations at the Montgomery County Department of Liquor Control (DLC) including allegations of theft of product by DLC warehouse staff and delivery drivers. The County maintains a 210,000 square foot, climate controlled warehouse which houses the County's entire inventory of alcoholic beverages. Approximately \$16 Million (at cost) in product is housed in the warehouse on any given day. On business days, DLC's fleet of delivery trucks is loaded with an average of \$1 Million (invoiced amount) in product for delivery to independent licensees and DLC owned retail stores.

We sought to review those controls necessary to substantiate or refute the allegations and assess the vulnerability of warehouse and delivery operations to theft and product losses.

Key Points in the OIG Report:

We found that the internal controls over warehouse inventory need improvement. Various warehouse employees routinely use informal, handwritten notes to instruct DLC staff to change inventory quantities in the electronic perpetual inventory system resulting in significant decreases in the recorded quantities of warehouse inventories in FY2013 and FY2014. DLC has done little to no investigation or analysis to determine why quantities of the physical warehouse inventory differ from those reflected in the electronic inventory. DLC's ability to track inventory is complicated by the omission of the actual physical location of all products within the warehouse from the electronic inventory records. This omission may increase the difficulty of researching variances, as well as the risk of errors and undetected losses of product.

We recommended that DLC mark all physical warehouse locations in order to maintain an electronic inventory system which accurately reports the quantity and type of product in each location within the warehouse. DLC should develop a process to log and research daily variances in order to implement corrective procedures. Additionally, DLC should implement random sample test counts by individuals whose responsibilities do not include general warehouse operations and ensure that requested inventory adjustments are validated and that inventory variances above set thresholds are reviewed, investigated, and approved by an authorized individual outside of warehouse operations prior to adjustment of the electronic inventory system. DLC should revise written policies and procedures to reflect new warehouse operations, including proper documentation and justification for adjustments to the electronic inventory.

For the delivery process we found that documented controls are well designed but in practice, procedures were not consistently followed or enforced. DLC had analyzed little of the information collected regarding reported inventory returns, incorrectly loaded delivery trucks, or product breakage, creating greater vulnerability to inaccurate or false reports of missing products. Recently, DLC has implemented several measures to improve the implementation of control procedures. However, an established, regular management reporting mechanism is needed to ensure that these procedures remain in effect.

We noted that no formal productivity goals or performance metrics have been developed regarding warehouse and delivery operations. Without goals and metrics, DLC management cannot measure the efficiency of operations, productivity of staff, or the financial and labor resources needed. DLC should develop and implement a written, defined productivity measurement system including relevant performance metrics for the receiving, safeguarding, picking, loading, delivery, and return of warehouse goods as well as control of operating costs.

We found that DLC's current policy of delivering special order product to the warehouse and then redistributing it to the customer placing the order increases DLC's cost and risk while delaying delivery to the customer. We believe DLC should explore the possibility of processing such orders as "drop shipments" in which orders placed through DLC are shipped directly to the customer from the distributor or direct supplier freeing up warehouse space and reducing the associated cost and risk to DLC.

Finally, we recommended that DLC employ a consultant with expertise in alcoholic beverage distribution systems to train and assist DLC managers in promptly implementing our recommendations.

Key Points in the County Chief Administrative Officer's Response and Key Outcomes:

The CAO agreed with all of the recommendations offered in the report and agreed to perform the necessary work and follow through to implement the changes.

The CAO noted that DLC plans to employ the recommended consultant with expertise in alcoholic beverage distribution as well as a second management consultant to aid in policy revisions and productivity measures.

The CAO stated that they were exploring options and developing alternative scenarios to address the entire issue of special order items and would be consulting with relevant State officials to ensure any proposed changes, including drop shipment options, were permitted under State law, trade practices, and regulatory requirements.

A comprehensive improvement action plan for DLC has been developed and its implementation is being monitored.

Department of Permitting Services

Referral: Health Hazard Caused by Poor Drainage

OIG-15-002 (July 2014)

Complaint Summary: In early July 2014, a County resident reported that one of the drainage areas at Montrose Road and Park Potomac Avenue routinely failed to drain. The complainant stated that the poor drainage contributed to an active mosquito breeding ground causing potential health hazards including the potential for the spread of West Nile Virus.

Outcome: The OIG photographed standing water in the affected area and referred the matter to the Department of Permitting Services (DPS). Based on subsequent correspondence between DPS and the complainant, we learned that in mid-July 2014 the County issued a \$1,000 civil citation to the permittee for failure to maintain the storm water management facility in proper working condition. The County indicated they were also seeking an abatement order. The drain was repaired by early August 2014.

Department of Police

Referral: Police take-home vehicles

OIG-14-047 (June 2014)

Complaint Summary: The complainant stated that two employees of the Montgomery County Police Department (MCPD) improperly took County vehicles home. The employees in question live well outside of the 15 mile radius of the County line that is allowed per union agreement and County policy.

Outcome: The OIG referred this matter to the Internal Affairs Division of the MCPD. They conducted an investigation regarding the complaint. The two employees involved have been informed that they no longer have use of their County vehicles to take home as they live outside the 15 mile radius standards set in the Fraternal Order of Police contract.

Department of Transportation

Inquiry: Employee Pilferer at a County Parking Lot

OIG-12-032 (September 2013)

Complaint Summary: In March 2012, a visitor to the Ethics Commission asserted that for some time a County employee had been using his personally owned pickup truck to pilfer construction materials from the County Department of Transportation's (DOT) Silver Spring parking garage at which he was based. Construction materials for DOT use were stored in a secure storage area within that facility. The Ethics Commission referred the matter to our office.

Outcome: OIG staff members visited the parking garage where the pilfering had allegedly taken place to understand the manner in which the personally owned truck could be used to steal materials and subsequently notified Montgomery County Police Department (MCPD), who worked with OIG on the issue. MCPD interviewed various parties and on one occasion caught the pilferer with a small amount of likely stolen County assets in his truck. However, it was agreed that DOT would handle this matter administratively.

After a period of several months, in spring 2013, the complainant contacted the OIG and informed us that the subject employee was again stealing construction materials, even though on a smaller scale. OIG staff visited the garage on several occasions and observed some DOT staff members monitoring the contents in the bed of the subject's pickup truck.

In September 2013 the complainant called OIG to say that the pilferer had resigned from the County, which the OIG confirmed. Per the County's Office of Human Resources, "The reason for his resignation states that he left for better promotional opportunities."

Referral: Wasteful, Repetitive Sidewalk Replacement

OIG-15-009 (October 2014)

Complaint Summary: The OIG received a complaint from a County resident who alleged that the County and its private contractor were wasting taxpayer funds by removing and replacing recently installed ADA-compliant sidewalk ramps.

Outcome: The OIG referred the complaint to the Montgomery County Department of Transportation (MCDOT) for further investigation. In September 2014, representatives from MCDOT met with the OIG to discuss how the Division of Transportation and Engineering oversees work such as the installation and replacement of sidewalks, curbs, and ADA ramps, and to answer the questions that were raised by the complainant. The ramp that was the subject of this complaint had been recently installed but later found to be non-compliant with ADA standards, causing it to be marked for replacement by the County contractor. After meeting with MCDOT, a process was implemented that requires utilities to replace ADA ramps when they resurface a street following utility replacement. In these cases, a DPS inspector is to review the ramps for ADA compliance before paying the utility. OIG staff examined documentation confirming these instructions.

Office of Consumer Protection

Report: Montgomery County Office of Consumer Protection

OIG Report # 14-001 (July 2013)

Background:

The OIG conducted an inquiry into a complaint filed by two Montgomery County residents (Complainants) with the Montgomery County Office of Consumer Protection (OCP). Specifically, this investigation concentrated on the handling of a complaint by OCP staff.

In April 2007, the Complainants filed a complaint with the OCP alleging misrepresentation by the builder of their home. The OCP is the County Agency responsible for enforcing consumer protection laws that prohibit unfair and deceptive business acts to ensure a fair marketplace for consumers and businesses. The Complainants contacted the OIG in July 2012, stating that they believed the OCP Program Administrator had inappropriately signed an affidavit supportive of the home builder during an adjudicative process. The OCP had not disclosed the existence of the affidavit to the Complainants. The Complainants learned of the existence of the affidavit as the result of the Complainants' September 2010 Maryland Public Information Act (MPIA) request and their inspection of OCP's file.

Key Points in the OIG Report:

We substantiated the allegation that the Program Administrator signed a notarized affidavit prepared for his signature by an attorney for the builder that characterized the attorney's client as "stellar", an action that compromised the perception of OCP's independence and impartiality in the execution of the mission of the office. We also found that neither the OCP nor the County had written policies or procedures regarding the signing of affidavits by County personnel.

Key Points in the County Chief Administrative Officer's Response:

The Chief Administrative Officer's May 15, 2013 response stated that: "The inquiry received by OIG from the owners of a home concerned the manner in which their complaint alleging warranty defects in the purchase of a \$3.6 million residential home was handled by OCP 6 years ago. OCP staff has been counseled regarding the best practices for documenting the action taken by OCP when disputes are partially resolved by OCP and are subsequently submitted to an arbitration process."

Key Outcomes:

The Director of OCP stated that this act was a single instance that took place several years ago, and he has taken appropriate steps to prevent similar issues at OCP.

Ethics Commission

Referral: Intern related to Department Director

OIG-14-010 (July 2013)

Complaint Summary: An anonymous complainant wrote the OIG that a teenager who was an intern in a County Department was the daughter of the Department's Director.

Outcome: Because the hiring of close relatives is an ethics issue, the OIG referred this complaint to the Chief Counsel/ Staff Director of the Ethics Commission who informed the OIG that he had received the same complaint. The Department Director was informed that the internship, though uncompensated, was improper. The internship was terminated shortly thereafter.

Independent County Agencies

Montgomery County Board of Education/Public Schools

Report: Montgomery County Public Schools' Acquisition of Promethean Interactive Classroom Technology

OIG Report # 14-002 (November 2013)

Background:

The OIG received complaints that the Montgomery County Public Schools (MCPS) obtained Promethean systems in a no-bid procurement and did not evaluate other technologies. The County Council also raised concerns about MCPS' request of FY 2013 appropriations for the acquisition of Promethean interactive classroom systems at a cost of approximately \$9 million.

During the three school years that began in 2005 and ended in 2008, MCPS deployed 242 Smart Technologies and 175 Promethean interactive classroom systems, the two leading providers of interactive white board systems at the time. Beginning with the 2008-09 school year MCPS installed interactive classroom technology systems that were predominantly Promethean systems. Since 2008, MCPS had purchased 4,600 Promethean systems that were adopted as the MCPS technology standard. Our report focused on the acquisition of additional systems during 2013. Our objectives were to determine whether the acquisition was consistent with state law and MCPS procurement policies as well as to determine whether prices obtained by MCPS were reasonable when compared to prices paid for similar acquisitions by other school systems.

Key Points in the OIG Report:

MCPS procurement actions appeared to have been consistent with state laws, MCPS procurement requirements, and appropriations as proposed by the Board of Education to the County Council.

Information developed by the OIG indicated that prices obtained by MCPS compared favorably to the prices obtained by other school systems that purchased Promethean systems.

We found no evidence suggesting the Promethean systems were not an appropriate technology standard. We expressed to MCPS our concern that they did not document any analysis leading to the selection of the technology standards for this procurement. However, we noted that MCPS had no requirement that the decision process for the selection of a standard be formally prepared or documented.

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Key Points in the County School System Chief Operating Officer's Response and Key Outcomes:

The response indicated agreement with our analysis and conclusions that:

- MCPS procurement actions were consistent with state laws and MCPS procurement requirements;
- MCPS used appropriated funds as proposed, and;
- MCPS received favorable and competitive pricing for the Promethean systems.

The response also stated that the lack of formal documentation of how the technology standard was selected should not diminish the efforts MCPS made in accessing technology products of Promethean and its competitors. However, the CAO agreed that documenting MCPS' decisions is valuable.

Housing Opportunities Commission

Referral: Property obtained under HOC no longer qualifies

OIG-14-017 (December 2013)

Complaint Summary: A complainant alleged that a family who obtained their home through the Montgomery County Housing Opportunities Commission (HOC) program no longer qualified for assistance because a family member's spouse moved into the residence and, given this additional income, the family likely exceeded the income limits for assistance.

Outcome: The OIG referred this matter to the HOC who could not substantiate the allegation.

Preliminary Inquiry Memorandum: Department of Housing and Community Affairs/Housing Opportunities Commission Property Acquisition

OIG PIM # 15-001 (December 2014)

Note: This matter appears as a significant work effort for both the Department of Housing and Community Affairs and the Housing Opportunities Commission.

Complaint Summary: In June 2014, OIG received a complaint alleging that 2 private parties (a seller and a purchaser) colluded to create a phony \$3.5 million contract for the purchase an apartment building in Bethesda. The complainant indicated that the contract was ratified at an inflated price in order to induce HOC to exercise its right of first refusal, pay the inflated price, and thereby permit the seller and listed purchaser to share the profit from the sale.

Outcome: OIG staff members worked with the Housing Opportunities Commission (HOC) and the Department of Housing and Community Affairs (DHCA) to investigate the allegations. We

learned that in June of 2013, DHCA exercised the County's right of first refusal in order purchase a Bethesda apartment building consisting of 17-18 units. There was a pending contract between the seller and a private purchaser which indicated a sale price of \$3.5 million, and DHCA contracted to buy the property at that price. DHCA then offered the property to HOC. With the agreement of HOC and the seller, in September of 2013, DHCA assigned its rights and obligations under the contract to HOC, and HOC bought the property for \$3.5 million.

The OIG found no evidence that would indicate collusion between the contract parties that would result in a bogus sale price. However, DHCA exercised its right of first refusal and HOC bought the property at a price that was twice the SDAT assessment, without having the property appraised. While DHCA and HOC appear to have complied with County law, we believe DHCA and HOC need written policies and procedures for deciding to purchase property in conjunction with an exercise of the right of first refusal. These procedures may include requiring an appraisal to guard against a fraudulently inflated price.

Preliminary Inquiry Memorandum: Crossway Communities, Inc.

OIG PIM # 15-002 (December 2014)

Complaint Summary: In October, 2014, an individual contacted the OIG to make numerous complaints regarding the school and residency programs at Crossway Community, Inc. (Crossway). This individual expressed concern about alleged abuse of children in the day care program and that program participants who complained were retaliated against and/or kicked out of the school or residency programs. Several other program participants subsequently expressed similar concerns to our office.

The Crossway Community program is housed in a County-owned building, formerly known as the Pleasant View Elementary School. In April, 1990, Department of Housing and Community Affairs (DHCA) entered into a Program Management Agreement with Crossway to provide a program to assist low- and moderate-income, one-parent families in making progress toward self-sufficiency by providing a residential opportunity, child day care supervision, and career and educational services. In April, 2007, Montgomery County entered into a Master Lease with the Housing Opportunities Commission (HOC), enabling Crossway residents to receive project-based rental subsidies under the US Department of Housing and Urban Development (HUD) Housing Choice Voucher Program.

Outcome: The OIG worked with DHCA and HOC to address the allegations. DHCA had previously been made aware of assertions that Crossway residents were threatened with the loss of their project-based Housing Choice Voucher Program subsidy if they did not complete the Crossway Family Learning Academy (FLA) program and enroll eligible children in the Crossway Community Montessori School childcare facility. HOC had also received similar allegations from Crossway residents and advised the OIG that if true, this could be a violation of HUD rules.

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DHCA indicated that they were reviewing and redrafting both the Program Management and Property Management agreements to present to Crossway prior to the April 2015 anniversary of those agreements. Through those amendments, it is DHCA's intent to assure that residential leasing terms will comply with County requirements and Crossway will be required to obtain HOC's concurrence in advance of any eviction.

The OIG learned that DHCA and HOC intended to host a Town Hall meeting, optimally held in March or April 2015 at Crossway Community, to discuss residents' rights under both the Crossway project-based Housing Choice Voucher Program and the Crossways educational, career, and day care services program. That meeting would also serve to inform residents that Crossway cannot revoke their Housing Choice subsidy status for non-housing related matters. The OIG requested an invitation to that meeting, and had also suggested attendance by representatives from the Maryland State Department of Education, Division of Early Childhood Development, and Office of Child Care.

In June 2015, the OIG learned that HOC plans to revoke Crossway's project-based rental subsidies for noncompliance with HUD requirements. HOC independently met with the residents of Crossway to assist them in obtaining either a Housing Choice Voucher, or to help them with locating housing at another property offering project based rental subsidies. HOC informed us that to their knowledge all residents had opted to leave Crossway. This matter was subsequently confirmed by the OIG through discussion with Crossway residents. HOC stated that they will also help qualified residents find appropriate programs offering assistance with security deposits, moving costs, and childcare on an as needed basis.

Note: Please see the DHCA section of this report for further information relevant to DHCA's continued relationship with Crossway.

Referral: Improper Removal of Apartment from Abatement

OIG-15-001, OIG-15-015 (September 2014)

Complaint Summary: The OIG received a referral from the State of Maryland Department of Human Resources Office of Inspector General (DHR/OIG) about a Montgomery County Housing Opportunities Commission (HOC) Housing Choice Voucher (HCV) recipient who complained to DHR/OIG that a HOC inspector improperly deleted documents from her file and improperly removed her account from abatement status without scheduling a third inspection as required by County rules.

Outcome: The matter was referred to the HOC Internal Auditor for additional research. HOC provided the OIG documents from the complainant's HOC file which indicate that the complainant voluntarily vacated her apartment for personal financial reasons, but later claimed she left because of an HOC abatement letter in order to further her claim for a refund of her security deposit which was withheld by the landlord. Based on documents submitted to HOC by

the complainant, HOC concluded that the reason she did not receive her security deposit was not related to HOC actions with the landlord.

HOC indicated that the complainant was notified the apartment was abated in error, and the abatement was removed as soon as the error was realized. HOC clarified that abatement is a tool used by HOC with landlords and does not affect the tenant, or expiration of the lease, and does not authorize the tenant to move out or break the lease agreement.

Report: Housing Opportunities Commission Allegations of Misconduct by Certain Commissioners

OIG Report # 15-004 (December 2014)

Background:

The Montgomery County Housing Opportunities Commission (HOC) provides housing for persons of eligible income. Commissioners serve without compensation but are considered public employees and are subject to the County ethics law. The OIG received information from the Ethics Commission suggesting two individuals who served as HOC Commissioners during 2013 may have conflict of interest issues.

Key Points in the OIG Report:

We found that conflict of interest issues arose for at least two HOC Commissioners. One Commissioner's issues arose when his firm was part of the development team included in a proposal for the redevelopment of an HOC property submitted to HOC. The other Commissioner's issues were related to actions he took as a Commissioner that benefitted people with whom he had business and personal relationships.

We also found that in some areas HOC lacks written policies and procedures and recommended that they develop improved, written policies and procedures on ethics, confidentiality, Commissioners' involvement in HOC operations, Commissioners' interactions with members of HOC staff, and gifts. We also recommended that HOC Commissioners and staff receive ethics training when they join HOC and periodically afterwards.

Key Points in the Housing Opportunities Commission and Ethics Commission Responses:

HOC's Executive Director stated that he would use the report's recommendations as a blueprint for further activities within the agency.

The Chair of the Montgomery County Ethics Commission expressed a commitment to assist in the implementation of the recommendations if called upon.

Key Outcomes:

Both Commissioners voluntarily resigned while the Ethics Commission and the OIG were looking into these matters.

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Office of the County Executive
Office of Internal Audit Status Report to the Audit Committee
September 2015

New Audit Reports Issued Since Last Office of Internal Audit Appearance before the Audit Committee in October 2014:

- 33. 11/18/2014 Contract and Grant Monitoring by DHCA (MCIA-15-7)
- 34. 3/2/2015 Follow-up Audit of the 2009 Treasury Risk Assessment (MCIA-15-8)
- 35. 3/12/2015 Cash Receipts Informational Questionnaire (MCIA-15-9)
- 36. 3/30/2015 Audit of Montgomery County Conference Center (MCIA-15-10)
- 37. 6/5/2015 Montgomery County Police Department Cash Receipts Internal Controls (MCIA-15-11)
- 38. 7/14/2015 Audit of Wage Requirements Law Compliance – Unity Disposal & Recycling, LLC (MCIA-15-12)

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

Ongoing Reviews (6)

1. **Wage Requirements Law Compliance Audit – CAMCO.** This audit was requested by DGS (now Office of Procurement) to perform a 100% follow-up audit of CAMCO to determine the extent of any non-compliance by the vendor with the Wage Requirements Law (Montgomery County Code Sec. 11B-33A, *Wage Requirements*). Final report is expected to be issued by October 2015.
2. **Wage Requirements Law Compliance Audit – Securitas.** This audit was requested by DGS (now Office of Procurement) to determine the extent of any non-compliance by the vendor with the Wage Requirements Law (Montgomery County Code Sec. 11B-33A, *Wage Requirements*). Final report is expected to be issued by October 2015.
3. **Internal Control Review of Transfer Station Cashier Operations.** This review was requested by DEP (Solid Waste) to assess the control environment at the Transfer Station Cashier operations and assess the adequacy of controls (including those recently implemented and planned) in addressing the inherent risks associated with the Cashier operations; and to determine if additional controls or business operation changes are required to address residual risks. This task was just awarded on August 31, 2015; final project schedule is under development.
4. **CIP Personnel Cost Allocation – Current State Assessment.** This assessment's objective is to gain an understanding of the policy and procedures that govern the allocation of personnel costs to Capital Improvements Program (CIP) projects; and of the roles and responsibilities of the Finance, OMB, and applicable County departments in the performing and monitoring the allocations. Final report is expected to be issued by October 2015.
5. **Water Quality Protection Charge (WQPC) Program Assessment.** The program assessment was requested by the Department of Environmental Protection to provides a current state assessment of the Water Quality Protection Charge (WQPC) Program (i.e., structural and operational conformance with legislation and regulations, appropriate internal controls and documented business processes), and an assessment of potential areas where the WQPC Program could be enhanced either to improve the efficiency or reliability of the Program, or to

improve the public's understanding of the Program. The task order was awarded on May 1, 2015; the final report is expected to be issued in October 2015.

6. **Risk Assessment and Risk-Based Multi-Year Audit Plan.** This task is being undertaken to assist the County in creating an ongoing and sustainable risk assessment program consistent with applicable ISO¹ (ISO 31000:2009), COSO and GAO (GAO-14-704G) standards. The task will allow the County (a) to assess and prioritize its current risk environment (updating the risk assessment conducted in 2009-2010), (b) establish a new multi-year internal audit plan designed to address the County's most significant audit risks, and (c) create a sustainable methodology to periodically assess whether new significant risks have emerged (resulting from new legislation, County initiatives, underlying internal control conditions, or other factors) for inclusion in the multi-year audit plan. This task was just awarded on August 31, 2015; final project schedule is under development.

Planned New Reviews for FY 2016 (1)

- **Program Assessment of Community Use of Public Facilities (CUPF).** This task is being undertaken to assist the County in better understanding the current challenges facing CUPF in accomplishing its program responsibilities in two of CUPF's core functional areas:
 - Facilitating Use of Montgomery County Public Schools (facilities), including scheduling of before- and after-school child care programs (as outlined in Council Resolution 18-08); and
 - Facilitating Use of County Government Facilities, including the Silver Spring Civic Building.

The assessment will help identify opportunities for enhancements that would improve efficiency, effectiveness and customer service in these functional areas. The County is currently reviewing proposal(s) from its internal audit services contractors to conduct this work, and expects to make an award by the end of September. Given the inherent diversity of customers and stakeholders for the programs and services CUPF supports, we expect to reach out to CUPF customers and stakeholders (including Council members) to obtain their feedback, comments, and suggestions in order to better understand the current challenges facing CUPF and any areas where CUPF could better meet the needs and expectations of customers and stakeholders, and improve the effectiveness of its programs.

¹ ISO – Internal Organization for Standardization; COSO – Committee of Sponsoring Organizations of the Treadway Commission; GAO – Government Accountability Office.