

Interim Audit Report

Office of Inspector General

Montgomery County Government Overtime Compensation

April 2007

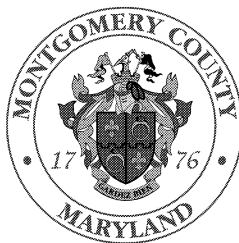


Office of Inspector General
Montgomery County, Maryland

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April 30, 2007

Hon. Marilyn Praisner, President, County Council
Hon. Isiah Leggett, County Executive

President Praisner and Executive Leggett:

We are conducting an audit of Montgomery County Government (MCG) overtime compensation policies and procedures as well as documents used to budget and compensate employees for overtime in selected MCG departments. In addition, we are evaluating internal controls used to safeguard against the potential for abuse. Our work to date includes the two largest users of overtime compensation – the Fire and Rescue Service (FRS) and Police Department – as well as the Board of Elections, one of the smallest users of overtime. Together, these organizations accounted for more than 60 percent of MCG overtime compensation in calendar year 2006.

Almost 2.9 million overtime work hours resulting in compensation totaling more than \$110 million in calendar years 2004 to 2006 were used to provide services to County residents and businesses, and to support national emergencies and other events.

Our audit to date has identified strengths in the approach used to manage overtime as well as conditions we believe require immediate corrective action. We found that the Police Department generally has established and implemented effective overtime policies and procedures and that the Department's management information system is capable of effectively tracking and monitoring overtime use. This interim audit report contains six findings and recommendations involving FRS, the Department of Finance, and the Office of Management and Budget that have been discussed with the Chief Administrative Officer. By communicating these matters now, corrective action can be taken, as deemed necessary, before all audit work is completed and our final report is issued.

We wish to acknowledge the cooperation extended to us by the Chief Administrative Officer, department directors, and staff.

Respectfully submitted,

Thomas J. Dagley
Inspector General

**Office of Inspector General
Interim Audit Report
MCG Overtime Compensation
April 2007**

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Background Information

Primary goals of the Office of Inspector General (OIG) include: reviewing the effectiveness and efficiency of County government; preventing and detecting fraud, waste and abuse; and ensuring legal, fiscal, and ethical accountability by those responsible for managing resources appropriated by the County Council. In this regard, a review of overtime compensation was included as an action item for the fiscal year 2007-2009 period in the OIG's Four-Year Work Plan published in August 2005.

The use of overtime has become a routine practice among public safety and several other departments within Montgomery County Government (MCG) to provide required levels of service to County residents and businesses. From calendar years (CY) 2004 to 2006, MCG overtime work hours increased from 879,440 to 1,036,868 (18 percent) and overtime earnings increased from \$32,165,047 to \$41,023,732 (28 percent), as noted in Table 1.

Table 1 - MCG Overtime Work Hours and Employee Earnings¹

CY	Work Hours	Earnings
2004	879,440	\$32,165,047
2005	972,232	\$37,024,121
2006	1,036,868	\$41,023,732
Three-Year Total	2,888,540	\$110,212,900

The use of overtime can be an effective staffing tool to address operational needs and provide management flexibility to adjust resources as needs change. Overtime compensation is sometimes an inevitable cost used to address: program priorities; absenteeism; County-wide response to unanticipated events; employee emergencies; and position vacancies. The majority of overtime paid in MCG is at a premium wage rate of one and one-half times an employee's hourly pay rate.

Our initial audit plan was to review overtime compensation for: Police; Fire and Rescue Service (FRS); Correction and Rehabilitation; Public Works & Transportation; Board of Elections; and Sheriff. However, due to conditions identified early in the audit, and our interest to provide meaningful and current information to the Chief Administrative Officer, Council, and Executive, we have limited our review to Police, FRS, and the

¹ The overtime work hours and earnings include federal, state, and other grants. Appendix B and C of this report contain tables provided by FRS for calendar and fiscal years 2004 to 2006 of overtime reimbursable to the County for Urban Search and Rescue Activations and Training.

Board of Elections. The overtime used by these three departments accounted for more than 60 percent of actual overtime paid by MCG in calendar year 2006.

Table 2 provides MCG overtime work hours and employee earnings for departments that used the highest amount of overtime in calendar years 2004 to 2006, with all others including the Board of Elections grouped together.

Table 2 Department Overtime Work Hours and Employee Earnings

Department	CY 2004		CY 2005		CY 2006	
	Work Hours	Earnings	Work Hours	Earnings	Work Hours	Earnings
Fire & Rescue Service	299,986	\$11,856,710	342,522	\$14,220,288	334,298	\$14,829,552
Police	228,793	\$9,235,043	235,143	\$9,770,142	237,351	\$10,381,110
Public Works & Transportation	203,407	\$6,175,870	228,495	\$7,141,311	260,509	\$8,389,408
Correction & Rehabilitation	91,716	\$3,025,896	108,699	\$3,768,876	115,976	\$4,197,330
Other	55,538	\$1,871,528	57,373	\$2,123,504	88,734	\$3,226,332
Total	879,440	\$32,165,047	972,232	\$37,024,121	1,036,868	\$41,023,732

Prior Audit Activity

During the planning and field work phases of our audit, we were advised by the Department of Finance that no payroll or other internal audits involving timekeeping practices or overtime had been conducted and reported by MCG for at least the past five years.

Conclusions

The results of our audit disclosed no reportable findings for the Police Department or Board of Elections. We found generally that the Police Department has implemented comprehensive overtime policies and procedures including internal controls to protect against overtime abuse. In addition, the Department has implemented a management information system capable of documenting and providing management with the tools needed to monitor overtime use. For the Board of Elections, we provided the Director with suggestions to strengthen internal controls for overtime; our suggestions take into consideration that the Board's overtime use is cyclical due to the nature of elections.

This interim report includes findings and recommendations that address deficiencies in the design or operation of internal control as it relates to the payment of overtime compensation in FRS. Our test of timesheets used to pay more than \$1.6 million in overtime to 25 FRS employees in calendar year 2006 identified overtime payments totaling approximately \$1.1 million that we considered questionable based on documentation made available to us at the time of our field work.

MCG management is responsible for establishing and maintaining effective internal control. Our recommendations address opportunities for FRS, the Department of Finance, and Office of Management and Budget to strengthen overtime internal controls, policies and procedures, budgeting, and oversight. We believe corrective action is needed by the Chief Administrative Officer and appropriate department directors to address deficiencies and related risks. We recommend a timeline be established to ensure corrective actions are completed by mid-year of fiscal year 2008. This corrective action should include FRS self-assessments and periodic internal audits by the Department of Finance.

With regard to the potential for fraud, waste, or abuse discussed primarily in Finding 2, additional attention is needed by the OIG to address questionable overtime payments. The results will be reported in our final audit report and any follow-up work.

It is important to note that specific corrective action was initiated by FRS management during our field work as a result of this audit, including interim changes to policies and procedures, self-assessments, and the approval of overtime.

Findings and Recommendations

Finding 1

FRS overtime policies and procedures have not been updated since 1993 even though significant changes in the management of overtime have taken place.

Analysis

On August 30, 1993, FRS policy #521 entitled “Detailing, Overtime, and Recall” was issued with a stated purpose “to provide a system of reallocating staff on a daily basis when imbalances exist. When there is inadequate staff, to hire overtime to reach required staffing levels.” The policy was in effect at the start of our audit and applicable to all “DFRS personnel in the Fire/Rescue Occupational Series.” We were advised no other policies or procedures were in use regarding documentation and approval requirements for overtime compensation.

From calendar years 2004 to 2006, FRS overtime work hours increased from 299,986 to 334,298 (11 percent) and overtime earnings increased from \$11,856,710 to \$14,829,552 (25 percent), as noted in Table 3.

Table 3 - FRS Overtime Work Hours and Employee Earnings

Calendar Year	Work Hours	Earnings
2004	299,986	\$11,856,710
2005	342,522	\$14,220,288
2006	334,298	\$14,829,552
Totals	976,806	\$40,906,550

We found that the 1993 policy was outdated because of several significant changes in FRS operations. For example, although the 1993 policy states the overtime cap has been reached when an employee earns overtime equal to 50 percent of his/her base salary per calendar year, we identified 87 FRS employees who were paid overtime in calendar year 2006 that was more than 50 percent, with 30 of these employees earning overtime that was at least 70 percent. Two employees earned more than 100 percent of base pay with the highest paid \$95,122 in overtime, or 104 percent of base.

In addition, the 1993 policy limits the maximum number of consecutive on-duty work hours to 38. Although the maximum number of consecutive on-duty work hours increased to 48 as a result of a labor grievance, FRS policy was never updated to reflect this change nor was it disseminated to all personnel. According to documentation provided to us by FRS management during our review of calendar year 2006 timesheets for 25 employees, we identified at least one employee who frequently worked 48 consecutive hours of overtime in addition to regular work hours and other overtime.

Further, a requirement of the 1993 policy is the completion of the Overtime Certification Form, which is an attachment to the policy, to justify and approve the use of overtime.

Although the policy requires this Form be used by all FRS offices and positions, we found that its use was inconsistent and there was a lack of uniformity when the document was used. Table 4 provides FRS overtime work hours and earnings for calendar year 2006 by position.

Table 4 – CY 2006 FRS Overtime Work Hours and Employee Earnings by Position

Position	Work Hours	Earnings	Percentage of Earnings
Fire/Rescue Captain	71,724	\$4,219,128	28.45%
Master Firefighter/Rescuer	76,173	\$3,318,353	22.38%
Firefighter/Rescuer III	78,110	\$2,845,823	19.19%
Fire/Rescue Lieutenant	44,765	\$2,210,607	14.91%
Firefighter/Rescuer II	33,738	\$901,381	6.08%
Fire/Rescue Battalion Chief	15,705	\$754,371	5.09%
Other FRS Positions	14,083	\$579,889	3.9%
FRS Total	334,298	\$14,829,552	100%

Additional information on compliance with FRS requirements to use the Overtime Certification Form is reported in Finding 2.

Recommendation

We recommend FRS update or re-write its policies and procedures and disseminate them to all FRS personnel to ensure all significant changes in the use and management of overtime are clear. It is also recommended that a component of the FRS overtime policy include periodic self-assessments by management to ensure compliance.

Finding 2

FRS internal controls and management oversight were not sufficient to ensure the accuracy of timesheets used to pay overtime and protect against overtime abuse.

Analysis

Our review of procedures and controls disclosed deficiencies in the preparation and approval of timesheets used to pay FRS employee overtime. Specifically, we could not be assured from our testing of employee timesheets that overtime was properly documented and approved prior to being processed by the payroll system, Department of Finance.

The majority of deficiencies we identified involved timesheets of employees assigned to field operations. There were only minor deficiencies identified for employees assigned to Fire Code Enforcement, Fire Investigations, and those employees who attended, or were assigned to, the Public Service Training Academy.

We tested more than 650 timesheets on a non-statistical basis that were used to pay overtime totaling approximately \$1.6 million to 25 FRS employees in calendar year 2006. Employees whose timesheets were selected for review were identified based on the large number of overtime work hours and earnings in calendar years 2004 to 2006. Our test examined timesheets for 3 battalion chiefs, 13 captains, 8 lieutenants, and 1 master fire firefighter whose overtime work hours ranged from 881 to 1,475, and who were paid overtime that ranged from \$45,297 to \$85,034 in calendar year 2006. Each timesheet reviewed represented two weeks of work activity. Based on our review of the documentation available to us during the audit, we considered \$1.1 million of the \$1.6 million questionable. As examples, we found:

- For 18 of the 25 employees, overtime was not properly justified and approved using the Overtime Certification Form required by the 1993 FRS policy. For example, no Forms were on file for overtime payments totaling \$176,919 for the battalion chiefs included in our test. This Form requires specific information related to overtime worked, including: reason for duty; employee signature and date; supervisor approval and date; and/or the senior career officer/division chief and date.
- A general lack of supervisory or management review to ensure an appropriate individual signed the “supervisor’s signature” line of all employee timesheets, certifying that time and attendance reported has been examined and found to be accurate. For example, 20 calendar year 2006 timesheets examined for a battalion chief were “witnessed” by a subordinate rather than approved by a supervisor. Another timesheet with 22 hours of overtime for this employee did not contain any signature on this line.
- On 16 timesheets for a captain who worked 1,097 overtime hours for a total of \$75,640 (82 percent of annual base pay), the employee signed as both the employee and the supervisor. The supervisor’s signature line was not signed for 2 other timesheets and another timesheet was approved by a peer.

- 16 of 26 timesheets reviewed for a captain who worked 1,296 overtime hours for a total of \$72,623 (79 percent of annual base pay) were not properly approved. Specifically, a subordinate employee (lieutenant or master firefighter) signed the “supervisor’s signature” line on 15 timesheets and the employee signed his own name as the supervisor on another timesheet used as the basis to pay 13 hours of overtime.

Our field work identified the potential for overtime abuse that requires additional attention by the OIG beyond the issuance of this interim report.

Recommendation

We recommend that FRS, in consultation with the Department of Finance, develop and implement sufficient internal controls to ensure the accuracy and completeness of FRS timesheets and protect against overtime abuse. We recommend that the internal controls address the need for a specific separation of duties between individual employees, supervisors, and management.

Finding 3

FRS did not have a comprehensive management system for collecting, analyzing, and reporting available overtime data needed to measure the efficiency and effectiveness of overtime compensation and develop budgetary requirements.

Analysis

FRS did not have a comprehensive management system for collecting, analyzing, and reporting available overtime data needed to measure the efficiency and effectiveness of overtime compensation. This adversely affected FRS' ability to quantitatively justify overtime compensation requirements as well as the ability of the Office of Management and Budget (OMB) and Council staff to evaluate FRS budget requests. We noted during the audit that a February 2007 Base Budget Review of FRS by the Council's Office of Legislative Oversight identified a similar condition and reported that FRS had begun to address shortcomings in data collection and management.

Information from a comprehensive FRS management system should be the basis for using overtime to assign personnel, develop budgets, and report performance. FRS' failure to generate reliable overtime hour and cost data has, in part, precluded a meaningful assessment of the adequacy of current resources and impaired efforts to establish a link between the use of unbudgeted overtime and longer-term levels of staffing needed to accomplish the FRS mission. This lack of underlying data regarding the use of overtime to address critical needs has also negatively affected the ability of OMB to help FRS establish a realistic overtime budget (see Finding 6).

Although FRS has implemented TeleStaff as a Countywide staffing tool to establish work schedules for personnel, an internal management system that provides FRS leadership the tools necessary to effectively manage overtime use and related costs has not been developed. During the audit, we verified that TeleStaff does not provide management with reliable overtime hours actually worked by employees. For example, for one of the 25 FRS employees we tested, the total overtime hours reported in payroll information provided to us for calendar year 2006 was 1,460 hours; however, the TeleStaff overtime hours provided to us totaled 912 hours, a difference of 548.

FRS management agreed that the lack of a reliable management system has hampered its effectiveness in justifying short as well as longer-term resource needs and leadership's ability to manage overtime.

Recommendation

We recommend that FRS, in consultation with the Chief Administrative Officer and OMB, identify the operational and funding requirements for a comprehensive FRS management system, capable of tracking and analyzing the use of overtime. As part of the process, we recommend FRS conduct research to identify and evaluate other County systems, including the Police Department system, and fire departments in other jurisdictions for use as a benchmark and to save development time and costs.

Finding 4

The use of FRS overtime compensation from fiscal years 2004 to 2007 was not linked to efficiency or other key performance measures and results developed by FRS and approved by the Office of Management and Budget.

Analysis

FRS' significant use of overtime compensation as a method to ensure the delivery of critical services to County residents and businesses has not been linked to any efficiency or other key FRS performance measure developed by management and used by OMB to finalize recommended FRS budgets.

In our review of the recommended FRS operating budget for fiscal years 2004 to 2007, we noted that although key FRS measures and performance targets were approved and published by OMB for three of the four formal FRS programs, none were established to assess the impact of using overtime compensation as a premium wage on FRS efficiency or effectiveness. In this regard, although efficiency measures were established for the: Community Risk Reduction Services (CRRS); Operations; and Wellness, Safety, and Training (WST) FRS programs, none were designed to assess the use of overtime to accomplish FRS priorities or specific program objectives. For Administrative Services (a formal FRS program covering human resource management, budget preparation, financial analysis, and auditing), we found that no measures or performance targets were approved and published.

Due to the significant use of overtime compensation to accomplish FRS priorities and program objectives, we believe efficiency measures and performance targets are needed at least in the short term to improve the management of overtime work hours and costs. As discussed elsewhere in this report, we believe a factor contributing to the absence of meaningful measures in this area is the lack of timekeeping procedures and a management information system capable of accurately collecting and reporting overtime use by project code and FRS program. Without a link between the use of overtime and the achievement of FRS priorities or specific program objectives, management may miss opportunities to determine the cost-effectiveness of results achieved, or review outcomes expected to be achieved in conjunction with recommended fiscal year budgets.

Recommendation

We recommend that FRS, in consultation with the Office of Management and Budget, develop and implement appropriate measures for the Administrative Services, CRRS, Operations, and WST programs that help ensure the use of overtime compensation by FRS employees is linked to the FRS' performance management system and the County's budget decision-making process.

Finding 5

Formal responsibility for oversight of timekeeping procedures used to record and approve overtime compensation has not been established.

Analysis

Formal responsibility for oversight of timekeeping procedures used by MCG departments to record and approve overtime compensation has not been established. Specifically, our review of selected user department procedures and our test of individual timesheets highlighted a number of areas where corrective action is needed to ensure overtime compensation is properly paid. These areas contributed to deficiencies identified during our test of FRS employee timesheets and commented upon in Finding 2. We believe improvements are needed in the following areas:

- The Department of Finance has not issued written guidance or internal control requirements to all County departments to ensure employee timesheets are properly completed and all overtime hours worked by MCG employees are properly approved. During our audit, we found that the department responsible for the highest use of overtime in calendar year 2006 (\$14.8 million) did not have effective timekeeping policies and procedures in place, while the second largest user (\$10.4 million) did have effective policies and procedures. We found that this difference in managing internal control risk for timekeeping generally and the payment of overtime specifically was attributable to the level of priority given by each department rather than requirements issued by the Department of Finance.
- We were advised by the Department of Finance that no payroll audits or other audits by the internal audit division involving MCG's current timekeeping system have been conducted and reported for at least the past five years.

In the August 2003 edition of *Government Finance Review*, an article on the cost benefits of moving from a paper to an automated timekeeping system pointed out that, "It is not uncommon to find a government in which 20 different departments interpret and/or enforce a government-wide policy in 20 different ways." The article also pointed out that, "The ability to manage employee time accurately and efficiently is a worthwhile and necessary goal of every organization that is accountable for managing public funds."

We believe that without requirements issued by Finance and periodic internal audits of timekeeping procedures used to record and approve overtime compensation, key controls for the County's payment of overtime compensation are missing. Our conclusions about a need to establish formal responsibility for the oversight of timekeeping for overtime are based on a review of the Police Department, Fire and Rescue Service, and Board of Elections which collectively accounted for more than 60 percent of MCG overtime in calendar year 2006. Our testing of timesheets showed that a department without adequate written policies and procedures in place, documentation requirements, and appropriate

supervisor approval of timesheets can generate significant overtime costs that are at risk for abuse.

We recognize that MCG is in the process of implementing, on a pilot basis, the Electronic Time Reporting and Management System (Mctime) and that a technology audit of the Mctime system by the internal audit division was underway during our audit. However, regardless of whether the timekeeping system is a manual or automated process, effective internal control is needed (i.e. policies and procedures that include the responsibilities of the employee, supervisor, and department; separation of duties; documented justification for overtime; and internal audits).

Recommendation

We recommend the Department of Finance establish formal responsibility for oversight of MCG timekeeping procedures used to record and approve overtime compensation. We also recommend the oversight include conducting, on a risk assessment basis, periodic internal audits of procedures and business processes used to record, approve, and justify overtime compensation at selected County departments/offices.

Finding 6

Unrealistic FRS overtime budgets used during the fiscal years 2004 to 2008 budget process did not provide FRS management, the Executive, and Council with accurate and meaningful cost data.

Analysis

According to an overtime trend analysis provided by the Office of Management and Budget (OMB), actual overtime payments made to employees of FRS, the largest user of MCG overtime, totaled approximately \$37 million (excluding FICA) for fiscal years 2004 through 2006, approximately \$17 million more than the \$20 million budgeted for FRS overtime for these years.

In addition, it appears the trend is continuing in fiscal year 2007, with actual 2007 overtime payments totaling more than \$9.2 million through the first 8 months, approximately \$3.3 million more than the \$5.9 million budgeted for the entire fiscal year.

For fiscal year 2008, we noted that approximately \$6.35 million was the recommended budget for FRS overtime, which is almost \$3 million less than what has actually been paid during the first eight months of fiscal year 2007.

In our discussions with FRS and OMB management, it was not clear how recommended FRS overtime budgets were set for fiscal years 2004 to 2008, recognizing that the budgeted amounts were consistently and significantly below the actual overtime payments for the prior year. Table 5 below reports the difference between budgeted and actual by fiscal year, as well as the difference between prior year actual and amount budgeted for the following year².

Table 5 - FRS Budgeted Overtime versus Actual Overtime Payments

Fiscal Year	Budgeted	Actual	Difference
2004	\$5,526,677	\$ 9,162,170	\$3,635,493 (+66%)
2005	\$6,110,332	\$12,720,039	\$6,609,707 (+108%)
2006	\$8,448,181	\$15,027,876	\$6,579,695(+78%)
2007	\$5,949,112	\$ 9,292,086 ³	-
2008	\$6,350,358 ⁴	-	-

The response we received on why this budgeting practice occurred for several consecutive years was the use of unbudgeted overtime compensation to perform the work represented by authorized but vacant FRS positions. In addition, we were advised that

² Actual expenditures that are reimbursable by the federal government for Urban Search and Rescue activations and training are detailed for calendar and fiscal years 2004-2006 in Appendix B and C, respectively.

³ Through the first 8 months of FY 2007.

⁴ Recommended in County Executive's Operating Budget, March 2007.

despite significant overruns in the overtime budget, FRS finished each fiscal year under budget for personnel salaries overall.

We believe the overtime budgets used by FRS and OMB were unrealistically low due, in part, to the lack of a comprehensive FRS management system (see Finding 3). This adversely affected the ability of FRS management, OMB, and Council staff to effectively analyze overtime use across FRS programs and quantitatively justify the use of overtime to achieve FRS priorities or specific program objectives.

Recommendation

We recommend that FRS, in consultation with the Office of Management and Budget and Department of Finance, develop an effective and efficient overtime budget process by collecting accurate and timely overtime information on employee timesheets, and using this information to: analyze overtime trends by project; target areas of high overtime use; prepare staffing requests; and develop realistic overtime budgets.

Audit Scope, Objectives, and Methodology

Under the authority of Montgomery County Code §2-151, we conducted an audit of MCG overtime compensation for fiscal and calendar years 2004 through 2006. We performed the audit in accordance with generally accepted government auditing standards published by the Comptroller General of the United States, and relied upon by the President's Council on Integrity and Efficiency and the Association of Inspectors General.

The objectives of our audit were to: (1) determine if overtime policies and procedures are adequate and effectively managed to support selected County program missions and performance measures; (2) evaluate overtime budget documentation to ensure there is accurate, timely, and adequate justification to support the financial resources requested by County departments to the Office of Management and Budget, recommended by the Executive, and approved by the Council; and (3) evaluate internal control associated with the use of overtime to safeguard against the potential for abuse. The audit did not examine whether specific MCG departments/offices are properly staffed to carry out its mission.

To accomplish our objectives, we met with the Chief Administrative Officer, representatives of the Office of Management and Budget (OMB), Department of Finance, and department/office directors whose overtime activities were selected for review. Our methodology also included: (1) review of overtime policies and procedures applicable to MCG generally; (2) analysis of budget documents, payroll records, and actual overtime costs; (3) evaluation of management reports used to document the use of overtime, and monitor overtime costs and projections; (4) interviews with personnel in MCG departments, Council staff, and other key stakeholders; and (5) benchmarking with comparable governments. We also tested timesheets and related records of selected employees in the Police Department, Fire and Rescue Service, and the Board of Elections, and reviewed applicable collective bargaining agreements for public safety personnel for agreed-upon practices for the use of overtime.

At the conclusion of our initial field work, we discussed preliminary audit findings and recommendations with department directors. Preliminary findings and recommendations were presented in writing to the Chief Administrative Officer for a written response. In addition, an audit exit conference with the CAO and staff was held on April 11, 2007, prior to issuing an interim audit report to the CAO for review and a management response. Upon completion of all audit work, a final report will be issued.

The data used to develop the tables in this report were provided by the Executive Branch and are deemed reasonable but not independently verified.

Field Work and Management Response

We conducted our initial field work from January to March 2007. The response by the Chief Administrative Officer to this interim audit report is included as Appendix A.



OFFICES OF THE COUNTY EXECUTIVE

M E M O R A N D U M

Timothy L. Firestine
 Chief Administrative Officer

Isiah Leggett
 County Executive

April 25, 2007

TO: Thomas J. Dagley, Inspector General

FROM: Timothy L. Firestine, Chief Administrative Officer

SUBJECT: Response to Draft Interim Audit Report on Overtime Compensation

I would like to thank you for the opportunity to provide input and response on the Draft Interim Audit Report on Montgomery County Government Overtime Compensation. The report identifies several key areas for improvement in how we monitor and track overtime expenditures, documentation, overtime budget preparation and the institution of additional program measures. Overall, I concur with your assessment and will address each of the findings.

Finding 1

FRS overtime policies and procedures have not been updated since 1993 even though significant changes in the management of overtime have taken place.

Recommendation

We recommend FRS update or re-write its policies and procedures and disseminate them to all FRS personnel to ensure all significant changes in the use and management of overtime are clear. It is also recommended that a component of the FRS overtime policy include periodic self-assessments by management to ensure compliance.

Response

Immediately after your discussion with the Fire Chief concerning this issue, he provided direction to all operational personnel concerning overtime documentation and the appropriate signing of timesheets.

The 1993 policy is currently being reviewed and re-written. The issues you have raised will be addressed in the new policy. Once the new policy has been drafted, it must be reviewed by the Office of Human Resources (OHR) in order to ensure that there is no obligation to bargain over any of the changes. If this is the case and there is no obligation to bargain, the proposed policy must then be forwarded to the Union per Article 22, Section 22.2 of the collective bargaining agreement between Montgomery County Government and the Montgomery County Career Fire

Fighters Association, IAFF, to provide the Union with the opportunity for notice and comment. If, after review by OHR, it is determined that portions of the proposed policy require negotiations per the County Code, the parties are next scheduled to negotiate in November 2007 for a successor agreement effective July 1, 2008.

Finding 2

FRS internal controls and management oversight were not sufficient to ensure the accuracy of timesheets used to pay overtime and protect against overtime abuse.

Recommendation

We recommend that FRS, in consultation with the Department of Finance, develop and implement sufficient internal controls to ensure the accuracy and completeness of FRS timesheets and protect against overtime abuse. We recommend that the internal controls address the need for specific separation of duties between individual employees, supervisors, and management.

Response

Inconsistencies in the manner in which overtime was documented and approved did not meet my expectations. As pointed out, the policy was not being followed. We have initiated immediate change through the direction provided by the Fire Chief and are updating the policy.

Furthermore, we acknowledge the potential for overtime abuse, and will address those issues within the policy during the updating process. The draft policy will be provided to the Department of Finance and OHR for review and input, to ensure that internal controls and separation of duties are appropriately addressed, and to ensure compliance with any terms of negotiated agreements.

Finding 3

FRS did not have a comprehensive management system for collecting, analyzing, and reporting available overtime data needed to measure the efficiency and effectiveness of overtime compensation and develop budgetary requirements.

Recommendation

We recommend that FRS, in consultation with the Chief Administrative Officer and OMB, identify the operational and funding requirements for a comprehensive FRS management system, capable of tracking and analyzing the use of overtime. As part of the process, we recommend FRS conduct research to identify and evaluate other County systems, including the Police Department system, and fire departments in other jurisdictions for use as a benchmark and to save development time and costs.

Response

MCFRS began the process to reorganize its index code structure to match its organization several months ago. This reorganization is necessary and fundamental to MCFRS and the ability of managers to manage their work units. MCFRS' current method of tracking overtime is a departmentally developed program called, Overtime Tracker. It was developed approximately six years ago and requires the manual input of overtime earned by the station officer collecting timesheets. This has provided some data, but compliance with data entry has not been 100% and it has not provided the information necessary.

After initial meetings with the Office of the Inspector General and reviewing the methodology utilized by the Montgomery County Police in tracking overtime expenditures, MCFRS will be implementing the use of Project Codes for all overtime. We are currently establishing the Project Codes and plan to begin their use July 1, 2007. This will provide definitive data on the use of overtime and will provide the necessary information to analyze all overtime expenditures.

Finding 4

The use of FRS overtime compensation from fiscal years 2004 to 2007 was not linked to efficiency or other key performance measures and results developed by FRS and approved by the Office of Management and Budget.

Recommendation

We recommend that FRS, in consultation with the Office of Management and Budget, develop and implement appropriate measures for the Administrative Services, CRRS, Operations, and WST, programs that help ensure the use of overtime compensation by FRS employees is linked to the FRS' performance management system and the County's budget decision-making process.

Response

With the relatively recent creation of the Fire Chief position, a renewed emphasis has been placed on data management and validating existing performance measures to assure that they directly relate to organizational priorities. Performance measures will include focus on assessing the use of overtime to staff programs versus the use of full-time positions.

In order to present an accurate documentation of staffing requirements, MCFRS is in the process of changing/updating our Index Code and Project Code system. The new codes will properly reflect organizational structure as well as all categories of work activity, which in turn will provide much better data to all managers regarding their current fund expenditures. It is anticipated that the new system will be in effect July 1, 2007. With the institution of the project codes, MCFRS will be able to increase knowledge of overtime expenditures and provide all managers greater capability to monitor and manage their specific programs.

The institution of project codes will assist in gaining a greater understanding of the overtime expended and should allow for the appropriate cost/benefit analysis that has been recommended. This should provide the appropriate data to analyze whether specific work activities should be converted from overtime to permanent positions.

Finding 5

Formal responsibility for oversight of timekeeping procedures used to record and approve overtime compensation has not been established.

Recommendation

We recommend the Department of Finance establish formal responsibility for oversight of MCG timekeeping procedures used to record and approve overtime compensation. We also recommend the oversight include conducting, on a risk assessment basis, periodic internal audits of procedures and business processes used to record, approve and justify overtime compensation at selected County departments/offices.

Response

Under the historic paper timesheet process, ensuring proper recording and approval of overtime has been a manual process within each department, subject to human error and oversight. I also agree with your finding and recommendation relating to periodic internal audits.

Over the years, the Finance Department has issued guidance that addresses aspects of the timekeeping preparation and approval process. For example, guidance to departmental timesheet and batch control preparers dated July 2001 noted that “All timesheets require a supervisor or designee signature.” General instructions providing brief explanations of timesheet fields and coding, including the overtime earnings types and overtime hours column, was revised in May 1996 and reviewed in April 1997. However, the Finance Department has not implemented a policy of periodically reissuing such guidance, or of posting such guidance on the County intranet site. The Finance Department is currently in the process of identifying relevant historical guidance relating to paper timesheet preparation and approval process to post on the County intranet site, and to communicate to departmental representatives the availability of such guidance.

In February 2004, OHR and the Finance Department also compiled, as part of business process documentation efforts relating to the system implementation referred to below, a comprehensive and detailed guide on compensation rules and practices. The guide was used as a tool in developing the business rules for the new system, and it is also currently available as a resource tool for OHR and payroll staff. While the guide is too voluminous to be a useful resource for operating department staff, it does include a significant number of sample timesheets to support business rules, such as those relating to overtime reporting. The Finance Department will be reviewing such sample timesheets to determine which will be appropriate to post on the County

intranet site, and if any would be appropriate to provide to MCFRS staff, as sample guidance for employees preparing paper timesheets.

It should also be noted that guidance on timesheet preparation relating to specific pay topics has been issued periodically by OHR, in conjunction with the Finance Department. Such communications have been designed to provide departments with guidance on time reporting to ensure compliance with the personnel regulations and negotiated labor agreements. Examples include HR Topics posted on the County's internet site, HR Resource Library, relating to Family and Medical Leave (March 2002) and Personal Leave (January 2000). Memos have also been directly issued via email to departments by OHR, the Finance Department, or the Chief Administrative Officer on proper reporting of time associated with general emergencies and similar situations. Examples include timesheet reporting for election technical support and election judges (August 2006 and November 2004), employees involuntarily ordered to active military duty (September 2005), and administrative leave (September 2001).

As noted in Finding 5, an August 2003 edition of Government Finance Review cited the cost benefits of implementing automated timekeeping systems, in part because of the varying interpretations of business rules that can take place throughout an organization under a paper system. These same reasons prompted the County several years ago to obtain funding and implement an automated timekeeping system and to implement standardized business rules and reengineered business processes.

Effective with the pay cycle beginning April 1st, the County is implementing the Electronic Time Reporting and Management System (MCtime) and the associated business processes with the first pilot departments. In conjunction with this implementation, business rules, developed and reviewed by the Office of Human Resources and the Department of Finance in compliance with the personnel regulations and negotiated agreements, have been standardized within the system. Baseline schedules are maintained and employees are classified in pay groups, so that overtime rules have been able to be standardized. Electronic approval paths are an integral part of the electronic process, with supervisory relationships and assignments, including backup supervisors, maintained in the system. Timesheets can be prepared by employees, and all timesheets must be electronically approved by the employee's supervisor (or backup supervisor) before they can be processed into the payroll system.

The County has developed a web-based training system, training materials, and job aides that include guidance on the systems and the business processes. To date, employees in the pilot departments have received such training, and the training materials, job aides, and access to the web-based training system have been posted on the County's intranet site. The implementation of this system and the associated business process reengineering is the County's permanent solution to the issues raised in your report relating to oversight of County timekeeping procedures.

The Department of Finance will work with the Office of Human Resources to identify any communications that should be made to departments relating to formal responsibility for oversight of timekeeping procedures.

As it relates to your recommendation regarding periodic audits, Internal Audit is currently in the process of conducting a technology audit of the Mctime system and its implementation.

Finding 6

Unrealistic FRS overtime budgets used during the fiscal years 2004 to 2008 budget process did not provide FRS management, the Executive, and Council with accurate and meaningful cost data.

Recommendation

We recommend that FRS, in consultation with the Office of Management and Budget and Department of Finance, develop an effective and efficient overtime budget process by collecting accurate and timely overtime information on employee timesheets, and using this information to: analyze overtime trends by project; target areas of high overtime use; prepare staffing requests; and develop realistic overtime budgets.

Response

The Office of Management and Budget is working with MCFRS to develop a realistic budget for overtime that will be ready for the FY08 Approved Budget. This overtime budget will be based on prior experience, historic patterns of overtime usage, projected vacancies, and other key factors that affect the overtime budget. The final FY08 overtime budget will not require an increase in required appropriation because any increase in the budget for overtime will be offset by reductions in other pay categories that will also be adjusted to reflect more reasonable estimates of projected usage.

I concur in the use of project codes to track, monitor and manage the use of overtime in MCFRS. Any new system that is developed for this purpose should be coordinated with the ongoing Mctime system implementation. We are researching the extent to which Mctime, in its currently defined project scope, can be used to perform these overtime tracking and reporting functions. However, MCFRS is not scheduled to transition to participate in Mctime until FY09.

Lastly, follow-up will occur to ensure that outstanding reimbursement requests are appropriate.

Conclusion

In conclusion, I appreciate the opportunity to provide comments on the Draft Interim Audit Report on Overtime Compensation. I look forward to your final report and as always, should you have any questions, please do not hesitate to contact me or Paul Folkers.

Thomas J. Dagley

April 25, 2007

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Cc: Thomas W. Carr, Jr., Fire Chief
Jennifer Barrett, Director of Finance
Joseph Beach, Acting Director, Office of Management and Budget
Joseph Adler, Director, Office of Human Resources
Paul Folkers, Assistant Chief Administrative Officer

Appendix B

US&R CORPORATIVE AGREEMENTS OVERTIME (1360) EXPENDITURES CALENDER YEAR 2004 thru 2006 MONTGOEMRY COUNTY FIRE & RESCUE SERVICES						
US&R ACTIVATIONS				2004	2005	2006
2004 RNC				\$6,107		
G-8 SUMMIT				\$3,825		
CHARLIE				\$79,867		
FRANCES/IVAN				\$106,145		
DENNIS					\$33,645	
KATRINA					\$585,098	
OPHELIA					\$184,703	
RITA					\$613,850	
WILMA					\$82,941	
ERNESTO						\$19,720
US&R ACTIVATION TOTAL				\$195,944	\$1,500,237	\$19,720
US&R TRAINING						
WMD_AA				\$183,344	\$22,340	
WMD_BB				\$252,133	\$28,709	
WMD_CC				\$0	\$232,672	\$177,445
WMD_DD				\$0	\$0	\$269,780
FEMA TRAINING TOTAL				\$435,477	\$283,721	\$447,225
US&R ACTIVATIONS & TRAINING GRAND TOTAL				\$631,421	\$1,783,958	\$466,945

Source: Fire and Rescue Service

Appendix C

US&R CORPORATIVE AGREEMENTS							
OVERTIME (1360) EXPENDITURES <u>FY04 thru FY06</u>							
MONTGOEMRY COUNTY FIRE & RESCUE SERVICES							
			FY04		FY05		FY06
US&R ACTIVATIONS							
FEMA SPECIAL EVENT-2004 REP. NATIONAL CONVENTION					\$6,107		
G-8 SUMMIT			\$3,825				
CHARLIE					\$79,867		
FRANCES/IVAN					\$106,145		
DENNIS							\$33,645
KATRINA							\$585,098
OPHELIA							\$184,703
RITA							\$611,091
WILMA							\$82,941
ERNESTO							
US&R ACTIVATION TOTAL			\$3,825		\$192,119		\$1,497,478
US&R TRAINING COOROPERATIVE AGREEMENTS							
WMD_AA			\$357,248		\$24,334		
WMD_BB			\$92,999		\$187,301		\$542
WMD_CC			\$0		\$136,813		\$269,921
WMD_DD			\$0		\$0		\$131,360
COOPERATIVE AGREEMENT TRAINING TOTAL			\$450,247		\$348,448		\$401,823
GRAND TOTAL US&R ACTIVATIONS & US&R TRAINING AGREEMENTS			\$454,072		\$540,567		\$1,899,301

Source: Fire and Rescue Service

Audit Manager

**Christopher Giusti
Deputy Inspector General**

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