

Audit Report

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**Office of Inspector General**

Montgomery County Government Overtime Compensation

December 2007

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Interim Report Issued April 30, 2007



Office of Inspector General  
Montgomery County, Maryland

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December 14, 2007

Hon. Mike Knapp, President, County Council  
Hon. Isiah Leggett, County Executive

President Knapp and Executive Leggett:

On April 30, 2007, we issued an interim audit report to you regarding Montgomery County Government (MCG) overtime compensation. The report was issued so corrective action could be taken, as deemed necessary, to reduce the potential for fraud, waste, and abuse. The report contained six finding/recommendations involving Fire and Rescue Service (FRS), Finance, and the Office of Management and Budget. The Chief Administrative Officer concurred overall and agreed to address each finding.

We have completed the second phase of this audit, which examined the use of overtime for County-funded positions at Local Fire and Rescue Departments (LFRDs) and related budget documents. Recognizing that the findings/recommendations reported in April addressed internal control deficiencies related to FRS overtime compensation and timekeeping generally, there are no reportable findings for the second phase of this audit. However, this report identifies opportunities for improvement that were outside the scope and objectives of the audit that we believe should be considered to ensure the full potential and performance of approximately 20 County-funded LFRD administrative personnel whose positions are County-funded, even though they are not County employees.

In October 2007, management advised us that the findings/recommendations in the April report were receiving appropriate corrective action. The status of corrective action was reported in our Fiscal Year 2007 Annual Report and is updated in this report. Consistent with government auditing standards and the OIG Four-Year Work Plan, we plan to conduct follow-up work in the February-April 2008 period, using MCG calendar year 2007 overtime workhours and employee earnings, fiscal year 2008 budget results, and updated timekeeping policies in our analysis.

We wish to acknowledge the cooperation extended to us by management, the Volunteer Fire-Rescue Association and LFRD employees throughout this audit.

Respectfully submitted,

Thomas J. Dagley  
Inspector General

**Office of Inspector General  
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## Background Information

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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 fiscal years 2007-2009 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 employee 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 Earnings<sup>1</sup>**

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

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 limited our review to Police, FRS, and the 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.

In the second phase of the audit, we reviewed approximately 700 timesheets of the County-funded employees of the LFRDs for calendar year 2006 and found the use of overtime was limited. A review of the budget documentation disclosed the annual budget process by the LFRDs required by Chapter 21, Fire and Rescue Services, Montgomery County Code, does not reflect the necessary expenditures

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<sup>1</sup> The overtime work hours and earnings include federal, state, and other grants.

to manage and operate the LFRDs. For the past several fiscal years, due to budgetary constraints, the budgets awarded to the LFRDs have remained consistent, been reduced or offset by other mechanisms (i.e., supplemental budget requests, grants, and direct reimbursements). As a result, the budget submissions by the LFRDs have often become a process of resubmitting the previous fiscal year budget as opposed to identifying the actual expenditures necessary to operate the LFRDs.

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<sup>2</sup>**

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
<b>Total</b>	<b>879,440</b>	<b>\$32,165,047</b>	<b>972,232</b>	<b>\$37,024,121</b>	<b>1,036,868</b>	<b>\$41,023,732</b>

### Interim Audit Report

In April 2007, we issued an interim audit report that included our evaluation of internal controls related to the payment of overtime compensation and related timekeeping activities. An electronic version of this report can be found at <http://www.montgomerycountymd.gov/ig>. The interim report includes six findings and recommendations that address deficiencies in the design or operation of internal controls as it relates to the payment of overtime compensation. 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. Our recommendations address opportunities for FRS, the Department of Finance, and Office of Management and Budget to strengthen internal controls, policies and procedures, budgeting, and oversight.

In the interim report, we recommended that a timeline be established by management to ensure corrective actions are completed by mid-year of fiscal year 2008. In October 2007, management advised us that the findings/recommendations in the interim report were in the process of being addressed. The following table summarizes our assessment of the status of corrective action for each finding and recommendation.

<sup>2</sup> Calendar Year 2007 work hours and expenditures will be available for comparison purposes in early 2008.

**Table 3 - Status of Corrective Action for Findings and Recommendations**

Finding	Recommendation(s)	Resolution of Findings - Status of Corrective Action
1. FRS overtime policies and procedures have not been updated since 1993	<ul style="list-style-type: none"> <li>FRS update or rewrite its policies and procedures and disseminate them to all FRS personnel</li> <li>A component of the FRS overtime policy include periodic self-assessments by management to ensure compliance</li> </ul>	<p>Management response stated the 1993 policy is in the revision stage. Also, bi-weekly FRS reviews have been used as part of management’s corrective action. <b>In Progress</b></p>
2. FRS internal controls and management oversight of overtime were not sufficient	<ul style="list-style-type: none"> <li>FRS and Finance develop and implement internal controls that ensure the accuracy and completeness of FRS timesheets and to protect against abuse</li> <li>The internal controls address the need for a specific separation of duties between individual employees, supervisors, and management</li> </ul>	<p>Management response stated existing FRS policy was not followed and acknowledged the potential for overtime abuse. A draft revised policy will be reviewed by Finance and OHR for adequate internal controls and separation of duties. Also, an updated FRS index/project code system has improved the tracking of overtime expenses. <b>In Progress</b></p>
3. FRS did not have a comprehensive management system	<ul style="list-style-type: none"> <li>FRS and OMB identify the requirements for a comprehensive FRS management system capable of tracking and analyzing the use of overtime</li> <li>FRS conduct research to identify and evaluate other County systems, including the Police Department, and other jurisdictions to save in the development time and costs</li> </ul>	<p>Management response stated reorganizing and using index/project codes for all overtime has been implemented. Also, FRS was moved to the forefront of Mctime (the County’s electronic timesheet project) to help address this finding, with an 18-24 month estimate for implementation. <b>In Progress</b></p>
4. FRS overtime use has not been linked to key performance measures and results	<ul style="list-style-type: none"> <li>FRS and OMB develop and implement appropriate performance measures for Administrative Services and three other key programs to link employee overtime to the FRS performance management system and MCG’s budget decision-making process</li> </ul>	<p>Management response indicated there is a renewed emphasis on data management and validating existing performance measures. Also, performance measures will include a focus on assessing the use of overtime versus the use of full-time positions, and a new Executive Performance Plan will include performance requirements to address this finding. <b>In Progress</b></p>
5. Formal responsibility for oversight of MCG timekeeping procedures has not been established	<ul style="list-style-type: none"> <li>Finance establish formal responsibility for oversight of MCG timekeeping procedures used to record and approve overtime</li> <li>MCG oversight include periodic internal audits of procedures and business processes used to record, approve, and justify overtime at selected departments/offices</li> </ul>	<p>Management responded that the implementation of Mctime system and associated business process reengineering will be the County’s permanent solution to the issues identified in this finding. <b>Pending</b></p>
6. FRS overtime budgets have not been realistic	<ul style="list-style-type: none"> <li>FRS, OMB and Finance develop an effective and efficient overtime budget process by collecting accurate timely information that is used to: analyze overtime trends by project; target areas of high overtime use; prepare staffing requests; and develop realistic budgets</li> </ul>	<p>Management response stated OMB is working with FRS to develop a realistic budget for the FY 2008 budget. Also, the County’s approved FY 2008 budget book reported the Council reduced FRS overtime funding by \$3 million. Our analysis of FRS overtime through the first quarter found actual expenditures were 41% of the total budgeted for FY 2008. See Table 4. <b>In Progress</b></p>

**Table 4 - FRS Budgeted Overtime versus Actual Overtime Payments**

<b>Fiscal Year</b>	<b>Budgeted</b>	<b>Actual</b>	<b>Difference</b>
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	\$6,113,220 <sup>3</sup>	\$15,301,844	\$9,188,624 (+150%)
2008	\$11,742,629	\$ 4,822,319 <sup>4</sup>	<sup>5</sup>

**Future Follow-up Work on Deficiencies in Internal Control**

To properly address the potential for overtime fraud or abuse<sup>6</sup>, including the creation of unneeded overtime, and to assure the Council and Executive that all significant deficiencies involving overtime compensation internal controls have been adequately addressed by management, follow-up audit work is planned in the February-April 2008 period. The follow-up audit work will give us the opportunity to use MCG calendar year 2007 overtime hours, employee earnings, and approved timesheets to evaluate the use of revised timekeeping policies/procedures issued since the interim audit report. The follow-up work will also rely on the results of any internal audits or management reviews conducted since April 2007 – these are important components of management accountability and the County’s overall governance system.

**Ideas to Explore**

During our review of FRS overtime policies and procedures, including interviews with FRS career and volunteer personnel, we learned about the County’s unique use of approximately \$1.4 million of taxpayer dollars to fund about 20 administrative personnel in the LFRDs. We found that, although the individuals in these positions are considered a valuable asset, there are opportunities for the Council and Executive to improve the efficiency and effectiveness of these positions, and their overall contribution to the success of FRS. We believe it is our responsibility to bring these issues to the attention of the Council and Executive even though they are outside the scope and objectives of the audit.

Chapter 21 of the Montgomery County Code created this unique category of employee in the LFRDs. Individuals are hired using the policies and procedures of the County’s Office of Human Resources; however, they are employees of the LFRDs. Their compensation including overtime and benefits are funded by the County and a professional volunteer approves use of the funds by authorizing overtime and approving their timesheets. There is minimal accountability and oversight by FRS management, primarily because they are not County employees. Similarly, it appears the training, development, and

<sup>3</sup> Updated by management from \$5,949,112 after the interim audit report was issued

<sup>4</sup> Through the first 6.5 pay periods (25%) of FY 2008

<sup>5</sup> Approximately 41% of the FY 2008 FRS overtime budget was spent through the first quarter

<sup>6</sup> According to the Government Auditing Standards (GAS) issued by the Comptroller General of the U. S. (July 2007 Revision), fraud is a type of illegal act involving the obtaining of something of value through willful misrepresentation. Whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. The GAS includes “creating unneeded overtime” as an example of potential abuse.



day-to-day supervision is determined by each LFRD which is a separate and distinct non-profit corporation.

We recommend the Council and Executive consider the following as opportunities to improve the processes used to engage, manage, and develop the personnel in these positions as an important component of the County's workforce:

- Review the day-to-day duties and responsibilities of the LFRD administrative positions to determine if they are aligned with the position descriptions and grade levels;
- Review the deployment of these resources throughout the LFRDs to determine if they effectively support short and longer-term LFRD and FRS priorities; and
- Determine whether the use of taxpayer dollars can be more effectively and efficiently utilized by having these positions report to the Fire Chief. One option is to explore developing a career track for the positions in order to provide career development and promotional opportunities for incumbents and develop subject matter experts to address FRS administrative priorities.

These individuals develop valuable knowledge, skills and abilities throughout their careers; however, the County may not be receiving the maximum return on its investment under the current structure.

## **Audit Scope, Objectives, and Methodology**

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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, 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 of public safety personnel for agreed-upon practices on 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 the issuance of the interim audit report.

After the interim report was issued, we completed a second phase of the audit which examined the use of overtime for County-funded positions at LFRDs. We conducted the second phase from May to September 2007. While the second phase did not require a formal management response (because there were no additional reportable findings), we provided a draft of this report to the CAO for comments prior to issuance.

**Audit Manager**

**Christopher Giusti  
Deputy Inspector General**

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