

Annual Report

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**Office of Inspector General**

Fiscal Year 2008

October 2008

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Office of Inspector General  
Montgomery County, Maryland

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## *A Message from the Inspector General*

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In fiscal year 2008, the Office of Inspector General (OIG) focused on key requirements set forth in the inspector general law (Montgomery County Code §2-151) – review the efficiency and effectiveness of programs of County government and other Council-funded agencies; prevent and detect fraud, waste, and abuse; and increase legal, fiscal, and ethical accountability.

Highlights of this report include a summary of our independent audits and reviews that recommended corrective action to address internal control and management oversight deficiencies, including two of County government's higher-risk areas - overtime compensation and disability retirement. Neither had an audit history and we found that both were vulnerable to abuse. This report also summarizes selected fraud, waste, and abuse investigations involving improper payments and management control deficiencies.

An update on the OIG's independent fraud hotline is also provided. The hotline was established in December 2006 on a pilot basis, providing all County government employees and contractors the opportunity to confidentially report, anonymously if desired, illegal or improper activity. In addition to reports of fraud, waste, and abuse received by the OIG via telephone, U. S. Mail, email and office visits, the hotline has generated more than 70 reports through June 30, 2008. While the total number of reports received each year has been relatively consistent, the quality of information received has improved. Key challenges for the OIG and County leaders include doing a better job to promote hotline awareness and extending its use as an anti-fraud tool to other Council-funded agencies.

As the OIG's Four-Year Work Plan (published August 2005) entered its final year, County leaders and the Charter Review Commission (CRC) were exploring a possible Charter change to authorize the Executive rather than the Council to select the Inspector General. We believe a change to the current Council-appointed model is not in the best interest of taxpayers. Additional information on this important topic can be found in the Challenges section.

In addition to fiscal year 2008 highlights, this report includes a summary of key OIG performance results for fiscal years 2006-2008 (page 4) – these results illustrate the value of an independent OIG to all stakeholders – County leaders, employees, contractors, and taxpayers. I would like to recognize the significant support provided to the OIG in fiscal year 2008 by Council members, Executive leaders, and their staff.

Respectfully submitted,

Thomas J. Dagley

**Office of Inspector General  
Fiscal Year 2008 Annual Report  
October 1, 2008  
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## **Mission, Vision, and Goals**

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The OIG's mission is to conduct objective and independent audits, inspections, and investigations relating to Montgomery County Government (MCG) programs, operations, and independent County agencies to:

- promote economy, efficiency, and effectiveness
- prevent and detect fraud, waste, and abuse
- promote legal, fiscal, and ethical accountability
- strengthen professional relationships, and
- inform stakeholders of problems and corresponding corrective actions.

## **Statutory Responsibilities**

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The OIG was established by the Montgomery County Council in 1997. The OIG is an independent office that relies on Government Auditing Standards<sup>1</sup> and the Principles and Standards of the Association of Inspectors General<sup>2</sup> to address the following responsibilities prescribed by Montgomery County Code §2-151:

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 and Council-funded agencies<sup>3</sup>.

To carry out our responsibilities, we:

- maintain an independent objective organization to conduct audits, reviews, and investigations
- take appropriate action to prevent and detect fraud, waste, and abuse
- receive and investigate credible complaints from any person or entity
- report possible criminal violations of law to the State's Attorney for Montgomery County, State Special Prosecutor, Maryland Attorney General, U. S. Attorney, or other appropriate law enforcement agency<sup>4</sup>
- notify the Council of serious problems in Council-funded programs
- review existing and proposed legislation and regulations to strengthen controls and increase accountability, and
- submit reports with recommendations, as appropriate, to County leaders.

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<sup>1</sup> Government Auditing Standards, U. S. Government Accountability Office (July 2007 Revision)

<sup>2</sup> Principles and Standards for Offices of Inspectors General, Association of Inspectors General (May 2004 Revision)

<sup>3</sup> In addition to the Executive Branch, the Council-funded agencies include the Montgomery County Public Schools, Maryland-National Capital Park and Planning Commission, Washington Suburban Sanitary Commission, Montgomery College, Housing Opportunities Commission, Revenue Authority, and any other governmental agency (except a municipal government or a State-created taxing district) for which the County Council appropriates or approves funding, sets tax rates, or approves programs or budgets

<sup>4</sup> For example, federal offices of inspectors general

## Challenges

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### Factors Impacting OIG Effectiveness

As stated in the cover message, County leaders and the Charter Review Commission (CRC) are considering a possible change to the County Charter to authorize the Executive rather than the Council to select the Inspector General. In February 2008, the Inspector General testified before the CRC, issuing a statement that supported the current Council-appointed approach. This statement is available on the OIG website under “IG Activity.”

More recently, OIG discussions with some CRC members and County leaders focused on the importance of the independence of the Inspector General position, and whether the authority of the OIG should continue to cover all Council-funded organizations, or be limited to the Executive Branch of County government.

With regard to the independence standard, according to the Association of Inspectors General, inspectors general and OIG staff involved in performing or supervising any assignment should be free from personal or external impairment to independence and should constantly maintain an independent attitude and appearance. Inspectors general are responsible for establishing and maintaining independence so that OIG opinions, conclusions, judgments, and recommendations will be impartial and viewed by others as impartial. Personal impairment includes, for example, official, professional, personal, or financial relationships that might appear to lead the OIG to limit the extent of work, to limit disclosure, or to alter the outcome of work. Factors external to the OIG that can restrict efforts or interfere with the OIG’s ability to form independent and objective opinions should be avoided, such as interference or undue influence in the selection, appointment, and employment of the inspector general and OIG staff.

In addition, the following principles, paraphrased from a federal bill under consideration by the U. S. Congress to increase the effectiveness of inspectors general (the Inspector General Reform Act of 2008), are included in this report to assist County leaders in their deliberations regarding Montgomery County’s inspector general:

- Inspectors general should be appointed without regard to political affiliation
- Bonuses or pay raises should not be accepted by inspectors general from their agency to discourage agencies from using monetary incentives to pressure inspectors general
- Inspectors general pay should be increased to ensure enhanced independence; make their pay comparable to other senior agency officials
- Inspectors general should have access to independent legal counsel, avoiding potential conflicts of interest with agency counsels
- All public inspectors general reports should be posted on agency websites within three working days of release
- In the event of an inspector general vacancy, an independent council should recommend possible replacements
- The annual funding level requested by an inspector general and the funding level approved should be delineated, allowing interested parties to determine whether funding cuts may be used to interfere with the work of an inspector general.

### Access to Electronic Expenditure and Other Data

In fiscal year 2008, the OIG made significant progress toward its goal to obtain electronic expenditure data from all Council-funded organizations in order to carry out its mission. Electronic data files have increasingly been recognized as tools needed for the OIG to effectively analyze procurement and other Council-funded activities. In addition, expenditure data is needed to determine where higher-risk programs and activities exist and the potential or actual impact of risks on County operations. As an independent office with statutory responsibilities to prevent and detect fraud, waste, and abuse in Council-funded organizations, access to electronic data is needed to determine whether improper payments<sup>5</sup> in operating and capital improvement projects are a significant problem (see additional comments under Fiscal Year 2008 Results: Prevent and Detect Fraud, Waste, and Abuse).

In fiscal year 2008, we requested and received detailed electronic expenditure data from the Executive and County leaders for Montgomery County Public Schools, Montgomery College, and Park and Planning (MNCPPC). However, our request to the Washington Suburban Sanitary Commission (WSSC) was denied in February 2008 by the General Manager. At year-end, the request had not been fulfilled. As reported in an OIG March 4, 2008 memorandum to the Council President, Executive, and County Attorney, WSSC's refusal to provide the requested data continues to substantially impede OIG efforts to protect Council-approved dollars from fraud, waste, and abuse, and address taxpayer concerns regarding open and honest spending practices. WSSC's response can be accessed on the OIG website under "IG Activity."

### Work Plan

This annual report addresses OIG activities in fiscal year 2008 (July 1, 2007 through June 30, 2008), including some audits and investigations conducted during the fiscal year and reported in early fiscal year 2009. Similar to activities reported a year ago, our fiscal year 2008 work addressed various action plans described in our Four-Year Work Plan (published August 2005). This Plan is accessible via the OIG website.

As in prior fiscal years, our overall planning process for fiscal year 2008 comprised four main steps: (1) identify a universe of Council-funded programs and activities; (2) determine a list of potential OIG projects from this universe; (3) conduct risk assessment; and (4) develop a plan to conduct audits, reviews, and investigations consistent with our legislative mandate. For some projects, the receipt of fraud hotline or other information from employees, contractors, or taxpayers was a contributing factor in our decision.

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<sup>5</sup> Improper payment means any payment by a Council-funded organization that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements

## Fiscal Year 2006-2008 Results

The table below summarizes key OIG performance measures and results for the first three years of our Four-Year Work Plan. Fiscal year 2009 represents the fourth year of the Work Plan; results will be reported in October 2009.

**Table 1: Fiscal Year 2006-2008 Performance Measures and Results**

<b>Outcomes/Results:</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Percentage of audit recommendations accepted <sup>6</sup>	67	67	50
County funds recovered or put to different use as the result of audit findings or investigations	\$14 million <sup>7</sup>	\$3.1 million <sup>8</sup>	\$500,000 <sup>9</sup>
Questioned costs or potential savings	\$182,000 <sup>10</sup>	\$1.1 million <sup>11</sup>	\$9.6 million <sup>12</sup>
Formal responses to fraud, waste, and abuse matters reported to management by the Office of Inspector General	14	10	9
<b>Workload/Outputs:</b>			
Joint investigations with prosecutors	3	2	2
Complaints opened	53	54	48
Complaints closed	94	53	59
Audits/formal reviews reported <sup>13</sup>	4	4	4 <sup>14</sup>
<b>Inputs:</b>			
OIG Expenditures	\$438,625	\$534,614	\$587,329

<sup>6</sup> Includes recommendations or other actions carried out by the Council as a result of formal reports issued by the OIG

<sup>7</sup> In May 2006, the Council reallocated \$14 million in capital improvements program funds it originally approved in 2004 for a Seven Locks replacement elementary school on Kendale Road as a result of a February 2006 OIG audit report

<sup>8</sup> In May 2007, the Council made a \$3 million reduction in the Executive's recommended Fire & Rescue Service overtime compensation budget as a result of an April 2007 OIG audit report. In June 2007, we reported \$65,000 in improper County payments that were subsequently recovered through court-ordered restitution following a joint investigation into a recovery agent scheme

<sup>9</sup> In October 2007, the OIG learned that following a bid protest and joint OIG/State investigation in 2006-2007, a hearing officer reversed an estimated \$500,000 contract award to replace lights at County athletic ballfields at Olney Manor Park. Findings included the use of false financial data by the awardee

<sup>10</sup> In a July 2006 audit report, we identified potential savings of \$182,000 related to the lack of a formal return-to-work program for Montgomery County Public Schools employees receiving workers' compensation payments

<sup>11</sup> In an April 2007 audit report, we identified \$1.1 million in questioned County government Fire & Rescue Service overtime compensation payments

<sup>12</sup> In an August 2007 audit report, we identified more than \$9.5 million in questioned road construction costs associated with County government's implementation of its Clarksburg Town Center Development District - capital improvements program project #500423. In a May 2008 investigative report, we identified improper payments totaling \$137,700 related to services to be performed by a Department of Health and Human Services vendor

<sup>13</sup> Includes reports issued in the 1<sup>st</sup> quarter of the following fiscal year where field work was completed prior to June 30

<sup>14</sup> County government's Overtime Compensation, December 2007; Special Review-Overtime Compensation, April 2008; County government's Disability Retirement Program, September 2008; Letter Report-Council Audit Committee Recommendation, September 2008



## **Fiscal Year 2008 Results: Increase Efficiency and Effectiveness**

### Overtime Compensation – Audit Report and Special Review

Over a sixteenth month period from January 2007 through April 2008, we conducted a review of County government's overtime compensation policies and procedures, and payroll timesheets for selected departments. As a result, we found inconsistent controls across County departments which were addressed in three reports (April and December 2007, and April 2008). In April 2007, we reported six findings and recommendations to the Chief Administrative Officer to improve internal controls and management oversight related to overtime compensation. We identified approximately \$1.1 million in questionable Fire and Rescue Service (FRS) overtime compensation payments made in calendar year 2006 and reported that FRS management's policies, controls, and oversight were not sufficient to ensure the accuracy of timesheets and protect against overtime abuse. We also reported that the Department of Finance had 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 employees are properly approved. The Chief Administrative Officer concurred overall and agreed to address each finding.

In our December 2007 report, we reported that the status of corrective action for five of the six findings was "in progress" and "pending" for the remaining finding.

In our April 2008 special review report, we reported that our findings related to FRS policies, controls and oversight had been "substantially addressed." We found that our findings related to the FRS management system and linking the use of FRS overtime to key performance measures and results remained "in progress", and the findings related to County government's oversight of timekeeping procedures and the development of accurate meaningful FRS overtime budgets remained "pending." Regarding overtime budgets, we reported that although an important step was taken in May 2007 when the Council reduced the Executive's FY 2008 recommended FRS overtime budget by \$3 million, it was apparent that FRS would significantly exceed its overtime budget for a fifth consecutive fiscal year. We reported that, in our opinion, the FRS business model which evolved over several years had created work system deficiencies that contributed to increased overtime use by relying on senior personnel to perform field operations, training, and other duties. Table 2 of our April 2008 report documented that the ten highest calendar year 2007 overtime earners were FRS Captains whose total compensation ranged from \$175,745 to \$238,892.

The relevance of our overtime compensation audit work became apparent during a May 2008 Executive Branch CountyStat<sup>15</sup> project presentation to senior management on cross-departmental use of overtime. Two key points made during the presentation were "All Departments should closely monitor overtime to ensure Montgomery County residents receive the highest possible return on their tax-dollar investment" and "Tracking overtime provides an opportunity to uncover operational inefficiencies and create actionable solutions." At year-end, the following

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<sup>15</sup> CountyStat is an Executive Branch technology-enabled process to identify and resolve issues in a systematic way. Its goal is to ingrain the concepts of data-driven decision making into government culture and focus on department efforts to deliver results

action items were receiving follow-up attention by the Chief Administrative Officer and CountyStat Manager:

- Develop guidance for departments on an acceptable level of overtime earnings as a percentage of regular earnings by looking at past department performance
- Report on the status of individuals with high overtime earnings as a percentage of regular earnings, reasons for the high percentage, and any plans to distribute workloads more evenly
- Develop a project code or codes to track overtime related to storms and snow events
- Disaggregate overtime use in the Department of Transportation by division
- Follow-up with minimum staffing as an explanation for why average overtime hours at FRS exceed the average at the Department of Police
- Determine how Department of Police practices for controlling overtime at the ECC and for court appearances compare with practices in other jurisdictions
- Complete training on filling out the overtime reporting form

It appears the above-described CountyStat initiative on cross-departmental overtime compensation provides the methodology needed for the Executive and Council to maintain a focus on overtime compensation performance, governance, and accountability.

#### County Government Disability Retirement Program – Interim Report

In March 2008, we initiated a review of County government's disability retirement program that includes evaluating: policies and procedures relied upon to meet the needs of employees and protect financial resources; internal controls used to safeguard against potential abuse; and case file documentation used to support disability claims. Recognizing that a service-connected disability retirement (SCDR) is an important benefit for employees who receive incapacitating injuries during County employment, our initial plan included focusing on SCDRs throughout County government. However, based on allegations of fraud, waste, and abuse received by the OIG and our preliminary analysis of County retirement data, our review through September 2008 focused on police officers who represented approximately 49 percent (58 of 119) of all County employees approved by the Chief Administrative Officer for SCDR benefits between July 1, 2004 and March 1, 2008. Our review disclosed that approximately 62 percent (58 of 93) of police officers who retired during this period were approved for SCDR benefits (66 2/3 percent of final earnings and lifetime tax-exempt status).

We issued an interim evaluation report in September 2008 that included two findings and recommendations. By formally communicating our concerns before all OIG work was completed and a final report issued, the Council and Executive were given an opportunity to begin corrective action, as deemed warranted, in a timely manner. The findings and recommendations were as follows:

- Finding 1 – Internal controls and management oversight by the Office of Human Resources (OHR) were not sufficient to ensure SCDRs approved for police officers in a full-duty work status were protected against abuse. We found that of the 58 officers approved for a SCDR during the review period, nine were classified by the Department as in a full-duty work status with no work restrictions or limitations at the time of the

SCDR application. Of the nine officers approved, three had their police powers suspended and were under investigation for improper or illegal conduct when they applied for the SCDR. In addition, two of the nine officers (both in senior management level positions) were finalists or had already been selected for a second career position when the SCDR application was filed.

We questioned the CAO's approval of the SCDRs because the timing of each application appeared to coincide with factors unrelated to incapacitation. We also questioned management's decision to not use the CAO's authority to require certain police officers and other employees receiving SCDR benefits to undergo a yearly physical examination during the five-year period following retirement and once every three-year period thereafter until age 55 to determine if the incapacitation status had changed.

- Finding 2 – Policies and procedures used to implement the Police Department's periodic medical examination program did not effectively assess the health status and functional capabilities of all police officers. We identified inconsistencies between the stated purpose of this program and the manner in which the program was implemented. For example, we found that while approximately 254 officers were due for a periodic medical examination during the January to June 2008 period, 181 (71 percent) were not scheduled by the Department for the required examination to be performed by OHR's Occupational Medical Services. We also found evidence that many officers did not receive the examination in prior years at the required frequency, including an officer whose last examination was in September 1994.

Our interim report and management's response can be found on the OIG website. Our decision to issue an interim rather than a final report was also based on the receipt of additional allegations of fraud, waste, and abuse reported to the OIG in August 2008, apparently as a result of the Executive's press release and related media coverage regarding recommendations for reform to the County's SCDR process by an OHR work group started in late 2007. Our review of the allegations and related program issues is continuing.

### **Fiscal Year 2008 Results: Prevent and Detect Fraud, Waste, and Abuse**

The OIG opened 48 new fraud, waste, and abuse complaints in fiscal year 2008. Complaints were handled in a variety of ways. For example, after preliminary investigation, some were closed because we were unable to validate the allegation. For others, our investigative results were reported to management and/or a prosecutor for a decision. As reported in Table 1, nine fraud, waste, and abuse matters were formally reported and addressed by management (this number excludes formal reports not resolved with management as of June 30, 2008). Further, information not of a confidential nature was referred to management for attention without an OIG investigation after determining that the issue would be more appropriately handled by the department or agency responsible for the program or activity.

### **Quick Response Investigations**

For the last three years, the OIG has used a quick response approach to help ensure certain OIG investigations provided management with timely information for issues brought to our attention. We found that the quick response approach is a useful tool, especially where a streamlined reporting process increases the likelihood of providing management with the information needed for timely corrective action. Other conditions for using a quick response approach include: an audit or investigation is requested by management or the Council; the problem is known; the program or activity needing attention has an audit/investigative history; or, a clearly defined deadline exists for completing the review.

In fiscal year 2008, we relied on the quick response approach to investigate and report several credible complaints received via the OIG Fraud Hotline and other sources. The following are some of the more significant examples:

Improper Payments Beginning in fiscal year 2008 and continuing into 2009, the OIG initiated a review of potential improper payments related to contract work performed for various County government departments. One of the investigations resulted in the identification of four improper payments totaling \$137,700 related to contract work to be performed by a Department of Health and Human Services (DHHS) vendor. The basis of our investigation was receipt of allegations that, in order to use certain grant funds prior to the end of fiscal years 2005, 2006, and 2007, DHHS staff processed purchase orders and improperly approved the payment of invoices because the required work had not been performed. During our inquiry, we found internal control and management oversight deficiencies that resulted in the improper payments. For example, management was not able to locate files or documentation to support whether specific deliverables were ever received from the vendor, or if appropriate reviews were conducted in conjunction with DHHS's approval of vendor invoices we reviewed. Management agreed with our conclusions regarding improper payments and reported that corrective action to address internal control deficiencies would be taken. At year-end, a decision by management and the County Attorney regarding formal action to pursue reimbursement from the vendor was pending.

Another OIG investigation identified internal control deficiencies regarding the approval of invoices submitted by a DHHS contract physician who provided psychiatric services at one of the DHHS centers. We found that monthly invoices for contracted professional services were approved by management and paid prior to receipt of contractor supporting documentation needed to verify the monthly hours billed to the County. Management agreed with our recommendation to require the submission of supporting documentation to justify the total hours billed; however, we were advised this change would require an amendment to the contract which expired on December 31, 2007.

We advised management that based on our testing and discussions with Department staff responsible for contract management; it appeared that the approval of invoices for payment prior to the receipt of proper supporting documentation may be an accepted practice for many contracts managed by DHHS.

In July 2008, we advised Executive management and the Council that additional OIG test work was needed in fiscal year 2009 to determine the extent of improper payments by DHHS as well

as other selected departments. This test work will include examining additional allegations of improper payments received by the OIG in the first quarter of fiscal year 2009.

New County Vehicle “Prep” The OIG conducted an investigation in response to an anonymous tip received in fiscal year 2008 alleging a significant backlog of new public safety and other County vehicles needing preparation prior to being placed into service. We found that of the 143 public service and other vehicles received from the manufacturer from October 2007 through February 2008, only 12 had been placed in service, resulting in a backlog of 131 vehicles. Our review also revealed that the performance standards in the County’s contract with the company performing vehicle preparation were not met, possibly because these standards were verbally lowered by a former Department of Public Works and Transportation (DPWT) manager. Following issuance of an OIG report, the Director of DPWT reported in May 2008 that all of the 131 vehicles in the backlog had been prepped and corrective action had been taken to prevent a repeat of the condition. At year-end, follow-up OIG action with management regarding concerns involving specific contract terms and conditions had not been completed.

#### Fraud Hotline Implementation

Through June 2008, more than 70 reports of fraud, waste, and abuse were received through the OIG fraud hotline since it began operating in December 2006. Approximately 50 percent of the reports were anonymous. Thirteen categories of reports were used by the OIG contractor to categorize the nature of information reported to the OIG, with policy issues, fraud, and theft of time representing about 60 percent of the issues reported. As stated in this report’s cover letter, while the total number of fraud, waste, and abuse complaints received annually by the OIG from all sources has remained relatively consistent, the quality of information received has improved. In fiscal year 2008, several fraud hotline reports became investigative priorities or were key factors in our audit and formal review work.

Key fraud hotline challenges for the OIG and County leaders include doing a better job to promote hotline awareness and extending its use as an anti-fraud tool to other Council-funded agencies. Promotion of the hotline in fiscal year 2008 was limited and restricted to the County government workforce, even though the benefits of making the hotline available to all employees and contractors involved with Council-funding programs and activities are many. We will continue to explore fraud hotline expansion opportunities in fiscal year 2009.

The OIG fraud hotline is operated by a third-party partner who provides a customized toll-free number (1-800-971-6059). Our contractor provides similar services to more than 1,000 clients, makes the hotline available on a 24-hour basis seven days a week, and has the capacity to receive complaints in more than 150 languages.

#### Land Development

As a continuation of our fiscal year 2007 priorities involving allegations of land development fraud, the OIG continued to receive and investigate specific land development complaints in fiscal year 2008. We coordinated our investigations, as appropriate, with County departments and government agencies with oversight responsibilities. No cases were completed and reported in fiscal year 2008.

### Joint Investigations with Prosecutors

We continued to pursue potential fraud or other illegal activity involving County programs or activities jointly with law enforcement agencies or prosecutors. Two investigations were initiated during the reporting period. For this work, the violation of any criminal statute(s) is determined by a prosecutor and the appropriate judicial system, with OIG responsibilities focusing on providing investigative support and determining whether any County internal control deficiencies may have been a contributing factor. When deficiencies are identified, they are reported to senior management, as appropriate, with recommendations for corrective action.

### **Fiscal Year 2008 Results: Increase Legal, Fiscal and Ethical Accountability**

#### Letter Report – Council Audit Committee Recommendation

From January to June 2008, we conducted a review of oversight practices and internal controls for selected financial reporting activities. The objectives were to assess the: 1) role of oversight practices including those performed by Council committees to ensure management adheres to a sound system of internal controls, procedures are in place to objectively assess management practices, and auditors, through their own reviews, objectively assess financial reporting; and 2) adequacy of anti-fraud programs and controls. As the review progressed, we increasingly focused on comparing certain recommended practices of the Government Finance Officers Association (GFOA), American Institute of Certified Public Accountants (AICPA) and other professional organizations to Council oversight activities.

In June 2008 we reported our preliminary results to Councilmembers, and in September 2008 we issued a letter report to the Council President with the following recommendation: “by establishing and operating a formal audit committee in accordance with guidelines issued by the GFOA<sup>16</sup> and AICPA<sup>17</sup>, the Council can improve its independent review and oversight for financial reporting, management control, and audit activities for County Government and other Council-funded organizations.” We reported that although the Council’s existing six-committee structure includes the use of external auditors to provide reasonable assurances that all Council-funded organizations have prepared financial statements in conformity with generally accepted accounting principles, the combined committee and external auditor work is not sufficient to provide assurances that: management properly develops and adheres to a sound system of internal controls; procedures are in place to objectively assess management practices; and auditors objectively assess financial reporting and the potential for fraud or abuse based upon risk assessments. We reported that an audit committee operated according to GFOA guidelines and related best practices could enhance the Council’s capability to provide oversight to the more than \$4 billion in annual operating funds and approximately \$3.4 billion for more than 500 capital improvements program (CIP) projects approved by the Council for FY 2009.

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<sup>16</sup> GFOA recommends that the governing body of every state and local government establish an audit committee, or its equivalent

<sup>17</sup> The “AICPA Audit Committee Toolkit: Government Organizations” provides valuable information and tools to help a governing body and its officials create an effective audit committee function to help improve fiscal accountability

Recommended practices for audit committees include:

- Inquiries of executive leadership, management and independent auditors regarding significant risks or exposures facing the organization(s) to assess the steps taken or needed to minimize the risks
- Review with executive leadership, management and independent auditors the audit scope and plan of internal auditors and independent auditors; address the coordination efforts needed to assure completeness of coverage, reduction of redundant efforts, and effective use of audit resources
- Review with executive leadership and management the significant findings of internal and independent audits
- Periodically review codes of conduct to ensure a clear set of guiding principles are in place regarding legal and ethical behavior for all employees and contractors involved with activities funded by the governing body
- Ensure policies and procedures are in place to encourage and facilitate the reporting of fraud or abuse and questionable accounting or auditing practices; ensure that those responsible for receiving and addressing complaints document the disposition of each so they can be periodically assessed.

In addition, the GFOA and/or AICPA recommend the following best practices that we believe should be considered by the Council incident to making an audit committee decision:

- Audit committees should be formally established (i.e. through legislation or other appropriate legal means)
- Members should possess or obtain a basic understanding of government financial reporting or auditing; at least one member should have financial experience
- Committees should meet at least four times per year, and at additional times when necessary to assess and respond to issues raised as a result of audit work and reviews, or reports of suspected fraud
- Members should be clear on the difference between audit (i.e. compliance with government auditing standards) and non-audit services. Under AICPA and GAO standards, for example, auditors have certain responsibilities for detecting fraud and illegal acts and determining whether those charged with governance are adequately informed.

During our discussions with Council members and staff in July and August 2008, we emphasized the wealth of resources available through the GFOA, AICPA, GAO, Association of Government Accountants (AGA), and Association of Certified Fraud Examiners (ACFE) to learn more about audit committee best practices. We also began to examine how Montgomery County's finance officers, auditors, Office of Inspector General, and Office of Legislative Oversight can be used as a resource to openly discuss the steps needed to establish and implement a Council audit committee. While a formal Council response to our audit committee recommendation was not requested, Council work sessions on this topic were scheduled to begin in October 2008.

### Audit of Selected Capital Improvements Program Projects - Development District Funding

In an August 2007 audit report and our fiscal year 2007 annual report, we reported the results of our review of selected CIP projects identified in the fiscal year 2008 budget book as approved for funding via the Clarksburg Town Center Development District (CTCDD) created in March 2003 with the Council's passage of Resolution 15-87. The Resolution provided \$17 million for infrastructure improvements. The projects we examined – Stringtown Road Extended and CTCDD: Roads – accounted for approximately \$1.6 million and \$9.5 million, respectively.

For the Stringtown Road Extended project, there were no reportable findings. For the CTCDD: Roads project, we reported that improvements were needed in County government's administration of management processes used to implement the development district and to coordinate infrastructure road construction projects. We reported that the absence over a four year period of a designated administrator and written procedures resulted in weaknesses in the coordination of key management processes used to implement this CIP project. We also reported that County government may not be complying with Section 14-16 of the County's development district law regarding competitive bidding for road projects, including two that were substantially completed by the developer at the time of our audit. In addition, we reported that key cost data, expenditure/funding schedules, and descriptions included in the Council's approved FY 2008-2013 CIP for the CTCDD: Roads project did not accurately account for certain development district funds authorized in 2003.

Council work sessions later in fiscal year 2008 included the possible termination of the CTCDD. In the Council's approved FY 2009-2014 CIP (July 2008), the CTCDD: Roads project (#500423) was modified and footnoted as "pending close out or close out." In fiscal year 2009, the OIG plans follow-up work to review County government's mechanisms for payments to developers for the road construction projects.

### Administrative Issues

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#### OIG Budget and Resources

Fiscal year 2008 was the OIG's eleventh year of operation as an oversight office for all Council-funded organizations whose appropriations have grown to an annual operating budget of more than \$4.3 billion and a multi-billion dollar six-year capital budget. In this regard, there is a need for the Inspector General and County leaders to re-evaluate the resources needed for an OIG FY 2010-2013 four-year work plan to ensure the inspector general model is capable of fully responding to its statutory requirements and becoming an integral part of the Council's governance system. Currently, the inspector general model is in the early stages of developing a systematic approach to effectively serve County leaders, their workforce, and taxpayers. Many key challenges that need to be addressed are detailed in the OIG fiscal years 2008 and 2009 budget requests.

#### Audit and Investigative Standards/Professional Development

As in preceding years, OIG team members were well qualified in fiscal year 2008 to address statutory responsibilities and the actions plans in the Four-Year Work Plan. As an independent office, we ensured objectivity was maintained in all phases of our work, professional judgment



was used to plan and perform our work and report results, and work was performed by employees who were professionally competent. We relied primarily on investigative and auditing standards published by the Association of Inspectors General (AIG) and the U. S. Government Accountability Office to perform our work. In fiscal year 2008, OIG staff received continuing professional education and other training sponsored by County government, AIG, Association of Government Accountants, USDA Graduate School, Association of Certified Fraud Examiners, and U. S. Department of Commerce in areas that included: financial and performance auditing; fraud, waste and abuse investigations; performance management; and ethics.

The OIG also made contributions to performance excellence initiatives at County, state and national levels. For example, the Inspector General served as an Examiner in 2008 for the Baldrige National Quality Program. He also served as a trainer and member of the Executive Guidance Board for the Maryland Performance Excellence Awards process sponsored by the University of Maryland.

#### Professional Relationships

The OIG meets periodically with Council members, the Executive, Chief Administrative Officer and senior executive staff, County Attorney, external auditors, and managers from the Office of Legislative Oversight, Montgomery County Public Schools, Maryland-National Capital Parks and Planning Commission, Montgomery College, and Washington Suburban Sanitary Commission. In addition, we meet periodically with state and federal auditors and prosecutors, and other inspectors general. During these meetings, standards applicable to the inspector general community are discussed along with other matters of mutual interest. As in prior years, fiscal year 2008 discussions helped ensure OIG audits and investigations did not duplicate or conflict with other efforts.

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