



OFFICE OF INSPECTOR GENERAL

Thomas J. Dagley
Inspector General

MEMORANDUM

October 4, 2005

TO: Tom Perez, President
County Council

Douglas M. Duncan
County Executive



FROM: Thomas J. Dagley
Inspector General

SUBJECT: FY 2005 Annual Report

Enclosed in accordance with Montgomery County Code §2-151 is the FY 2005 Annual Report of the Office of Inspector General. If you have any questions or comments, please do not hesitate to contact me.

Re: #0988
Enclosure





A Message from the Inspector General

Montgomery County Code §2-151 requires the Inspector General to submit an annual report to the County Council and Executive by October 1. This report for fiscal year 2005 (July 1, 2004 to June 30, 2005) covers a period of significant change and transition for the Office of Inspector General (OIG). For example, in addition to the former Inspector General's departure in May 2004 after more than six years, the OIG experienced the retirement of the Deputy Inspector General two months later. These departures resulted in the loss of more than two-thirds of the professional staff resources available to conduct audits, inspections, and investigations in fiscal year 2005. In addition, these vacancies significantly reduced the OIG's capability to continue implementation of the existing four-year work plan.

Notwithstanding the unusual challenges that persisted throughout fiscal year 2005, the OIG continued to fulfill its mandate with several accomplishments that are highlighted in this annual report. Following my appointment in April 2005, I immediately went to work to establish the professional relationships necessary for the OIG to be a valuable contributor to Montgomery County. Simply put, communication, mutual respect, and fairness were emphasized as hallmarks of successful relations. These principles were used to work with stakeholders to develop a new four-year work plan and budget for fiscal years 2006-2009. In addition, these principles are being used by new OIG staff to develop and sustain important relationships with senior leadership, employees, community organizations, and individual citizens.

On behalf of the OIG, I would like to acknowledge the service of the Acting Inspector General and Office Manager for their hard work throughout fiscal year 2005. Their consistent support to a strong OIG helped ensure we are positioned well to assist the County Council and Executive as they pursue the challenge of providing affordable and reliable services to Montgomery County residents.

Thomas J. Dausley

**Office of Inspector General
Fiscal Year 2005 Annual Report**

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Mission, Vision, and Goals

The OIG's mission is to conduct objective and independent audits, inspections, and investigations relating to County government programs and 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

The OIG was established by the Montgomery County Council in 1997. The OIG is an independent office – its responsibilities as prescribed by Montgomery County Code §2-151 are:

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 County-funded agencies^{1/}.

To carry out our responsibilities, we:

- maintain an independent objective organization to conduct audits, inspections, and investigations. We comply with generally accepted government auditing standards. In addition, we consider standards published by the Institute of Internal Auditors, the President's Council on Integrity and Efficiency, and the Association of Inspectors General,
- take appropriate action to prevent and detect fraud, waste, and abuse,
- receive and investigate credible complaints from any person or entity,
- report violations of law to the State's Attorney for Montgomery County or other appropriate agency,
- notify the County Council and Executive of serious problems in County programs,
- review existing and proposed legislation and regulations to strengthen controls and increase accountability; and
- submit reports with recommendations, as appropriate, to the County Council and Executive.

^{1/} The County-funded agencies include the Montgomery County Public Schools, the Maryland-National Capital Park and Planning Commission, the Washington Suburban Sanitary Commission, Montgomery College, the Housing Opportunities Commission, the Revenue Authority, and any other governmental agency (except a municipal government or a State-created taxing district) for which the County Council appropriates or approved funding, set tax rates, or approves programs or budgets.

Major Challenges Facing Montgomery County

The County continues to face the challenge of using a balanced budget to provide affordable and reliable services. Major challenges for tax-supported funds are to contain costs, preserve essential services, and make needed improvements in education, transportation, health and human services, public safety, and homeland security.

Programs and other initiatives highlighted during the reporting period include: support for public schools and Montgomery College, maintenance of facilities and roads, police and fire protection for families and homes, health care to the uninsured, medical services to victims of abuse, in-home aid to seniors, affordable housing and revitalization of older neighborhoods, and investing in County parks. Cost containment challenges include rising compensation and benefit costs such as medical costs which impact both the employee and retiree health insurance contributions and workers' compensation costs.

In addition, leaders faced the challenge of using in budget deliberations the performance measures developed and results reported for County programs and operations.

Work Plan

This annual report addresses the last year of the former Inspector General's four-year term beginning July 1, 2001. Similarly, this report covers activities for the work plan for the period January 1, 2002 through December 31, 2005 submitted to the County Council and Executive in December 2001. In this regard, the former Inspector General left County employment in May 2004 and an acting Inspector General served until a new appointment was made in April 2005. In addition, the Deputy Inspector General left County employment in July 2004 and the position remained vacant for the remainder of fiscal year 2005.

During the last two months of fiscal year 2005 and the first month of fiscal year 2006, a new four-year work plan for fiscal years 2006-2009 was developed. The planning process comprised four main steps: (1) identifying a universe of County programs and activities, (2) determining a project universe, (3) conducting risk assessment, and (4) developing a plan to conduct appropriate audits, inspections, and investigations. Our universe included programs and activities in the approved fiscal year 2006 operating and capital budgets, and amendments to the fiscal years 2005-2010 capital improvements program. Our project universe was identified using input from more than 50 stakeholder interviews beginning in mid-April 2005. The plan was issued to the County Council and Executive in August 2005—a copy is available in print or electronic format (see instructions on front inside cover). The plan is organized into three areas: increase efficiency and effectiveness of programs and operations, prevent and detect fraud, waste, and abuse; and increase legal, fiscal, and ethical accountability.

Fiscal Year 2005 Activities

Increase Efficiency and Effectiveness

One of the challenges facing Montgomery County government is making the best use of limited resources. County citizens expect to receive high-value services for their tax dollars. Confirming this value through efficiency and effectiveness audits of County programs is an important OIG function. In addition, where inefficiencies exist, the OIG attempts to identify underlying causes and determine the corrective action needed. Underlying causes may include a lack of effective policies and procedures or a failure to enforce existing guidelines.

County Government Purchasing Card Follow-up Inspection

The OIG completed an inspection of County purchasing card practices in December 2002. Between 2002 and 2005, the County established a more formal program with new written guidelines and participant training. During fiscal year 2005, the OIG initiated a follow-up review of conditions reported in 2002. Although all field work was not complete at the end of fiscal year 2005, it appears current County policies and procedures adequately address most findings reported in 2002. Field work was completed in the first quarter of fiscal year 2006 and the results will be discussed with and reported to management in the second quarter.

Network Security

In June 2005, the OIG completed an assessment of network security risk in County government and selected County-funded agencies. The assessment was performed to determine the need for follow-up inspections in fiscal years 2005 and 2006 of network security reviews performed by an OIG contractor in 2002 and a Department of Technology Services contractor in 2004-2005. As a result of the assessment, it was determined follow-up inspections were not appropriate by the OIG and funding was redirected to priorities in the new four-year work plan.

Risk Assessment

During the last quarter of fiscal year 2005, our risk assessment identified three performance audits/inspections that are scheduled for fiscal year 2006. In addition, the four-year work plan identifies six performance audits/inspections for fiscal years 2007-2009.

Prevent and Detect Fraud, Waste, and Abuse

The OIG is responsible for preventing and detecting fraud, waste, and abuse. When people think about the work of an Inspector General, this area is often viewed as especially valuable to employees and citizens. The most effective tool for this work is the receipt of tips from concerned individuals. Respondents to a 2004 survey by the Association of Certified Fraud Examiners (ACFE) revealed that up to 50 percent of fraud is revealed through tips. In this regard, although the OIG averaged about 55 complaints of fraud, waste, and abuse annually during fiscal years 2002–2005, evidence suggests many employees, contractors, suppliers, and citizens are not aware of the OIG.

Starting in June 2005, the OIG developed several strategies to enhance fraud detection capabilities. The OIG took steps to help individuals communicate concerns without fear of retribution. For example, the OIG began issuing periodic news advisories on the County's intranet site and on facility bulletin boards—these advisories explained how to report, anonymously if desired, suspected fraud, waste, and abuse. In addition, we asked the Office of Human Resources to upgrade OIG information provided to new employees at bi-weekly orientation sessions. Further, the OIG website was updated to include a “fraud hotline” on the menu to increase the receipt of information by phone, regular mail, and email.

Although fraud-referral processes were in use in County government and some independent County-funded agencies during fiscal year 2005, none appeared to operate in a manner consistent with all standards recommended by the ACFE or the Government Finance Officers Association. In June 2005, the Inspector General adjusted OIG staffing by eliminating two of three authorized intern positions and creating a full-time position to improve the referral and investigation of suspected fraud to the OIG.

Complaints

The OIG began fiscal year 2005 with 58 open complaints. From July 1, 2004 to June 30, 2005, the Office received 54 new complaints. During the year, approximately 67 complaints were processed, with 45 formally open to begin fiscal year 2006.

Complaints processed during fiscal year 2005 were handled in a variety of ways. After a preliminary investigation, some complaints including several open for more than one year were closed administratively due to a lack of evidence to support allegations. Others involving credible allegations were investigated and presented to senior management and/or a prosecutor for a decision. Finally, some complaints were referred to management when it was determined resolution of the complaint did not require an independent OIG investigation. The confidentiality of all complainants was protected.

In June 2005, the OIG established a procedure that formally refers certain fraud, waste, or abuse matters investigated by the OIG to senior management for a written response. This procedure is designed to ensure an appropriate level of legal, fiscal, and ethical management accountability. Upon receipt of management's response, the OIG determines what, if any, additional investigative attention may be warranted. Beginning with fiscal year 2006, matters handled in this way are tracked as a performance measure.

Also in June 2005, the OIG established a performance measure designed to track the number of criminal investigations formally referred to a prosecutor.

Risk Assessment

During the last quarter of fiscal year 2005, a new four-year work plan was drafted. It includes a commitment to investigate all credible complaints of fraud, waste, and abuse involving County and County-funded independent agency operations. In addition, the OIG identified as priorities allegations of fraud and misconduct in the County's development approval process and potentially fraudulent workers' compensation claims.

Allegations involving development approval emerged in fiscal year 2005 incident to hearings by the Montgomery County Planning Board involving the Clarksburg Town Center.

Increase Legal, Fiscal and Ethical Accountability

County government and independent agency leaders are accountable for adhering to a wide range of federal, State and County statutory requirements. OIG work in this area emphasizes compliance with applicable laws and regulations.

County Government Commercial Driver's License Review

The OIG completed an inspection of the management of the commercial driver's license (CDL) program for persons employed by Montgomery County government. The County has nearly 950 positions requiring a CDL as a condition of employment. Most of these employees are employed in the Department of Public Works and Transportation (DPWT) as operators of Ride-On buses and heavy equipment. Several other departments have one or more positions requiring a CDL. CDL regulations were enacted at the federal and State level to ensure public safety with regard to the maintenance and operation of commercial vehicles. These regulations place certain responsibilities on employers of CDL-holders, including checks of driving records, monitoring and maintaining medical records, and conducting routine and random checks for alcohol and drug use. We found that overall compliance with CDL regulations was inadequate with significant variance among departments. The County concurred in whole or in part with our findings and recommendations.

Risk Assessment

During the last quarter of fiscal year 2005, we identified one performance audit/inspection in this area for fiscal year 2006. In addition, the need to establish an OIG citizens' advisory group to ensure adequate input on accountability issues was identified as a priority. Further, five performance audits/inspections are planned for fiscal years 2007-2009.

Administrative Issues

In addition to completing audits and inspections, processing complaints, and conducting investigations, the OIG is committed to several key administrative issues involving the inspector general community.

Auditing Standards

Generally accepted government auditing standards published by the Comptroller General of the United States require an OIG conducting performance audits to have in place an appropriate internal quality control system and to undergo an external quality control (peer) review at least once every three years. In April 2004, the OIG underwent its second triennial peer review under the auspices of the National Association of Local Government Auditors. The peer review found the OIG to be in compliance with applicable professional standards. The next peer review will be scheduled for fiscal year 2007.

Generally accepted government auditing standards require OIG auditors to obtain 80 hours of continuing professional education (CPE) during a two-year period. All professional staff were in compliance with CPE requirements as of June 30, 2005. To help with this requirement, the OIG maintains memberships in several professional associations, including the American Institute of Certified Public Accountants, the Association of Certified Fraud Examiners, the Association of Inspectors General, and the National Association of Local Government Auditors. Memberships in fiscal year 2006 will include the Institute of Internal Auditors and the Association of Government Accountants.

The OIG follows applicable audit and investigative standards for planning, conducting, and reporting results of audits and investigations. The OIG policies and procedures manual, first issued in December 2000, is undergoing review. A revised edition will be issued in fiscal year 2006.

Professional Relationships

The OIG meets periodically with representatives of the Office of Legislative Oversight, the Internal Audit Section of the Department of Finance, and auditors and evaluators from the Montgomery County Public Schools, the Maryland-National Capital Park and Planning Commission, Montgomery College, the Washington Suburban Sanitary Commission, and other counties. In addition, we meet with representatives of the State's Attorney Office, the State Prosecutor, and other inspectors general. During these meetings, standards applicable to the inspector general community are discussed along with other matters of mutual interest.

Benchmarking/Performance Management

Seven years ago, the OIG began the practice of benchmarking using comparative data from the National Association of Local Government Auditors (NALGA). NALGA is made up of local government audit professionals throughout the United States and Canada. Members are elected and appointed executive, legislative, and judicial branch auditors from large, medium, and small audit units. These audit units perform financial statement audits, financial related audits, performance audits, program evaluations, policy analyses, management-consulting services, and more. In this regard, NALGA will remain a valuable resource and partner for the OIG in the areas of benchmarking and best practices for certain audit and inspection measures. However, with regard to the new four-year work plan that places added emphasis on our investigative responsibilities, OIG performance measures submitted to the Office of Management and Budget (OMB) in August 2005 are undergoing revision. In this regard, the OIG plans to use the following performance measures beginning with fiscal year 2006 results and in its fiscal year 2007 operating budget submission due in December 2005.

Proposed OIG Performance Measures
Outcomes: <ul style="list-style-type: none"> • Percentage of audit recommendations accepted • Potential savings (\$) • Number of formal responses by senior management to investigations involving fraud, waste, and abuse • Number of formal referrals of criminal investigations to a prosecutor
Service Quality: <ul style="list-style-type: none"> • Percentage of stakeholders surveyed who rate OIG service as effective
Efficiency: <ul style="list-style-type: none"> • Savings per audit dollar expended (\$)
Workload/Outputs: <ul style="list-style-type: none"> • Complaints received • Complaints closed • Audits/inspections begun • Audits/inspections completed
Inputs: <ul style="list-style-type: none"> • Expenditures (\$) • Workyears

By including these revised performance measures in this annual report, the OIG invites the County Council and Executive, and other key stakeholders, to provide comments (ig@montgomerycountymd.gov) prior to November 15, 2005.

Professional Staff Project Time

As reported in “A Message from the Inspector General”, fiscal year 2005 was unusual due primarily to the vacancy of the Inspector General and Deputy Inspector General positions. This resulted in total OIG project time of approximately .6 workyears. In this regard, the OIG dedicated limited but important professional staff to the following audit, inspection, investigative, and administrative projects to help fulfill its mission:

OIG Project Area	Professional Staff Hours
Purchasing Card Audit Follow-up	157
Network Security Review	127
Commercial Drivers’ License Inspection	184
Fraud, Waste, and Abuse Complaints	268
Work Plan for FY 2006-2009	157
Other Projects Total	124
Total 2005 Project Time	1,017 (.6 workyears)