

Annual Report

Office of Inspector General

Fiscal Year 2006

October 2006



Office of Inspector General
Montgomery County, Maryland

- This report is available to the public in printed or electronic format.
- To obtain a printed copy, please call or write:

Office of Inspector General
51 Monroe Street, Suite 802
Rockville, Maryland 20850
Telephone 240-777-8240

email: ig@montgomerycountymd.gov

Website: <http://www.montgomerycountymd.gov/ig>

- Please address specific inquiries about this report to Thomas J. Dagley, Inspector General, in writing or by calling 240-777-8240.



A Message from the Inspector General

In fiscal year 2006, the Office of Inspector General (OIG) focused on key factors set forth in Montgomery County Code §2-151 - increase efficiency and effectiveness of programs and activities funded by the Council; prevent and detect fraud, waste, and abuse; and increase legal, fiscal, and ethical accountability.

Highlights of this annual report include summations of our formal reports that address school construction and the County government's performance measurement system and workers' compensation program. We also summarize fraud, waste, and abuse investigations including selected results that were presented to management for a decision. Another highlight is the result of a July 2006 stakeholder survey conducted to help evaluate OIG performance – 80 percent of the respondents rated our service “effective”, 14 percent were “neutral”, and 6 percent rated our service “not effective.”

During the reporting period, much attention was focused on land development in the County. The Planning Board faced a number of significant issues regarding Clarksburg Town Center and related application, review, and approval decisions – these generated considerable debate which increased the number of complaints to our office. We made recommendations in January 2006 regarding greater use of independent audits and the inspector general model to strengthen controls and increase accountability. These and other recommendations will be pursued with the new Planning Board Chairman in fiscal year 2007.

Significant issues also surfaced in the area of school construction incident to our audit of the Seven Locks Elementary School and related Capital Improvements Program projects. The Council held public hearings to hear differing views and took action in May 2006 that significantly changed funding decisions made two years earlier. The Council's action addressed several challenging issues related to Seven Locks. Our findings and recommendations to Montgomery County Public Schools regarding school construction practices have not been fully addressed.

The Four-Year Work Plan issued in August 2005 continues to serve as the OIG strategic plan. The goals, strategies, and action items focus on improving performance in substantive areas. Some action items and performance measures have been modified to ensure our work reflects the needs of our stakeholders. We acknowledge the invaluable assistance by the leaders and staff of County government and independent County agencies with whom we work to bring about meaningful results.

We look forward to working with a newly elected Council and Executive. We are ready to face existing and new challenges and are committed to carrying out our mission on behalf of the residents and their government leaders.

**Office of Inspector General
Fiscal Year 2006 Annual Report**

Table of Contents

	<u>Page</u>
Statutory Responsibilities	1
Challenges	1
Work Plan	2
Fiscal Year 2006 Results	3
Increase Efficiency and Effectiveness	4
Prevent and Detect Fraud, Waste, and Abuse.....	6
Increase Legal, Fiscal, and Ethical Accountability.....	8
Administrative Issues.....	11
APPENDIX	A-1

Statutory Responsibilities

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

1. review the effectiveness and efficiency of programs and operations of County government and independent County agencies;
2. prevent and detect fraud, waste, and abuse in government activities; and
3. propose ways to increase the legal, fiscal, and ethical accountability of County government and County-funded agencies^{1/}.

To carry out our responsibilities, we:

- maintain an independent organization and staff to conduct audits, inspections, and investigations. We comply with generally accepted government auditing standards and rely on standards published by the President's Council on Integrity and Efficiency, Association of Inspectors General, and other professional organizations;
- take appropriate action to prevent and detect fraud, waste, and abuse;
- solicit and investigate credible complaints from any person or entity;
- report violations of law to prosecutors or other appropriate agencies;
- notify the 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 to the Council, Executive, and other leaders.

Challenges

Referral of Fraud, Waste, and Abuse Information

The OIG faces the challenge of effectively implementing an independent fraud-referral system (including a hotline) to ensure County employees, contractors, suppliers, and residents have the opportunity to communicate, anonymously if desired, concerns about fraud, waste, and abuse without fear of retribution. In fiscal year 2006, the vast majority of individuals who contacted the OIG were residents. While it is important for this flow of information to continue, employees, contractors, and suppliers need to be encouraged and given the means to confidentially report concerns. The OIG fraud-referral system is discussed in more detail on page 10.

^{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 approves funding, sets tax rates, or approves programs or budgets.

Whistleblower Protection

A potential barrier to establishing and maintaining an effective fraud-referral system is Montgomery County Code §33-10 (the County's whistleblower law). This law was enacted prior to the Council's creation of an OIG. Section 33-10 states, in part, "employees should first report illegal or improper actions to the individual responsible for corrective action. That person may be anyone from the employee's immediate supervisor up to and including the County Executive, or for legislative branch employees, the County Council." The law also states "in unusual circumstances, or if a retaliatory action or coercion has taken place, the employee may file a report directly with either the Board or the Ethics Commission." In fiscal year 2006, several employees advised us they were discouraged or prohibited from reporting concerns to the OIG.

We believe the County Code needs to be updated to: include the role of the OIG as an oversight organization, and clearly state employee responsibility to report fraud, waste, and abuse to the OIG. We recommend the Council establish a working group that includes the OIG to jointly address this challenge.

Inspector General Authority

The Inspector General's authority to conduct investigations and audits in all County-funded agencies needs to be clarified. For example, questions surfaced beginning in August 2005 regarding our authority to access information and independently investigate Clarksburg Town Center and other land development matters reviewed by the Department of Park and Planning and approved by the Planning Board (within the Maryland-National Capital Park and Planning Commission).

In February 2006 our authority to independently audit school construction projects funded by the Council as part of the Capital Improvements Program (CIP) was questioned. The Board of Education (Board) challenged our authority after we issued a report on the Seven Locks Elementary School Projects. Similar questions about our authority to routinely access information to investigate allegations of fraud, waste, and abuse in Montgomery County Public Schools programs funded by the Council have been raised.

To do our job effectively, we need timely and full access to information from all County-funded agencies. We recommend the Council establish a working group to address this issue.

Work Plan

This annual report addresses OIG activities in fiscal year 2006 (July 1, 2005 through June 30, 2006), including completed action plans identified in the Four-Year Work Plan. Our planning process 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, inspections, and investigations consistent with our legislative mandate.

The universe included all programs and activities in the Council-approved fiscal year 2006 operating and capital budgets. The potential OIG projects and risk assessment steps included obtaining input from stakeholders interviewed beginning in late fiscal year 2005. Specific action plans for fiscal year 2006 were then developed and organized into three areas consistent with the OIG’s legislative mandate.

Fiscal Year 2006 Results

The table below summarizes key performance measures and results. Additional information for Outcomes and several other measures listed is provided beginning on page 4.

Fiscal Year 2006 Performance Measures and Results

Outcomes:	
• Percentage of audit recommendations accepted ^{1/}	67
• County funds put to different use as the result of audit findings and recommendations	\$14 million
• Potential savings	\$182,000
• Formal management responses to fraud, waste, and abuse investigations	14
Service Quality:	
• Pending complaints (June 30, 2006)	34
• Percentage of stakeholders responding to a survey who rated OIG service “effective”	80
Workload/Outputs:	
• Joint investigations with prosecutors	3
• Complaints opened	53
• Complaints closed (includes those received prior to July 1, 2005)	94
• Audits/inspections begun	5
• Audits/inspections completed ^{2/}	4
Inputs:	
• Expenditures	\$438,625
• Workyears	4.9

^{1/}Includes recommendations or other actions carried out by the Council as a result of formal reports issued.

^{2/} Workers’ Compensation Program (Risk Management Division, Department of Finance); Employee Accident, Illness, and Injury Activity (Risk Management Division); FY 2005 Performance Measure Results (Office of Management and Budget); and Seven Locks Elementary School Projects (Montgomery County Public Schools)

Fiscal Year 2006 Results: Increase Efficiency and Effectiveness

Workers' Compensation Program Audit

In our work plan, we recommended establishing an injury compensation working group that includes the OIG to identify and help control increasing costs associated with workers' compensation claims. Such a group was recommended to explore audit and investigative initiatives to address provider and claimant fraud as potential contributing factors to rising costs. We will continue to work with management in an effort to establish this working group.

We completed audits of the County Workers' Compensation Program and related Employee Accident, Injury, and Illness Activity. Results for each audit were combined into a single report. The audit scope covered County government and the two largest Self-Insurance Program (SIP) cost participants – Montgomery County Public Schools and the Maryland-National Capital Park and Planning Commission. Together, County government and these participants account for approximately 94 percent of total workers' compensation costs. At the time of our audit work, the County had a liability of approximately \$86 million for future claims payable. The SIP had sufficient assets to fund these liabilities.

Our audits disclosed several strengths in the Department of Finance's approach to meeting Workers' Compensation Program objectives. In addition, our report included six findings and related recommendations to improve Program performance.

- Finding 1 - All County government compensation paid for lost workdays due to work-related incidents, including supplemental payments above the State-mandated level, should be included in management reports summarizing the total cost of compensating injured workers. Supplemental payments received through collective bargaining agreements and County administrative regulations bring total compensation to an amount equal to an employee's full average weekly wage. We recommended that management quantify all compensation paid to injured workers in reports used to analyze Program costs, present budget proposals, and evaluate Program performance. We also recommended the Division of Risk Management request similar compensation data from the other County-funded Program participants and include this data in its annual report to the Council.
- Finding 2 - Additional quality control procedures are needed to ensure the accuracy of payments to injured workers. Our test of indemnity payments to injured workers found incorrect methods of calculating payments and other unrelated errors. We recommended the Division of Risk Management utilize calculation methods that comply with the State's Workers' Compensation Commission requirements and implement quality control processes to assure accurate payments.
- Finding 3 - Accountability for managing the costs of work-related accidents and illnesses in County government can be enhanced by assigning workers' compensation costs and related payments to individual department/office budgets. We found these costs and payments are not included in individual budgets of tax-

funded departments/offices; instead, the costs are reported in the County budget as a single Non-Department Account item. We recommended these costs be assigned to budgets of individual directors to enhance accountability for prevention initiatives.

- Finding 4 - Accountability for reducing the frequency, severity, and costs of work-related accidents and illnesses in County government can be enhanced by assuring all supervisors have, as required by County policy, a measurable performance objective related to occupational safety and health. We recommended the Division of Risk Management reinforce requirements set forth in Executive Order 35-95.
- Finding 5 - Implementation of a formal return-to-work program for Montgomery County Public Schools' employees receiving workers' compensation payments is needed to help accommodate employees with restrictions, and reduce Program costs. This finding identified a potential savings of \$182,000 (excluding supplemental payments). We recommended the Chief Administrative Officer, in consultation with the Council, formally request MCPS to implement a return-to-work program.
- Finding 6 – There are opportunities for the County to increase the effectiveness of fraud prevention and detection efforts. We recommended the Division of Risk Management work with the Third Party Administrator (TPA) to ensure a discussion with the immediate supervisor of injured workers is completed and documented in the claim file. We also recommended the Division work with the Inspector General to place additional specific fraud indicators on the checklist used by TPA claim adjusters.

Our assessment of the status of corrective action for these six findings and recommendations can be found in the Appendix.

Evaluation of County Government Performance Measure Results

We formally evaluated the reliability of selected County government performance measure results approved for publication by the Office of Management and Budget (OMB) during the fiscal year 2006 budget process. Fiscal year 2006 was the seventh year of the County's *Montgomery Measures Up!* (MMU) initiative designed to enable leaders and taxpayers to assess the cost and effectiveness of each County program. At the time of our evaluation, approximately 3,400 program measures and results had been developed and published by OMB for more than 260 programs. Management advised us prior to our evaluation that the reliability of MMU performance measure results had not previously been independently reviewed.

We selected seven outcome measures and their fiscal year 2005 actual results from six County department/offices for testing. At the completion of our analysis, we categorized each measure and the actual result as Certified, Certified with Qualification, Factors Prevent Certification, or Inaccurate. Our April 2006 report concluded that for the seven measures tested, one was Certified with Qualification and six were Factors Prevent Certification. We identified one primary factor that led to these conclusions – quality control processes were either not in place or were not functioning as intended. This allowed unreliable data or

improper procedures to be used by departments/offices in the calculation of actual results reported to OMB. In addition, reported results were not always presented in a manner consistent with the performance measure described in budget documents, or documentation was not always prepared and retained to support published results.

We reported that unless additional guidance is provided by OMB, there may be a lack of assurance that all performance results published by OMB for the County's programs are reliable.

Our assessment of the status of corrective action for the conclusions and recommendations can be found in the Appendix.

Procurement Audit

We completed the planning phase for a procurement practices audit included in the Four-Year Work Plan. The scope of this audit includes County government, Montgomery County Public Schools, and the Maryland-National Capital Park and Planning Commission (MNCPPC). Field work was started but not completed in fiscal year 2006 due to OIG staffing changes and difficulty receiving electronically all key expenditure records needed to accomplish the audit objectives. This audit remained open at year-end.

Fiscal Year 2006 Results: Prevent and Detect Fraud, Waste, and Abuse

The OIG opened 53 new fraud, waste, and abuse complaints in fiscal year 2006. Complaints were handled in a variety of ways. For example, after preliminary investigation, some complaints were closed because we were unable to validate the allegation(s). For other investigations in which the allegation was validated, our results were reported to management and/or a prosecutor for a decision. Further, information not of a confidential nature from certain complaints was referred to management for attention after determining an OIG investigation was not the best way to address the concern.

Land Development

The OIG investigated land development complaints throughout fiscal year 2006. Our priorities included not only allegations of fraud but concerns as to whether management controls and the enforcement of regulations by County government and MNCPPC were adequate. Although much of our work was driven by Clarksburg Town Center concerns, other allegations involving forest conservation, storm water management, and septic reserve policies were given priority attention. At year-end, Clarksburg and several other land development investigations remained open.

In January 2006, we recommended to the Council, Executive, and Planning Board Chairman wider use of independent performance audits and the inspector general model to help assure residents that policies and procedures administered primarily by the Planning Board regarding land development application, review, and approval are effective.

Joint Investigations with Prosecutors

The OIG established a performance measure to track the number of cases jointly investigated with prosecutors. In this regard, at year-end we were investigating three such cases involving contract fraud, false billing, and land development. The cases were developed from allegations reported to us by residents, contractors, or law enforcement. For joint investigations, the violation of any criminal statute(s) is determined by the prosecutor. In addition to assisting a prosecutor, when requested, our responsibility includes identifying and reporting to management any policy or procedural deficiencies that may have contributed to a case.

Quick Response Memorandums

In fiscal year 2006, we implemented a quick response approach to resolve certain complaints that did not require a comprehensive report. We found this approach, which involves issuing a memorandum from the Inspector General to management for an administrative decision, was effective. For each memorandum issued, we received a written response from management advising us how the matter was handled. Examples of matters handled this way are described below.

Abuse of County Vehicles

We received a variety of complaints alleging improper use of County vehicles. We selectively investigated the complaints to assess controls in fleet operations and detect any abusive practices. For example, we validated a complaint alleging abuse of a County vehicle to transport elementary school age children. A resident reported witnessing an individual place three children in a County car and exit a retail store parking lot without buckling the children in seat belts. Our investigation disclosed that a County employee routinely parked the County car at his residence, using it in the morning to drive children to a private day care facility. In addition, the employee was not authorized to take the car home or use it for non-County business. A letter of charges was issued to the employee by management.

Due to the number and type of complaints received in fiscal year 2006 regarding abuse of County cars, our work plan for fiscal year 2007 includes an audit survey to assess the adequacy of controls in this area.

Abuse of County Email System

We investigated complaints alleging abuse of County government email accounts. For example, we determined an employee improperly used her assigned email account to receive and send pornographic/obscene material. The conduct involved frequent receipt of this material from non-County sources and forwarding it to other email accounts, including those assigned to employees of County-funded agencies. A written reprimand was issued to the employee by management.

Tax Revenue Collection

The OIG initiated an investigation following a newspaper story about a County resident who documented miscoded County properties resulting in the improper award of homestead tax credits totaling at least \$1 million for properties that were not

“principal residences.” Our priorities include determining the extent to which property owners may have made false statements to qualify for homestead tax credits, and verifying that the County is aware of the lost revenue and taking action to collect taxes due. We are also reviewing existing laws and regulations to determine whether fiscal accountability can be increased.

Fiscal Year 2006 Results: Increase Legal, Fiscal, and Ethical Accountability

Seven Locks Elementary School Projects Audit

We conducted an audit of cost data and other relevant information provided by MCPS to the Board and Council from May 2001 to May 2004 when the Council approved a revised Seven Locks Elementary School (SLES) CIP project involving a replacement school on Kendale Road. As a result of the Council’s action in May 2004, the CIP expenditure schedule for the replacement school totaled approximately \$14 million.

The audit was conducted, in part, to address complaints received by the OIG. A primary objective was to evaluate whether certain SLES cost and other financial data generated by MCPS were presented fairly in all material respects to the Council and others in accordance with generally accepted accounting principles. In addition, we evaluated management information presented to the Council and others by MCPS regarding original and revised SLES construction plans. We also examined MCPS compliance with requirements of State and County laws and regulations related to the expenditure of County funds. Our audit objectives and approach were shared with the Superintendent, Chief Operating Officer, Board, and Council in November 2005 during the planning phase of the audit prior to any field work.

The Council’s action in May 2004 approved the Board’s request to remove funding for a planned SLES addition and modernization at the existing site. Instead of the addition and modernization, the Board requested funding for the replacement school to accommodate students from both SLES and Potomac Elementary School. Documents prepared by MCPS and provided to the Board (and later to the Council) stated the replacement school would cost approximately \$3 million less than the addition, gymnasium, and modernization option at the existing SLES site.

Our February 2006 audit report to the Council and Board included four findings and related recommendations to enhance fiscal accountability for school construction projects:

- Finding 1 – Cost data for the SLES project presented by MCPS to the Board and Council was limited to two construction options, even though at least two other apparently less costly options existed, including one studied by MCPS for the existing site. We recommended MCPS ensure that cost data for all school construction projects studied by MCPS be documented in material presented to the Board and Council.

- Finding 2 – A quality control process that ensures the use of complete and reliable cost data to analyze facility construction options and present recommendations to the Board and Council is needed to improve fiscal accountability. We recommended MCPS, in consultation with the Board and Council, develop and implement a quality control process that enhances fiscal accountability for all school construction projects. We recommended the quality control process ensure complete and reliable cost data and analyses are provided when a project is submitted for approval.
- Finding 3 – Evidence did not support MCPS statements to the Board that the SLES community proposed or supported a Kendale Road replacement school option. We recommended MCPS, in consultation with the Board and Council, take necessary action to ensure the position of leaders of school communities affected by proposed amendments to facility master plans or the CIP is properly documented and presented to those involved in capital budget deliberations.
- Finding 4 – Procedures used to award an \$817,500 architect contract for the Kendale Road replacement school were inadequate and may have violated Board requirements. We recommended MCPS ensure procedures used to award future architect contracts exceeding \$25,000 follow the five-step process outlined in Board procedures, as amended July 14, 1998. We also recommended MCPS obtain a formal opinion from the Board’s general counsel as to whether MCPS procurement practices for SLES projects violated Board procedures.

The February 2006 official response to our report by the Board did not address specific corrective action by MCPS for the findings or recommendations; rather, the response focused on concerns regarding OIG authority to conduct audits and the audit methodology. However, the Council took action to address certain conditions and recommendations involving SLES that were reported in Findings 1-3:

- On May 11, 2006, in response to the Board’s January 10, 2006 request for a \$3.3 million special appropriation and CIP amendment regarding additional funds needed for a Kendale Road replacement school, the Council voted to deny the request.
- On May 17, 2006, the Council held a worksession to address elementary school capacity issues in the Churchill Cluster. The Council approved a proposal to modernize SLES on the existing site as well as provide additional capacity during the modernization. The Council also approved that a planned modernization of Bells Mill Elementary School be accelerated one year and a boundary study between Potomac, Seven Locks, and Bells Mill elementary schools be conducted. According to Council records, the intent of these actions, which reallocated the \$14 million approved for a replacement school in 2004, was to keep the existing SLES a functioning elementary school.

Our assessment of the status of corrective action for the findings and recommendations can be found in the Appendix.

Fraud-Referral System

In the Four-Year Work Plan, we recommended consideration be given to establishing and promoting a formal fraud-referral system (including a hotline) operated by the Office of Inspector General as a mechanism for employees, contractors, suppliers, and residents to report fraud, waste, and abuse. Respondents to a 2004 survey by the Association of Certified Fraud Examiners (ACFE) revealed that various forms of fraud are detected 40 percent of the time by tips, which make independent hotlines the leading method for detecting fraud. Last year, we reported that although there are fraud-referral processes in County government, none appear to operate in a manner consistent with all standards recommended by the ACFE. It was our position that employees, individuals doing business with the County, and residents need to be encouraged and given the means to communicate, anonymously if desired, concerns regarding fraud, waste, and abuse without fear of retribution.

Throughout the fiscal year, we received support to establish an OIG hotline from the Council as well as Executive leaders. In June 2006, we issued a special report summarizing the benefits of an OIG-operated fraud hotline for County government. The study resulted in a decision to implement a hotline on a one-year trial basis. Our study concluded that the best approach is to contract with a third-party partner capable of providing a confidential toll-free hotline and related support services. The procurement process for such a contract has been initiated. We anticipate activating a hotline in November 2006 and updating the Council and Executive at least quarterly on its effectiveness.

Resident Advisory Group

Establishing an advisory group was a priority in the Four-Year Work Plan. In fiscal year 2006, we made considerable progress toward this priority including presentations to civic organizations, other community groups, and County employees to strengthen communications with our stakeholders. As examples, our work plan was discussed with Montgomery County Taxpayers League and Montgomery County Civic Federation members in September 2005 and April 2006, respectively. Also, the Inspector General participated in the Department of Finance's annual forum on performance measurement in December 2005.

OIG Effectiveness

In July 2006, we surveyed key stakeholders, asking each to use one of three ratings to describe OIG service - "effective", "not effective", or "neutral." Those surveyed included taxpayers, elected officials, executive leaders, managers, employees, contractors, and civic organization leaders. We received a survey response rate of approximately 55 percent. 80 percent of those responding rated OIG service "effective", 14 percent gave a rating of "neutral", and 6 percent rated our service "not effective." Selected comments from respondents appear below:

- *The OIG shows a keen interest in investigating matters of concern to all residents.*
- *Our office has enjoyed an excellent working relationship with the OIG.*
- *The OIG's analysis was . . . fair, thorough, and helpful. The OIG's report is clear and concise. . . . I appreciate the care taken to keep everyone informed about what*

was going to happen . . . and to pursue a cooperative rather than a confrontational approach.

- *While the work performed was very professional and reflects the four-year plan, some tasks while necessary provide findings minor in nature. Efforts such as Seven Locks are more meaningful as they can address needed management policies....*
- *I do not believe the Seven Locks study properly took into account the non-financial issues involved. As a result, it conveyed a conclusion to the public that did not reflect all relevant items and issues.*
- *Excellent job on Seven Locks School issue.*
- *The office was professional, listened, and worked well with other organizations.*
- *To improve its effectiveness, the OIG may want to have a formal mechanism for follow-up on its findings and recommendations – to see if issues raised . . . were addressed, and if problems evaluated still exist or are even more widespread than originally understood.*

Administrative Issues

In addition to conducting audits, evaluating fraud, waste, and abuse allegations, and conducting investigations, the OIG is committed to several key administrative issues involving the inspector general community.

Professional Development and Performance Excellence

In fiscal year 2006, OIG staff were well qualified to pursue our statutory responsibilities and the actions plans included 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.

OIG staff responsible for performing audit work were in compliance with continuing professional education requirements set forth by the Comptroller General of the United States (Comptroller General). Similarly, OIG staff responsible for conducting fraud, waste, and abuse investigations were fraud examiners certified by the ACFE. During the year, staff completed a number of professional development courses related to financial and performance auditing, fraud investigations, ethics, and management principles. Sponsors for our training included the Association of Government Accountants (AGA), the USDA Graduate School, and the ACFE.

The OIG also made contributions to performance excellence initiatives at county, state, and national levels. For example, the Inspector General served as a volunteer to the Baldrige National Quality Program based in the U. S. Department of Commerce, Gaithersburg, Maryland. The volunteer work included serving as a trainer and mentor for the Maryland Performance Excellence Awards process sponsored by the Maryland Technology Enterprise Institute.

Audit and Investigative Standards

Generally accepted government auditing standards published by the Comptroller General require audit organizations to ensure an independent peer review is periodically performed resulting in an opinion as to whether an organization's system of quality control is designed and being complied with to provide reasonable assurance of conforming to professional standards. In this regard, the OIG received a peer review in April 2004. The peer review found the OIG to be in compliance with applicable professional standards. The next peer review is scheduled to take place in the last quarter of fiscal year 2007.

To help the OIG comply with continuing professional education and other requirements, we maintained memberships in several associations, including the AGA, ACFE, American Institute of Certified Public Accountants, Institute of Internal Auditors, and Association of Inspectors General (AIG).

The OIG policies and procedures manual, first issued in December 2000, was updated in 2004 following the last peer review. Our intent is to have all audit policies and procedures adhere to standards issued by Comptroller General and our investigative policies and procedures adhere to standards issued by the AIG.

Professional Relationships

The OIG meets periodically with the Chief Administrative Officer, Council members and staff, the external auditor, the County Department of Finance, and managers and auditors from the Office of Legislative Oversight, MCPS, MNCPPC, Montgomery College, and the Washington Suburban Sanitary Commission. In addition, we meet 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. In fiscal year 2006, these meetings helped ensure OIG audits and investigations did not duplicate or conflict with other efforts.

OIG Staffing and Project Time

During fiscal year 2006, authorized workyears totaled 4.9, consisting of an Inspector General, Deputy Inspector General, two Assistant Inspectors General (one full-time and one part-time), office manager, and an intern. Vacancies in these positions included the Deputy (two months), full-time Assistant Inspector General (four months) and part-time Assistant Inspector General (two months).

Approximately 50 percent of our direct audit and investigative time was dedicated to four project areas: land development investigations; Seven Locks Elementary School Projects; FY05 Performance Measures Results; and Workers' Compensation Program.

APPENDIX

OIG Report Findings and Recommendations - Status of Corrective Action

A key responsibility of the OIG is to propose ways to increase legal, fiscal, and ethical accountability. This responsibility includes using standards issued by the Comptroller General of the United States and the Association of Inspectors General to review management's response to each finding and recommendation reported and track the corrective action planned or taken. The table below describes three reports issued by subject area and date, and our summary of the status of corrective action (based on information provided to us as of June 30, 2006^{1/}).

Status of Corrective Action Planned or Taken

Audit Report, Seven Locks Elementary School (SLES) Projects, February 2006
Findings 1 – 4 – Council action addressed several conditions we reported regarding SLES projects. Our findings and recommendations to MCPS regarding school construction projects generally have not been addressed.
Evaluation Report, Office of Management and Budget, Montgomery Measures Up!, FY 2005 Performance Measure Results, April 2006
Management's response agreed generally with our conclusions and stated the recommendations will be incorporated, to the extent resources allow, into the County's program performance measurement initiative.
Audit Report, Workers' Compensation Program July 2006^{2/}
Finding 1 - Management's response stated the supplemental portion of salary is not a true workers' compensation cost and, therefore, should not be included in the Risk Management budget. As recommended, management plans to include supplemental pay information for all Program participants in the annual Risk Management report to the Council.
Finding 2 - As recommended, management reported the County changed its procedures with respect to the calculation of average weekly wages. Management also reported it planned to petition the Maryland Workers' Compensation Commission to allow the Self-Insurance Fund agencies to provide a 14-week wage statement. In addition, management reported it will address the payment errors identified and increase its review of payments to ensure accuracy.
Finding 3 - Management's response did not indicate agreement or disagreement with the finding or recommendation. The response stated management will consider eliminating the Non-Departmental Account for Risk Management Costs and assign them to the budgets of individual department/office directors during the FY 2008 budget process.
Finding 4 - As recommended, management reported Risk Management will incorporate the requirement into the Self-Inspection Checklist and work with departments to ensure specific performance measures are included in supervisory performance plans.
Finding 5 - Management's response indicated agreement with the finding and recommendation, stating the Risk Management Division has reported to Council on several occasions its concerns regarding the lack of a formal return-to-work program in Montgomery County Public Schools.
Finding 6 - Management's response indicated agreement with the finding and recommendations, reporting Risk Management will implement audit procedures to ensure the Third Party Administrator is complying with a requirement for supervisor contact to ascertain information relative to potential fraud. In addition, Risk Management contacted the OIG to pursue the recommendation regarding use of additional fraud checklist indicators.

^{1/} In fiscal year 2006, we did not conduct any formal follow-up reviews regarding the findings or recommendations reported.

^{2/} Management issued an audit response to the findings and recommendations in June 2006.

Thomas J. Dagley
Inspector General
51 Monroe Street, Suite 802
Rockville, Maryland 20850
240-777-8240
ig@montgomerycountymd.gov