

MFP Committee #6
April 29, 2009

Worksession

MEMORANDUM

April 27, 2009

TO: Management & Fiscal Policy Committee
FROM: Susan J. Farag, Legislative Analyst *SJF*
SUBJECT: **Worksession: FY10 Operating Budget
Office of the Inspector General**

Those expected for this worksession:

Thomas J. Dagley, Inspector General
Helen Vallone, Office of Management and Budget

The budget recommendation for the Office of the Inspector General (OIG) is attached at ©1-3.

Overview

For FY10, the Executive recommends total expenditures of \$634,730 for the OIG, a 9.4% reduction from the FY09 approved budget of \$700,720.

	FY08 Actual	FY09 Approved	FY10 CE Recommended	% Change FY09-FY10
Expenditures:				
General Fund	\$583,614	\$700,720	\$634,730	-9.4%
Grant Fund				
TOTAL Expenditures	\$583,614	\$700,720	\$634,730	-9.4%
Positions:				
Full-time	6	5	4	-20.0%
Part-time	1	0	1	
TOTAL Positions				
WORKYEARS	5.8	5	4.5	-10.0%

The FY10 CE recommendation is a reduction of \$65,990. According to the CE Recommended budget, one change will have service impacts and reduces expenditures by \$33,410. The rest of the reduction (-\$32,580) comes from the following identified same services adjustments.

Identified Same Services Adjustments	
Increase Cost: Service Increment	\$4,100
Increase Cost: Annualization of FY09 Personnel Costs	\$1,550
Increase Cost: Group Insurance Adjustment	\$700
Increase Cost: Printing and Mail Adjustments	\$70
Total Increases:	\$6,420
Decrease Cost: Central Duplicating Deficit Recovery Charge	(\$80)
Decrease Cost: Elimination of One-Time Items Approved in FY09	(\$4,000)
Decrease Cost: Contractual Expenses	(\$14,000)
Decrease Cost: Operating Expenses	(\$20,920)
Total Decreases:	(\$39,000)
Net Same Services Adjustment Total:	(\$32,580)

The Inspector General conducts independent audits, reviews, and investigations; receives and investigates credible complaints and reports violations of the law to the State's Attorney or other appropriate offices; notifies the County Council and Executive of serious problems in programs; reviews legislation and regulations to strengthen controls and increase accountability; and submits reports with recommendations to the Council and Executive. The Inspector General conducts projects jointly with other government agencies and contractors.

FY10 Expenditure Issues

Personnel Costs

Personnel costs comprise 84% of the budget for four full-time positions, one part-time position, and 4.5 workyears. Net expenditures for personnel costs decrease by \$27,060 in FY10, representing a 4.8% reduction from the FY09 approved budget. The savings stem from the change of one full-time position to a part-time position, thereby reducing personnel expenditures by \$33,410. This savings is offset somewhat from increases in other personnel adjustments, such as service increments and group insurance.

Executive Administrative Aide Position

This position is being downgraded from a full-time to part-time position for FY10. It is currently vacant. While the CE Recommended budget indicates this change will have a service impact, the OIG advises it will not substantively impact service delivery.

Operating Expenses

Operating expenditures are \$103,020, a reduction of \$34,930 from the approved FY09 budgeted amount. This reduction stems in part from a reduction in contractual expenses and other operating expenses. Last year, the Inspector General's budget was modified by eliminating one position and shifting personnel costs to contractual services. This change was made to give the office more flexibility in hiring specialized contractual services, depending on the needs of the audits. **The Committee may want to discuss with the Inspector General how this funding shift worked over the past year and his plans for the upcoming fiscal year.**

Changes Requested by Inspector General

The Inspector General is requesting several changes in the FY10 budget, which will change funding to certain positions and make additional funds available for consulting services. The Inspector General has addressed these requests in a memo addressed to the Committee (©38), and will be prepared to discuss them with the Committee during the worksession.

Four-Year Workplan and Budget

The Inspector General was reappointed to the position for a four-year term beginning July 1, 2009 and ending June 30, 2013 (see Resolution 16-917 on ©37). County Code §2-151 requires the Inspector General to submit a four-year budget (©4-7) to the Council and Executive within four months after being appointed and to develop and adopt a four-year workplan within six months (©8-18). Key elements of the workplan include: (1) the major challenges facing the County; (2) plan development; (3) an OIG strategy matrix; (4) challenges impacting OIG success; and (5) key factors and action plans. The workplan is linked to the level of resources anticipated in the four-year budget.

The four-year budget was submitted in October 2005 and covers fiscal years 2006-2009. The Inspector General is developing both a new workplan and budget to cover FY10 – FY13, which will be submitted later in FY10.

Under Code §2-151(f), the Council “must specify in any later budget resolution, how the office budget for that later fiscal year differs from the projected budget the Council previously approved.” The approach in FY09 was to assume a 4.2% increase for FY09 and 4.2% for each of the outyears, which is consistent with the four-year budget. Based on the four-year workplan, **Council staff suggests that a possible projection would be a 4.2% increase for FY10 and each of the outyears.** This does not prevent OIG from requesting larger increases in future years or the Council from approving them.

Council Staff Recommendation

Council staff recommends approval of OIG's budget as submitted.

This packet contains:

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Recommended FY10 Operating Budget	1- 3
FY06-FY09 Projected Four-Year Budget	4- 7
FY06-FY09 Four-Year Workplan	8-18
2008 Annual Report	19-36
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Inspector General

MISSION STATEMENT

The mission of the Office of Inspector General is to promote the effectiveness and efficiency of programs and operations of County government and independent County agencies; prevent and detect fraud, waste, and abuse in government activities; and propose ways to increase the legal, fiscal, and ethical accountability of County government and County-funded agencies.

BUDGET OVERVIEW

The total recommended FY10 Operating Budget for the Office of Inspector General is \$634,730, a decrease of \$65,990 or 9.4 percent from the FY09 Approved Budget of \$700,720. Personnel Costs comprise 83.8 percent of the budget for four full-time positions and one part-time position for 4.5 workyears. Operating Expenses account for the remaining 16.2 percent of the FY10 budget.

LINKAGE TO COUNTY RESULT AREAS

While this program area supports all eight of the County Result Areas, the following are emphasized:

- ❖ *A Responsive, Accountable County Government*
- ❖ *Strong and Vibrant Economy*
- ❖ *Vital Living for All of Our Residents*

DEPARTMENT PERFORMANCE MEASURES

This table presents the department's headline measures or submeasures including projections from FY09 through FY11. These estimates reflect funding based on the FY09 savings plan, the FY10 budget, and funding for comparable service levels in FY11.

Measure	Actual FY07	Actual FY08	Estimated FY09	Projected FY10	Projected FY11
Headline Measures					
Audits/reviews reported to Council/Executive management ¹	4	4	3	3	4
County/taxpayer funds recovered or put to different use as the result of audit findings and investigations (\$000)	\$3,076	\$500	\$3,000	\$2,000	\$2,000
Credible complaints closed	53	59	45	50	50
Credible complaints opened	54	48	55	55	55
Formal responses to fraud, waste, and abuse matters reported to management by the Office of Inspector General	10	10	8	10	10
Joint investigations with prosecutors	2	2	2	3	3
Percentage of audit recommendations accepted	67	50	67	67	67
Questioned costs or potential savings (\$000)	\$1,100	\$9,600	\$5,000	\$2,000	\$2,000

¹ Please see Inspector General's FY08 Annual Report, with a focus on page 4 for all performance measures listed. The report can be found at www.montgomerycountymd.gov/ig

ACCOMPLISHMENTS AND INITIATIVES

- ❖ *Accomplishments and Initiatives included in this FY10 budget are excerpts of the Office of Inspector General (OIG) FY2008 Annual Report. The full report, including detailed performance measure results for the first three years of the OIG's four-year work plan (FYs 06-09), can be found on the OIG web page.*
- ❖ *Overtime Compensation – Audit Report and Special Review*
Over a sixteen month period from January 2007 through April 2008, the OIG conducted a review of County government's overtime compensation policies and procedures, and payroll timesheets for selected departments. As a result, the OIG found inconsistent controls across County departments which were addressed in three reports (April and December 2007, and April 2008).
- ❖ *County Government Disability Retirement Program – Interim Report*
The OIG 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. Based on allegations of fraud, waste, and abuse received by the OIG and our preliminary analysis of County retirement data, the OIG review focused on police officers who represented approximately 49 percent (58 of 119) of all County employees approved for service-connected benefits between July 1, 2004 and March 1, 2008. The OIG review disclosed that approximately 62 percent (58 of 93) of police officers who retired during this period were approved for service-connected benefits (66 2/3 percent of final earnings and lifetime tax-exempt status).

❖ **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. In fiscal year 2008, several fraud hotline reports became investigative priorities or were key factors in our audit and formal review work.

❖ **Improper Payments: Beginning in FY08 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 OIG found internal control and management oversight deficiencies that resulted in the improper payments. Management agreed with our conclusions and reported that corrective action would be taken.**

❖ **Letter Report – Council Audit Committee Recommendation**

The OIG 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 Government Finance Officers Association and the American Institute of Certified Public Accountants, 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.” In January 2009, the Council passed resolution No. 16-826 to begin addressing this recommendation.

PROGRAM CONTACTS

Contact Thomas J. Dagley of the Office of Inspector General at 240.777.8240 or Helen Vallone of the Office of Management and Budget at 240-777-2755 for more information regarding this department's operating budget.

PROGRAM DESCRIPTIONS

Inspector General

The Inspector General conducts independent audits, reviews, and investigations; receives and investigates credible complaints; reports violations of the law to the State's Attorney for Montgomery County or other appropriate office; notifies the County Council and Executive of serious problems in programs; reviews legislation and regulations to strengthen controls and increase accountability; and submits reports with recommendations to the Council and Executive. The Inspector General conducts projects jointly with other government agencies and contractors.

BUDGET SUMMARY

	Actual FY08	Budget FY09	Estimated FY09	Recommended FY10	% Chg Bud/Rec
COUNTY GENERAL FUND					
EXPENDITURES					
Salaries and Wages	460,871	457,300	444,910	434,500	-5.0%
Employee Benefits	75,583	101,470	101,470	97,210	-4.2%
County General Fund Personnel Costs	536,454	558,770	546,380	531,710	-4.8%
Operating Expenses	48,523	137,950	137,950	103,020	-25.3%
Capital Outlay	-1,363	4,000	0	0	—
County General Fund Expenditures	583,614	700,720	684,330	634,730	-9.4%
PERSONNEL					
Full-Time	6	5	5	4	-20.0%
Part-Time	1	0	0	1	---
Workyears	5.8	5.0	5.0	4.5	-10.0%

FY10 RECOMMENDED CHANGES

	Expenditures	WYs
COUNTY GENERAL FUND		
FY09 ORIGINAL APPROPRIATION	700,720	5.0
Changes (with service impacts)		
Reduce: Executive Administrative Aide to part-time	-33,410	-0.5
Other Adjustments (with no service impacts)		
Increase Cost: Service Increment	4,100	0.0
Increase Cost: Annualization of FY09 Personnel Costs	1,550	0.0
Increase Cost: Group Insurance Adjustment	700	0.0
Increase Cost: Printing and Mail Adjustments	70	0.0
Decrease Cost: Central Duplicating Deficit Recovery Charge	-80	0.0
Decrease Cost: Elimination of One-Time Items Approved in FY09	-4,000	0.0
Decrease Cost: Contractual expenses	-14,000	0.0
Decrease Cost: Operating expenses	-20,920	0.0
FY10 RECOMMENDED:	634,730	4.5

FUTURE FISCAL IMPACTS

Title	CE REC. (\$000's)					
	FY10	FY11	FY12	FY13	FY14	FY15
This table is intended to present significant future fiscal impacts of the department's programs.						
COUNTY GENERAL FUND						
Expenditures						
FY10 Recommended	635	635	635	635	635	635
No inflation or compensation change is included in outyear projections.						
Labor Contracts	0	2	2	2	2	2
These figures represent the estimated cost of service increments and associated benefits.						
Subtotal Expenditures	635	637	637	637	637	637

File Copy

Projected Four-Year Budget

Office of Inspector General

Fiscal Years 2006-2009

October 2005



Office of Inspector General
Montgomery County, Maryland

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Linking Strategic Work Plan with Budgets

A key to operational success is linking the strategic four-year work plan issued in August 2005 with the OIG budget request. To help establish this link, the estimated direct (audit and investigative) and support work years needed to accomplish the short and longer-term action plans were included on page 8 of the work plan. Those figures do not include any contractor resources needed to perform certain audit work in fiscal years 2007-2009.

This four-year budget projection includes a request for increased resources. In April to July 2005, the Inspector General sent approximately 75 letters to stakeholders and conducted more than 50 interviews to obtain and consider input for the four-year work plan. Many stakeholders expressed the view that additional OIG resources are needed to adequately address the responsibilities set forth in Montgomery County Code §2-151. In order to address the audit, inspection, and investigative work identified in the work plan, the projected resources needed are summarized below:

Office of Inspector General Projected Four-Year Budget

Fiscal Year	Total Work Years	Personnel	Operating	Total	Increase over Prior FY
2006 Approved	4.9 ^{1/}	\$468,110	\$15,620	\$483,730 ^{2/}	N/A
2007	5.4 ^{3/}	\$500,224	\$76,400 ^{4/}	\$576,624	19.2%
2008	6.0	\$535,185	\$80,220	\$615,405	6.7%
2009	6.0	\$557,236	\$84,231	\$641,467	4.2%

^{1/} Authorized full-time positions as of October 15, 2005: Inspector General, Deputy Inspector General, Assistant Inspector General, and Office Manager. The Deputy position was filled in September 2005. The Assistant position was approved in August 2005 - it will be filled in November 2005. In addition, a part-time Assistant position is authorized and filled. A part-time intern position is vacant.

^{2/} The OIG budget is approximately .01 (one one-hundredth) percent of the County's \$3.6 billion fiscal year 2006 operating budget.

^{3/} The additional work years requested for fiscal years 2007-2009 address an anticipated increase in work if an OIG-operated County fraud-referral system is implemented. The County is considering more than one option at this time; therefore, costs associated with any additional work are not included in this document.

^{4/} Operating expenses for fiscal years 2007-2009 include \$50,000 each year for the retention of contractors to perform certain audit work in the four-year work plan.

(4)

(5)

Benchmarking/Performance Measures

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. While NALGA remains a valuable resource and partner for the OIG in the areas of benchmarking and best practices for certain audit and inspection measures, the four-year work plan for fiscal years 2006-2009 places added emphasis on our investigative responsibilities. As a result, OIG performance measures to be included in the fiscal year 2007 budget request to the Office of Management and Budget (OMB) in December 2005 will include several revisions. In this regard, the OIG proposes to use the following performance measures to report results beginning with fiscal year 2006.

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:	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 (\$) • Audit and investigation workyears

By including these revised performance measures in our projected four-year budget document, the OIG invites the County Council, Executive, and other key stakeholders to provide comments (ig@montgomerycountymd.gov) no later than November 30, 2005.

(S)

(6)

Selected Fiscal Year 2006 Performance through October 15, 2005

The OIG received 28 new complaints involving fraud, waste, and abuse in County-related activities. Approximately 50 percent of available professional staff resources was dedicated to these complaints. In addition, the OIG closed 36 complaints including complaints received before July 1, 2005.

Three performance audits listed on page 7 of the four-year work plan are in progress. The audits address: the reliability of selected fiscal year 2005 County financial reports and program performance results; assessing the County's workers' compensation program; and determining if certain types of accidents, injuries, and illnesses are targeted for reduction of incidents and costs through prevention initiatives. In addition, the OIG completed field work to determine whether adequate internal controls are in place for the County's purchasing card program.

The OIG received six formal responses by senior management to investigations involving fraud, waste, and abuse. In addition, the OIG formally referred one criminal investigation to a prosecutor.

The Inspector General is working with Council members and other leaders on a project involving fraud risk management. The project includes determining whether employees of the County and County-funded agencies, contractors, and citizens have the opportunity to report to an independent oversight agency suspected fraud, waste, and abuse without fear of retribution. This project includes identifying the best course of action to help the County comply with anticipated new legal requirements and governance guidelines for public sector organizations.

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A Message from the Inspector General

The Montgomery County Office of Inspector General (OIG) four-year work plan for fiscal years 2006–2009 focuses on the fundamental mission to increase the efficiency and effectiveness of County programs and operations, while preventing and detecting fraud, waste, and abuse, and increasing ethical, fiscal, and legal accountability.

This work plan meets the requirements of Montgomery County Code §2–151 and conforms to criteria of the Association of Inspectors General and other oversight organizations for the inspector general community. In addition, this plan supports requirements of §2–151 regarding submission to the County Council and Executive of a projected four-year budget for the OIG. To develop work plans, we rely on the participation of stakeholders, including County government leaders and other employees, employee and community organizations, and individual residents. We balance competing demands by effectively addressing the requirements of our stakeholders.

The goals and strategies in this plan concentrate on improvement in substantive areas. We ensure that our short and longer-term action plans are challenging and support these goals and strategies. As we gauge our baseline results for fiscal year 2006, we will fine-tune our strategies and action plans. We will also develop new performance measures for fiscal year 2007 that are reflective of the value we add to County operations. At the end of each fiscal year, we will issue an annual performance report to the County Council and Executive.

Throughout the four-year period, we will provide timely, useful, and accurate information to help the County achieve greater efficiency and operate effectively. We will strive to strengthen professional relationships with our stakeholders and coordinate our efforts with the law enforcement and audit communities. We acknowledge the invaluable assistance of the County's departments and offices with whom we work to bring about meaningful results through our audits, inspections, and investigations.

The success of this plan depends upon the commitment of the OIG staff and our stakeholders to our strategies and action plans. I am confident that we will meet the challenges that face us.

Thomas J. Densley

Office of Inspector General
Four-Year Work Plan

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Mission, Vision, and Goals

The OIG's mission is to conduct objective and independent audits, reviews, and investigations relating to County government and independent County agencies to:

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

We strive to be a respected, independent audit and investigative organization that is:

- valued by all County employees, citizens, and other stakeholders,
- organized and aligned with the County's leadership system,
- supportive of a dedicated professional County workforce; and
- guided by state-of-the-art management and professional standards and practices.

Strategic Goals and Measures

- The OIG provides timely, accurate, and useful information that contributes to the efficiency and effectiveness of Montgomery County government and independent County agencies, as measured by satisfaction and dissatisfaction data collected from stakeholders.
- The OIG maximizes resources and leverages technology in support of our mission, as measured by outputs and outcomes specific to the audits and investigations we conduct.
- The OIG obtains and develops the human resources needed in support of our mission, as measured by staff preparation for changes in the work environment, teamwork, on-the-job performance improvements, and credentialing.

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 and objective organization to conduct and supervise audits, inspections, and investigations,
- take appropriate actions 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 to the County Council and Executive.

For each audit, inspection, and investigation, the OIG complies with applicable generally accepted 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.

Audits provide a formal standards-based approach to review economy, efficiency, and programmatic issues. Audits may include examining revenue enhancement initiatives, collection procedures, and expenditures made under contracts and other agreements.

Inspections are an alternative method to traditional audits and investigations to assess County programs and activities. Inspections may include work that results in recommendations to decision makers to streamline operations, reduce unnecessary regulations, improve customer service, or minimize inefficient and ineffective procedures.

Investigations are a tool to investigate alleged violations of fraud, abuse, and misconduct, and laws and regulations that govern County employees, grantees, and contractors. Cases are typically developed for presentation to management for administrative action and/or a prosecutor for consideration.

^{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.

The Planning Process

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 ongoing 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 FY 2006 budget process 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 aide 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 face the challenge of using in future budget deliberations the performance measures developed and results reported in the FY 2006 operating budget and public services plan for County programs.

Plan Development

We are designing an OIG to concentrate on key provisions of the County's governance system – accountability for management actions; fiscal accountability; transparency in operations; and independence in internal and external audits. Our planning process comprises 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 includes programs and activities in the approved FY 2006 operating and capital budgets, and amendments to the FY 2005-2010 capital improvements program. Our project universe was identified using input from:

- Council and Office of Legislative Oversight
- Chief Administrative Officer and department directors
- independent agency leaders
- community organizations
- complaints to Inspector General
- internal and external auditors
- technology changes
- legislative actions
- emerging trends

To determine which projects to include in this plan, we used standardized and in some cases function-specific risk factors to determine those projects having a higher risk. Standard risk factors include materiality, impact on operations, visibility and public sensitivity, public interest, prior audit/investigative results, and loss potential, including fraud and other vulnerabilities.

OIG Strategy Matrix

OFFICE OF INSPECTOR GENERAL STRATEGY MATRIX

<p>Goals And Strategies</p>	<p>1. The OIG provides timely, accurate, and useful information that contributes to the efficiency and effectiveness of Montgomery County government and independent County agencies. Strategies:</p> <ul style="list-style-type: none"> • Identify major management challenges facing Montgomery County • Strengthen professional relationships <p>Conduct</p> <ul style="list-style-type: none"> • Briefings to increase awareness of OIG • Audits that result in County-wide improvements • Audits that provide timely and valuable feedback to departments on sensitive and high risk activities and operations • Audits that result in reports that maximize value and relevance to the County • Investigations that focus on high-impact, value-added cases • Investigations that are performed efficiently and timely <p>2. The OIG maximizes resources and leverages technology in support of our mission. Strategies:</p> <ul style="list-style-type: none"> • Manage the efficient use of limited OIG resources • Leverage cutting-edge technology resources and efficiently analyze data <p>3. The OIG obtains and develops the human resources needed in support of our mission. Strategies:</p> <ul style="list-style-type: none"> • Maintain an organization that attracts, develops, and retains a talented and diverse workforce • Implement quality assessment and peer review recommendations within established timeframes • Maintain compliance with educational /professional training requirements per OIG community standards
<p>Key Stakeholders ^{2/}</p>	<p>County citizens County Council, directors, and staff County Executive, Chief Administrative Officer, department directors, and division chiefs Senior leaders and staff of each independent County agency County employees Employee and community organization leaders</p>

^{2/} Stakeholders are defined as those individuals or groups that are or might be affected by the OIGs actions and effectiveness. In April – July 2005, the Inspector General sent approximately 75 letters to individuals and conducted more than 50 interviews to obtain and consider input for this work plan.

Challenges Impacting OIG Success

After identifying projects having a higher risk for adverse consequences and considering the probability of occurrence, we identified and considered a number of strategic challenges that may affect our ability to address OIG goals or individual projects. These challenges include:

1. balancing work priorities with available resources and ensuring productivity that addresses the breadth of County operations, including concerns expressed in the form of complaints to the OIG,
2. working with County leadership to be able to routinely access accurate and reliable revenue, expenditure, personnel, and other operational data,
3. obtaining the skills base needed to examine highly technical or complex areas of County operations; and
4. balancing our reporting requirements with the need to obtain and protect sensitive and confidential data.

With these challenges in mind, we identified projects and created our audit/inspection plan for the short-term (FY 2006) and the longer-term (FYs 2007–2009). Much of our work plan cuts across County programs and operations. It is difficult to identify specific action plans beyond FY 2006 – especially to the level of citing specific objectives for audits and inspections that will begin in FY 2007 and later.

Our audit and inspection action plans are categorized according to efficiency and effectiveness, or ethical, fiscal, and legal accountability. Our investigative plans involving the prevention and detection of fraud, waste, and abuse are also included. Table 1 on pages 6-7 categorizes our planned work.

While the work in this plan focuses on our core statutory requirements, it must remain dynamic. We will maintain the flexibility and discretion to redirect resources – when and where needed – to be a timely, relevant, and effective member of County operations. The OIG must be able to respond to major challenges facing Montgomery County agencies, and develop work priorities to assist County leadership in addressing these challenges. The OIG process must ensure a focus on results using the best business practices of the inspector general community.

Table 1—Key Factors and Action Plans

Key Factors	Increase Efficiency and Effectiveness	Prevent and Detect Fraud, Waste, and Abuse ^{3/}	Increase Ethical, Fiscal, and Legal Accountability
Strategic Challenges (page 5)	All	1,2,4	All
Longer-Term Action Plans (FY 2007-2009)	<p><u>Performance Audit or Inspection</u> Supply management and facilities: determine the reasonableness of project costs associated with maintenance and new construction in County and independent County agencies</p> <p>Public safety: assess expenditures by the Department of Homeland Security and other partner agencies for emergency services</p> <p>Management practices: determine the reasonableness of overtime compensation paid by County departments and agencies</p> <p>Management practices: determine the adequacy of County and independent County agency oversight of the procurement and use of telecommunication services</p> <p>Management practices: assess budgetary practices including use of program performance measures/results in budget deliberations</p> <p>Information technology: assess the efficiency and effectiveness of modernizing selected County information systems</p>	<p><u>Investigation</u> Investigate complaints received by the OIG regarding fraud, waste, or abuse in County and independent agency operations</p> <p>Examine potentially vulnerable County and independent agency procurement processes for conflicts of interest or other improper practices</p> <p><u>Quick Response Letter</u> Issue letters to senior leaders to resolve issues without using a formal audit, inspection, or investigative report</p>	<p><u>Performance Audit or Inspection</u> Ethics: assess the County’s compliance with laws, policies, and practices including monitoring and responding to breaches of ethical behavior</p> <p>Governance: review practices of the County’s independent public accounting firm regarding annual financial statement audits; evaluate the potential value of applying certain provisions of the Sarbanes-Oxley Act to County operations</p> <p>Legal and ethical: examine the adequacy of administrative and legal protection for whistleblowers</p> <p>Legal: determine County public school compliance with public meeting laws regarding certain financial and policy decisions</p> <p>Legal: assess compliance with laws, policies, and procedures regarding the County’s housing and other development approval process</p> <p><u>Quick Response Letter</u> Issue letters to senior leaders to resolve issues without using a formal audit, inspection, or investigative report</p>

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^{3/} The information we investigate may include the following: alleged violation of law, rules, or regulations; significant misconduct; significant mismanagement and waste of funds; abuse of authority; improper use of County resources; endangerment of public health and safety; conflict of interest; bribes, kickbacks or bid rigging; fraudulent travel claims; contract or procurement fraud; health care fraud; workers’ compensation fraud. The information we do not investigate includes: day-to-day management decisions, EEO complaints, decisions handled by the grievance process, employee benefits and compensation.

Table 1—Key Factors and Action Plans

Key Factors	Promote Efficiency and Effectiveness	Prevent and Detect Fraud, Waste, and Abuse ¹	Increase Ethical, Fiscal, and Legal Accountability
<p>Short-Term Action Plans (FY 2006)</p>	<p><u>Performance Audit or Inspection</u> Management practices: determine the reliability of selected FY 2005 County financial reports, and program results for Human Resources, Public Works and Transportation, and Community Development and Housing</p> <p>Management practices: assess the County's workers' compensation program, including benchmarking with comparable jurisdictions</p> <p>Procurement practices: determine if County purchases are made in the most economical and efficient manner, including whether appropriate contracts are used to obtain better prices for commonly procured goods and services</p>	<p><u>Investigation</u> Investigate complaints received by the OIG regarding fraud, waste, or abuse in County and independent agency operations (see page 8 for a breakdown of open complaints as of 7/1/05)</p> <p>Investigate allegations of fraud regarding certain activities of the County's housing and other development approval process</p> <p>Investigate potentially fraudulent workers' compensation claims to deter abusive practices and reduce costs</p> <p><u>Quick Response Letter</u> Issue letters to senior leaders to resolve issues without using a formal audit, inspection, or investigative report</p>	<p><u>Performance Audit or Inspection</u> Financial: determine whether an adequate internal control structure is in place for the County's purchasing card program</p> <p>Financial: determine if certain types of County accidents, injuries, and illnesses are targeted for reduction of incidents and costs through prevention initiatives</p> <p>Legal/governance: recommend implementation of an OIG-operated fraud-referral system (including a hotline) to ensure County employees, contractors, and citizens have the opportunity to communicate concerns about fraud, waste, and abuse without fear of retribution</p> <p><u>Quick Response Letter</u> Issue letters to senior leaders to resolve issues without using a formal audit, inspection, or investigative report</p> <p><u>Stakeholder requirements</u> Establish an OIG citizens' advisory group to ensure adequate input on accountability issues</p>
<p>Communication of Results</p>	<p>Reports with recommendations to the County Executive, Council, advisory board members, and leader of affected department or independent agency</p>	<p>Investigative reports submitted to the Chief Administrative Officer (or designee), other appropriate leaders, and/or State's Attorney, subject to State and County public information laws</p>	<p>Reports with recommendations to the County Executive, Council, advisory board members, and leader of affected department or independent agency</p>

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Summary of Open Complaints on July 1, 2005

Complaint Category	Total
Employee conduct	18
Contractor conduct	4
Spending practices	6
Revenue collection practices	3
Internal control practices	3
Other	11
Total	45

Linking Strategic Work Plans With Budgets

Montgomery County Code §2-151 requires the Inspector General to submit to the County Council and Executive, within four months of confirmation, a projected budget for the OIG. While the OIG plans to issue a separate report to comply with this requirement, some budget information is included in this work plan.

A key to operational success is linking the strategic work plan with the OIG budget. To address this issue, the estimated direct (audit and investigative) and support work years needed to accomplish the short and longer-term action plans in Table 1 are described below. These figures do not include any operating funds needed for consulting services.

[REDACTED]					
FY 2006	.6	1.6	.8	1.0	4.0
FY2007	1.4	1.6	1.4	1.0	5.4
FY 2008	1.7	1.6	1.7	1.0	6.0
FY2009	1.7	1.6	1.7	1.0	6.0

Ideas Worth Exploring

The role of the OIG is not only to fight fraud, waste, and abuse but also to promote economy, efficiency, and effectiveness in County programs and operations. Therefore, researching initiatives is within the OIG's area of responsibility. Ideas are presented here that may reduce costs, improve efficiencies, or introduce new ways of doing business. Throughout the period covered by this work plan, the OIG plans to work with Council and Executive staff to determine the feasibility of various ideas, including the three items cited below:

OIG Fraud, Waste, and Abuse Hotline

Consideration should 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, and citizens to report suspected fraud, waste, and abuse in County government and County-funded agencies. 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 an independent hotline the leading method for detecting fraud. Currently, there are fraud-referral processes in use in the County; however, none appear to operate in a manner consistent with all standards recommended by the ACFE or the Government Finance Officers Association. Employees, contractors, suppliers, and citizens should be encouraged and given the means to communicate, anonymously if desired, concerns without fear of retribution.

OIG support to Occupational Safety and Health Program, Department of Finance

Consideration should be given to 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 could explore audit and investigative initiatives to identify and address provider and claimant fraud as potential contributing factors to rising costs. The audit and investigative expertise of OIGs in several federal, state, or local government organizations has significantly contributed to managing workers' compensation costs in recent years.

OIG investigation of allegations that include criminal conduct

County personnel regulations state that potentially illegal or improper acts in government should be reported to an appropriate official to investigate or take corrective action. However, investigative responsibility for allegations of serious misconduct that include criminality is not specified. Consideration should be given to establishing a working group that includes the OIG to clarify investigative responsibilities for all allegations that include criminality. This clarification will help ensure such allegations are independently and thoroughly investigated and, when appropriate, presented to the State's Attorney for consideration. The responsibilities of the OIG as defined in Montgomery County Code §2-151 should be considered to ensure accountability in this area.

Annual Report

Office of Inspector General

Fiscal Year 2008

October 2008



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:

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Rockville, Maryland 20850
Telephone 240-777-8240
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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.
- Fraud, waste, and abuse can be reported to the confidential OIG Fraud Hotline. Call 24 hours a day, 7 days a week to 1-800-971-6059.



A Message from the Inspector General

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

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

The OIG was established by the Montgomery County Council in 1997. The OIG is an independent office that relies on Government Auditing Standards¹ and the Principles and Standards of the Association of Inspectors General² 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 agencies³.

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 agency⁴
- 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.

¹ Government Auditing Standards, U. S. Government Accountability Office (July 2007 Revision)

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

³ 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

⁴ For example, federal offices of inspectors general

Challenges

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 payments⁵ 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.

⁵ 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

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

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

⁷ 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

⁸ 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

⁹ 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

¹⁰ 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

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

¹² 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

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

¹⁴ 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 CountyStat¹⁵ 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

¹⁵ 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 GFOA¹⁶ and AICPA¹⁷, 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.

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

¹⁷ 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

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.

Thomas J. Dagley
Inspector General
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Confidential OIG Fraud Hotline: 1-800-971-6059
Website: <http://www.montgomerycountymd.gov/ig>

Resolution No.: 16-917
Introduced: April 14, 2009
Adopted: April 14, 2009

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

SUBJECT: Appointment of Inspector General

Background

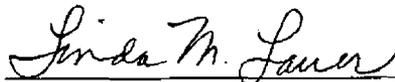
1. Section 2-151 of the County Code establishes the Office of Inspector General to:
 - a) review the effectiveness and efficiency of programs and operations of County government and independent County agencies;
 - b) prevent and detect fraud, waste, and abuse in government activities; and
 - c) propose ways to increase the legal, fiscal, and ethical accountability of County government departments and County-funded agencies.
2. Section 2-151 specifies that the Inspector General is appointed for a term of four years and must be professionally qualified, by experience or education, in auditing, government operations, or financial management, and must be selected solely on the basis of professional ability and personal integrity, without regard to political affiliation.
3. Resolution 15-961, adopted April 19, 2005, appointed Thomas J. Dagley as Inspector General for a four-year term through June 30, 2009.

Action

The County Council for Montgomery County, Maryland approves the following resolution:

Thomas J. Dagley is appointed to the position of Inspector General, in County pay grade 40, effective July 1, 2009, until June 30, 2013.

This is a correct copy of Council action.



Linda M. Lauer, Clerk of the Council

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OFFICE OF INSPECTOR GENERAL

Thomas J. Dagley
Inspector General

MEMORANDUM

April 27, 2009

TO: Duchy Trachtenberg, Chair
MFP Committee

FROM: Thomas J. Dagley
Inspector General

SUBJECT: FY 2010 Budget – Office of Inspector General

The purpose of this memorandum is to advise you of my proposed changes to the Executive's Recommended operating budget for the OIG – line item changes that decrease Personnel Costs to \$475,710 and increase Operating Expenses to \$159,020 but do not impact the Executive's Recommended total of \$634,730. I believe these changes are needed to support a Four-Year Work Plan for FYs 2010-2013 that I am in the process of preparing following the Council's appointment of me earlier this month to a second four-year term beginning July 1, 2009.

The proposed changes involve the following:

- Abolish position #12131, one of two Assistant Inspector General (AIG) positions currently authorized. The other AIG position, currently vacant, will be filled prior to July 1, 2009. The proposed \$475,710 in Personnel Costs includes these changes to AIG staffing.
- Incident to these AIG position changes, I propose transferring \$56,000 in Recommended Personnel Costs to Operating Expenses (sub object code 2095) to enable maximizing the use of contractual personnel to complete projects that require specialized skills. A contract for this purpose was executed last month by the Office of Procurement. As this transition from personnel to contract resources occurs, an increase in OIG Operating Expenses in lieu of Personnel Costs in the 4th quarter of FY 2009 is forecast.

The above proposals will reduce OIG work years from 4.5 to 3.5. I look forward to answering any questions you or other Council Members have regarding the OIG budget.

Cc: Steve Farber, Director, Council Staff
Susan Farag, Council Staff



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