



OFFICE OF THE INSPECTOR GENERAL  
MONTGOMERY COUNTY MARYLAND

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MEGAN DAVEY LIMARZI, ESQ.  
INSPECTOR GENERAL

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PUBLIC HEALTH EMERGENCY GRANT PROGRAM

Montgomery County Department of Finance

OIG Publication # OIG-21-008

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JANUARY 8, 2021

## Why We Did This Review

We conducted this review to examine whether adequate policies, procedures, and controls were in place and followed to efficiently and effectively manage the administration and execution of the Public Health Emergency Grant Program (PHEG). We were also concerned that the speed with which the program was implemented may have resulted in errors that disadvantaged intended grant recipients.

## What We Found

1. Application processors applied a superseded formula to determine the percentage of revenue loss resulting in some underpaid applicants.
2. PHEG application processors made processing errors that in some instances led to faulty eligibility decisions and improper payments.
3. PHEG processors did not maintain application support documents and written communications with applicants in a consistent and secure manner.

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## BACKGROUND

On March 5, 2020, Maryland Governor Larry Hogan, in an effort to slow the spread of Coronavirus 19 (COVID-19), declared a State of Emergency and issued several subsequent executive orders aimed at limiting social interactions and thereby slowing the spread of the virus. The orders resulted in the mandatory closure of most businesses in the State. Only essential businesses were permitted to remain open, resulting in an economic hardship for many small businesses and a loss of income for many families.

On March 31, 2020, the Montgomery County Council passed Expedited Bill 16-20 establishing the Public Health Emergency Grant Program (PHEG) in the existing Economic Development Fund, managed by the County Department of Finance (Finance). The PHEG was established to provide economic relief to impacted small businesses. The Council appropriated \$25 million to the PHEG program.

Expedited Bill 16-20 authorized grants to local for-profit and non-profit businesses who employed “100 or less employees”, and “could demonstrate a significant financial loss caused by a public health emergency.”<sup>1</sup> The Bill limited the maximum grant for financial losses to \$75,000. It also authorized the Director of Finance to award mini grants in amounts up to \$2,500 to reimburse eligible businesses for costs incurred to support employee telework during the public health emergency.

Expedited Bill 16-20 further required the County Executive to designate an employee to lead efforts to notify local businesses about the PHEG and other available government programs aimed at helping with an economic recovery. The legislation included language requiring that outreach prioritize businesses located in “hard to reach communities”.

County Executive Temporary Regulation 9-20T, effective April 15, 2020<sup>2</sup>, established the initial PHEG criteria and the County’s award process. The temporary regulations added that in order to qualify for a grant, affected businesses needed to be in operation prior to March 5, 2020, be in good standing in the State of Maryland, and have suffered a loss of 50% or greater in adjusted revenue for “a certain financial period that is attributable to the public health emergency.”<sup>3</sup> The temporary regulations also established that initial grant awards would not exceed \$10,000, but could be adjusted at a later date up to \$75,000, subject to the availability of funds.

Applications for grants through the PHEG Program were accepted from April 15, 2020 to April 25, 2020. Finance received 6,751 PHEG applications and approved 2,342, with an overall expenditure of \$20.92 million.

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<sup>1</sup> Expedited Bill 16-20

<sup>2</sup> The permanent regulations were in effect on August 1, 2020

<sup>3</sup> Montgomery County Executive Regulation 9-20

## Objectives, Scope, and Methodology

The objective of this review was to examine whether adequate policies, procedures, and controls were in place and operating to efficiently and effectively manage the administration and execution of the PHEG.

The scope of our review included all policies, procedures, and processes associated with the PHEG. We also considered applications approved up to June 11, 2020 and applications declined up to July 7, 2020.

In conducting this review, we inspected grant files and related records; interviewed relevant staff; and analyzed a sample of approved and rejected grant applications to determine if the methods used to determine applicant eligibility and award amounts complied with policy.

We identified and tested two sample populations, approved applications and denied applications. To develop our sample of approved applications, we obtained the list of all approved grant applications (964) as of June 11, 2020 and used software to select a random sample of 302 applications (approximately 31% of the total population).

To select our sample of denied applications, we obtained a list of all denied applications (4,229) as of July 7, 2020 and used software to select a random sample of 208 applications (approximately 5% of the total population).

Our review was conducted between May 2020 and October 2020 in accordance with the Association of Inspectors General, Principles and standards for Offices of Inspector General (May 2014).

## FINDINGS AND RECOMMENDATIONS

The Department of Finance worked to administer the PHEG Program expeditiously. Within two weeks of the passage of legislation and appropriation of funding, the program was developed and initiated. The initial policies and procedures defining eligibility criteria and detailing the process for receiving and processing applications, as well as the training of staff to review and process applications, were all completed in rapid succession. With the urgency of the developing emergent need and the short timeframe involved, it is not surprising that we found some issues with the administration and operation of the program.

Our review of approved applications found errors in processing, that changes to eligibility criteria and calculation formulas were made after the application period closed, and that the formulas were not applied consistently. We further found that application processing staff were provided too few training examples which led to inconsistencies in processing. Additionally, we found a lack of consistency in how support documents obtained from applicants were stored.

Within our sample, we discovered one instance where a business was paid twice. In discussing the error with Finance, we learned that they too had discovered the error, contacted the company, and ensured the return of the funds. Finance also alerted us to two additional overpayments that were not included in our sample. Similarly, they had contacted the companies and were taking steps to retrieve the funds.

Although we found some errors in our review of denied applications, they did not impact original eligibility decisions. Most denied applications did not meet basic eligibility criteria, and therefore processing discrepancies had no effect on the denial.

Through interviews with Finance staff, we learned that they established a secondary review process in the early stages of the grant's administration after noticing mistakes in processing. We observed that the secondary reviews were successful in catching some, but not all, errors that would have negatively impacted eligibility decisions.

Commendably, the County Executive's Business Liaison Officers and County Regional Service Offices made considerable efforts to communicate the existence of the PHEG and related eligibility criteria to small business owners, particularly in hard to reach communities. Information pertaining to the PHEG was posted on the County website, County staff held information meetings, and efforts were undertaken through various Chambers of Commerce and community organizations to educate the business community about the program. The County also provided information pamphlets in Amharic, Chinese, English, French, Korean, Spanish, and Vietnamese that were disseminated to small businesses in corresponding communities.

During interviews we were told that applicants had concerns about the length of time it took to receive a decision on applications. We determined it took an average of 34 days to process

## FINDINGS AND RECOMMENDATIONS

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applications within our sample, not including the time it took to process award payments. Some we interviewed recommended the County create an application tracking system to keep applicants informed of the status of their application. For varying reasons, applications can often take longer to process than anticipated by applicants. The perceived delay can be a source of stress for those suffering as a result of public emergencies. Providing a mechanism for applicants to check the status of their application may help alleviate some unease and allow them to formulate other plans.

Based on our early observations of the PHEG Program we published a document, *Lessons Learned from County COVID-19 Grant Programs*, where we noted several opportunities to help strengthen current and future County grant programs. The document can be found in Appendix A.

**Finding 1:** Application processors applied a superseded formula to determine the percentage of revenue loss resulting in some underpaid applicants.

While conducting our review, we examined a sample of 302 approved grant awards, representing approximately 31% of applications approved as of June 11, 2020. In that sample, we found 25 awards with processing errors, 13 of which were the result of processors using a superseded formula when determining eligibility.

In applications processed from April 15 to April 28, 2020, applicants were required to show a 50% or greater loss in revenue for the month of March. Revenue loss was determined by comparing actual revenue and expenses for March 2020 with a calculated historic monthly average using data from a “previous period.”<sup>4</sup> The data used for comparison varied depending on factors such as how long a business was in existence, as well as available documentation.

In late April, after observing many businesses were not meeting the 50% loss threshold because mandatory closures did not take effect until the middle of March, the County Executive’s Office authorized Finance to adjust the formula used to calculate loss. The new formula had the effect of almost doubling the actual loss of revenue for March. This was done to compensate for the inability of businesses to demonstrate a loss for the entire month.

Finance advised us that as a result of the change, they reevaluated applications that were denied using the previous formula to ensure that qualifying businesses were not erroneously denied funding. However, they did not reevaluate applications that were approved using the previous formula, which would have potentially led to the award of more grant funds.

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<sup>4</sup> County Executive Regulation 9-20T, established the initial PHEG criteria and award process

Table 1 (Appendix B) displays the 13 businesses in our sample that were approved for funds prior to the change in calculation that were not reevaluated using the revised formula. We found that businesses in our sample could have qualified for approximately \$19,000 more (\$2,000 each on average) if the revised formula had been applied. We also found four instances where applying the new calculation had no impact on the award amount because applicants had already qualified for the full amount of the grant. The observations presented in Table 1 were made for businesses only within our sample. It is conceivable that the same errors could be found within the remainder of the population.

Another consequence of changing the revenue loss formula after the program stopped accepting applications was that otherwise qualifying businesses were not given an opportunity to apply. We note that when the PHEG closed approximately \$5 million of appropriated money was still available.

### **Recommendation 1**

- a) Grant administrators should avoid changing eligibility criteria and processing methodology after a program has opened and started processing applications. If modifications occur, program administrators should take steps to ensure that all applications processed under the obsolete methods are reevaluated, and if appropriate, reopen programs to ensure all qualified persons are given the opportunity to apply.
- b) Grant administrators should develop a standardized process to address over and underpayments of grant awards and apply the established process to applicable impacted applications.

**Finding 2:** PHEG application processors made processing errors that in some instances led to faulty eligibility decisions and improper payments.

In 12 of the 25 applications where we found processing errors, we noted issues with processors not following established practices for establishing revenue averages, and processors using incorrect information to determine revenue loss. Arguably, these errors could have been reduced by more robust training and information flow.

Table 2 (Appendix C) displays our observations of applications where processing errors occurred. In six of the 12 applications, errors were made that affected the amount paid to applicants. In four of those six occurrences, the County paid applicants more money than they were eligible to receive, totaling approximately \$31,000. In two applications, errors resulted in applicants not receiving an average of \$1,500 to which they were entitled.

We found that in some instances processing staff failed to adhere to the instructions provided



in training materials. For example, processors were instructed to enter income amounts from applicants' federal tax returns for the preceding two years into the appropriate fields of a review spreadsheet. We observed that in some cases processors entered income figures for three years instead of the required two years. This resulted in the production of inaccurate monthly revenue averages which were compared to calculated losses for the affected period and resulted in erroneous eligibility decisions. Similarly, we saw instances where processors used applicant revenue for April to determine revenue loss instead of just March as instructed in training materials.

PHEG application processors were provided training through live video training sessions and/or a recorded version of the live training session. They were also provided access to guides and instruction materials. Training materials were continually available to processors. Processing staff were also provided access to senior Finance employees in order to ask questions as needed.

The provided training sessions included instruction on how to navigate the PHEG database, how to process assigned applications, and methods for calculating revenue. Although the sessions touched on most key aspects of the established process and provided some examples to follow, they did not provide specific enough explanations of the data and parameters needed to properly, and equitably, calculate a business's income or loss. As an example, in one instance a presenter instructed trainees to use their discretion when deciding whether to include tax data categorized as "other income" in annual income totals.

We also noted that processing staff was not fully informed of changes to processing instructions and program regulations. We observed an example where processors were not informed of a requirement in the permanent PHEG Executive Regulations that sole proprietorships needed to be registered with the State of Maryland Department of Assessments and Taxation (SDAT) in order to qualify for the program. The temporary regulations, which were in place for most of the processing period, did not require registration with SDAT. Through interviews, we learned that PHEG processors were unaware of these changes to the regulations and therefore did not apply them.

### **Recommendation 2**

- a) Grant administrators should provide specific, standardized and consistent guidance and training to staff involved in the processing of grant applications, to include specific examples of possible situations they will encounter in processing applications.
- b) Grant administrators should discourage processing staff from using their discretion in making eligibility determinations.

**Finding 3:** PHEG processors did not maintain application support documents and written communications with applicants in a consistent and secure manner.

Because of the large number of PHEG applications, Finance used its own employees, County employees from other departments, and contractors to process applications. In doing their work, processors reviewed various financial documents submitted with applications in order to determine eligibility. Some of the documentation contained sensitive information pertaining to applicants, including federal tax returns and social security numbers.

While conducting our review, we observed that some required documents were missing from the database used to house PHEG application materials. We noted that some files included notations indicating that processors had communicated with applicants who had provided missing documents, but those documents were still not in the database.

Through interviews with several processors, we learned that they often communicated with applicants through email and by telephone in order to request additional information or missing documents. Two processors told us that they were trained to upload required documents into the PHEG database but were not instructed to preserve all written communications with applicants. The lack of a protocol to preserve and document communications with applicants limits the County's ability to defend against allegations of improper conduct.

A contractor who served as an application processor advised that they did not possess a County computer and regularly downloaded pertinent information to their personal computer before uploading it to the PHEG database. According to the processor, during training they were told to delete all PHEG related files from their computer when they were no longer needed. However, there was no process in place to ensure that this was done or to remind outgoing processors to delete all PHEG related materials from their computers.

Some former processors also reported still having access to the PHEG database and receiving calls from applicants long after they stopped working on the PHEG. Both scenarios are concerning. Allowing former processors access to sensitive applicant information that they no longer need leaves room for abuse. Similarly, allowing continued communication between applicants and former staff may lead to misrepresentations of the County's position and the potential theft of applicant data.

### **Recommendation 3**

- a) Grant administrators should require processing staff to upload all correspondence with applicants into applicable databases so there are complete records of what transpired.

## FINDINGS AND RECOMMENDATIONS

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- b) Grant administrators should terminate access to grant systems at the conclusion of staff and contractor involvement with grant programs.
- c) Grant administrators should mandate that staff and contractors who are no longer involved with a program have no further contact with applicants and direct all questions from applicants to a single point of contact.

## OIG COMMENTS TO CAO RESPONSE

The County Chief Administrative Officer's response to our report is included in its entirety in Appendix A. The response notes concurrence with each of the OIG's recommendations. Nothing in the response caused us to alter our report.

# APPENDIX A: LESSONS LEARNED



Office of the  
**INSPECTOR GENERAL**  
Montgomery County, Maryland

**COVID-19 SPENDING  
OVERSIGHT**

## LESSONS LEARNED FROM COUNTY COVID-19 GRANT PROGRAMS

### COVID-19 ASSISTANCE EFFORTS

On March 27, 2020, the President signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). To date, the CARES Act has provided \$183 million in aid to Montgomery County to assist with COVID-19 related relief programs.

As of September 18, 2020, Montgomery County has appropriated over \$163 million in response to the COVID-19 pandemic.

### PHEG PROGRAM

Through the Public Health Emergency Grant (PHEG) Program, the County Council appropriated \$25 million from the general fund's undesignated reserve to assist local businesses that could demonstrate significant financial loss caused directly or indirectly by the public health emergency.

On April 15, 2020, the County Executive published temporary regulations for the PHEG. The regulations detailed eligibility criteria, funding limits, method for calculation of revenue loss, grant limits, and additional requirements.

PHEG Statistics:

Applications Received:	6,754
Approved applications:	2,345
Total funds Obligated:	\$20.95M

The Montgomery County Office of the Inspector General (OIG) initiated a review of Montgomery County's Public Health Emergency Grant (PHEG) Program to determine whether adequate policies, procedures, and controls were in place to efficiently and effectively manage the administration of PHEG awards. Though the review is still on-going, we noted several opportunities to help strengthen current and future County grant programs.

### RECOMMENDED ENHANCEMENTS

- Clearly define and communicate eligibility criteria
- Avoid changes to eligibility criteria and processing methodology
- Provide sufficient training to application processors
- Consider implementing an application tracking system
- Require applicants to attest that information provided is true

### CLEARLY DEFINE AND COMMUNICATE ELIGIBILITY CRITERIA

Grant administrators should clearly define eligibility criteria well in advance of accepting grant applications. Opening grant programs without clearly defining eligibility criteria will minimize the effectiveness of assistance efforts, lead to errors in processing applications, and potentially lead to eligible applicants being denied assistance.

Grant administrators should also make every effort to communicate eligibility criteria to as broad of a segment of the affected population as possible in order to ensure that all qualified applicants are given an equal opportunity to apply.

## LESSONS LEARNED FROM COUNTY COVID-19 GRANT PROGRAMS

### AVOID CHANGES TO ELIGIBILITY CRITERIA & PROCESSING METHODOLOGY

Grant administrators should avoid changing eligibility criteria and processing methodology after a program has started accepting applications. In progress changes can result in potentially qualified applicants missing the opportunity to apply, applicants failing to provide required documentation, and processors making errors in award decisions.

If modifications occur, they must be properly communicated to the affected population and to application processors. Grant administrators should also consider extending application deadlines or reopening applications, to ensure affected populations have time to adjust to the changes.

### CONSIDER IMPLEMENTING AN APPLICATION TRACKING SYSTEM

Grant Administrators should consider implementing a real-time application tracking system to provide applicants with the status of their application. For varying reasons, applications can often take longer to process than anticipated by applicants. The perceived delay can be a source of stress for those suffering as a result of public emergencies. Presumably, many applicants desperately need the financial assistance provided by the grants. Providing a mechanism for applicants to check the status of their application may help alleviate some unease and allow them to formulate other plans.

### PROVIDE SUFFICIENT TRAINING TO APPLICATION PROCESSORS

Grant administrators should provide application processors with sufficient training to allow them to make proper award/eligibility decisions. The training should include information about the purpose of the grant program; eligibility criteria; an explanation of required documentation and relevance, including where to find support for eligibility; a discussion of unique circumstances affecting eligibility; and direction to document all communications with applicants, including uploading all emails into the database used to process applications. To avoid personal bias from affecting award decisions, application processors should also be discouraged from using personal discretion when evaluating applications. Insufficient training for application processors and the allowance of personal discretion can lead to the utilization of inconsistent and improper evaluation methods and result in erroneous payments, improper denials, and biased decisions.

### REQUIRE APPLICANTS TO ATTEST THAT INFORMATION PROVIDED IS TRUE

Grant administrators should require applicants to certify that the information they provide is true and correct. They should also advise applicants that they may be prosecuted, required to refund grant moneys, and or pay penalties as a result of any false statements. Both actions will help to discourage would-be fraudsters and enable the County to seek prosecution and restitution should intentional wrongdoing be discovered.

### REPORT FRAUD, WASTE, AND ABUSE



[ig@montgomerycountymd.gov](mailto:ig@montgomerycountymd.gov)



<http://montgomerycountymd.gov/oig/hotline.html>



240-777-7OIG (7644)



## APPENDIX B: APPLICATIONS WITH INCORRECT LOSS CALCULATIONS

**Table 1: Application Decisions Using Incorrect Loss Calculation**

Business Type <sup>5</sup>	Calculated Award Amount Approved	Award if Adjustment Applied	Difference in Award and Full Entitlement
Home Improvement	\$5,188	\$10,000	\$4,812
Video production	\$5,225	\$9,373	\$4,148
Cleaning Service	\$4,389	\$6,503	\$2,114
Video production	\$3,755	\$5,623	\$1,868
Beauty Salon	\$1,898	\$3,335	\$1,437
Landscaping	\$2,055	\$3,100	\$1,045
Finance	\$3,644	\$4,397	\$753
Musician	\$1,933	\$2,753	\$698
Beauty Salon	\$8,126	\$10,000	\$1,874
Law Office	\$10,000	\$10,000	\$0
Physical Therapy	\$10,000	\$10,000	\$0
Spa	\$10,000	\$10,000	\$0
Construction	\$10,000	\$10,000	\$0

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<sup>5</sup> We used business types rather than naming individual business

## APPENDIX C: PROCESSING ERRORS EXPLAINED

**Table 2: Processing Errors Explained**

Business Type	Calculated Award Amount	OIG Assessment	Reason for Improper Award or Decision
Sports Bar & Restaurant	\$10,000	Not Eligible to receive a grant	Processor failed to enter the value of the applicant's rent deferment, resulting in lower revenues and enabling eligibility.
Plastic Surgeon	\$10,000	Not eligible to receive a grant	Processor did not use applicant tax data to calculate average monthly revenue as required by policy. Doing so would have shown applicant was not eligible.
Engineering Company	\$4164	\$5462	Processor used net revenue figure instead of gross amounts, resulting in an underpayment.
Travel Company	\$3678	\$5483	Processor used tax data for previous three years instead of the required two years, resulting in an underpayment.
Construction	\$10,000	\$10,000	Processors added interest income to yearly revenue figures.
Cleaning Service	\$10,000	\$10,000	Processors determined the annual historic average utilizing incorrect information
Cleaners	\$10,000	\$10,000	Processors utilized total income figure from tax return instead of gross income amount.
Manufacturing	\$939	Not eligible to receive grant	Processors used improper revenue figures from tax returns.
Consulting	\$10,000	\$10,000	Processors calculated annual average with improper revenue figures.
Plumbing	\$10,000	\$10,000	Processors used incorrect revenue figures.



**Table 2: Processing Errors Explained**

Business Type	Calculated Award Amount	OIG Assessment	Reason for Improper Award or Decision
Video Production	\$10,000	\$10,000	Processors failed to use amounts from profit and loss statements to determine income.
Spa	\$10,000	\$0	Duplicate Payment. Finance obtained reimbursement

# APPENDIX D: CAO RESPONSE



## OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich  
County Executive

Richard S. Madaleno  
Chief Administrative Officer

### MEMORANDUM

January 7, 2021

TO: Megan Davey Limarzi, Inspector General

FROM: *for* Richard S. Madaleno, Chief Administrative Officer *Richard S. Madaleno*

SUBJECT: Inspector General Confidential Draft Report OIG Publication Number 21-008;  
*Public Health Emergency Grant Program*

Thank you for the opportunity to respond to the issues raised in your December 11, 2020, memorandum and confidential draft report concerning the Public Health Emergency Grant Program (PHEG). As noted in your memorandum, the recommendations identified in the confidential draft report are intended to help improve the administration and development of all current and future emergency grant programs. We appreciate that the draft report acknowledges that with programs such as PHEG, where the urgency to develop and initiate the grant program was compelling in light of the COVID crisis, some issues may occur.

We concur with all the recommendations contained in this draft report.

In addition, consistent with the IG bulletin released on October 12, 2020, by your office, [\*Lessons Learned from County COVID-19 Grant Programs\*](#), identifying five recommended best practices/enhancements that could be instituted to help strengthen current and future County grant programs, we view the insights gained from your review of the PHEG program to be very helpful in promoting sound practices/controls that we will ensure are in place for each of the current and future grant programs. These best practices include the following:

- Clearly define and communicate eligibility criteria
- Avoid changes to eligibility criteria and processing methodology
- Provide sufficient training to application processors
- Consider implementing an application tracking system
- Require applicants to attest that information provided is true

Inspector General Confidential Draft Report OIG Publication Number 21-008; *Public Health  
Emergency Grant Program*

January 7, 2021

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Please be advised that, following the release of the bulletin referenced above, which identified best practices that align with many of the recommendations contained in the confidential draft report, we issued the bulletin to the County department directors, and grant program administrators for both awareness and also requiring that they review their current grant programs against the five best practices discussed in the IG bulletin.

As mentioned before, we concur with the recommendations contained in the above referenced draft report. Since the recommendations are intended to help improve the administration and development of all current and future emergency grant programs, we plan to synthesize the recommendations into a fact sheet to be used by grant program administrators. This will ensure that the lessons learned from the PHEG experience benefits the administration of our all current and future grant programs.

Note, with respect to the two recommendations (3b and 3c) concerning terminating access to grant systems at the conclusion of staff and contractor involvement with grant programs, and mandating that staff and contractors who are no longer involved with a program have no further contact with applicants and direct all questions from applicants to a single point of contact, we have since removed access to the system for all staff and contractors except for Department of Finance and Office of the County Executive staff who may continue to need access to respond to inquiries, research applications, etc. as needed.

Thank you for bringing these matters to our attention.

cc: Fariba Kassiri, Deputy Chief Administrative Officer, Office of the County Executive  
Michael Coveyou, Director, Department of Finance  
Bill Broglie, Internal Audit Manager, Office of the County Executive