

Financial Management Practices Audit Report

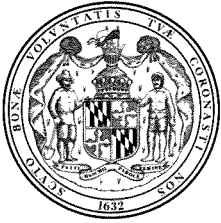
Wicomico County Public Schools

March 2014



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

March 5, 2014

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Wicomico County Public Schools (WCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. The objectives of this audit were to evaluate whether WCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

Our audit disclosed that WCPS needs to enhance internal controls and accountability for certain financial operations including procurement and disbursements, payroll processing, information system security, and equipment control. For example, certain critical user functions on the purchasing and payroll systems were not properly restricted, thereby increasing the risk of improper transactions being processed without detection. Also, account and password controls to protect critical systems were not sufficient.

The audit also identified opportunities to improve cost-effectiveness. For example, certain rates used to pay bus contractors were negotiated without ensuring the amounts were reasonable, considering market conditions or actual costs. We estimated that for the 35 buses placed in service between fiscal years 2009 to 2012, WCPS will pay out approximately \$3.2 million more over the 15-year life of the buses since a particular payment component was not based on market rates.

WCPS also should enhance existing policies to specify the acceptable uses for purchasing cards and ensure certain health care contracts are competitively procured on a periodic basis.

An executive summary of our findings can be found on page 5 of this report. The WCPS response to this audit is included as Appendix A to this report. Auditor comments related to certain of the WCPS' responses can be found in Appendix B. We wish to acknowledge the cooperation extended to us during our audit by WCPS.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tom J. Barnickel III", with a stylized flourish at the end.

Thomas J. Barnickel III, CPA
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

Executive Summary

Legislative Audit Report on the Wicomico County Public Schools (WCPS) March 2014

According to data compiled by the Maryland State Department of Education, WCPS ranks 15th in student enrollment among the 24 public school systems in Maryland. In fiscal year 2012, WCPS had a total full-time regular and special education pupil population of 14,489 at its 24 schools. WCPS' operating and capital expenditures totaled \$186 million during that year.

The Office of Legislative Audits has conducted its second audit of WCPS' financial management practices. The results of the first audit were issued in a report dated December 8, 2008. Our current audit identified a number of opportunities for WCPS to improve internal controls, to adopt more cost effective processes, and to enhance policy direction.

WCPS Needs To Improve Internal Controls and Accountability

WCPS needs to improve internal controls in several financial areas. For example, we noted that WCPS lacked an independent review to ensure that critical payroll transactions processed were proper. WCPS also needs to restrict user access capabilities to record critical transactions on its automated human resources and payroll system and its procurement and accounts payable system. Internal controls over the purchasing of food supplies need to be improved. WCPS also needs to implement adequate security measures and monitoring procedures to protect its network and related critical devices from security risks. Account and password controls to protect critical systems were not sufficient. In addition, WCPS did not have an information technology disaster recovery plan in place.

WCPS needs to verify the propriety of billings for health care services and student bus services provided by contractors. WCPS is self-insured for employee medical benefits and uses a third-party administrator to process related claims. The propriety of claims paid on WCPS' behalf by the administrator was not audited to ensure the related services were actually provided. Payments to the administrator totaled \$25.8 million in plan year 2012, including \$1.4 million for the administrator's fee. In addition, WCPS did not always ensure the accuracy of bus contractor reported time and mileage information that was used to pay certain operating costs.

WCPS Should Consider Implementing Certain Steps to Improve Cost Effectiveness

WCPS should establish payment rates to bus contractors in a manner that ensures that the amounts are reasonable, considering market conditions and actual costs. For example, we estimated potential cost savings of \$3.2 million over the estimated 15-year life of 35 buses owned by contractors if a particular payment component was based on market rates. WCPS did not fully utilize its automated bus routing software to ensure the efficiency of bus routes. Our analysis disclosed that ridership for many bus runs was significantly less than bus capacities. According to WCPS records, in fiscal year 2012 transportation costs totaled \$7.9 million with 92 percent paid to contractors.

WCPS Needs to Establish or Modify Certain Policies and Ensure Compliance with Existing Policies

WCPS corporate purchasing card policies permitted certain transactions that would be prohibited under State purchasing card policies. For example, for one two-year period we identified over 250 potential gift card purchases totaling \$27,000. Gift cards are prohibited by State policy, are difficult to control, and have been a mechanism for committing fraud at other government entities.

WCPS participates in a consortium to procure employee and retiree health care services, but did not have a policy requiring that these services be competitively procured on a periodic basis. For example, the consortium members, including WCPS, are self-insured for health care costs and the consortium contracts with a vendor to provide administrative services, such as claims processing. The consortium's administrative services contract had not been competitively procured since 2001. For the year ended August 31, 2012, WCPS had paid \$25.8 million for health care, including administrative fees of \$1.4 million.

Background Information

Statistical Overview

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Wicomico County Public Schools (WCPS) ranks 15th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2012 total full-time student population was 14,489 students. For the 2012–2013 school year, WCPS had 24 schools, consisting of 16 elementary, 1 combined elementary/middle, 3 middle, 1 combined middle/high school, and 3 high schools.

According to WCPS' audited financial statements and supplementary information, expenditures totaled \$186 million in fiscal year 2012. The largest expenditure category was salaries and wages, including benefits, which accounted for 74 percent of total operating expenditures during fiscal year 2012. According to MSDE records, during the 2012-2013 school year, WCPS had 2,227 full-time equivalent positions which consisted of 1,599 instructional and 628 non-instructional employees.

Oversight

WCPS is governed by a local school board, consisting of seven appointed voting members and one non-voting student member. The State and the Wicomico County government provide the vast majority of WCPS funding. In addition, MSDE exercises considerable oversight through the establishment and monitoring of various financial and academic policies and regulations, in accordance with certain provisions of the Annotated Code of Maryland. MSDE also works with WCPS to comply with the requirements and mandates of federal law. Wicomico County government exercises authority over WCPS, primarily through review and approval of WCPS' annual operating and capital budgets.

External Audits

WCPS engages a certified public accounting firm to independently audit its fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of WCPS federal grant programs (as required by federal regulations). The resulting financial statement and Single Audit reports for fiscal year 2012 were issued in September 2012.

Due to similarities between the work of the independent certified public accounting firm that audited WCPS' financial statements and conducted the Single Audit of federal grants, and the risks and scope of our audit in certain areas, we relied on the results of the independent audit of the fiscal year 2012 financial statements. This reliance allowed us to reduce the scope of our audit work related to revenues and federal grant activity.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of 15 of the 21 findings contained in our preceding audit report dated December 8, 2008 (the 21 findings resulted in 13 detailed recommendations in that report). We followed up on these 15 findings based on our current assessment of significance and risk relative to the audit objectives. We determined that WCPS satisfactorily addressed 12 of these findings. The remaining 3 findings are repeated in this report.

Findings and Recommendations

Revenue and Billing Cycle

Background

Wicomico County Public Schools (WCPS) revenues consist primarily of funds received from Wicomico County, the State, and the federal government. According to the WCPS audited financial statements, revenues from all sources totaled \$186 million during fiscal year 2012. In addition to these revenue sources, schools also collect funds for various purposes, such as for student activities, clubs, and school publications. Because they are not considered school revenue, these student activity funds are accounted for separately by each school and are reported in summary in the audited financial statements. Although this revenue is raised through student-related activities, WCPS has a fiduciary duty to safeguard these funds. For fiscal year 2012, school activity fund collections totaled \$2.43 million and the June 30, 2012 balance was \$432,000.

External Audit Disclosed No Reportable Conditions Regarding Revenue Activities

Due to the similarities between the work of the independent certified public accounting firm that audited the WCPS financial statements and the objectives of our audit in this area, we placed significant reliance on the results of that audit for revenues including school activity funds. The auditor's procedural review and testing disclosed no material weaknesses or deficiencies regarding student activity funds and material revenue types, the majority of which related to electronic fund transfers from other government entities.

Federal Funds

Background

WCPS receives funds pertaining to federal government programs that are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2012 expenditures of federal award funds totaled \$16 million.

Single Audit Report Disclosed No Reportable Conditions Regarding Federal Grant Management

Due to the work performed by the independent certified public accounting firm that conducted the Single Audit of the WCPS federal grants and the objectives of our audit in this area, we relied on the auditor's work and results. Besides expressing an opinion on WCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the fiscal year 2012 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). The related report stated that WCPS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with major federal programs, the auditor did not identify any material weaknesses.

Medicaid Funds Were Received for Eligible Services

WCPS had established a procedure to identify students eligible for Medicaid-subsidized services. Medicaid is an entitlement program for which certain service costs can be reimbursed to WCPS. Medicaid activity is not covered by the Single Audit of federal grants. Our tests disclosed that reimbursement was requested for all Medicaid-subsidized services provided. According to agency records, fiscal year 2012 reimbursement for Medicaid-subsidized services totaled approximately \$1.7 million.

Procurement and Disbursement Cycle

Background

According to WCPS records, non-payroll disbursements (excluding the State's share of retirement contributions) totaled \$35.5 million during fiscal year 2012. Requisitions are computer generated by the requesting department and are to be approved by supervisory personnel (such as a respective department head). The WCPS Purchasing Department is responsible for procuring goods and services requested by individual schools and departments. WCPS procurement guidelines require that procurements over \$25,000 be competitively bid (except architectural services) and approved by the Board. The guidelines also require solicitation of quotes (either verbal or written depending on the value of the procurement) for purchases over \$500. Payments are processed by the finance department through an automated system that prints vendor checks and also posts the payment to the financial records.

Finding 1

WCPS did not adequately restrict user access capabilities on its automated procurement and accounts payable system.

Analysis

WCPS did not adequately restrict user access capabilities on its automated procurement and accounts payable system. Certain employees were assigned capabilities that allowed them to perform incompatible functions. For example, four employees could initiate and approve purchase requisitions and two of these employees could also change and add vendors to the system. Two employees could initiate and approve invoices. Furthermore, WCPS had not established independent electronic approval requirements for certain critical documents, such as requisitions and invoices. As a result, employees could initiate and approve purchasing requests or disbursement transactions without independent approvals. Additionally, there was no independent approval of changes to user access capabilities on the automated system.

Our test of procurement and accounts payable transactions processed by WCPS disclosed that the transactions tested were for appropriate WCPS disbursements and were properly supported.

Recommendation 1

We recommend that WCPS strengthen its controls over the automated procurement and accounts payable system and processes. Specifically, we recommend that WCPS restrict user access capabilities to eliminate the ability of users to perform incompatible duties and establish independent electronic approval requirements for all critical purchasing and accounts payable transactions, as well as changes to user access capabilities.

Finding 2

WCPS does not have a formal policy on acceptable uses of corporate purchasing cards (CPC).

Analysis

Although WCPS procurement guidelines specify that card purchases may only be made from particular types of vendors or businesses pre-selected by the Purchasing Department, the guidelines did not specify the acceptable uses (that is, the types of items that may be purchased) for the card. We noted certain WCPS purchases would have been restricted under the State's corporate purchasing card policy. Specifically, our review of purchasing card activity between April 11, 2011 and April 10, 2013 disclosed WCPS

purchasing card expenditures from local fast food or restaurant merchants totaling \$162,000. During the same period, our analysis of CPC activity identified 257 transactions totaling \$27,349, which based on the vendor's identity and the even dollar amount (for example, \$100), appeared to be gift card purchases. The State of Maryland Corporate Purchasing Card Policy, while not binding on WCPS, prohibits purchases from restaurants and the purchase of gift cards with the State's corporate purchasing cards. In our opinion, unless formally approved the Board, such uses should be restricted by WPCS, especially the purchase of gift cards. Gift cards can be difficult to control and have been the mechanism for committing fraud at other government entities.

As of May 2013, WCPS had approximately 300 CPC cards. Between April 11, 2011 and April 10, 2013, WCPS credit card expenditures totaled \$3.9 million.

Recommendation 2

We recommend WCPS establish formal guidelines, subject to Board approval, on what constitutes acceptable and unacceptable uses for corporate purchasing cards.

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the WCPS budget. According to WCPS records, fiscal year 2012 salary, wage, and benefit costs totaled \$141 million. According to Maryland State Department of Education reports, during the 2012 - 2013 school year, WCPS had 2,227 full-time equivalent positions, which consisted of 1,599 instructional and 628 non-instructional positions.

WCPS uses an automated integrated human resources and payroll system to maintain human resources information, record employee time, track leave usage, and to process and record payroll transactions. The system automatically generates semi-monthly time records and any adjustments are processed by central payroll personnel. The system generates payroll checks and direct deposit advices. Payroll processing involves both automated processes (such as compiling leave and running edit reports) and manual processes (such as data entry of new employee information).

Finding 3

WCPS did not adequately restrict user access capabilities on its automated human resources and payroll system and certain payroll transactions were not independently reviewed.

Analysis

Adequate internal controls had not been established over user access to the automated human resources and payroll system and certain payroll transactions.

- WCPS did not adequately restrict user access capabilities to perform certain critical functions, such as changing employee salary and direct deposit information. Specifically, our review of 14 critical functions related to human resources and payroll processing disclosed 15 of 21 active system users were assigned to perform certain of these functions even though they were not needed by these individuals to perform their assigned job duties.
- WCPS lacked an independent review to ensure that employee payroll transactions were proper. We noted that system transaction reports of payroll changes, such as overtime, were not generated and verified to source documentation by an independent employee.

Our tests of payroll changes and adjustments did not disclose any inappropriate or erroneous transactions.

Recommendation 3

We recommend that WCPS

- a. assign capabilities to perform critical functions on the automated system only to those employees who require it to perform their job responsibilities, and
- b. ensure that a documented review of payroll transactions is performed by an independent employee.

Finding 4

Certain WCPS employees received pay increases larger than provided for in the labor agreement.

Analysis

WCPS increased the salaries of certain employees more than specified by the negotiated agreement between the Board and the bargaining unit for support personnel and did not present the increases to the Board for approval. According to the agreement, classified employees who receive a promotion or an increase in pay grade must be moved back one step for every pay grade they are promoted. Our review of 98 pay grade increases for classified employees for fiscal years 2011 to 2013 disclosed 25 increases in which this methodology was not used, resulting in additional annual wages totaling approximately \$69,000. For example, one employee was promoted from grade 9, step 2 to grade 10, step 11. According to the agreement, the employee should have been moved back to step 1 (within grade 10), but the failure to do so resulted in the employee's annual salary being increased from \$28,957 to \$37,908, which was \$8,951 more than required under the method specified in the agreement. According to WCPS management, this was done to encourage quality employees to remain at WCPS. WCPS management indicated that it believed that certain types of personnel actions, such as reclassifications, did not fall under the agreement; however, we found no language in the agreement that would exclude specific types of personnel actions.

Further, although the labor agreement indicates that the Board makes the final decision as to who will receive promotions, we noted that these promotions were not presented to the Board for approval. Section 4-103, Education Article of the Annotated Code of Maryland requires school boards to set all employees' salaries.

Recommendation 4

We recommend that WCPS

- a. ensure that salary increases are determined in accordance with the terms of the labor agreement, and
- b. ensure all promotions, including those we identified, are approved by the Board as required.

Inventory Control and Accountability

Background

According to WCPS audited financial statements, the undepreciated value of its capital equipment inventory totaled approximately \$31.2 million as of June 30, 2012. WCPS uses automated records to track equipment inventory with a cost of \$1,000 or more (including items capitalized for financial statement purposes).

Finding 5

Internal controls and procedures over equipment disposals, records, and access to records were not adequate.

Analysis

Our review disclosed that WCPS should improve its procedures and controls to ensure accountability over equipment.

- Changes were made to the equipment inventory records without adequate supporting documentation. For example, our test of 9 items with a cost totaling approximately \$44,000 for fiscal year 2012 and 2011 disclosed that 6 items totaling approximately \$29,000 were deleted from the records without the disposals having been approved, as required. Equipment disposals for fiscal year 2012 totaled approximately \$1.2 million.
- WCPS inventory records frequently lacked information to identify specific items. Our test of inventory records for 703 equipment items (such as, lawn mowers and custodial equipment) disclosed that 128 items lacked both a property tag number and serial number for identification purposes.
- Employees were granted access capabilities that enabled them to modify the automated inventory records even though such access was not required as part of the employee's routine job responsibilities. Specifically, 8 of the 11 employees that had full access to the inventory system, which included the capability to add and delete items, did not require this access to perform their job duties.

Recommendation 5

We recommend that WCPS improve its procedures and controls over equipment. Specifically, we recommend that WCPS

- a. **verify that all changes to equipment records, including disposals, are properly supported and approved prior to posting adjustments;**
- b. **ensure that appropriate identifying information is maintained in the detail records; and**
- c. **assign capabilities to perform critical functions on the automated inventory record keeping system only to employees who require such capabilities to perform their job duties.**

Information Technology

Background

The WCPS Department of Technology maintains and administers the WCPS computer network, computer operations and information systems applications. WCPS operates a wide area network, with Internet connectivity, which connects the individual schools to the computer resources located at the WCPS Board of Education building. The Department maintains devices including the Internet firewall and computer servers which support critical applications including its student information system and its finance management system, which includes financial, human resources, and payroll information.

Finding 6

Account, password, and monitoring controls over critical systems were not adequate.

Analysis

Account, password, and monitoring controls over critical systems were not adequate.

- Account and password controls were not sufficient to properly protect critical resources. With respect to network authentication, the student information system and the finance management system, password length, age, complexity, history and/or account lockout were not in accordance with best practices prescribed by the State of Maryland Department of Information Technology (DoIT) *Information Security Policy*. For example, although the *Policy* requires user level passwords to be changed at least annually, WCPS did not enforce password aging for network authentication.
- Critical security and audit events (such as grant database privileges to users and to stop the audit function) on the student information and finance management databases were not logged. As a result, an audit trail to establish accountability of these events did not exist. In addition, there was no documentation supporting any reviews of the finance management application server's security logs. Without effective monitoring, critical security incidents and events affecting operations and data could occur and not be detected.

Recommendation 6

We recommend that WCPS

- a. establish account and password controls in accordance with the best practices prescribed by the State of Maryland DoIT *Information Security Policy*; and
- b. log critical security and audit events on the student information and finance management databases, routinely review all security event logs, investigate questionable items, document these reviews and investigations and retain the documentation for audit verification purposes.

Finding 7

WCPS did not have an Information Technology Disaster Recovery Plan and certain backup files for critical network devices were not properly stored.

Analysis

WCPS did not have an Information Technology Disaster Recovery Plan for recovering computer operations from disaster scenarios (for example, a fire or flood) and backup procedures for critical network devices were not sufficient.

Without a complete disaster recovery plan, a disaster could cause significant delays (for an undetermined period of time) in restoring operations above and beyond the expected delays that would exist in a planned recovery scenario. Specifically, the following critical elements of a recovery plan should be addressed according to the best practices outlined in the State of Maryland *Information Technology (IT) Disaster Recovery Guidelines*, dated July 2006:

- Concept of operations
- Notification and activation procedures
- Recovery strategies (including use of alternate sites)
- Reconstitution procedures
- Periodic testing of the disaster recovery plan

In addition, backup files for the configurations of critical firewalls and a core network device were not stored in a secure, environmentally-controlled location. Accordingly, in the event of corruption or loss of these production configurations, restoration of these configurations could be delayed.

Similar conditions regarding a lack of a disaster recovery plan and critical file backups were commented upon in our preceding audit report.

Recommendation 7

We recommend that WCPS

- a. develop and implement a comprehensive and consolidated disaster recovery plan that is in accordance with the State of Maryland *Information Technology (IT) Disaster Recovery Guidelines*, (repeat) and
- b. backup files of critical network device configurations at an offsite, secure, environmentally-controlled location.

Finding 8

The WCPS computer network was not adequately secured against intrusions.

Analysis

The WCPS computer network was not adequately secured.

- Firewall rules allowed numerous insecure and unnecessary connections to critical network devices. Specifically, firewall rules were not configured to adequately secure connections into the WCPS network from the Internet. Best practices prescribed by the State of Maryland DoIT *Information Security Policy* require that critical systems be configured to monitor and control communications at external boundaries.
- Ten publicly accessible servers were located in the WCPS internal network rather than isolating these servers in a separate protected network zone. These ten servers, if compromised, could expose the internal network to attack from external sources. Recommended security procedures, per the National Institute of Standards and Technology *Guidelines on Firewalls and Firewall Policy*, include placing publicly accessible servers in an external protected zone to protect those servers as well as the entity's internal network.
- Certain traffic flowing from the Internet to the WCPS internal network was not subject to Intrusion Prevention System (IPS) monitoring. A properly utilized IPS can aid significantly in the prevention of, and response to potential network security breaches and attacks. Also, as a best practice, the State of Maryland's DoIT *Information Security Policy* requires that agencies protect against malicious code and attacks by implementing protections including the use of Intrusion Detection Prevention Systems to monitor system events, detect attacks and identify unauthorized use of information systems and/or confidential information.

Recommendation 8

We recommend that WCPS

- a. properly configure the firewall rules to implement a “least privilege” security strategy for better protecting its critical network devices;
- b. relocate all publicly accessible servers to the external protected zone to limit security exposures to critical systems on the internal network; and
- c. assess network security risks, and based on this assessment, implement IPS coverage, where necessary, for Internet traffic entering its network.

Facilities Construction, Renovation, and Maintenance

Background

WCPS maintains a total of 24 schools (totaling 2.1 million square feet) and an administrative building and annexes with a staff of approximately 180 employees. According to the fiscal year 2013 Capital Improvement Plan (CIP) necessary construction, major renovations, and systemic improvements to WCPS facilities over the next six years were estimated to cost \$266 million.

An Inclusive Process is Used to Plan for School Facility Construction, Major Renovation, and Repair Projects

WCPS uses a comprehensive process, which includes the solicitation of input from various sources, to plan for future school construction, major renovation, and repair projects. For example, WCPS uses public meetings, student demographic data, and other internal sources (such as current curriculum mandates) to develop its six-year CIP. The CIP is presented to and approved by the Board, as well as elected local officials. In addition, the Educational Facilities Master Plan that is used to guide overall WCPS operations incorporates CIP objectives and strategies related to school facilities. Our review of the fiscal year 2013-2018 CIP disclosed that it appeared to address the needs of WCPS based on items such as student demographics and facility assessments.

WCPS Procedures and Practices for Bidding, Awarding, and Monitoring Projects Appeared Proper

Our review of seven construction-related procurements totaling \$78.2 million disclosed that WCPS had used appropriate processes to procure all seven contracts, including obtaining Board approval. In addition, our test of invoices totaling \$15.2 million for these contracts disclosed that the invoices were properly reviewed and approved and the amounts invoiced were in accordance with the related contract terms.

Processes are in Place to Minimize Energy Costs

WCPS has processes in place to minimize energy costs. For example, WCPS participates in a consortium with other Eastern Shore entities to purchase energy at the best possible terms for the members of the consortium. In addition, WCPS utilizes an energy management system that monitors and accounts for energy usage and employs an energy management program manager trained in conservation techniques and monitoring energy practices (such as usage reports and year-to-year comparisons). According to reports prepared by the program manager (which we did not audit), WCPS has avoided over \$1.8 million in energy costs since implementation of the program in 2001.

Transportation Services

Background

WCPS has approximately 12,600 students eligible to receive student transportation services. These students were transported daily using 123 contractor-owned buses. According to WCPS audited financial statements, fiscal year 2012 transportation costs totaled \$7.9 million, with \$7.3 million (92 percent) representing payments for contracted services. Of the 1,937,000 reported route miles for the 2011-2012 school year, 17 percent represented miles traveled to transport disabled students. Payments to bus contractors consist of amounts for the purchase of a bus (known as a per vehicle allotment or PVA which consists of a reimbursement for the cost of the bus and a flat rate of return on investment) and for operating costs (such as driver salaries, fuel use, maintenance costs, and certain administrative costs).

Finding 9

WCPS' bus routing procedures were not comprehensive and automated routing software capabilities were not adequately utilized to develop more efficient routes.

Analysis

WCPS had not formalized its policies and processes for planning, reviewing, and changing bus routes. For example, the bus routing processes did not consider all relevant factors, such as busloads (that is, WCPS' desired utilization of bus capacity) and student ride times, when determining the most appropriate bus routes. Although the number of buses used by the system has declined from 130 in fiscal year 2009 to 123 in fiscal year 2012, it appears that additional efficiencies could be achieved.

WCPS' transportation department used certain capabilities of its routing software; however, it did not use its routing software to evaluate the efficiency of its bus operations by compiling and analyzing route data, including the number of riders per bus, the route times, and the miles traveled per bus. WCPS' automated routing software was used primarily to map out existing routes. In practice, WCPS used existing bus routes and made modifications to accommodate students' school assignments without periodically reviewing all routes for efficiency on a system-wide basis. The lack of a system-wide route analysis could have a potentially negative impact on route efficiency.¹ Our analysis of student ridership disclosed that ridership for many bus runs was significantly less than the bus capacities. Our review of WCPS' September 2012 bus stop reports for 192 bus runs disclosed that 86 runs (45 percent) were below 75 percent of WCPS' capacity goal². On 20 of these 86 runs, student capacity was less than 50 percent.

Using routing software is a recognized best practice that can be used to reduce the time it takes to design efficient routes, reduce student ride time and help ensure that routes minimize the number of buses needed to transport students. Similar conditions were commented upon in our preceding audit report.

Recommendation 9

We recommend that WCPS take steps to determine if buses can be used more efficiently. Specifically, we recommend that WCPS

- a. develop formal, comprehensive bus routing policies and procedures that include guidance regarding the impact of bus capacities and student ride times; and**
- b. utilize its automated routing software to develop more efficient bus routes on a system-wide basis (repeat).**

¹Subsequent to our audit, WCPS advised that it had attempted to do a system-wide route analysis using a new routing software package but was not satisfied that it had been implemented properly since the results indicated two additional routes needed to be established.

² School bus capacities are lower than manufacturer stated capacities and differ depending on the school. For example, the capacity for high school and elementary school routes is 48 and 63 students, respectively based on 72-passenger buses (manufacturer stated capacity).

Finding 10

WCPS did not base certain elements used to determine payment amounts to bus contractors on market conditions or actual costs.

Analysis

Certain elements used to determine payment amounts to bus contractors did not reflect market conditions or actual costs. The Per Vehicle Allotment (PVA) is one of several elements used to determine payment amounts to bus contractors. WCPS' bus contracts are for one-year or five-year terms with renewals generally granted over the 15-year useful life of the bus. Our review of the terms of existing contracts disclosed the following conditions:

- WCPS pays contractors an annual PVA for each bus. However, WCPS could not substantiate the basis for the return on investment (ROI) rate used in the formula. The PVA formula includes reimbursement for the cost of the bus (for example 1/15th of the cost of the bus paid each year for a bus with a 15-year life) and a flat 9.46 percent ROI rate (a percentage of the total cost of the bus paid each year for the operator investing money in the bus instead of another investment option). The ROI used was considerably higher than the prime interest rate³, which is recommended for use in other studies.

To estimate the financial impact to WCPS of using the 9.46 percent ROI over the life of a bus, we calculated the PVA for each of the 35 new buses placed into service from the beginning of fiscal year 2009 through October 2012 using the prime interest rate and WCPS' 15-year estimated useful life in the PVA formula, and compared our PVA results to the WCPS PVAs. This comparison showed that the annual PVA payments per bus were \$4,735 to \$8,102 higher than the payments would have been had the prevailing prime rate been used in the calculation. The effect is that, over the 15-year life of these 35 new buses put into service by contractors since 2009, WCPS will pay out approximately \$3.2 million more by using a ROI that was higher than the then prevailing prime interest rate. A similar condition was commented upon in our preceding audit report.

In addition to the PVA, WCPS paid the bus contractors \$0.775 per mile in fiscal years 2011 and 2012 for maintenance costs. However WCPS could not support the basis for the maintenance rate paid to the bus

³The use of the prime interest rate was recommended in a November 1999 study commissioned by another Maryland school system. Also, in 1975 an MSDE study recommended the prime rate as a reasonable ROI interest rate. The prime rate is actually a lending rate that nearly always exceeds the available market investment rate: therefore, it is deemed to be reasonable for the ROI calculation.

contractors. For example, it was not related to the actual costs incurred by the contractors.

- Each year WCPS established a minimum fuel rate and increased contractors pay whenever fuel prices rose above this amount but did not decrease contractor pay when fuel prices declined below the established minimum. Therefore, contractors were unnecessarily compensated for fuel costs in excess of their costs. For example, during February 2009, the price of diesel fuel was \$1.999 per gallon yet contractor fuel payments were based on the established minimum fuel rate of \$3.319.

The average fuel costs fell below WCPS' minimum fuel rate factor during parts of fiscal years 2009 and 2011. Using WCPS' actual contractor bus mileage for fiscal years 2009 and 2011, we estimated excessive fuel payments to the contractors for the periods in which fuel costs decreased below the base rate totaling approximately \$236,000 and \$40,000, respectively.

- WCPS did not exclude the exempt portion of federal excise taxes from fuel payments to its bus contractors. As described above, WCPS pays contractors for fuel usage based on the market rate for diesel fuel prices. However, according to federal law, WCPS contractors are exempt from the \$0.244 per gallon excise tax on diesel fuel and may receive a credit on their federal income tax returns for the taxes paid. As a result of WCPS not considering this exemption in its fuel calculations, we estimated that payments to contractors for the exempted tax in fiscal years 2009 through 2012 totaled \$271,000.

The above conditions indicate that cost savings could be realized from current transportation practices. In addition, in 2011 WCPS requested a proposal from a national bus transportation company to operate all bus transportation for WCPS that identified significant potential cost savings of \$400,000 to \$500,000 per year over a five-year period.

Recommendation 10

We recommend that WCPS reevaluate its method of establishing payment amounts to bus contractors in future contracts (repeat). Specifically, we recommend that WCPS use prevailing market rates (when determining investment rates), maintenance costs, and fuel costs (including consideration of the federal diesel fuel excise tax exemption) as the basis for establishing and documenting the annual per vehicle allotment, maintenance rate, and fuel rate.

Finding 11

WCPS did not adequately ensure the accuracy of data used to compute certain payments to the bus contractors.

Analysis

WCPS did not ensure the accuracy of the time and mileage payments to bus contractors. Three times each school year, the contractors completed a manifest, which included the total time and miles driven on each route. WCPS uses the data on these manifests to calculate the hourly pay and maintenance and fuel cost components of the semi-monthly payments to the contractors. Although all buses had GPS devices which recorded mileage and time driven, WCPS only used the GPS data to verify a small portion of the manifest information reported by the contractors. Specifically, as of December 2012, WCPS had only compared GPS data to contractor reported time and mileage for 18 percent of the 94 manifests prepared in September 2012 that exceeded the minimums for mileage or time.

Our test of another 15 manifests prepared by contractors in September 2012, which involved long routes, disclosed that for 11 of the manifests the daily billed times and/or mileage exceeded the GPS data. For example, one manifest reported daily mileage of 112 miles while the GPS data indicated the route was only 74 miles for a daily overstatement of 38 miles. For the first half of the 2012 - 2013 school year, we calculated that WCPS overpaid for mileage and time by a total of \$23,000 for the 11 route manifests identified in our test.

During our testing, we noted that the two manifests with the largest variances were for buses owned by one contractor. We reviewed all of this contractor's fiscal year 2012 and 2013 manifests (through February 2013) and calculated total mileage overpayments of approximately \$19,700. WCPS is in the process of recovering overpayments made to this contractor by reducing the monthly payments. In 2002, WCPS performed an audit of the contractor's manifests and noted overstated mileage on manifests that resulted in overpayments to the contractor totaling \$8,804.

During fiscal year 2012, hourly payments and base mileage (maintenance and fuel payments) to contractors totaled approximately \$2.37 million and \$2.4 million, respectively.

Recommendation 11

We recommend that WCPS

- a. independently verify all bus contractor's manifests to ensure that the payments to the contractors accurately reflect the actual bus services provided;
- b. document the verification process; and
- c. recover any overpayments to the bus contractors, including amounts identified in our test.

Food Services

Background

WCPS has a cooking cafeteria at 14 of its 24 schools. Food and related supplies are received and stored in each school. In fiscal year 2012, WCPS had 200 cafeteria positions (comprised of 195 cafeteria positions and 5 administrative positions). According to the fiscal year 2012 audited financial statements, food service operation revenues exceeded food service operation expenditures by approximately \$508,000, after considering a \$750,000 revenue transfer from the WCPS general fund. We noted the same amount was annually transferred during fiscal years 2008 through 2011, in accordance with WCPS' budget.

Finding 12

Food services invoices were not adequately verified prior to payment.

Analysis

WCPS should strengthen its internal controls over the purchasing of food supplies. Our test of 10 invoices totaling \$98,218 related to 5 contracts with fiscal year 2012 food expenditures totaling \$2.8 million disclosed that for all 10 invoices evidence of a documented review for propriety prior to payment was lacking. Specifically, there was no indication that the invoice prices were compared to the contract prices or approved price list. Furthermore, we noted that price lists from one vendor were not maintained to substantiate that the proper prices were paid for the two invoices tested from this vendor, which totaled \$12,851. Purchases from this vendor totaled \$200,549 during fiscal year 2012 and food expenditures for fiscal year 2012 totaled \$3.2 million.

Our tests of food services purchases did not disclose any inappropriate purchases.

Recommendation 12

We recommend that WCPS

- a. **compare invoice prices with contract or agreed-upon prices, and**
- b. **maintain price lists for all contracts.**

School Board Oversight

WCPS Adopted an Ethics Policy that Met the Requirements of State Law

In 2012 the Board of Education adopted a detailed ethics policy that, according to the State Ethics Commission, conforms to State Law and includes provisions for conflicts of interest and financial disclosure. Provisions of this policy are applicable to Board members as well as all WCPS employees. WCPS established an Ethics Panel consisting of five members to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. According to the ethics policy, annual financial disclosure statements are required to be filed by Board members, candidates for the Board, the Superintendent, Assistant Superintendent, and a number of other administrators (such as the Chief Financial Officer and Director of Human Resources) by April 30th of each year.

Other Financial Controls

Healthcare Background

WCPS is a member of a consortium for employee and retiree health care. The Consortium is self-insured for healthcare costs of its three members up to stop-loss limits. The Consortium contracts with a vendor to provide administrative services, such as claims processing for participants' medical, dental and vision costs, and for stop-loss coverage. WCPS is the largest member of the consortium as its claims represent 68 percent of the consortium's total claims for plan year 2012. WCPS verifies the eligibility of employee dependents prior to enrollment in the health care plans.

The administrator bills WCPS for health care premiums and medical providers submit claims to the administrator who pays them on behalf of WCPS. WCPS pays an administrative fee for these services. According to the administrator's settlement document for the plan year ended August 31, 2012, amounts paid for health care totaled \$25.8 million, including administrative fees of approximately \$1.4 million.

Finding 13

WCPS did not competitively bid health care contracts for administrative services and stop-loss coverage.

Analysis

WCPS obtained certain health care services without using competitive procurements.

- The contract for third-party administrative services has not been bid since 2001. We were advised by WCPS management that this provider was selected through a bidding process in fiscal year 2001, and retained on a year-to-year basis thereafter.
- Services for stop-loss medical insurance have not been bid since 2001. WCPS payments to the insurer for stop-loss coverage (for claims in excess of \$250,000 in a year for any individual) plus administrative fees totaled \$1.3 million during plan year 2012. This contract was with the same vendor that provides the third-party administrative services.

The Consortium uses a consultant to negotiate prices for claims administration services and stop-loss coverage; however, in order to help ensure that the best value is obtained, bids or proposals from other interested firms should be solicited.

Recommendation 13

We recommend that WCPS work with its healthcare consortium members to select healthcare services vendors (third-party administration and stop-loss coverage) through competitive procurement processes.

Finding 14

WCPS did not ensure the propriety of payments for certain employee and retiree health care costs.

Analysis

WCPS lacked procedures and controls to ensure that certain amounts paid to the third-party administrator were proper. Our review of WCPS's procedures and controls over the contract and related payments for medical claims and administrative fees disclosed the following conditions:

- WCPS did not audit the propriety of the claims paid on its behalf by the program administrator to ensure that the services were actually provided,

were covered by the health plans, and were appropriately priced. Furthermore, WCPS did not verify that all claims exceeding the stop-loss limit were reimbursed by the administrator under the stop-loss coverage. WCPS relies on the administrator to notify it of any payments above the stop-loss limit. According to the administrator, WCPS paid \$1.3 million for stop-loss coverage and received \$473,000 in plan year 2012 related to claims exceeding the stop-loss limit.

- WCPS did not ensure that administrative fees (which are based on the number of plan participants) for health and stop-loss claims processing paid to the administrator were proper by comparing its enrollment records to administrator invoices.

The State of Maryland contracts with a private firm to audit the administrators of the State's health insurance, prescription drug, dental benefit, and mental health benefit plans, which includes conducting reviews to ensure the propriety of claims paid.

Recommendation 14

We recommend that WCPS establish procedures to verify the amounts paid for health insurance. Specifically, we recommend that WCPS

- a. obtain documentation to support actual claim payments and ensure audits of the claims paid by the administrator are conducted;**
- b. use detailed claims payment data to ensure that all claims paid above the stop-loss limit are reimbursed by the insurer; and**
- c. compare its records of enrolled employees, retirees, and dependents to invoices from the administrator and determine the propriety of all administrative fees billed.**

Audit Scope, Objectives, and Methodology

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Wicomico County Public Schools (WCPS). We conducted this audit under the authority of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland, and performed it in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We had two broad audit objectives:

1. To evaluate whether the WCPS procedures and controls were effective in accounting for and safeguarding its assets
2. To evaluate whether the WCPS policies provided for the efficient use of financial resources

In planning and conducting our audit of WCPS, we focused on 11 major financial-related areas of operations as approved on September 14, 2004 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of findings included in our preceding audit report on WCPS dated December 8, 2008, was limited to those findings that were applicable to the current audit scope for each of the 11 areas.

The audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. Also, we did not evaluate the WCPS Comprehensive Education Master Plan or related updates, and we did not review the activities, financial or other, of any parent teacher association, group, or funds not under the local board of education's direct control or management.

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by WCPS. We also interviewed personnel at WCPS, the Maryland State Department of Education

(MSDE), and staff at other local school systems in Maryland (as appropriate).⁴ Our audit procedures included inspections of documents and records, and observations of WCPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2009 through June 30, 2012. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits WCPS' financial statements and conducts the federal Single Audit.

We used certain statistical data—including financial and operational—compiled by MSDE from various informational reports submitted by the Maryland local school systems. This information was used in this audit report for background or informational purposes, and was deemed reasonable.

We also extracted data from WCPS automated finance management system for the purpose of testing expenditure, inventory, and payroll transactions. We performed various audit procedures on the relevant data and determined the data were sufficiently reliable for the purposes the data were used during the audit.

WCPS' management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

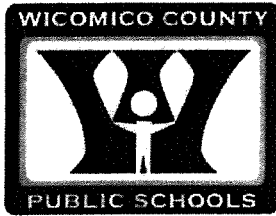
Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate. In addition to the conditions included in this report, other less significant findings were communicated to WCPS that did not warrant inclusion in this report.

We conducted our fieldwork from August 2012 to June 2013. The WCPS response to our findings and recommendations is included as Appendix A to this report. Auditor comments related to certain of the WCPS' responses can be found in Appendix B. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise WCPS regarding the results of our review of its response.

⁴During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

APPENDIX A

BOARD OF EDUCATION OF WICOMICO COUNTY



John E. Fredericksen, Ph.D.
Superintendent of Schools

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SUCCESS – Every Student, Every Day

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Kimberly S. Hudson

February 24, 2014

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, MD 21401

Ladies and Gentlemen:

Please accept this letter and associated documents as our response to the final audit of the financial management practices of the Wicomico County Public Schools (WCPS) as conducted by the Department of Legislative Services. The auditors were onsite in our district for almost one entire year - from August 2012 to July 2013. During that time, the staff of WCPS spent hundreds of hours meeting with, discussing, and gathering data for them in their quest to "evaluate whether WCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources." We were, in my opinion, extremely collaborative, cooperative, and forthright in our interactions with the auditors, although it was a very costly endeavor to our district in regard to the amount of staff time and resources required to gather the requested data.

After much discussion about the fourteen (14) final findings, I would like to thank the auditors for agreeing to acknowledge NO evidence of abuse, inaccuracy, or noncompliance of Board policies or procedures for transactions tested in several areas.

However, the final report cited fourteen (14) findings, some of which we agreed, but more of which we felt were incomplete and inaccurate. Our responses to these findings explain our reasons for these differences. Generally, we found that the final audit:

- Failed to acknowledge in the report the immediate action our staff took when a deficiency was brought to their attention during the data collection period,
- Mentioned, on several instances, that WCPS failed to adhere to inapplicable State of Maryland procedures and guidelines; WCPS was/is not aware of such a

requirement as we are not held to those procedures and guidelines, but to those approved and presented by the Wicomico County Board of Education,

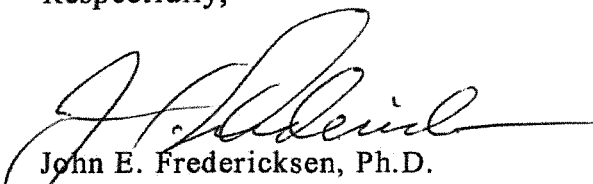
- Cited that we need a policy requiring certain services to be bid, however, on a regular basis we compare ourselves to our competitors who have recently bid that same service thus saving the cost of bidding while piggybacking on the work of others,
- Used large dollar amounts in the analysis for shock value without providing pertinent details that would explain and alleviate much concern.

Also, in fairness to us, we had requested that our responses be embedded in the body of the audit with each particular finding. This would allow the readers of this lengthy audit to clearly connect the finding and our response, rather than flip back and forth from the front of the report to the back. This request was denied, however, we continue to feel that this format would provide a more objective and encompassing avenue for the readers to clearly understand the issues presented as well as the responses to them.

Although our district is already audited many times from many audit agencies over the course of a year, we do value the input of the Legislative Auditors and will move forth on the recommendations made in this report. If you have any questions or concerns, please do not hesitate to contact me at jfrederi@wcboe.org or 410-677-4495.

Thank you.

Respectfully,



John E. Fredericksen, Ph.D.
Superintendent

Cc: Dr. Cathy J. Townsend
Mr. Bruce Ford

See Appendix B for related auditor's comment.

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Recommendation 1

We recommend that WCPS strengthen its controls over the automated procurement and accounts payable system and processes. Specifically, we recommend that WCPS restrict user access capabilities to eliminate the ability of users to perform incompatible duties and establish independent electronic approval requirements for all critical purchasing and accounts payable transactions, as well as changes to user access capabilities.

Wicomico County Board of Education (WCBOE) Response:

- a. WCBOE restricted user access capabilities as soon as this was brought to management's attention while the auditors were on-site. This prompt action has not been mentioned in the audit report.
- b. WCBOE does have in place independent electronic approval processes for all purchasing and accounts payable transactions. The Board's Enterprise Resource Planning (ERP) system, through which all purchasing and accounts payable transactions are processed, requires "independent electronic approval." As an additional control feature, WCBOE has created an automated email report that is forwarded to the Accounting Manager weekly which discloses any procurement or disbursement transactions approved by the System Administrator in the Technology Department. The Accounting Manager investigates such instances, maintains a log of all outcomes, and reviews with the Comptroller. We reviewed this action with the auditors in a previous meeting.

Recommendation 2

We recommend WCPS establish formal guidelines, subject to Board approval, on what constitutes acceptable and unacceptable uses for corporate purchasing cards.

WCBOE Response:

- a. WCBOE does have established formal guidelines that have been approved by the Board of Education for the use of corporate purchasing cards. Board management reviewed the Board's current Procurement Policy, guidelines, and corporate purchasing card procedures with the auditors.
- b. WCBOE is unaware of a requirement to follow the State of Maryland's corporate purchasing card policy. We take exception to the fact that the auditors are basing their findings on guidelines which are not applicable to the Board of Education.
- c. Purchasing card expenditures from local fast food or restaurant merchants totaling \$162,000 is a necessary business expenditure. The nature of a people-oriented business such as the Wicomico County Public Schools requires local food purchases that support many student and staff initiatives. With students, parents, staff, and community as our customer base and focus, food is often an avenue utilized to enhance parental involvement, celebrate student successes, show staff appreciation, and conduct imminent business that might otherwise have to wait for days or weeks due to busy schedules and scheduling.

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conflicts. Many of these “local” purchases have been made with school based purchasing cards. A majority of these purchases are charged to the School Activity Fund (SAF). The SAF records all funds raised and donated, as well as expended at the school level. As part of each SAF, an Employee Fund is required. The Employee Fund is established in accordance with the negotiated contract and requires that all commissions from vending machines located in the Faculty Lounges be accounted for in this account. Expenses from this account are managed by each school’s approved Social Committee Guidelines, which are approved by the Principal and school staff and reviewed by staff in Business Support Services. Such guidelines typically include recognition for special occasions/events for all staff and staff appreciation events, which typically include food purchases. In fact, a close look at the transactions examined by the auditors reveals the following statistics:

Source of Funds	Transaction Total \$	% of \$	# of Transactions	% of #	Explanation for Use
School Activity Funds	\$103,339	63%	983	60%	Our 27 school sites utilize procards to purchase food from local vendors for student, parent and staff appreciation. These funds for the most part come from Employee Funds or Office of the Principal funds. Very little, if any, funds are General Funds.
Grants	\$21,596	13%	189	11%	Grant budgets are pre-approved by Grantor agencies and the budgets disclose the use of the funds for such expenditures.
Staff Development	\$13,055	8%	85	5%	Staff Development exercises involves multiple staff members in attendance and to show appreciation, encourage attendance and participation, food is purchased.
Special Education	\$6,164	4%	125	8%	The majority of these expenditures are related to actual student activities in the schools.
Board Travel Card	\$3,014	2%	28	2%	A Board Travel Card is assigned for a specific use that requires prior approval for the expenditure.
Board of Education	\$2,201	1%	20	1%	Board meetings where multiple Board members and staff members meet to discuss Board of Education business.
Other	\$14,307	9%	214	13%	The remainder of these purchases over the two (2) year period are from 23 different card holders and result in an average annual spend of \$311.
Total examined	\$163,676	100%	1,644	100%	

As noted in the summary table above, there are many scenarios that would explain and justify these purchases including but not limited to:

1. Staff gatherings where each staff member contributed his/her personal money, or used the commissions from vending machines (Employee Fund), but the total bill was paid using the Pro-card

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2. Student appreciation events such as MD School Assessment pizza celebrations, perfect attendance incentives, etc. across all of our schools
 3. Grant-funded initiatives such as parent involvement nights, after-school activities, and professional development initiatives, for example, must utilize food as a part of the event
 4. Business meetings and gatherings where WCBOE staff does not utilize their lunch time in order to conduct important and timely business that otherwise could not fit into their schedules.
- d. The use of the purchasing card to acquire gift cards is an approved transaction by the Board of Education of Wicomico County. The business of public schools involves the daily interaction with students, parents, community volunteers, and staff. The Superintendent and staff have found the use of gift cards as a very effective tool to recognize, encourage, support, and reward actions or events. Gift cards are welcomed incentives for our students and excellent tools for staff recognition and encouraging parental involvement. WCBOE believes that adequate controls exist over the acquisition and distribution of gift cards. Our current guidelines: 1. restrict when and for what a gift card can be acquired, 2. restrict the recipients of gift cards, and 3. limit their value to \$100 or less.

NOTE, the auditors did not identify in their report, nor bring to WCBOE's attention any purchasing card transactions they examined that were abusive or in violation of the Board of Education's policy, guidelines, or procedures.*

Recommendation 3

We recommend that WCPS

- a. assign capabilities to perform critical functions on the automated system only to those employees who require it to perform their job responsibilities, and
- b. ensure that a documented review of payroll transactions is performed by an independent employee.

WCBOE Response:

- a. WCBOE restricted user access capabilities as soon as this was brought to management's attention while the auditors were on-site. This prompt action has not been mentioned in the audit report.
- b. WCBOE reviewed with the auditors our approval processes that clearly demonstrate an adequate system of internal controls in light of current budget constraints. Because of the size of our organization we understand that not only is it impractical to independently approve 100% of all payroll transactions, it is impossible to hire sufficient staff to review and

***See Appendix B for related auditor's comment.**

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provide independent approval of 100% of the Board's payroll transactions each payday. In fact, over the past several years, due to budget cuts WCBOE has lost a payroll position. Therefore, in order to establish an adequate system of internal controls surrounding the payroll process, we have utilized today's technology to enhance the approval process and to ensure the accuracy of all payroll transactions.

Recommendation 4

We recommend that WCPS

- a. ensure that salary increases are determined in accordance with the terms of the labor agreement, and
- b. ensure that all promotions, including those we identified, are approved by the Board as required.

WCBOE Response:

- a. WCBOE takes strong exception to this recommendation. The Board of Education is in complete compliance with the terms of all of our negotiated labor agreements. We are concerned that the auditors have attempted to interpret a legal contract without a legal interpretation.
- b. WCBOE also disagrees with the auditors' interpretation of the annotated code section 4-103(a)(2) concerning the Board's requirement for all employees to "set their salaries." WCBOE interprets that statement to mean set the salary table which drives all salaries paid to our employees. We do not believe this means approving each employee's individual placement on the approved salary scale. Placement of individual employees on the Board of Education's approved salary scale is designated to the Superintendent of Schools.
- c. The Board of Education has approved the Superintendent's procedures for hiring staff when issues such as critical needs, shortage areas, creating an acceptable pool of candidates or promoting an employee in order to retain a highly qualified staff arise.*

Recommendation 5

We recommend that WCPS improve its procedures and controls over equipment.

Specifically, we recommend that WCPS

- a. verify that all changes to equipment records, including disposals, are properly supported and approved prior to posting adjustments;
- b. ensure that appropriate identifying information is maintained in the detail records; and
- c. assign capabilities to perform critical functions on the automated inventory record keeping system only to employees who require such capabilities to perform their job duties.

***See Appendix B for related auditor's comment.**

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WCBOE Response:

WCBOE agrees with this recommendation. WCBOE staff have already taken the necessary steps to ensure: 1. the verification of all changes to equipment, 2. the appropriate identifying information is recorded, and 3. that system access is restricted.

Recommendation 6

We recommend that WCPS

- a. establish account and password controls in accordance with the best practices prescribed by the State of Maryland DoIT *Information Security Policy*; and
- b. log critical security and audit events on the student information and finance management databases, routinely review all security event logs, investigate questionable items, document these reviews and investigations and retain the documentation for audit verification purposes.

WCBOE Response:

- a. WCBOE updated password controls, including file servers, databases, web services, and server-based applications as noted on the recommended list. This was done while the auditors were onsite. WCBOE implemented new network authentication services as part of the recommendation, and as noted in the Discussion Notes for ISA, this installation was completed in October 2013 as planned. This was a major implementation as part of our migration to a new platform and was underway when the auditors were onsite. User accounts were also migrated to the new network authentication services. MDoIT best practices for user account password management are in the design phase.
- b. WCBOE implemented a logging tool while the auditors were onsite. This logging tool was implemented May 2013.

Recommendation 7

We recommend that WCPS

- a. develop and implement a comprehensive and consolidated disaster recovery plan that is in accordance with the State of Maryland *Information Technology (IT) Disaster Recovery Guidelines*, (repeat) and
- b. backup files of critical network device configurations at an offsite, secure, environmentally-controlled location.

WCBOE Response:

- a. WCBOE agrees with this recommendation. While the auditors were onsite, we contacted several 3rd party disaster recovery vendors and consultants, along with SunGuard our ERP vendor. Analysis and pre-project planning work is underway.

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- b. WCBOE agrees with this recommendation. Plans are underway to package the backup and send to a secure vendor already established for other backups done by WCBOE.

Recommendation 8

We recommend that WCPS

- a. properly configure the firewall rules to implement a “least privilege” security strategy for better protecting its critical network devices;
- b. relocate all publicly accessible servers to the external protected zone to limit security exposures to critical systems on the internal network; and
- c. assess network security risks, and based on this assessment, implement IPS coverage, where necessary, for Internet traffic entering its network.

WCBOE Response:

- a. WCBOE agrees with this recommendation, and we implemented the recommended security strategy while the auditors were onsite.
- b. WCBOE agrees with this recommendation, and we implemented the recommended server moves and firewall changes while the auditors were onsite.
- c. WCBOE agrees with this recommendation.

Recommendation 9

We recommend that WCPS take steps to determine if buses can be used more efficiently. Specifically, we recommend that WCPS

- a. develop formal, comprehensive bus routing policies and procedures that include guidance regarding the impact of bus capacities and student ride times; and
- b. utilize its automated routing software to develop more efficient bus routes on a system-wide basis (repeat).

WCBOE Response:

WCBOE disagrees and objects to the tone of this “repeat” audit finding. It would appear from the auditors’ statement that WCBOE has done nothing to address this prior recommendation. We provide the following reasons for our strong objections:

- a. Using primarily Transfinder routing software, the WCBOE school bus fleet has been reduced from 131 routed school buses in FY’08, to 122 school bus routes in FY’14.
- b. Since FY 2010, using Transfinder, and more recently Edulog, the Transportation Department has been able to create cost avoidance of in excess of \$461,000 in the transportation budget.

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- c. When auditing routing efficiency, the auditor failed to consider factors unique to Wicomico County that impact bus routing and scheduling: 1) the county extends approximately 19 miles north to south and 32 miles east to west, 2) school buses must travel to Rt. 50 to cross the Wicomico River, 3) 19 out of 26 school sites are within 4 miles of the Rt. 50/Rt13 intersection, 4) three of the four high schools are located within 2 miles of the Rt. 50/Rt.13 intersection and within 1.5 miles of each other, 5) Parkside HS students reside up to 17 miles from the school, 6) JM Bennett and Salisbury Middle School students reside up to 24 miles from their assigned school, and 7) 69% of all WCBOE students reside within 5 miles of the Rt. 50/Rt.13 intersection.
- d. Transfinder was replaced with a more comprehensive software routing system, Edulog, just prior to the audit period, to accomplish the tasks listed above due to Transfinder's inability to handle buses with varying combinations of ridership groups and no "optimization feature." Note: When the optimization feature of the Edulog routing software was activated using existing parameters for school start/ending times, first student pick up time of 6 a.m., last drop off time of 5 p.m. and target loads of 44 for high school, 51 for middle school and 58 for elementary, the program identified a need for two additional contracts. Efficient routing involves bus capacity and time.*

Recommendation 10

We recommend that WCPS reevaluate its method of establishing payment amounts to bus contractors in future contracts (repeat). Specifically, we recommend that WCPS use prevailing market rates (when determining investment rates), maintenance costs, and fuel costs (including consideration of the federal diesel fuel excise tax exemption) as the basis for establishing and documenting the annual per vehicle allotment, maintenance rate, and fuel rate.

WCBOE Response:

The Superintendent of Schools disagrees with this audit finding for the following reasons:

- a. The majority of WCBOE families depend on the school buses to transport their children to and from school. Developing a reimbursement formula or instituting a completely different methodology to provide qualified transportation services that satisfy the recommendations of the auditors, but disrupts the delivery of safe student transportation services is unacceptable.
- b. Continued evaluation of routes, mileage, and hours of the fleet using Transfinder, and more recently Edulog, has resulted in nine (9) less contract routes and a cost avoidance of in excess of \$461,000.

***See Appendix B for related auditor's comment.**

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- c. Comparing WCBOE to the 15 other Maryland public school systems with contractor owned buses, WCBOE ranks 8th in PVA, 12th in the hourly rate, and 9th in the mileage rate. See below chart of school year 2013-2014 rates for the school systems that utilize contractor owned buses:

County	PVA	Rank	Hourly	Rank	Maint. Rate	Fuel*	Total Mileage	Rank	Admin. Fee***	Sample Contract @ 4.25 hours/55 miles	Rank
Allegany	\$15,567	11	\$18.93	9	\$0.9800	\$0.6154	\$1.5954	1	\$800	\$46,642.91	8
Calvert**	\$11,936	15	\$23.60	1	\$0.8964	\$0.6057	\$1.5021	3	\$5,100	\$49,960.79	2
Caroline	\$16,995	7	\$20.56	3	\$0.7900	\$0.5714	\$1.3614	7	\$2,832	\$49,033.26	3
Carroll	\$17,916	4	\$19.36	7	\$0.9100	\$0.5714	\$1.4814	4	\$1,100	\$48,492.26	4
Cecil	\$16,653	10	\$19.11	8	\$0.7543	\$0.5714	\$1.3257	10	\$600	\$44,996.58	11
Charles	\$17,648	5	\$21.35	2	\$0.8074	\$0.5517	\$1.3591	8	\$900	\$48,335.84	6
Dorchester	\$18,100	3	\$18.00	14	\$0.7800	\$0.6700	\$1.4500	5	\$1,160	\$47,385.00	7
Garrett	\$14,390	13	\$17.82	16	\$0.8200	\$0.8585	\$1.5885	2	\$800	\$44,548.45	12
Harford	\$18,765	1	\$20.20	4	\$0.7100	\$0.4131	\$1.1231	16	\$3,150	\$48,486.69	5
Kent	\$15,306	12	\$18.90	10	\$0.7500	\$0.5000	\$1.2500	14	\$0	\$42,139.50	16
Queen Anne's	\$16,700	9	\$18.30	13	\$0.0000	\$0.0000	\$1.2890	12	\$450	\$43,910.60	14
Somerset	\$17,200	6	\$18.00	15	\$0.6000	\$0.6500	\$1.2500	15	\$800	\$44,145.00	13
St. Mary's	\$13,159	14	\$19.75	6	\$0.7300	\$0.5330	\$1.2630	13	\$4,661	\$45,432.45	10
Washington	\$8,862	16	\$18.81	11	\$0.7517	\$0.5408	\$1.2925	11	\$6,675	\$42,721.90	15
Wicomico	\$16,715	8	\$18.75	12	\$0.8170	\$0.5430	\$1.3600	9	\$1,560	\$46,082.75	9
Worcester	\$18,400	2	\$20.05	5	\$0.7510	\$0.6700	\$1.4210	6	\$3,400	\$51,206.15	1
State Avg.	\$15,895		\$19.47				\$1.37			\$46,470.01	
* Fuel Calculations based on \$4.00 per gallon											
**Calvert has 5.75 hour/day minimum											

As seen from the above chart, when applied to a sample route of 4.25 hours and 55 miles per day using FY 2014 rates, WCBOE ranks 9th out of 16 school systems.

- d. Based on the 2011-2012 MSDE Fact Book, only 2 other Maryland school systems had a per-pupil transportation cost less than WCBOE, see the following link:

http://www.marylandpublicschools.org/MSDE/divisions/bus_svcs/fb.htm

The Superintendent would like to remind the auditors of the MSDE "Per Vehicle Allowance Workgroup Report" released by the Maryland State Department of Education (MSDE) in 2010. The workgroup was created in response to the first round of Legislative Audit findings concerning the methodologies used by local school systems to pay independent school bus contractors. The final report concluded that there is no "single approach to how an LEA should determine its PVA" and that the determination of how to "fairly and equitably determine compensation to school bus contractors.....is the choice of the local jurisdiction as each best knows its own unique transportation needs. Clearly, it is essential that the basis of and process

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for such a determination be thoroughly documented and reviewed in an ongoing manner.” WCBOE would also like to remind the auditors that the rates paid to our bus contractors are approved and posted annually in the Board budget document so as to permit complete transparency.*

Recommendation 11

We recommend that WCPS

- a. independently verify all bus contractor’s manifests to ensure that the payments to the contractors accurately reflect the actual bus services provided;
- b. document the verification process; and
- c. recover any overpayments to the bus contractors, including amounts identified in our test.

WCBOE Response:

WCBOE agrees with the auditors’ recommendation and notes the following:

- a. Student Transportation staff will audit approximately 50% of the bus manifests completed and submitted by school bus contractors (7 randomly selected manifests each month, Oct. – May, of each year).
- b. Student Transportation staff will develop written procedures identifying the audit process.
- c. WCBOE has completed monetary recovery from the contractor who was overpaid.

Recommendation 12

We recommend that WCPS

- a. compare invoice prices with contract or agreed-upon prices, and
- b. maintain price lists for all contracts.

WCBOE Response:

The Superintendent will ensure that Food Service staff will develop a process to compare invoice prices with contract prices during FY 2013-2014.

Recommendation 13

We recommend that WCPS work with its healthcare consortium members to select healthcare services vendors (third-party administration and stop-loss coverage) through competitive procurement processes.

***See Appendix B for related auditor’s comment.**

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WCBOE Response:

The auditors have failed to acknowledge in their report the actions taken by WCBOE (even prior to the auditors making this recommendation) to proceed with a competitive procurement process for healthcare:

- In December, 2012, after reviewing with our consultant, Bolton Partners, the WCPE healthcare consortium's annual settlement results for contract year ended August 31, 2012, the members discussed the possibility of developing a formal request for information (RFI) process for the coming contract year.
- At the April 2013 meeting of the WCPE healthcare consortium, the members unanimously decided to seek a contract for the provision of services from a consultant to assist the consortium with the development of a formal RFI for the acquisition of healthcare services for FY 2015.
- At the June 2013 Board of Education meeting, a contract was awarded to Bolton Partners to assist the WCPE healthcare consortium with completing a formal RFI process to secure our healthcare insurance contract for contract year commencing September 1, 2014.

Recommendation 14

We recommend that WCPS establish procedures to verify the amounts paid for health insurance. Specifically, we recommend that WCPS

- a. obtain documentation to support actual claim payments and ensure audits of the claims paid by the administrator are conducted;
- b. use detailed claims payment data to ensure that all claims paid above the stop-loss limit are reimbursed by the insurer; and
- c. compare its records of enrolled employees, retirees, and dependents to invoices from the administrator and determine the propriety of all administrative fees billed.

WCBOE Response:

- a. WCBOE's Procurement Department will investigate the possibilities of securing such a service to audit our health insurance claims data. We will then bring this information to the attention of the other members of the Wicomico Public Entities Healthcare Consortium.
- b. Same as a. above.
- c. The Superintendent informed the auditors that the Board utilizes the services of an independent consultant to verify the data reported by our healthcare provider on the annual settlement document to include claims payment data and claims paid above the stop-loss limit.

APPENDIX B

Auditor's Comments on the Wicomico County Public School's Response

Wicomico County Public Schools (WCPS) disagreed with certain of our findings in its response (Appendix A) to the audit report. We continue to believe that the audit report findings are valid. Our comments addressing these disagreements are presented below. In accordance with State law, all areas of disagreement will be addressed through separate correspondence between this Office and WCPS.

Superintendent's Letter:

The Superintendent's letter indicates that WCPS agrees with some of the 14 audit report findings, but that WCPS feels certain of the findings were incomplete and inaccurate. The letter further mentions certain general reasons for the disagreements, which relate primarily to audit report presentation and criteria for findings. As stated above, OLA believes the findings are valid and the comments below provide explanations for specific findings. OLA's reports are presented in accordance with government auditing standards and the format and presentation are consistently applied to all school audits. With respect the criteria used to assess policies and performance, OLA relies on laws that apply to the local school systems and best practices established by other entities, including the State of Maryland for its agencies.

Finding 2:

The report acknowledges that WCPS has guidelines for its corporate purchasing cards; however, the guidelines did not specify the acceptable uses for the cards, including whether the uses discussed in the response are appropriate. Considering the sensitive nature of some of these purchases, including meals at local restaurants and gift cards, and the risk of abuse or misuse, OLA continues to maintain that the Board should define what constitutes acceptable and unacceptable uses for the cards. As stated by OLA in the finding, WCPS is not required to follow the State's corporate purchasing card policy; however, as also noted, the State's policy incorporates many generally accepted practices to control purchasing card disbursements.

Finding 4:

When this issue was discussed with WCPS, its management acknowledged that the methodology used for the salary increases cited in the audit report was not delineated in the labor agreement. Therefore, we believe WCPS should follow the terms of Board-approved labor agreements or submit personnel actions that deviate from the agreements to the Board.

OLA's citation of §4-103(a)(2), Education Article of the Annotated Code of Maryland was correct in this circumstance and was previously confirmed by advice from the Office of the Attorney General.

Finding 9:

OLA determined this to be a repeat finding because WCPS, as was the case during the prior audit, had not established comprehensive bus routing policies and procedures and was not fully using automated routing software. The report finding did recognize the decline in the number of buses used by WCPS, which acknowledges that some actions were taken by WCPS to address the prior recommendation. However, based upon OLA analysis of bus ridership versus capacity, it appears that additional efficiencies can be achieved.

Finding 10:

OLA did not recommend that WCPS develop a completely different reimbursement methodology or to take any action that would disrupt the “delivery of safe student” bus transportation services. OLA did recommend that WCPS use prevailing market rates and actual costs when determining reimbursement amounts, a recommendation that is both fiscally prudent and consistent with recommendations made in similar circumstances in other school system audit reports. Finally, OLA has included similar findings and recommendations in many other school system audit reports on the same lack of a sound basis for the amounts paid to bus contractors. Consequently, WCPS’ comparison of its transportation costs to other school systems is not a valid measure of cost effectiveness.

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