

# Financial Management Practices Audit Report

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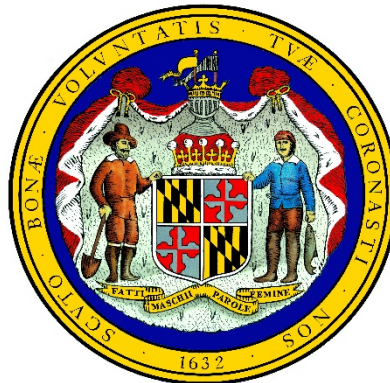
## Howard County Public School System

April 2023

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### Public Notice

**In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.**



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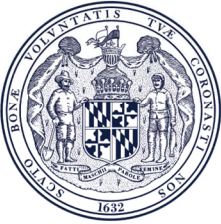
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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber  
Executive Director

Gregory A. Hook, CPA  
Legislative Auditor

April 12, 2023

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee  
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee  
Members of Joint Audit and Evaluation Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Howard County Public School System (HCPSS) 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 HCPSS' 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 HCPSS' procurement policies were not sufficiently comprehensive and were not always consistently used when obtaining goods and services under intergovernmental cooperative purchasing agreements. In addition, our test of 10 contracts totaling \$35.7 million disclosed that HCPSS did not always publish the bids or awards on *eMaryland Marketplace Advantage* as required by its policy and State law.

Our audit also disclosed that HCPSS needs to improve internal controls and accountability in certain areas, including the processing of payments for transportation and health care services. For example, HCPSS did not audit or adequately monitor the performance of its third-party administrators that provide health care claims processing services.

Furthermore, our audit disclosed certain risks in HCPSS' information systems. However in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted these findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact

cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term “cybersecurity” is defined in the State Finance and Procurement Article, Section 3A-301(b), and using our professional judgment we have determined that the redacted findings fall under the referenced definition. The specifics of the cybersecurity findings were previously communicated to HCPSS as well as those parties responsible for acting on our recommendations.

Finally, based on our current audit assessment of significance and risk to our audit objectives, our audit included a review to determine the status of 13 of the 15 findings contained in our preceding audit report. For the non-cybersecurity-related findings, we determined that HCPSS satisfactorily addressed 6 of those 8 findings. The remaining 2 findings are repeated in this report.

HCPSS’ response to this audit is included as an appendix to this report. We reviewed the response to our findings and related recommendations, and noted agreement to our findings and recommendations. Subsequent to the response receipt, but prior to the issuance of the final report, we contacted HCPSS staff who provided verbal clarification that satisfactorily answered certain outstanding questions and issues. In addition, there are several other aspects of HCPSS’ response for which we will need to obtain further clarification; however, we do not anticipate that these will require the Joint Audit and Evaluation Committee’s attention to resolve. Consistent with the requirements of State law, we have redacted the elements of HCPSS’ response related to cybersecurity audit findings.

We wish to acknowledge the cooperation extended to us during the course of this audit by HCPSS. We also wish to acknowledge HCPSS’ willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA  
Legislative Auditor

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

# Background Information

## Statistical Overview

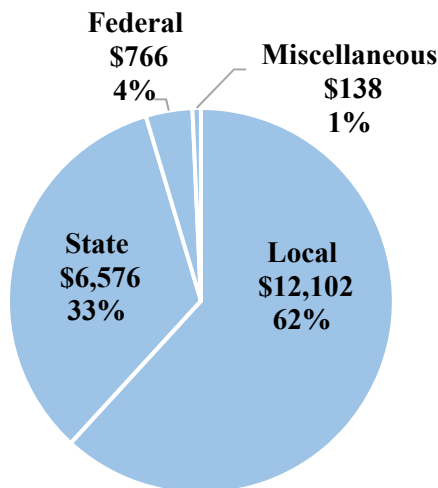
### Enrollment

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Howard County Public School System (HCPSS) ranks 6<sup>th</sup> in student enrollment among the 24 public school systems in Maryland. Fiscal year 2021 full-time student enrollment was 57,293 students. HCPSS had 77 schools, consisting of 42 elementary, 20 middle schools, 12 high schools, and 3 other types of schools (including special, alternative, and a career academy).

### Funding

HCPSS revenues consist primarily of funds received from Howard County, the State, and the federal government. According to HCPSS' audited financial statements, revenues from all sources totaled approximately \$1.1 billion in fiscal year 2021; including approximately \$376.7 million from the State. See Figure 1 below for HCPSS' revenue sources per enrolled student in fiscal year 2021 according to its audited financial statements.

**Figure 1**  
**HCPSS Revenue Sources Per Enrolled Student**  
**Fiscal Year 2021**

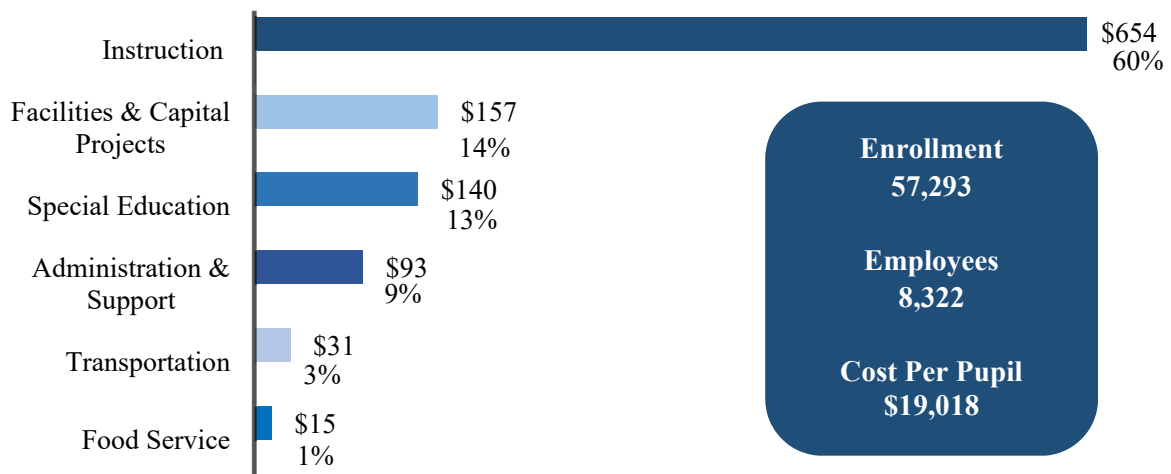


Source: HCPSS' Fiscal Year 2021 Audited Financial Statements and MSDE Data

## Expenditures

According to HCPSS' audited financial statements, fiscal year 2021 expenditures were approximately \$1.1 billion. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 81 percent of total expenditures during fiscal year 2021. According to MSDE records, during the 2020-2021 school year, HCPSS had 8,322 full-time equivalent positions, which consisted of 6,324 instructional and 1,998 non-instructional positions. Instruction accounted for 60 percent of HCPSS' expenditures on a categorical basis (see Figure 2).

**Figure 2**  
**HCPSS Expenditures by Category and Selected Statistical Data**  
**Fiscal Year 2021**  
(amounts in millions)



Source: HCPSS' Fiscal Year 2021 Audited Financial Statements and MSDE Data

## Oversight

HCPSS is governed by a local school board, consisting of seven elected voting members and one voting student member. The student member has the same rights and privileges as an elected member, and can vote on and participate in all matters except those specifically prohibited by law, such as the discipline of staff, appointment of the Superintendent, and the appointment and promotion of staff. In accordance with State law, MSDE provides considerable oversight of HCPSS through the establishment and monitoring of various financial and academic



policies and regulations. MSDE also works with HCPSS to comply with the requirements and mandates of federal law. The Howard County government also exercises authority over HCPSS primarily through the review and approval of HCPSS' annual operating and capital budgets.

## **External Audits**

HCPSS engages a certified public accounting firm to independently audit its annual financial statements. The firm performs procedures to verify the amounts and disclosures in the financial statements. The firm also evaluates the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. In the related audit reports, the firm stated that the financial statements presented fairly, in all material respects, the financial position of HCPSS as of June 30, 2016, 2017, 2018, 2020, and 2021 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

For fiscal year 2019, the firm stated that the financial statements presented fairly, in all material respects, the financial position of the government activities, the business-type activities, and each major fund, other than the General Fund, and the Aggregate Remaining Fund Information, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. For the General Fund and the Aggregate Remaining Fund Information (which includes the Health and Dental Internal Services Fund), the firm expressed an adverse opinion<sup>1</sup> since the Health and Dental Internal Service Fund had not demonstrated its ability to repay \$20.7 million to the General Fund, which it owed as of June 30, 2019. HCPSS personnel advised us that the deficit was mainly due to the intentional underfunding of the projected actuarial benefit costs in fiscal years 2015 through 2018, which was approved by the Board. As recommended by the certified public accounting firm, HCPSS put a plan in place in fiscal year 2020 to eliminate the deficit by fiscal year 2022. See background comment for Management of Other Risks section for additional detail.

Additionally, in accordance with *Government Auditing Standards*, as part of the audited financial statements the accounting firm also issued separate reports on HCPSS' control over financial reporting and its tests of HCPSS' compliance with

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<sup>1</sup> According to the American Institute of Certified Public Accountants, auditors express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

certain provisions of laws, regulations, contracts, grant agreements, and other matters. These reports are an integral part of the annual independent audited financial statements. In the reports as of June 30, 2019 and 2020 the firm noted various material weaknesses (such as, revenue recognition, year-end closeout, and internal service fund accounting for the Health and Dental Fund). Additionally, in the report as of June 30, 2018 the firm noted a significant deficiency, which is a less severe condition than a material weakness (that is, overdue accounts receivable balances in the restricted programs fund). HCPSS corrected these deficiencies and no material weaknesses were disclosed in the report as of June 30, 2021.

The accounting firm also conducts the Single Audit of HCPSS' federal grant programs. The Single Audit is intended to provide assurance to the federal government that adequate internal controls are in place, and the entity is generally in compliance with program requirements. For the Single Audits as of June 30, 2016 and 2017 the firm noted instances of noncompliance that it deemed either a material weakness or a significant deficiency (the subsequent reports for years 2018 to 2020 did not contain such findings). For example, for 2017 HCPSS omitted three grant awards totaling \$8.2 million from the federal expenditure schedule. In addition, HCPSS lacked proper review of financial reports, did not provide time and effort certifications, and charged expenditures to grants that were unallowable, were not properly recorded, and were outside of the grant period. HCPSS corrected these deficiencies and they were not repeated in subsequent years.

We reviewed the aforementioned financial statement audits for fiscal years 2016 through 2021 and examined the related work papers for the fiscal year 2021 audit. We also reviewed the Single Audit reports for fiscal years 2016 through 2020, and examined the related work papers for the fiscal year 2020 Single Audit, which was the latest available during our audit fieldwork. Certain work of the independent certified public accounting firm, which we determined was reliable, covered areas included in the scope of our audit. As a result, we did not conduct any audit work related to the following areas:

- State and local government revenues received via wire transfer
- Accounts receivables
- Federal grant activity

The independent accounting firm did not disclose any material deficiencies in these areas, other than those for federal grants mentioned above.

## Prior Superintendent Separation and Release Agreement

In order to resolve matters in dispute between the Board and the prior Superintendent, the Board accepted the prior Superintendent's application for retirement, effective May 2, 2017. The parties executed an agreement, where the prior Superintendent would receive payments totaling approximately \$1.6 million over a four-year period ending in fiscal year 2020 including contributions of \$449,000 to State pension and deferred compensation plans, and \$65,000 for unused leave.

## Status of Findings From Preceding Audit Report

Based on our current assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of 13 of the 15 findings contained in our preceding audit report dated October 17, 2016. As disclosed in Figure 3, for the non-cybersecurity-related findings, we determined that HCPSS satisfactorily addressed 6 of those 8 findings. The remaining 2 non-cybersecurity-related findings are repeated in this report.

**Figure 3**  
**Status of Preceding Findings**

Preceding Finding	Finding Description	Implementation Status
Finding 1	Adequate control had not been established over summer school receipts, as checks were not restrictively endorsed upon receipt, and collections were not subject to independent deposit verification.	Not repeated (Not followed up on)
Finding 2	A number of contracts were awarded without competitive bids. We identified 15 contracts totaling \$12.6 million that had been awarded by senior management employees as sole source contracts, without adequate justification to support a sole source procurement.	Not repeated
Finding 3	HCPSS did not document its comparison of invoices for temporary service employees to timesheets approved at the schools.	Not repeated
Finding 4	Independent reviews of certain personnel and payroll transactions processed, such as adding new employees and salary changes, were lacking, and the access capabilities assigned to users of the automated system were not adequately restricted.	Status Redacted <sup>2</sup>
Finding 5	HCPSS lacked evidence that the salaries for 142 administrative employees, which totaled \$15.3 million in fiscal year 2014, had been approved by the Board as required by State Law.	Not repeated
Finding 6	Certain executive employees at HCPSS were receiving regular monthly mileage payments for amounts that could not be substantiated and were not authorized or approved by the Board.	Not repeated

**Figure 3**  
**Status of Preceding Findings**

<b>Preceding Finding</b>	<b>Finding Description</b>	<b>Implementation Status</b>
Finding 7	HCPSS had not performed a complete inventory of its information technology equipment as approximately 9,600 of the 28,500 items added to the equipment database between 2009 and June 2014 had not been inventoried.	Not repeated (Not followed up on)
Finding 8	Controls over the critical student information and financial management system databases were not sufficient as neither database was configured to log any database security activity, and certain operating system and database software had not been updated for critical security patches.	Status Redacted <sup>2</sup>
Finding 9	Network, application, and database account and password controls were not sufficient to properly protect critical resources.	Status Redacted <sup>2</sup>
Finding 10	The HCPSS computer network was not adequately secured as intrusion detection prevention system software was not used to protect the network, and firewall rules allowed insecure and unnecessary connections to several critical network devices.	Status Redacted <sup>2</sup>
Finding 11	Workstations and servers were not sufficiently protected against malware.	Status Redacted <sup>2</sup>
Finding 12	HCPSS did not select certain construction management firms by competitive bids as required by State Law.	Not Repeated
Finding 13	Bus vendor payment information was not independently reviewed, and user access capabilities for the automated bus vendor payment system were not adequately controlled.	<b>Repeated<sup>3</sup></b> (Current Finding 6)
Finding 14	HCPSS was not fully using its automated routing software to plan bus routes, and many HCPSS bus routes were operating below ridership goals.	Not Repeated
Finding 15	HCPSS did not ensure the propriety of certain claim payments for employee and retiree health care costs.	<b>Repeated</b> (Current Finding 8)

<sup>2</sup> Specific information of the current status of this cybersecurity-related finding has been redacted from this publicly available report in accordance with State Government Article, Section 2-1244(i) of the Annotated Code of Maryland.

<sup>3</sup> Specific information on the current status of the cybersecurity-related portion of this finding, related to restricting access capabilities to the automated bus vendor payment system, has been redacted from this publicly available audit report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

# **Findings and Recommendations**

## **Revenue and Billing Cycle**

### **Background**

Howard County Public School System (HCPSS) revenues consist primarily of funds received from Howard County, the State, and the federal government. According to HCPSS' audited financial statements, revenues from all sources totaled approximately \$1.1 billion in fiscal year 2021; including approximately \$376.7 million from the State.

### **External Audits**

There were similarities between the work of the independent certified public accounting firm that audited HCPSS' financial statements and the objectives of our audit for certain revenue activities. As a result, we relied on this work to provide audit coverage for State and local government revenues received via wire transfer and accounts receivable, for which the auditor's most recent procedural review (related to the fiscal year 2021 audit) and testing disclosed no material weaknesses or significant deficiencies.

### **School Activity Funds**

Schools collect funds for other purposes such as student activities, clubs, and school publications. Because they are not considered school revenue, these school activity funds are accounted for separately by each school, and reported in summary in the audited financial statements. According to HCPSS management, due to the effects of the COVID-19 pandemic, school activity fund collections during fiscal year 2021 (\$2.9 million) were \$9.7 million less than fiscal year 2019 collections. The fund balance at June 30, 2021 was \$4.8 million.

HCPSS' Board of Education (the Board) has a fiduciary responsibility to ensure that school activity funds were used only for intended purposes. HCPSS contracts with an independent certified public accountant (CPA) to conduct limited reviews of school activity funds on a rotating basis. These reviews consist primarily of analytical reviews and testing receipt transactions at selected schools (four high schools for fiscal year 2021). The CPA's review did not disclose any issues.

In addition, in accordance with HCPSS' policy, "school activity funds will be audited pursuant to the internal audit plan approved by the Board". During fiscal years 2016 to 2021, the internal auditor performed reviews of 29 of the 77 schools. The reviews consisted of evaluating and testing compliance with HCPSS' policies, regulations, and procedures in accordance with the *Manual of Policies & Procedures for School Activity Funds*. The *Manual* establishes

standard procedures for all schools to follow to ensure school activity funds are adequately safeguarded and accounted for in a uniform manner. The results of the reviews were provided to the respective school's principal and HCPSS management. Our review of the internal auditor's findings for fiscal years 2019 to 2020 disclosed that they generally found the management of these funds to be adequate and that any control weaknesses identified were not prevalent. The internal audit reports reviewed did not identify any improprieties regarding the misuse of funds.

### **Conclusion**

Based on our current assessment of significance and risk relative to our audit objectives, we relied on the work of the CPA and HCPSS internal auditor to provide audit coverage in this area, including procedures and controls related to the accounting for and safeguarding of cash receipts with respect to revenue and billing.

## **Federal Funds**

### **Background**

HCPSS receives funds pertaining to federal government programs that are generally restricted for use for a specific program (such as the School Lunch Program or Special Education). According to HCPSS' Single Audit for fiscal year 2020 (latest available at the time of our audit) federal expenditures totaled \$32.8 million, not including federally funded fee-for-service programs such as Medicaid reimbursement for special education services.

According to the audited financial statements, federal fund revenues increased, from \$30.5 million in fiscal year 2019 to \$43.9 million in fiscal year 2021 (44 percent), due to COVID-19 pandemic grant funding. Specifically, according to HCPSS' records, as of December 31, 2021, HCPSS was awarded federal COVID-19 pandemic grant funds totaling \$86.1 million to be distributed over federal fiscal years 2020 to 2024 under the Coronavirus Aid, Relief, and Economic Security Act, Coronavirus Response and Relief Supplemental Appropriations Act, and American Recovery Plan Act.<sup>4</sup> As of the same date, HCPSS had made expenditures related to these COVID-19 grants totaling \$19.1 million, which were primarily comprised of laptops, staffing, personal protection equipment, and

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<sup>4</sup> In addition to the federal grants, HCPSS was also awarded eight State and local COVID-19 grants totaling \$14.6 million, of which \$6.6 million had been spent as of December 31, 2021. For example, HCPSS received a County – CARES award of \$5.6 million and an MSDE Supplemental Instruction and Tutoring award of \$5.6 million. State and local grants are subject to review and testing during our audit.

sanitary supplies. HCPSS has policies and procedures to ensure federal grant funds are properly monitored and accounted for to ensure the funds are used to the fullest extent possible. In addition, reports of grant fund activity are presented monthly to the Board. HCPSS initially funded the expenditures with State and local funds and intends to pursue reimbursement from the aforementioned programs to the extent allowed.

### **Single Audit Reports Disclosed No Reportable Conditions Regarding Federal Grant Management for the Most Recent Three Years**

There were similarities in the work performed by the independent certified public accounting firm that conducted the Single Audit of HCPSS' federal grants and the objectives of our audit in this area. In addition to expressing an opinion on HCPSS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the required Schedule of Expenditures of Federal Awards (which includes claimed and reported grant expenditures) for fiscal years 2016 through 2020. The aforementioned Single Audits conducted through fiscal year 2020 did not include COVID-19 grant funds.

The related reports stated that HCPSS complied, in all material respects, with the requirements applicable to its major federal programs for fiscal years 2018 to 2020. With respect to internal controls over compliance with, and the operation of, major federal programs, the auditors did not identify any material weaknesses or significant deficiencies for fiscal years 2018 to 2020. However, for fiscal year 2017, the auditors identified nine significant deficiencies with one considered to be a material weakness (detailed previously above), and for fiscal year 2016, the auditors identified one significant deficiency that was not considered a material weakness. These deficiencies were indicated as being resolved in the subsequent fiscal years' report.

### **Medicaid Funds for Eligible Services**

HCPSS has established a procedure to identify children eligible for Medicaid-subsidized services and the services rendered. Medicaid is an entitlement program for which certain service costs can be reimbursed to HCPSS. Medicaid activity is not covered by the Single Audit of federal grants.

The Maryland State Department of Education's Interagency Medicaid Monitoring Team issued a report in October 2021 of the results of its review of 66 student case files for 75 criteria (including the correct billing of Medicaid for eligible services). The report found that HCPSS was generally compliant with most criteria. For example, HCPSS was 100 percent compliant with 55 criteria, and between 89 and 99 percent compliant with 15 criteria.

According to HCPSS records, fiscal year 2021 State and federal reimbursements for Medicaid-subsidized services totaled approximately \$1.6 million, which was 26 percent lower than the previous year. We were advised by HCPSS that this decrease was due to the impact of the COVID-19 pandemic health crisis, as certain services either could not be provided or did not qualify for reimbursement in a virtual environment.

### **Conclusion**

Based on our current assessment of significance and risk relative to our audit objectives, our audit did not include a review of Medicaid-subsidized services. Furthermore, we relied on the work of the independent certified public accounting firm that conducted the Single Audits for all other work in this area, including policies, procedures, and controls with respect to federal grants and expenditures.

## **Procurement and Disbursement Cycle**

### **Background**

According to the audited financial statements and HCPSS' records, disbursements (excluding payroll) totaled \$211.4 million during fiscal year 2021. HCPSS uses a financial management system for purchases and disbursements. Requisitions are created in the system by departments and are subject to on-line departmental approvals. Purchase orders are prepared in the system by the purchasing department based on approved requisitions. The purchasing department also generally handles the solicitation, bid evaluation, and establishment of contracts.

Invoices are submitted by vendors directly to the accounts payable department for entry into the financial management system. The system matches invoices to appropriate purchasing documents and the verification of receipt entered by the receiving school or department. The system then prints vendor checks or processes an electronic payment and posts the payment to the financial records.

HCPSS written procurement policies require that procurements exceeding \$25,000 be competitively bid in accordance with Section 5-112 of the Education Article of the Annotated Code of Maryland. Contracts and agreements exceeding \$25,000 that HCPSS procures are to be approved by the Board.



**Finding 1**

**Certain requirements of State law and recognized best practices were not incorporated into HCPSS policies and/or were not consistently used when participating in intergovernmental cooperative purchasing agreements (ICPA).**

**Analysis**

Certain requirements of State law and recognized best practices were not incorporated into HCPSS policies and/or were not consistently used by HCPSS when participating in an ICPA. State law, which legal counsel to the Maryland General Assembly advised us is applicable to local education agencies, allows the use of ICPAs only after the using entity has determined (or assessed) in writing that the use of such arrangements will provide cost benefits, promote administrative efficiencies, or promote intergovernmental cooperation.<sup>5</sup>

Our review of HCPSS procurement policies disclosed that the following statutory requirement and critical best practices were not included.

- Prepare a written assessment of the benefits of using an ICPA as required by State law
- Analyze all costs of conducting competitive solicitations
- Research, compare, and evaluate available ICPAs
- Verify ICPA has a clause allowing utilization by other parties
- Verify terms, scope of services, specifications, and price meet our needs
- Execute an addendum of participation with lead agency and remove or incorporate necessary local terms and conditions
- Obtain a copy of the ICPA and related price lists for invoice verification

In addition, we tested HCPSS' participation in three ICPAs (selected based on significance) during fiscal years 2018 and 2020, with contract awards totaling approximately \$8.5 million. Our review disclosed that HCPSS did not have a written assessment of the benefits of using two of the ICPAs tested totaling \$6 million, as required by State law. In addition, two of the six best practices not

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<sup>5</sup> Section 13-110 of the State Finance and Procurement Article of the Annotated Code of Maryland, in part, defines an ICPA as a contract that is entered into by at least one governmental entity in a certain manner, that is available for use by the governmental entity entering the contract and at least one additional governmental entity, and that is intended to promote efficiency and savings that can result from intergovernmental cooperative purchasing. The aforementioned law applies to all ICPAs regardless of the services, goods, or commodities purchased. In addition, Section 5-112(a)(3) of the Education Article of the Code, provides that local education agencies do not need to conduct competitive procurements for goods and commodities if they use a contract awarded by public agencies or intergovernmental purchasing organizations and the originating procuring agency followed public bidding procedures.

included in HCPSS policy (analyzing the costs of conducting competitive solicitations and researching, comparing, and evaluating other available ICPAs) were not performed for the three ICPAs tested. One best practice that was included in HCPSS policy (ensure the ICPA is competitively bid and competitive bid documentation be obtained) was not complied with for the three ICPAs tested.

We did find that other best practices were performed despite not being included in HCPSS' policies. For example, HCPSS verified that the ICPA had a clause allowing utilization by other parties, had executed an addendum of participation with the lead contract for two of the three ICPAs we reviewed, and obtained a copy of the ICPA and related price lists for invoice verification for all three ICPAs we reviewed. Incorporating ICPA best practices into HCPSS procurement policies could help ensure they are consistently used.

The Institute for Public Procurement, formerly known as the National Institute of Government Purchasing, as well as other public and educational organizations have published ICPA best practices. These practices include comprehensive multi-step checklists that require, among other things (as per the list above), that prospective ICPA users verify that the contract allows other entities to participate. In addition, ICPA users should ensure that the contract was awarded through a competitive procurement process, and requires that addendums be executed documenting their participation and incorporating local required terms and conditions.

#### **Recommendation 1**

**We recommend that HCPSS incorporate the aforementioned statutory requirement and other identified and acknowledged best practices into its procurement policies, and ensure that the performance of the requirement and best practices are documented when evaluating and participating in ICPAs.**

#### **Finding 2**

**Contract bids and awards were not always published on *eMaryland Marketplace Advantage* as required by HCPSS policy and applicable State law.**

#### **Analysis**

Contract bids and awards were not always published on *eMaryland Marketplace Advantage (eMMA)* as required by HCPSS policy and applicable State law. Our test of 10 contracts totaling \$35.7 million disclosed that HCPSS did not use *eMMA* to publish contract bids or awards for 4 contracts totaling \$18.7 million.

HCPSS procurement procedures and State law requires a local school system to publish a procurement solicitation or notice of award greater than \$50,000 on *eMMA*.

## **Recommendation 2**

**We recommend that HCPSS comply with its procurement procedures and State procurement law by using *eMMA* to publish contract bids and awards.**

## **Human Resources and Payroll**

### **Background**

Payroll expense represents the largest single cost component in the HCPSS budget. According to HCPSS' records, fiscal year 2021 salary, wage, and benefit costs totaled approximately \$878.2 million, representing 81 percent of the total expenditures. According to Maryland State Department of Education reports, during the 2020-2021 school year HCPSS had 8,322 full-time positions, which consisted of 6,324 instructional and 1,998 non-instructional positions.

HCPSS uses automated systems to maintain human resources information, record employee time, track employee leave usage, and process and record payroll transactions. 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).

### **Conclusion**

Our audit did not disclose any significant deficiencies in the design or operation of HCPSS' internal control over the human resources and payroll areas of operations reviewed. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

## **Equipment Control and Accountability**

### **Background**

According to HCPSS' audited financial statements, the undepreciated value of its capital equipment inventory was \$38.8 million as of June 30, 2021. HCPSS maintains centralized automated records for equipment with a cost of \$5,000 or more (including assets capitalized for financial statement purposes). In addition, HCPSS' Department of Informational Technology maintains inventory records of all sensitive items that are susceptible to theft such as laptops and small items

(cameras, portable tools) with a cost of \$500 or more, which are assigned to schools, students, and employees. HCPSS has established comprehensive written equipment policies and performs inventories at each school every three years.

### **Conclusion**

Based on our current assessment of significance and risk relative to our audit objectives, our audit did not include a review of policies, procedures, and controls with respect to the equipment area of operations.

## **Information Technology**

We determined that the Information Technology section, including Findings 3 through 5 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available report in accordance with the State Government Article, Section 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with HCPSS’ responses, have been redacted from this report copy.

**Finding 3**  
**Redacted cybersecurity-related finding.**

**Finding 4**  
**Redacted cybersecurity-related finding.**

**Finding 5**  
**Redacted cybersecurity-related finding.**

## **Facilities Construction, Renovation, and Maintenance**

### **Background**

HCPSS employs a staff of 579 employees to maintain its 77 schools (including career academy, alternative education, and special education centers) and a number of other facilities (such as administrative and support offices). According to its fiscal year 2021 Capital Improvement Plan, necessary construction, major

renovations, and systemic improvements to HCPSS' facilities over the next five years are estimated to cost approximately \$386.2 million.

### **Processes are in Place to Promote Ongoing Facility Maintenance and to Minimize Energy Costs**

HCPSS has processes in place to promote ongoing facility maintenance and minimize energy costs. For example, HCPSS provides preventive maintenance of its buildings and equipment with the goal of preventing emergency repairs. In addition, HCPSS participates in a consortium with other Baltimore-area entities to purchase energy at the best possible terms for members of the consortium. HCPSS also utilizes a vendor energy management program to monitor and control heating and air conditioning usage and a utility billing management system to monitor related costs. HCPSS has written policies that include best practices that encourage both students and employees to be aware of and limit their energy use and requires internal on-site reviews of building energy efficiency. Further, HCPSS makes limited use of solar and geothermal alternative energy sources. According to consortium reports (which we did not audit), HCPSS saved approximately \$8.2 million through energy cost avoidance from fiscal years 2007 to 2021.

### **Conclusion**

Our audit did not disclose any significant deficiencies in the design or operation of HCPSS' internal control over the facilities maintenance, energy management and construction areas of operations reviewed. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

## **Transportation Services**

### **Background**

According to statistics compiled by the Maryland State Department of Education, HCPSS has approximately 44,300 students eligible to receive student transportation services. These students were transported using 474 contractor-owned buses. HCPSS reported that 5.4 million route miles were traveled to transport students for the 2018-2019 school year and 3.7 million route miles for the 2019-2020 school year. The decline in route miles was attributed to students not requiring transportation during virtual learning as a result of COVID-19.

HCPSS uses a bidding process to award routes to contractors based on the lowest competitive bid. Prospective bidders submit proposals that specify several cost components (hourly rate per mile and time, extended hourly rates per mile and time). HCPSS calculates the lowest bid for the yearly total, based on a standard

number of hours and miles contained in the request for bids. HCPSS uses an automated bus contractor payment system to calculate monthly payments that are to be based on the contractor bid and actual mileage and driver time. According to HCPSS' financial records, fiscal year 2021 transportation costs totaled \$30.6 million, including \$26.8 million paid to 30 bus contractors. When schools were closed between March 17, 2020 to February 28, 2021, due to the COVID-19 pandemic, HCPSS paid the bus contractors 75 percent of their minimum guarantees as stated in the contracts.

### **Consultant Recommendations for Student Transportation**

Due to its concerns about bus driver shortages, in June 2021, HCPSS hired a transportation consultant to analyze the efficiency of its use of school buses. The consultant's work included three tasks 1) baseline analysis and options development; 2) identification of constraints and variables; and 3) communication of options, and the determination and finalization of results. In February 2022, the consultant issued a report which recommended changes to student transportation including determining school-by-school bell [start and stop] times, establishing revised bus routes, and ensure community outreach efforts. The target for implementation was the 2022-2023 school year. HCPSS subsequently decided to hire the consultant again to review the structure of transportation contracts and/or in-house operation of buses. A report was issued in June 2022 that recommended several actions including that HCPSS switch to a hybrid service model starting in fiscal year 2024. The Board reviewed and approved both aforementioned reports and agreed to implement the recommendations.

### **Finding 6**

**Bus vendor payment information was not independently reviewed prior to payment.**

### **Analysis**

Bus vendor payment information was not independently reviewed prior to payment. A Transportation Office employee manually enters payment information (such as time and mileage) into the bus payment system, which is forwarded to the Finance Office in summary format for final processing and disbursement to the 30 transportation vendors. Although we were advised that a transportation department supervisor reviewed the payment information entered by the aforementioned employee, the review was not documented and the supervisor was not independent since the supervisor could also enter payment information on the system.

According to HCPSS' financial records, payments to bus contractors totaled \$26.8 million in fiscal year 2021. A similar condition was commented upon in our two

preceding audit reports dating back to October 23, 2009. In response to our prior report, HCPSS disagreed with our finding and recommendation since it believed a sufficient review was being performed, including a post-payment automated flagging of unusually large payments which were compared to budgeted expenditures. Therefore, HCPSS did not implement our prior recommendation to independently review the bus contractor payment information prior to payment. Since annual payments to bus contractors are in excess of \$26 million, we continue to believe HCPSS should perform an independent documented review of payment information prior to payment.

#### **Recommendation 6**

**We recommend that HCPSS ensure that an independent documented review of payment information is performed by Transportation Office supervisory personnel before transmission to the Finance Office for processing (repeat).**

We determined that Finding 7 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available report in accordance with the State Government Article, Section 2-1224(i). Consequently, the specifics of the following finding, including the analysis, related recommendations, along with HCPSS’ responses, have been redacted from this report copy.

#### **Finding 7**

**Redacted cybersecurity-related finding.**

### **Food Services**

#### **Background**

According to HCPSS’ audited financial statements, food services operating expenditures totaled \$15 million in fiscal year 2021, and were primarily funded with federal funds totaling \$16.3 million and food sales totaling \$331,000. According to MSDE records, in fiscal year 2021 HCPSS had 172 food services positions for its 77 schools, consisting of 169 cafeteria positions and 3 administrative positions.

Similar to other Maryland Local Education Agencies, HCPSS continued to serve meals from certain schools during the COVID-19 pandemic health crisis by providing free meals for parents and students to pick up. The number of meals increased by 4 percent from 5.2 million in fiscal year 2019 to 5.4 million in fiscal

year 2021. HCPSS' food service expenditures declined by 10 percent (food costs and equipment) during the same period, from \$16.6 million to \$15 million. HCPSS indicated that although no employees were laid off due to the COVID-19 pandemic, it is 20 percent understaffed due to vacancies.

### **Conclusion**

Based on our current assessment of significance and risk relative to our audit objectives, our audit did not include a review of policies, procedures, and controls related to the Food Services financial area of operations.

## **School Board Oversight**

### **Background**

The Howard County Board of Education (the Board) is composed of seven elected members and one voting student member who has the same rights and privileges except for certain matters (such as the suspension or dismissal of teachers, principals, and other professional personnel). The Board contracted with a certified public accounting firm to conduct independent audits of the HCPSS financial statements and federal programs. To assist in its oversight of various areas of HCPSS operations and governance, the Board established several committees, such as Audit, Legislative, Policy, and Budget Review. Additionally, the Board has established a community advisory committee, which meets monthly in an open forum to hear public concerns.

### **HCPSS Adopted an Ethics Policy that Met the Requirements of State Law**

The Board has adopted a detailed ethics policy that conforms to State Law and was approved by the State Ethics Commission. The policy is applicable to both Board members and HCPSS employees and includes provisions for conflicts of interest and financial disclosures by Board members and certain employees. Specifically, annual financial disclosure statements are required to be filed by Board members, candidates for the Board, the Superintendent, and other administrators (such as supervisors, school principals, and agency buyers) by April 30th of each year.

In accordance with the policy, HCPSS established an Ethics Panel consisting of five members appointed by the Board to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. Our review of the records for Board members and HCPSS employees required to submit financial disclosure forms for calendar year 2020 disclosed that all forms were submitted as required.



## Conclusion

Our audit did not disclose any reportable conditions related to school board oversight.

## Management of Other Risks

### Healthcare Background

HCPSS is self-insured and contracts with five third-party administrator firms (TPAs) for health care claims processing services<sup>6</sup> for employee and retiree medical, prescription, dental, and vision costs. HCPSS also contracts with a consultant to help manage the health plans. The consultant performs data analysis of health services utilization and costs, provides recommendations on potential rate changes, and evaluates the merits of health plan proposals.

The health benefit plans for HCPSS employees and retirees are financed through a separate internal service fund (referred to as the Health and Dental Fund) and provides plan coverage under contracts with several insurance companies and health maintenance organizations.

According to HCPSS records, Health and Dental Fund revenues and expenditures for fiscal year 2021 totaled \$169.1 million and \$160.1 million, respectively (see Figure 4).

HCPSS employs a verification process in its enrollment procedures whereby employees must submit documentation (such as, birth certificates) for dependents they want added to their health plan. As of May 31, 2022, HCPSS provided health insurance benefits to approximately 20,450 enrolled employees, dependents, and retirees.

**Figure 4**  
**HCPSS 2021 Healthcare Financing**  
(amounts in millions)

Revenues	
Employer Contributions	\$121.4
Employee/Retiree Contributions	31.0
Rebates	16.6
Other Revenue	0.1
<b>Total Revenue</b>	<b><u>\$169.1</u></b>
Expenditures	
Claims Payments	\$151.1
Benefit Credits	3.0
Administrative Fees	4.8
Other Expenses	1.2
<b>Total Expenditures</b>	<b><u>\$160.1</u></b>

Source: HCPSS Records

<sup>6</sup> There is a separate TPA for the claims for each of the preferred provider medical, health maintenance organization medical, prescription, dental, and vision plans.

### **Health and Dental Fund Deficit and Elimination Plan**

HCPSS began incurring a negative fund balance in its Health and Dental Fund in fiscal year 2016 totaling \$16.5 million which grew to \$39.2 million by the end of fiscal year 2019. HCPSS stated on its website that the deficit was mainly due to the intentional underfunding of the projected actuarial benefits costs in fiscal years 2015 through 2018. The underfunding was approved by the Board and the funds were allocated for other operating budget priorities. For example, in fiscal year 2017 the budgeted actuarial benefit costs were estimated to be \$122 million, but HCPSS budgeted funding totaling \$100.6 million.

In December 2017, HCPSS engaged an independent consultant to perform a forensic review of the Health and Dental Fund to review the deficit and recommend corrective actions. The consultant issued a report in March 2019, which concluded that it did not identify indications of fraud or misconduct, but provided several recommendations to improve internal controls over invoice processing and approvals. For example, the consultant's test of 420 transactions disclosed that 97 transactions did not have supporting documentation.

In fiscal year 2019, HCPSS made the decision to stop growing the deficit and the County provided \$11.1 million appropriation to reduce the deficit amount. As recommended by the consultant, HCPSS put a plan in place starting in fiscal year 2020 in order to eliminate the deficit by fiscal year 2022 by reducing costs, where possible, and ensuring that the anticipated health plan costs would be fully funded in the budgets. The plan also included receiving an additional \$13 million in funding from Howard County. This plan reduced the deficit to \$9.7 million by the end of fiscal year 2021, and according to HCPSS records, which had not yet been audited at the time of our fieldwork, HCPSS anticipates a positive fund balance as of June 30, 2022 of \$1.6 million.

In January 2020, Howard County engaged an independent consultant to perform agreed upon procedures that, in-part, included a comprehensive analysis comparing HCPSS to peer jurisdictions based on program design, benefits, cost details, and costs sharing arrangements. The consultant issued its report in October 2020 and concluded that HCPSS' employees had the lowest cost of health services while having the highest claim cost per employee. The consultant recommended that HCPSS consider having a claims audit performed of the TPAs to help identify possible irregularities in claim payments. The consultant also recommended that HCPSS consider conducting further research to determine the reason for the comparatively high cost per employee. However, as of July 2022, no formal research of employee health care costs had been performed.

**Finding 8**

**HCPSS did not audit or adequately monitor the performance of its third-party administrators that provide health care claims processing services.**

**Analysis**

HCPSS did not audit or adequately monitor the performance of its third-party administrators (TPAs) that provide health care claims processing services. Specifically, although HCPSS verified the propriety of administrative fees, it did not verify the propriety of TPA billings for employee and retiree health care claims, and the receipt of prescription drug rebates. Additionally, HCPSS did not perform audits of TPA performance measures.

- HCPSS did not obtain and review claim data to support the amounts billed by the five TPAs for health care claims. Rather, HCPSS was provided with a schedule of the total claims paid for each health plan. HCPSS approved the claim payments based on a review of the summary data with no review of supporting documentation.
- Although HCPSS tracked the receipt of prescription drug rebates and compared it to budgeted amounts, it did not audit the pharmacy TPA to ensure that it received all the prescription drug rebates the TPA received from drug manufacturers. Drug rebates are determined based on volume and type of drug dispensed per agreements with drug manufacturers.
- HCPSS did not routinely audit health care claims paid by the TPAs, as recommended by its consultant, to ensure that the billed services were provided to participants, were covered by the health plans, and that amounts paid were proper. We were advised by HCPSS that it was unaware of when or if a claims audit had been performed. HCPSS' TPA contracts allowed for periodic independent third-party audits of the accuracy and validity of claim reimbursements paid by HCPSS.

A similar condition was commented upon in our two preceding audit reports dating back to October 23, 2009. In response to our prior report, HCPSS disagreed with our finding and recommendation since it believed a sufficient verification was being performed (such as, dependent eligibility verification and automated controls to prevent improper claims payments) and it believed claims audits were not cost effective. Therefore, HCPSS did not implement our prior recommendation to establish procedures to verify the amounts paid for health insurance. Since annual claims payments are in excess of \$150 million, and the March 2019 consultant's report highlighted significant problems with claim documentation, we continue to believe that claims

audits are a reasonable approach for detecting health care billing errors and for ensuring claim payments are for allowable benefits for eligible participants.

- HCPSS did not audit, or otherwise verify, the accuracy of the five TPAs' self-reported compliance with performance measures. For example, the largest TPA contract included 10 performance measures relating to account management, claim administration, plan sponsor services, and member services. Additionally, the contract allowed for the assessment of penalties (up to \$2.2 million annually) if the TPA did not meet the performance measures. Although the two primary medical TPAs reported self-assessed penalties of \$51,000 in calendar years 2017 through 2021 based on their reported compliance, HCPSS did not have a process in place to verify the TPA's reported compliance even though the contract allows for an independent audit of the performance measures.

#### **Recommendation 8**

**We recommend that HCPSS**

- a. establish procedures to independently verify the propriety of TPA billings;**
- b. conduct pharmacy TPA audits to assess that all drug rebates due were received;**
- c. conduct claims audits to assess the accuracy and validity of claim reimbursements made by the TPAs (repeat); and**
- d. establish a process to independently verify, on an annual basis, the TPAs' compliance with reported performance measures and assess penalties when performance goals are not met.**

## **Audit Scope, Objectives, and Methodology**

We have conducted a performance audit of the Howard County Public School System (HCPSS). We conducted this audit under the authority of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland, which generally requires that every 6 years we audit each of the 24 local school systems to evaluate the effectiveness and efficiency of the financial management practices. This performance audit was performed 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. Evaluate whether the HCPSS procedures and controls were effective in accounting for and safeguarding its assets.
2. Evaluate whether the HCPSS policies provided for the efficient use of financial resources.

In planning and conducting our audit of HCPSS, we focused on 11 major financial-related areas of operations as approved on December 6, 2016 by the Joint Audit and Evaluation 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 HCPSS dated October 17, 2016, 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 HCPSS 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 HCPSS. We also interviewed personnel at HCPSS and the Maryland State Department of Education (MSDE), and staff at

other local school systems in Maryland (as appropriate). Our audit procedures included inspections of documents and records, and to the extent practicable, observations of HCPSS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from January 1, 2021 to June 30, 2022.

Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits HCPSS' financial statements and conducts the federal Single Audit, as well as the reviews of student activity funds performed by HCPSS' Internal Audit Department.

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 the HCPSS automated financial management system for the purpose of testing expenditure 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.

HCPSS' 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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to HCPSS, were considered by us during the course of this audit.

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 findings were communicated to HCPSS that were not deemed significant and, consequently, did not warrant inclusion in this report.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3A-301(b), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation”. Based on that definition, and in our professional judgment, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to HCPSS and those parties responsible for acting on our recommendations in an unredacted audit report.

We conducted our fieldwork from October 2021 to July 2022. HCPSS’ response to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise HCPSS regarding the results of our review of its response.

OFFICE OF THE SUPERINTENDENT

Michael J. Martirano, Ed.D., Superintendent

March 29, 2023

Mr. Gregory A, Hook, CPA  
Legislative Auditor, State of Maryland  
Office of Legislative Audits  
The Warehouse at Camden Yards  
351 West Camden Street, Suite 400  
Baltimore, MD 21201

Dear Mr. Hook:

This letter responds to your draft March 2023 Financial Management Practices Audit Report on the Howard County Public School System (HCPSS). The Agency Response Form is enclosed.

I am pleased that this OLA audit confirms that the systemic improvements we have implemented over the last six years to strengthen school system management and operations have addressed many of the findings in prior year audits. This represents our steadfast approach to ensuring internal controls are implemented with fidelity and all business processes are guided by the Strategic Call to Action. The audit represents the elimination of 13 findings and a reduction of total findings from 15 to 8.

HCPSS commends the Office of Legislative Audits (OLA) for its constructive and collaborative approach to the audit and is pleased with the substantial progress it has made since the OLA audit report in 2016. HCPSS agrees with report findings and recommendations in this report and has completed or will soon complete all actions to implement the recommendations.

Please let me know if you or your staff need any further assistance or would like any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Martirano", written in a cursive style.

Michael J. Martirano, Ed.D.  
Superintendent

Enclosure

cc: Ms. Antonia Watts, Chair, Board of Education of Howard County  
Dr. Karalee Turner-Little, Deputy Superintendent  
Mr. Jahantab Siddiqui, Chief Administrative Officer  
Mr. David Clark, Internal Auditor



# Howard County Public School System

## Agency Response Form

### Procurement and Disbursement Cycle

#### Finding 1

Certain requirements of State law and recognized best practices were not incorporated into HCPSS policies and/or were not consistently used when participating in intergovernmental cooperative purchasing agreements (ICPA).

We recommend that HCPSS incorporate the aforementioned statutory requirement and other identified and acknowledged best practices into its procurement policies, and ensure that the performance of the requirement and best practices are documented when evaluating and participating in ICPAs.

Agency Response			
Analysis	Additional facts		
Please provide additional comments as deemed necessary.	The Office of Purchasing developed a Cooperative/Piggyback Purchasing Checklist in fiscal year 2023. The checklist is used to review and approve or deny the use of an ICPA. The completed checklist is also submitted as an attachment to Board of Education agenda items that are above a \$50,000 threshold and require Board approval. HCPSS will consider revising the implementation procedures for Policy 4050 – Procurement of Goods and/or Services to incorporate the checklist.		
Recommendation 1	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	The checklist contains the following statutory requirements: <ul style="list-style-type: none"><li>• A written assessment of the benefits of using the ICPA agreement;</li><li>• An analysis of the costs of conducting a competitive solicitation;</li><li>• Research comparing and evaluating available ICPAs;</li><li>• Verification that the ICPA has a clause allowing utilization by other parties;</li><li>• Verification that the terms, scope of services, specifications, and price meets HCPSS needs;</li><li>• Execution of an addendum of participation with the lead agency that reflects necessary local terms and conditions; and</li><li>• A copy of the ICPA and related price lists for invoice verification.</li></ul>		

# Howard County Public School System

## Agency Response Form

### Finding 2

Contract bids and awards were not always published on *eMaryland Marketplace Advantage* as required by HCPSS policy and applicable State law.

We recommend that HCPSS comply with its procurement procedures and State procurement law by using *eMMA* to publish contract bids and awards.

Agency Response			
Analysis	Factually accurate		
Please provide additional comments as deemed necessary.			
Recommendation 2	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	The Office of Purchasing reviewed training from the Office of State Procurement and put processes in place to ensure that all solicitations and awards are posted on eMaryland Marketplace Advantage as required by state law and Board of Education Policy 4050 – Procurement of Goods and/or Services.		

# Howard County Public School System

## Agency Response Form

### Information Systems Security and Control

The Office of Legislative Audits (OLA) has determined that Findings 3 through 5 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with State Government Article 2-1224(i). Although the specifics of the findings, including the analysis, related recommendations, along with HCPSS’ responses, have been redacted from this report copy, HCPSS’ responses indicated agreement with the findings and recommendations.

**Finding 3**  
**Redacted cybersecurity-related finding.**

**Agency Response has been redacted by OLA.**

**Finding 4**  
**Redacted cybersecurity-related finding.**

**Agency Response has been redacted by OLA.**

**Finding 5**  
**Redacted cybersecurity-related finding.**

**Agency Response has been redacted by OLA.**

# Howard County Public School System

## Agency Response Form

### Transportation Services

#### **Finding 6**

**Bus vendor payment information was not independently reviewed prior to payment.**

**We recommend that HCPSS ensure that an independent documented review of payment information is performed by Transportation Office supervisory personnel before transmission to the Finance Office for processing (repeat).**

Agency Response			
<b>Analysis</b>	<b>Additional facts</b>		
<b>Please provide additional comments as deemed necessary.</b>	Each vendor submits a time and mileage report to the Office of Transportation. A manager in the Office reviews the report for accuracy, returns any discrepancies to the vendor for resolution, and signs the final report and sends it to an accounting analyst. The accounting analyst manually enters information from the report into the bus payment system. The system calculates the payment and generates a file, and the accounting analyst cross reconciles the file with the excel workbook for each vendor, route set, and contract rate. The accounting analyst then sends the file to the Director of Student Transportation for review, and the Director sends an email back to the accounting analyst with the approval to pay the vendor. The final file is forwarded to the Office of Finance for processing and disbursement to the vendor.		
<b>Recommendation 6</b>	Agree	<b>Estimated Completion Date:</b>	Completed
<b>Please provide details of corrective action or explain disagreement.</b>	The Office of Transportation designated an employee that has read only access to the bus payment system to conduct an independent review of payment approvals.		

# Howard County Public School System

## Agency Response Form

OLA has determined that Finding 7 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available audit report in accordance with State Government Article 2-1224(i). Although the specifics of the finding, including the analysis, related recommendation(s), along with HCPSS’ response, have been redacted from this report copy, HCPSS’ response indicated agreement with the finding and recommendation(s).

**Finding 7**  
**Redacted cybersecurity-related finding.**

**Agency Response has been redacted by OLA.**

# Howard County Public School System

## Agency Response Form

### Management of Other Risks

#### Finding 8

HCPSS did not audit or adequately monitor the performance of its third-party administrators that provide health care claims processing services.

We recommend that HCPSS

- a. establish procedures to independently verify the propriety of TPA billings;
- b. conduct pharmacy TPA audits to assess that all drug rebates due were received;
- c. conduct claims audits to assess the accuracy and validity of claim reimbursements made by the TPAs (repeat); and
- d. establish a process to independently verify, on an annual basis, the TPAs' compliance with reported performance measures and assess penalties when performance goals are not met.

Agency Response			
Analysis	Factually accurate		
Please provide additional comments as deemed necessary.			
Recommendation 8a	Agree	Estimated Completion Date:	June 2024
Please provide details of corrective action or explain disagreement.	The Office of Benefits will incorporate this recommendation into its reconciliation process beginning in fiscal year 2024.		
Recommendation 8b	Agree	Estimated Completion Date:	June 2024
Please provide details of corrective action or explain disagreement.	The Office of Benefits will incorporate this recommendation into its reconciliation process beginning in fiscal year 2024.		
Recommendation 8c	Agree	Estimated Completion Date:	June 2024
Please provide details of corrective action or explain disagreement.	The Office of Benefits will obtain a claims audit in fiscal year 2024 and will establish a regular schedule by which to continue future audits.		
Recommendation 8d	Agree	Estimated Completion Date:	June 2024

# Howard County Public School System

## Agency Response Form

<b>Please provide details of corrective action or explain disagreement.</b>	The Office of Benefits inquired with its benefits consultant on how to incorporate this recommendation. The Office will also seek guidance on how to complete an independent verification process, given that performance measures are self-reported by vendors.
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AUDIT TEAM

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**R. Brendan Coffey, CPA, CISA**  
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