

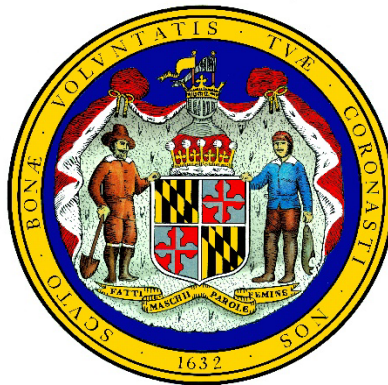
Financial Management Practices Audit Report

Talbot County Public Schools

March 2025

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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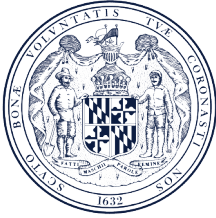
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Brian S. Tanen, CPA, CFE
Legislative Auditor

March 6, 2025

Senator Shelly L. Hettleman, 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 Talbot County Public Schools (TCPS) 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 TCPS' 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 TCPS' procurement policies were not sufficiently comprehensive, as they did not incorporate certain requirements of State law and recognized best practices for participating in intergovernmental cooperative purchasing agreements, require a written justification for using a sole source procurement process, or require publication of contract solicitations and awards on *eMaryland Marketplace Advantage (eMMA)* as required by State law. As a result, these requirements were not always consistently used when obtaining goods and services. In addition, TCPS did not always obtain Talbot County Board of Education approval for contract awards as required by its policies.

Additionally, our audit disclosed cybersecurity-related findings. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the 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 3.5-301(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 those parties responsible for acting on our recommendations.

Our audit also disclosed procedure and control deficiencies related to human resource and payroll activity, contracts for school bus services such as fuel and maintenance, food services, and its third-party administrator that provides health care claims processing services. For example, we noted that TCPS did not always have required written employment contracts and approvals for certain employee payroll.

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 9 of the 13 findings contained in our preceding audit report dated July 17, 2013. For the non-cybersecurity-related findings we determined that TCPS satisfactorily addressed 2 of those 4 findings. The remaining 2 findings are repeated in this report.

TCPS' response to this audit is included as an appendix to this report. Consistent with State law, we have redacted the elements of TCPS' response related to the cybersecurity audit findings. We reviewed the response and noted general agreement to our findings and related recommendations, and while there are other aspects of the response which will require further clarification, we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve.

We wish to acknowledge the cooperation extended to us during the audit by TCPS.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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

Background Information

Statistical Overview

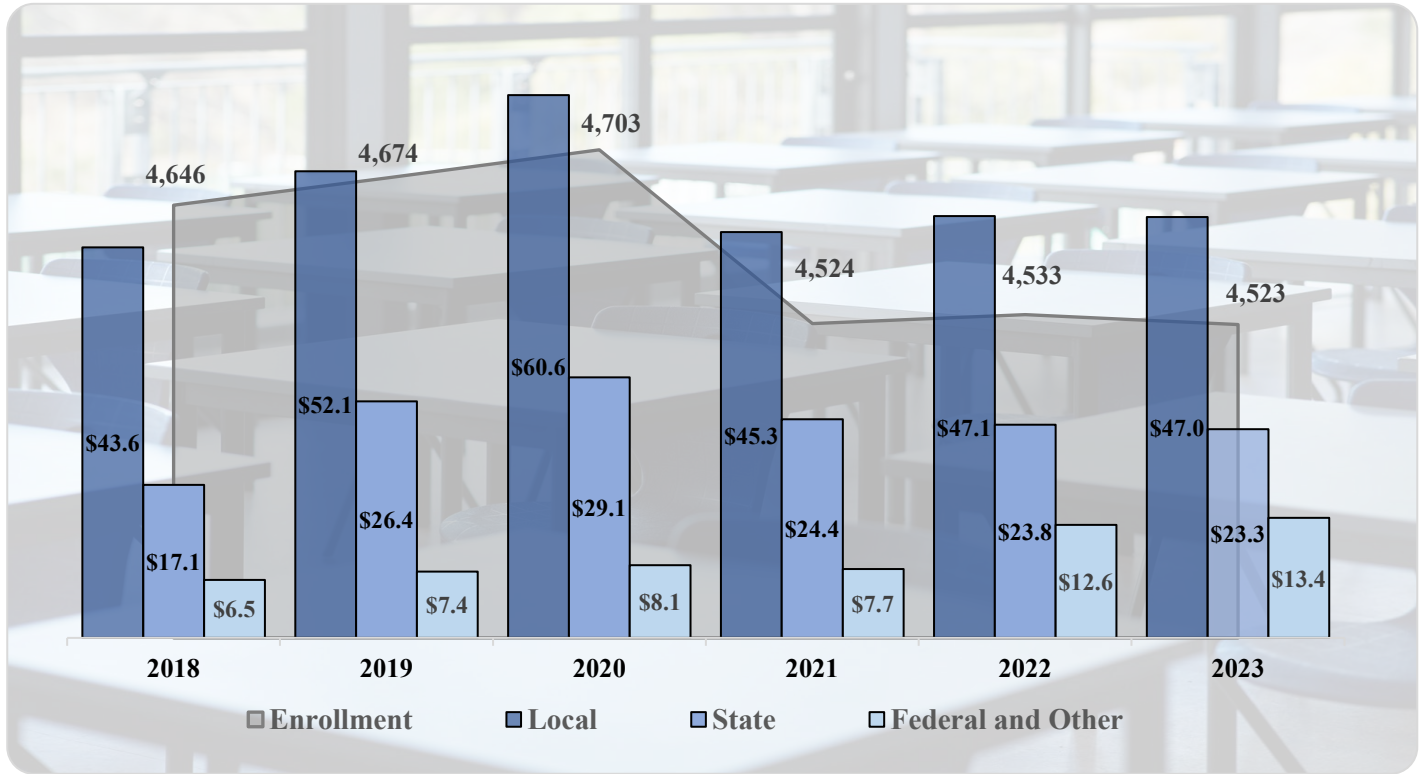
Enrollment

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Talbot County Public Schools (TCPS) ranks 21st in student enrollment among the 24 public school systems in Maryland. Fiscal year 2023 full-time student enrollment was 4,523 students. TCPS had 8 schools, consisting of 5 elementary, 1 middle school, 1 middle/high school, and 1 high school.

Funding

TCPS revenues consist primarily of funds received from Talbot County, the State, and the federal government. According to TCPS' audited financial statements, revenues from all sources totaled approximately \$83.7 million in fiscal year 2023, including \$23.3 million from the State. According to MSDE's records, the State funding included formula funding grants totaling \$17.7 million, and State-share for employee pension payments totaling \$3.4 million. See Figure 1 (on the following page) for TCPS' enrollment and funding by source for the six-year period from fiscal year 2018 through fiscal year 2023. See Figure 2 (on page 10) for revenue sources per enrolled student in fiscal year 2023 according to its audited financial statements.

Figure 1
TCPS Enrollment and Funding by Source
Fiscal Years 2018 through 2023
 (dollar amounts in millions)

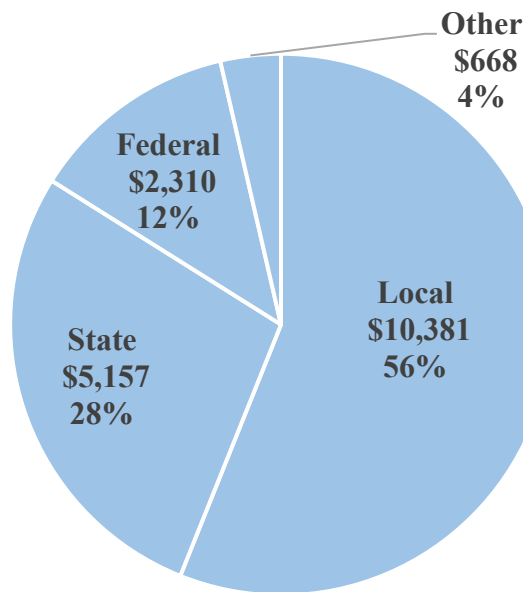


State funding for fiscal year 2023 included:

- \$17.7 million for Foundation Formula Grants
- \$3.4 million for the State-share of employee pension costs
- \$0.6 million for Capital Projects
- \$1.6 million for other State funding

Source: TCPS' Fiscal Year 2023 Audited Financial Statements and MSDE Data

Figure 2
TCPS' Revenue Sources Per Enrolled Student
Fiscal Year 2023



Source: TCPS' Fiscal Year 2023 Audited Financial Statements and MSDE Data

Blueprint for Maryland's Future (Blueprint)

Blueprint is a State-funded grant program based on recommendations of the Maryland Commission on Innovation and Excellence in Education.¹ Chapter 771, Laws of Maryland, 2019, effective June 1, 2019, established principles of the Blueprint that are intended to transform Maryland's early childhood, primary, and secondary education system to the levels of the highest-performing systems. Blueprint specifies how funding is calculated to support programs and initiatives from prekindergarten through college and career.

Blueprint allocates funding to schools based on a weighted-student formula. The funding formula provides resources to local education agencies based on the number of students enrolled at each school (known as Foundation Aid) and the characteristics of those students (such as, Special Education, Concentration of

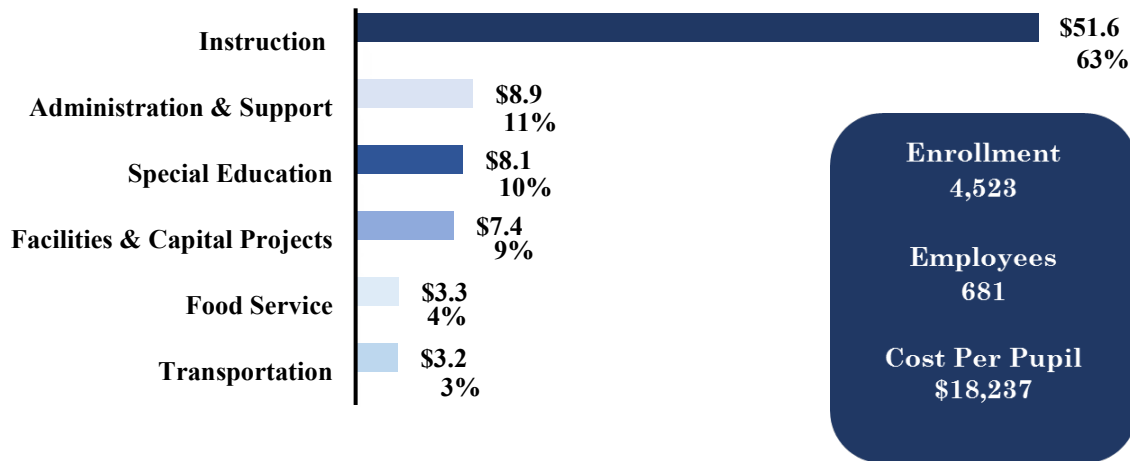
¹ The Maryland Commission on Innovation and Excellence in Education was established by Chapters 701 and 702, Laws of Maryland 2016, effective June 1, 2016, to review the adequacy of funding for education.

Poverty, and Compensatory Education Aid). Blueprint also provides additional funding for specific programs that schools offer (such as, Pre-kindergarten Aid).

Expenditures

According to TCPS' audited financial statements, fiscal year 2023 expenditures were approximately \$82.5 million. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 79 percent of total expenditures during fiscal year 2023. According to MSDE records, during the 2022-2023 school year, TCPS had 681 full-time equivalent positions, which consisted of 451 instructional and 230 non-instructional positions. Instruction accounted for 63 percent of TCPS' expenditures on a categorical basis (see Figure 3).

Figure 3
TCPS Expenditures by Category and Selected Statistical Data
Fiscal Year 2023
(amounts in millions)



Source: TCPS' Fiscal Year 2023 Audited Financial Statements and MSDE Data

Oversight

TCPS is governed by a local school board, consisting of seven elected voting members and two non-voting student members. MSDE exercises considerable oversight of TCPS 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 TCPS to comply with

the requirements and mandates of federal law. The Talbot County government also exercises authority over TCPS primarily through the review and approval of TCPS' annual operating and capital budgets.

Accountability and Implementation Board (AIB)

The AIB was established by State law as an independent unit of State government in February 2021 and is responsible for holding State and local governments, including local education agencies, accountable for implementing the Blueprint State-funded grant program and for evaluating the outcomes. Specifically, the AIB reviews the use of school-level expenditures and monitors school system compliance with Blueprint requirements. The AIB consists of a seven-member Board appointed by the Governor, with the advice and consent of the Senate. The Board Chair is designated by the Governor, the Senate President, and the Speaker of the House.

Office of the Inspector General for Education (OIGE)

The OIGE was established by State law as an independent unit of State government effective June 2019. The OIGE is responsible for examining and investigating complaints or information regarding the management and affairs of local boards of education, local school systems, public schools, nonpublic schools that receive State funds, the Maryland State Department of Education, and the Interagency Commission on School Construction. Specifically, the law provides that the OIGE may receive and investigate information and complaints concerning potential fraud, waste, and abuse of public funds and property; civil rights violations involving students or employees; whether policies and procedures governing the prevention and reporting of child abuse and neglect comply with applicable federal and State laws; and compliance with other applicable federal and State laws.

The OIGE initiates examinations and investigations based on its assessment of complaints and information it receives from various sources, including State and outside agencies and through its fraud, waste, and abuse hotline. The OIGE also conducts an annual review of local school systems to ensure policies and procedures governing the prevention and reporting of child abuse and neglect comply with applicable federal and State laws. During the period covered by our review, the OIGE issued one public report related to TCPS reviews and investigations. We considered the report during our current audit.

External Audits

As required by State law, TCPS 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 TCPS as of June 30, 2018, 2019, 2020, 2021, 2022 and 2023, and the respective 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.

Additionally, in accordance with *Government Auditing Standards*, as part of the audited financial statements the accounting firm also issued separate reports on TCPS' control over financial reporting and its tests of TCPS' compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. These reports are an integral part of the annual independently audited financial statements. The accounting firm also conducts the Single Audit of TCPS' 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.

We reviewed the aforementioned financial statement audits and Single Audit reports for fiscal years 2018 through 2023 and examined the related work papers for the fiscal year 2022 financial statement audit and Single Audit, which were the latest available during our audit fieldwork. Our review did not note any deficiencies that warranted inclusion in this report. In addition, 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 electronic funds transfer
- Accounts receivable
- Federal grant activity

Status of Findings From Preceding Audit Report

In accordance with Chapter 261, 2016 Laws of Maryland, TCPS obtained an exemption on December 6, 2016 from the 6-year audit cycle covering fiscal years 2017 to 2022. Therefore, our most recent audit report was dated July 17, 2013.

Based on our current assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of 9 of the 13 findings contained in the July 17, 2013 report. As disclosed in Figure 4, for the non-cybersecurity-related findings, we determined that TCPS satisfactorily addressed 2 of these 4 findings. The remaining 2 findings are repeated in this report.

Figure 4
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	Internal control deficiencies could allow improper payments	Status Redacted ²
Finding 2	TCPS did not always ensure that procurements were competitively procured or justified as sole source procurements	Not Repeated
Finding 3	Certain system users had unneeded capabilities in the automated human resources and payroll system, and reports of personnel and payroll changes were not generated for review.	Status Redacted ²
Finding 4	TCPS' policies and physical inventory procedures need improvement to safeguard equipment.	Not repeated (Not followed up on)
Finding 5	Administrative access to the TCPS network was excessive, and database monitoring and password and account controls over critical systems were not sufficient.	Status Redacted ²
Finding 6	TCPS did not have an information technology disaster recovery plan and antivirus protection for TCPS computers was frequently not installed or up-to-date.	Status Redacted ²
Finding 7	The TCPS network was not properly secured.	Status Redacted ²
Finding 8	TCPS' bus routing procedures were not comprehensive and automated routing software capabilities were not adequately used to develop more efficient routes.	Not repeated
Finding 9	TCPS did not solicit bids when procuring bus maintenance and certain bus contractor services, or enter into contracts for the services.	Repeated (Current Finding 9)
Finding 10	TCPS should strengthen internal controls over the purchasing of food supplies.	Not repeated (Not followed up on)
Finding 11	TCPS had not properly collateralized certain cash deposits.	Not repeated (Not followed up on)
Finding 12	TCPS had not developed a formal debt management policy.	Not repeated (Not followed up on)
Finding 13	TCPS had not verified the eligibility of dependents enrolled in TCPS' health insurance program and had not ensured that claims paid by the third-party health care administrator were reviewed for propriety.	Repeated (Current Finding 12)

² Specific information on the current status of this cybersecurity-related finding has been redacted from the publicly available 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

Talbot County Public Schools (TCPS) revenues consist primarily of funds received from Talbot County, the State, and the federal government. According to TCPS' audited financial statements, revenues from all sources totaled approximately \$83.7 million in fiscal year 2023, including approximately \$23.3 million from the State.

External Audits

There were similarities between the work of the independent certified public accounting firm (CPA) that audited TCPS' 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 electronic funds transfer and accounts receivable, for which the auditor's procedural reviews (related to the fiscal year 2022 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. During fiscal year 2023, school activity collections totaled \$520,000 and the June 30, 2023 fund balance was \$397,000. Based on our assessment of the relative significance of this activity, we did not review the procedures and controls over these funds.

Conclusion

Based on our current assessment of significance and risk relative to our audit objectives, we relied on the work of the CPA 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

TCPS 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 TCPS' Single Audit, fiscal year 2023 (latest

available at the time of our audit) federal expenditures totaled approximately \$10.6 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 (excluding Medicaid) increased, from \$6.4 million in fiscal year 2021 to \$10 million in fiscal year 2022 (56 percent), due to COVID-19 pandemic grant funding. Specifically, according to TCPS' records, as of June 30, 2023, TCPS was awarded federal COVID-19 pandemic grant funds totaling \$16.9 million to be distributed over federal fiscal years 2020 to 2024 under the Coronavirus Aid, Relief, and Economic Security Act, the Coronavirus Response and Relief Supplemental Appropriations Act, and the American Rescue Plan.³ TCPS can request extensions up until March 2026 from the federal grant programs for distributing any funds not used by the end of the grant period (mostly by the end of federal fiscal year 2024).

As of June 30, 2023, according to TCPS records, expenditures related to these COVID-19 grants totaled \$9.4 million, and were primarily comprised of staffing, laptops, and instructional software and materials. We were advised by TCPS that it plans to request an extension to expend the remaining funds.

Single Audit Reports

There were similarities in the work performed by the independent CPA that conducted the Single Audit of TCPS' federal grants and the objectives of our audit in this area. In addition to expressing an opinion on TCPS 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 2018 through 2023. Our review of the Single Audits did not identify any issues that warranted inclusion in this report.

Medicaid Funds for Eligible Services

TCPS 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 TCPS. Medicaid activity is not covered by the Single Audit of federal grants.

³ In addition to the federal grants, TCPS was also awarded local COVID-19 grants totaling \$207,000, all of which had been spent as of June 30, 2023. Local grants are subject to review and testing during our audit.

The Maryland State Department of Education's Interagency Medicaid Monitoring Team issued a report in June 2023 of the results of its review of 45 student case files for 34 criteria. The report did not specifically address the propriety of Medicaid billing but overall concluded that TCPS was generally compliant with most criteria. For example, TCPS was 100 percent compliant with 31 criteria and between 90 and 99 percent compliant with 3 criteria.

According to TCPS records, fiscal year 2023 State and federal reimbursements for Medicaid-subsidized services totaled approximately \$830,000, which was an increase of \$406,000 from the previous fiscal year. 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.

Conclusion

We relied on the work of the independent CPA that conducted the Single Audits for the 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 TCPS' records, disbursements (excluding payroll) totaled \$16.4 million during fiscal year 2023. TCPS uses an automated financial management system for purchases and disbursements.

Requisitions are created in the system by departments and are subject to online departmental and purchasing department approvals. The TCPS Finance Department is responsible for procuring goods and services requested by individual schools and departments. Purchase orders are prepared in the system by the Finance Department based on approved requisitions.

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. Payments are processed by the Finance Office through the automated system, which either prints vendor checks or processes an electronic payment and posts the payment to the financial records.

Section 5-112 of the Education Article of the Annotated Code of Maryland requires that procurements exceeding \$50,000 be competitively bid. TCPS' procurement policy requires that procurements of contracts and agreements valued at \$25,000 or more, be approved by the Talbot County Board of Education

(Board) except where competitive bids exceed the amount budgeted or the Assistant Superintendent recommends the award be made to other than the lowest responsible bidder.

Finding 1

Certain requirements of State law and recognized best practices were not incorporated into TCPS procurement policies and 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 TCPS procurement policies and were not consistently used 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 met the statutory requirement of determining (or assessed) in writing that the use of such arrangements will provide cost benefits, promote administrative efficiencies, or promote intergovernmental cooperation.⁴

Our review of TCPS procurement policies disclosed that the above statutory requirement as well as the following critical best practices were not included:

- Analyze all costs of conducting competitive solicitations;
- Research, compare and evaluate available ICPAs;
- Verify ICPA has a clause allowing utilization by other parties;
- Verify the ICPA solicitation was competitively bid and publicly advertised;
- Obtain originating agency's competitive procurement documentation (including public advertisements and proposal evaluations);
- Verify terms, scope of services, specifications and price meet our needs;

⁴ 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.

- Execute an addendum of participation with the lead agency and remove or incorporate necessary local terms and conditions; and
- Obtain a copy of the ICPA and related price lists for invoice verification.

In addition, we tested TCPS' participation in five ICPAs (selected based on significance and risk), awarded during fiscal years 2020 through 2023, totaling approximately \$3.1 million. Our review disclosed that for all 5 ICPAs tested, TCPS did not adhere to three best practices (preparing a written assessment of the benefits of using the ICPAs; analyzing the costs of conducting competitive solicitations; and researching, comparing, and evaluating other available ICPAs). Furthermore, for 3 of the 5 ICPAs tested totaling \$2.8 million, TCPS had not obtained a copy of the contract pricing for invoice verification.

We did find that other best practices were generally performed despite not being included in TCPS' policies. For example, TCPS verified the ICPA solicitation allowed utilization by other parties and was competitively bid and publicly advertised for four of the five ICPAs tested. Incorporating ICPA best practices into TCPS 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, the practices also require that ICPA users ensure that the contract was awarded through a competitive procurement process, that addendums be executed documenting their participation, and that all local required terms and conditions are incorporated.

Recommendation 1

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

Finding 2

TCPS did not have a sufficiently comprehensive procurement policy and did not comply with certain State procurement laws.

Analysis

TCPS did not have a sufficiently comprehensive policy to govern procurements and our testing disclosed that TCPS did not comply with its existing policy and certain State procurement laws. Based on procurement method and significance, we tested 14 contracts totaling approximately \$9.2 million, which included 3 sole source contracts totaling \$1.5 million, 6 competitively procured contracts totaling \$4.7 million, and 5 intergovernmental cooperative purchasing agreements totaling \$3 million. These 14 contracts were awarded during fiscal years 2020 through 2023.

- TCPS did not prepare justifications for utilizing the sole source procurement method and obtain Board approval for all three sole source contracts. TCPS' Procurement Policy did not require a written justification for using a sole source procurement method as required by State law for State agencies. The Policy allows for sole source contracts when it is determined that only one vendor can provide the goods or services, or it is in TCPS' best interest to award a contract without a competitive solicitation. Although the Policy requires that documentation be provided to the Board to allow them to decide whether to authorize the procurement, it is unclear what specific information should be included. Our testing disclosed that no written justifications were prepared for the 3 sole source procurements tested. In addition, these contracts were not submitted to the Board for approval.
- Competitive procurements were not always approved by the Board. TCPS' *Procurement Policy* did not require Board approval when the lowest responsible bidder was selected for award, regardless of the value of the contract. Instead, one management employee had the authority to award the contract after confirming that the bid met specifications. This practice is not consistent with other local education agencies, which generally require Board approval for all contracts over a certain dollar threshold (for example, \$25,000).

Our testing disclosed that one contract totaling approximately \$2.7 million was not approved by the Board because it was awarded to the lowest responsible bidder. In addition, two of the remaining 5 competitively procured contracts tested (individually valued at more than \$300,000) were not approved by the Board even though it was required by the *Policy*.

- TCPS' *Procurement Policy* did not require publication of contract solicitations and awards on *eMaryland Marketplace Advantage (eMMA)*⁵ as required by State law. Rather, the *Policy* only required solicitations and awards to be posted in a newspaper. According to State law, the solicitation and award of contracts of \$50,000 or more procured by public schools after July 1, 2022, are required to be published on *eMMA*.⁶ Publishing solicitations and awards on *eMMA* provides enhanced competition and transparency over procurements including information about the winning bidders and the amount of the related awards.

Our review disclosed that awards for 3 of the sole source contracts tested totaling \$1.5 million were not published on *eMMA* and neither the solicitation or award was published for a fourth competitively procured contract totaling \$339,000.

Recommendation 2

We recommend that TCPS

- establish a comprehensive policy, approved by the Board, that governs sole source procurements;**
- prepare written justifications when the sole source procurement method is used;**
- obtain Board approval for sole source contracts totaling \$25,000 or more as required;**
- revise its procurement policies to require all competitively bid contracts (regardless if the lowest bidder is selected) be submitted to the Board for review and approval; and**
- ensure contract solicitations and awards are published on *eMMA* as required.**

Finding 3

TCPS did not properly report all vendor payments in aggregate of \$25,000 or more to the Department of Budget and Management (DBM), as required to enhance transparency of the procurement process.

Analysis

TCPS did not always report all vendor payments in aggregate of \$25,000 or more to DBM as required. Effective July 1, 2019, Chapter 541, Laws of Maryland 2019 requires local education agencies to annually report specified information

⁵ *eMMA* is an internet-based interactive procurement system managed by the State of Maryland's Department of General Services

⁶ Effective July 1, 2024, the threshold for publishing on *eMMA* increased to \$100,000.

for the immediately preceding fiscal year to DBM beginning January 1, 2020.⁷ DBM uses the information to report the procurements on the Maryland Transparency Portal, a public website that allows the public to search and view information about payments to vendors to enhance transparency over the procurement process.

Our review of amounts reported by TCPS to DBM for fiscal year 2022 disclosed that it only reported \$18.7 million of the \$33.6 million in vendor payments that were required to be reported, a difference of \$14.9 million. For example, TCPS did not report payments related to certain healthcare and employee benefit vendors. TCPS management advised that it misinterpreted the law when it submitted the payment data for reporting to DBM.

Recommendation 3

We recommend that TCPS

- a. establish procedures to ensure all vendor payments in aggregate of \$25,000 or greater are reported to DBM, as required; and**
- b. retroactively report the vendor payments that were not reported to DBM for fiscal year 2022.**

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the TCPS budget. According to TCPS' records, fiscal year 2023 salary, wage, and benefit costs totaled approximately \$62.7 million, representing 79.2 percent of its total expenditures. According to Maryland State Department of Education reports, during the 2022-2023 school year TCPS had 681 full-time equivalent positions, which consisted of 451 instructional and 230 non-instructional positions.

TCPS 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).

⁷ Local education agencies must report the name of the vendor receiving payment, the location of the vendor by zip code, and the amount of the payment. Certain payments are excluded from this requirement, including a public school employee's compensation and a public school retiree's retirement allowance.

Finding 4

TCPS had not obtained the Board's review and approval of certain salary scales and the salaries for four executive-level employees for which written contracts were not prepared, as required by State law.

Analysis

TCPS had not obtained the Board's review and approval of certain salary scales as required by State law. In addition, written contracts for four executive-level employees were not prepared and there was no evidence that the Board had approved their salaries as required by State law. State law requires that the Board appoint all system employees and set their salaries based on the recommendation of the county superintendent.

- TCPS did not have documentation that the Board reviewed and approved the 2021-2023 salary scales for two of the three collective bargaining units which covered 617 employees (such as, teachers and support personnel) as required by State law. TCPS personnel advised that the salary scales were maintained separately from the contracts and were not presented or approved by the Board. According to TCPS records, as of June 30, 2023, payroll expenditures for these employees totaled \$33.9 million.
- Written agreements stipulating employment terms had not been prepared or executed for four executive-level employees. Furthermore, there was no documented salary scale or evidence the Board reviewed or approved these salaries as required by law. The salaries for these four positions (excluding fringe benefits) ranged from \$131,000 to \$158,000 and totaled \$582,000 in fiscal year 2023. TCPS personnel advised that salaries for these employees were determined by the Superintendent through research of other school systems, but this research was not documented. Our review of the salaries for these employees disclosed that they were reasonable and comparable to other similar sized school systems.

Recommendation 4

We recommend that TCPS adhere to State law by

- a. obtaining the Board's review and approval for all salary scales, and**
- b. ensuring employee compensation and benefits of executive-level employees are documented in written agreements that are reviewed and approved by the Board.**

Equipment Control and Accountability

Background

According to TCPS' audited financial statements, the undepreciated value of its capital equipment inventory (furniture, fixtures, and equipment) totaled \$33.3 million as of June 30, 2023. TCPS maintains centralized automated records for all equipment with a cost of \$5,000 or more that are capitalized for financial statement purposes. Control and recordkeeping of laptop computers assigned to schools, students, and employees was maintained in a database by the Information Technology Division (ITD) regardless of cost.

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 5 through 7 related to "cybersecurity," as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with TCPS' responses, have been redacted from this report copy.

Finding 5
Redacted cybersecurity-related finding.

Finding 6
Redacted cybersecurity-related finding.

Finding 7
Redacted cybersecurity-related finding.

Facilities Construction, Renovation, and Maintenance

Background

TCPS employs a staff of 57 employees to maintain its 8 schools and a number of other facilities (such as administrative and support offices). According to its fiscal year 2025 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to TCPS' facilities over the next five years are estimated to cost \$14.3 million.

Our review of three construction-related procurements awarded during fiscal years 2022 through 2023 totaling \$4.2 million disclosed that the related services were competitively procured. In addition, our test of six invoices totaling \$2.3 million for these contracts disclosed that, generally, the invoices were properly supported, reviewed and approved, and the amounts invoiced were in accordance with contract terms.

However, two of the aforementioned construction contracts totaling \$1.5 million were procured using ICPAs and, as noted in Finding 1, not all related best practices were followed. For example, for one of the construction contracts tested totaling \$1.4 million, TCPS had not obtained a copy of the contract pricing for invoice verification. Additionally, as noted in Finding 2, TCPS does not always submit contracts, including those procured using an ICPA, to the Board for approval, and none of the three contracts tested were approved by the Board.

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

TCPS has processes in place to promote ongoing facility maintenance and to minimize energy costs. For example, TCPS provides scheduled maintenance of its buildings and equipment with the goal of preventing emergency repairs. In addition, TCPS participates in a consortium with other Eastern Shore area entities to purchase energy at the best possible terms. TCPS 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.

TCPS also has written policies that include best practices that encourage both students and employees to be aware of and limit their energy use and monitors building energy on a centralized basis. According to Consortium records (which we did not audit), TCPS saved approximately \$144,000 through energy cost avoidance from fiscal years 2016 to 2023. Finally, TCPS makes use of geothermal alternative energy sources.

Conclusion

Other than the issues referenced in Finding 1 and Finding 2 as noted above, our audit did not disclose any other significant deficiencies in the design or operation of TCPS' internal control over the facilities construction, maintenance, and energy management financial-related areas of operations reviewed. Our audit also did not disclose any other significant instances of noncompliance with applicable laws, rules, or regulations.

Transportation Services

Background

According to statistics compiled by the Maryland State Department of Education (MSDE), TCPS has over 4,500 students eligible to receive student transportation services. These students were transported using 47 system-owned buses. TCPS reported that approximately 715,000 route miles were traveled to transport students for the 2022-2023 school year. According to TCPS' financial records, fiscal year 2023 transportation costs totaled \$3.3 million.

Finding 8

TCPS did not ensure that fuel rates charged by its fuel vendor agreed to the related contract.

Analysis

TCPS did not ensure that fuel rates charged by its fuel vendor agreed to the related contract prior to payment. TCPS purchased fuel for its fleet of vehicles and buses through a Statewide contract, which specified pricing would be based on rates published by a commercial service that tracks fuel prices. According to its records, during fiscal years 2022 and 2023, TCPS made payments totaling approximately \$1.1 million for fuel purchases.

Our test of three invoices for fuel totaling approximately \$50,000 (selected for the two months of December 2023 and January 2024 since the rates per the commercial service that tracks fuel prices were publicly available) disclosed that TCPS could not provide documentation that it verified the propriety of the rates charged on the invoices. Based on our review of the publicly available fuel prices, we were able to confirm that the rates charged by the vendor were based on the appropriate average price.

Recommendation 8

We recommend that TCPS ensure fuel rates invoiced agree to contract rates by obtaining and retaining pricing information as specified in the contract.

Finding 9

TCPS did not solicit bids or enter into written contracts when procuring bus maintenance and certain contractor services.

Analysis

TCPS did not solicit bids when procuring bus maintenance and certain contractor services or enter into contracts for these services. For example, TCPS did not competitively bid or execute contracts for major bus repairs (such as brakes, transmission, and tires) that could not be performed by TCPS bus maintenance personnel. In fiscal year 2023, TCPS paid approximately \$140,000 to two vendors for bus maintenance. TCPS advised us that these vendors were selected because they were local and familiar with the buses TCPS uses.

TCPS' *Procurement Policy* requires two or more quotes to establish competitive prices for purchases of \$25,000 and under and a formal competitive bid process for purchases exceeding \$25,000. Similar conditions were commented upon in our preceding report. TCPS' response to our report indicated that corrective actions would be taken by following their competitive procurement policies and increasing in-house maintenance, reducing the need for external school bus repairs. However, based on our review, TCPS did not take corrective actions as indicated.

Recommendation 9

We recommend that TCPS

- a. adhere to TCPS' Procurement Policies for obtaining transportation related services (repeat), and**
- b. ensure that formal contracts are executed (repeat).**

Food Services**Background**

According to TCPS' audited financial statements, food services operating expenditures totaled \$3.3 million in fiscal year 2023 and were funded with federal funds totaling \$2.4 million, State funds totaling \$175,000 and food sales totaling \$692,000. The federal funds are received from the United States Department of Agriculture (USDA) based on an established rate per meals served. TCPS is allowed to retain federal funds it receives in excess of its annual food service operating costs to be used to offset certain future food service operating costs. According to TCPS' audited financial statements, the balance in TCPS' Food Services Fund totaled \$1.6 million as of June 30, 2023.

Similar to other Maryland local education agencies, TCPS 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 served increased by 90 percent from 398,134 in fiscal year 2021 to 756,327 in fiscal year 2022. TCPS advised us that the increase was the result of students returning to in-person classes after the COVID-19 pandemic, and because meals were provided to all students at no cost during the 2021-2022 school year.

Food Services Management Contract

TCPS has a food services management contract (FSMC) with a third-party vendor to manage its food service operations providing meal services to all 8 schools and the central office. In July 2021, TCPS entered into a one-year contract with its incumbent FSMC vendor, which included four additional one-year renewal options. At the time of our review, one of the four options had been executed which extended the contract through June 2023.

During fiscal years 2020 to 2023, TCPS paid the FSMC vendor approximately \$7.6 million, which included reimbursable costs related to food (\$3 million) and labor (\$3.4 million), supplies and other miscellaneous expenses (\$833,000), and fixed management fees (\$384,000). The fixed management fee, which includes any vendor profit, was established and approved by MSDE at the beginning of each contract year in accordance with USDA guidelines. The USDA guidelines for schools contracting with food services management companies prohibit vendors from receiving payments exceeding the vendor's actual, net allowable costs, plus any fixed fee.

Finding 10

TCPS did not obtain and review support for reimbursable food and labor costs to ensure amounts invoiced by the FSMC vendor were supported and complied with USDA guidelines.

Analysis

TCPS did not obtain and review support for reimbursable food and labor costs to ensure amounts invoiced by the FSMC vendor were supported and complied with USDA guidelines. We reviewed 5 of 12 monthly FSMC vendor invoices⁸ totaling \$928,700 (\$377,200 in food costs, \$419,600 in labor costs, \$61,500 in miscellaneous expenses, and \$70,400 in net management fees) paid to the FSMC vendor during the 2022-2023 school year.

⁸ Selected based on materiality.

Our review disclosed that TCPS could not provide us with documentation to support the amounts invoiced (such as payroll reports, to support labor charges billed by the vendor). Rather, TCPS' verification of the labor charges was generally limited to reviewing system-wide monthly operating statements to ensure that the amounts invoiced were comparable to prior periods and consistent with the staffing plans established for TCPS' schools.

In addition, TCPS did not review third-party food supplier invoices and could not provide us with copies of third-party food supplier invoices. TCPS' contract required the vendor to maintain support for reimbursable food and labor costs and allowed for TCPS to audit the records. However, TCPS did not conduct an audit of the records to verify the amounts invoiced.

As a result, TCPS could not document that it ensured that amounts invoiced and paid to the FSMC vendor represented actual, net allowable costs, plus any fixed fee as required by USDA guidelines. We requested that TCPS obtain the detailed documentation (such as payroll reports and supplier invoices) from the FSMC vendor, but TCPS was unable to readily obtain the requested documentation.

Recommendation 10

We recommend that TCPS

- a. establish contract requirements for the FSMC vendor to provide support of reimbursable costs, and**
- b. perform a documented review of labor and food charges to ensure they are supported and allowable in accordance with USDA guidelines.**

School Board Oversight

Background

The Talbot County Board of Education (the Board) is composed of seven elected members and two non-voting student members. The Board contracted with a certified public accounting firm to conduct independent audits of the TCPS financial statements and federal programs. The Board also has established a Citizen Advisory Council, which is a structured group that provides advice to the Board on certain issues.

TCPS Adopted an Ethics Policy

The Board has adopted a detailed ethics policy that is applicable to both Board members and TCPS 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 managers) by April 30th of each year.

In accordance with the policy, TCPS established an Ethics Panel consisting of three 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 TCPS employees required to submit financial disclosure forms for calendar year 2022 disclosed that all forms were submitted as required.

Finding 11

As of December 2023, TCPS had not implemented changes to its ethics policies recommended by the State Ethics Commission in March 2022.

Analysis

As of December 6, 2023, certain requirements of State law were not incorporated into TCPS ethics policies. In a letter dated March 22, 2022, the State Ethics Commission (SEC) notified TCPS management that changes to its ethics policy were necessary to comply with State law changes in 2017 and 2021 with new conflict of interest provisions and additional disclosures required from employees of local boards of education. For example, SEC management provided TCPS a list of nine changes to improve disclosure of gifts, attributable interest in business entities, compensation from entities doing business with the agency, and to prohibit disclosure of confidential information by former officials or employees. Prior to these law changes, SEC notified TCPS that its ethics policies conformed to State law in a letter dated January 30, 2012.

Recommendation 11

We recommend that TCPS, in conjunction with the Board, revise its ethics policies to conform with the requirements of State law.

Management of Other Risks

Healthcare Background

TCPS is a member of the Eastern Shore of Maryland Consortium for employee and retiree health care. The Consortium members are self-insured for healthcare costs up to a designated stop-loss amount of \$250,000 per participant per plan year. The Consortium contracts with a third-party administrator (TPA) for health care claims processing services for employee medical (including prescription costs), dental and vision, and for stop-loss insurance coverage. The TPA bills TCPS monthly subscription charges based on the number of participants and their

medical coverage. Medical providers submit claims to the TPA who pays them on behalf of TCPS. TCPS pays its TPA an administrative fee for these services.

As of June 30, 2023, TCPS provided health insurance benefits to 2,006 enrolled employees, dependents, and retirees. According to the TPA's records for the plan year ended August 31, 2023, TCPS health care expenditures totaled approximately \$8.2 million, administrative fees totaled \$320,000, and stop-loss insurance coverage totaled \$813,000.

Finding 12

TCPS did not obtain and review claims data or verify the eligibility of enrolled dependents and did not adequately monitor the performance of its third-party administrator (TPA).

Analysis

TCPS did not obtain and review claims data or verify the eligibility of enrolled dependents and did not adequately monitor the performance of its third-party administrator.

- TCPS did not obtain support for the 2022 and 2023 annual settlement to the TPA which totaled \$425,000 and \$335,000, respectively. In a year-end settlement process, the TPA compares the medical claims it paid against the monthly subscription charges paid by TCPS to determine any excess amount due from or to be reimbursed. Our review disclosed that TCPS did not receive detailed claims data from the TPA to verify the propriety of the settlement amount.
- TCPS did not obtain documentation to ensure all enrolled dependents were eligible to participate in the TCPS health plan or perform periodic audits to ensure enrolled dependents were still eligible. TCPS employees must submit documentation (such as birth certificates) for dependents they want added to their health plan. Our test of 10 arbitrarily selected employees⁹ with dependent insurance coverage disclosed that 6 employees had not provided the required documentation to support the eligibility of their 18 dependents. For example, two employees each with four dependents did not provide supporting documentation (such as birth and marriage certificates) for any dependents.

⁹ Test selection was made from all employees who were hired between August 2022 and August 2023.

A similar condition was commented upon in our preceding audit report. In response to that report, TCPS stated that it would work with an independent consultant to verify eligibility of participants and their dependents. Although TCPS had established new dependent eligibility verification procedures and enrollment documentation criteria, as noted above, such documentation was not always obtained.

- TCPS did not audit, or otherwise verify, the accuracy of TPA self-reported compliance with performance measures. The TPA health care contract included 18 performance measures relating to implementation, network maintenance, customer service, and claims processing. Additionally, the contract allowed for the assessment of penalties up to \$303,552 annually, if the TPA did not meet the performance measures. The medical TPA reported self-assessed penalties of \$16,864 in calendar year 2022 based on its reported compliance, but TCPS did not have a process to verify the TPA's reported compliance.

Recommendation 12

We recommend that TCPS

- a. obtain documentation to support actual claim payments and any additional information on the end of year settlement;**
- b. verify the eligibility of dependents claimed by enrolled health care program participants (repeat); and**
- c. establish a process to independently verify, on an annual basis, the TPA's compliance with required performance measures and assess penalties when performance goals are not met.**

Audit Scope, Objectives, and Methodology

We have conducted a performance audit of the Talbot County Public Schools (TCPS). 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 financial management practices. In accordance with Chapter 261, 2016 Laws of Maryland, TCPS obtained an exemption from the 6-year audit cycle covering fiscal years 2017 to 2022. 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 TCPS procedures and controls were effective in accounting for and safeguarding its assets.
2. Evaluate whether the TCPS policies provided for the efficient use of financial resources.

In planning and conducting our audit of TCPS, 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 11 major financial-related areas included revenue and billing, federal funds, procurement and disbursements, human resources and payroll, equipment control, information technology security and control, facilities, transportation, food service, school board oversight, and the management of other risks (such as health care).

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 TCPS dated July 17, 2013, 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 TCPS 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 TCPS. We also interviewed personnel at TCPS 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 TCPS 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, 2022 to December 31, 2023.

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 TCPS' 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 the TCPS 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.

TCPS' 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 TCPS, 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 TCPS 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 3.5-301(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 TCPS and those parties responsible for acting on our recommendations in an unredacted audit report.

We conducted our fieldwork from October 2023 to May 2024. TCPS’ 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 TCPS regarding the results of our review of its response.



February 26, 2025

Brian S. Tanen, CPA, CFE
Legislative Auditor
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, MD 21201

Dear Mr. Tanen:

Enclosed are the responses to recommendations made in the Financial Management Practices Draft Audit Report for Talbot County Public Schools dated February 7, 2025. We have provided a schedule indicating our concurrence with the recommendations and expected completion dates.

I would like to thank the legislative auditors for providing us feedback in several areas where we can become a more efficient organization.

Please call me if you have any questions, or additional suggestions for our responses.

Sincerely,

Sarah E. Jones, CPA
Chief Financial Officer

Enclosures

Cc: Sharon M. Pepukayi, EdD, Superintendent of Schools

Talbot County Public Schools

Agency Response Form

Procurement and Disbursement Cycle

Finding 1

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

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

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1	Choose an item	Agree	Estimated Completion Date: August 2025
Please provide details of corrective action or explain disagreement.	TCPS will draft revisions to our board policy 4.6 Bidding Requirements and 4.7 Purchasing Procedures and related Administrative Regulations to incorporate best practices and to ensure compliance with current Maryland procurement laws.		

Talbot County Public Schools

Agency Response Form

Finding 2

TCPS did not have a sufficiently comprehensive procurement policy and did not comply with certain State procurement laws.

We recommend that TCPS

- a. establish a comprehensive policy, approved by the Board, that governs sole source procurements;
- b. prepare written justifications when the sole source procurement method is used;
- c. obtain Board approval for sole source contracts totaling \$25,000 or more as required;
- d. revise its procurement policies to require all competitively bid contracts (regardless if the lowest bidder is selected) be submitted to the Board for review and approval; and
- e. ensure contract solicitations and awards are published on *eMMA* as required.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2a	Choose an item Agree	Estimated Completion Date:	August 2025
Please provide details of corrective action or explain disagreement.	TCPS will establish a comprehensive policy approved by the Board or related Administrative Regulation ("AR") that governs sole source procurements.		
Recommendation 2b	Choose an item Agree	Estimated Completion Date:	August 2025
Please provide details of corrective action or explain disagreement.	TCPS will prepare written justification when the sole source procurement method is used for non-curriculum instructional contracts. Our policy does not apply to curriculum instructional contracts.		
Recommendation 2c	Choose an item Agree	Estimated Completion Date:	August 2025
Please provide details of corrective action or explain disagreement.	TCPS will possibly recommend the increase of the \$25,000 threshold when revising our Board Policy 4.6 Bidding Requirements and Procedures and/or the related AR. TCPS will obtain Board approval for sole source contracts that meet or exceed the dollar threshold established under our new policy as required.		

Talbot County Public Schools

Agency Response Form

Recommendation 2d	Choose an item Agree	Estimated Completion Date:	August 2025
Please provide details of corrective action or explain disagreement.	TCPS will revise Policy 4.6 and/or the related AR to require all competitively bid contracts be submitted to the Board for review and approval, regardless of whether the lowest bidder is selected.		
Recommendation 2e	Choose an item Agree	Estimated Completion Date:	August 2025
Please provide details of corrective action or explain disagreement.	We recognize that the existing TCPS procurement policy does not comply with certain “best practices” and the state procurement law related to the <i>eMMA</i> posting requirement.		

Talbot County Public Schools

Agency Response Form

Finding 3

TCPS did not properly report all vendor payments in aggregate of \$25,000 or more to the Department of Budget and Management (DBM), as required to enhance transparency of the procurement process.

We recommend that TCPS

- a. establish procedures to ensure all vendor payments in aggregate of \$25,000 or greater are reported to DBM, as required; and
- b. retroactively report the vendor payments that were not reported to DBM for fiscal year 2022.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3a	Choose an item Agree	Estimated Completion Date:	December 2024
Please provide details of corrective action or explain disagreement.	TCPS erroneously omitted from our report to DBM payments to providers of employee benefits such as our health insurance carrier, the Maryland State Retirement System, and our 403(b) plan providers. The DBM instructions stipulate our report should omit payments to employees. TCPS interpreted that incorrectly to include payments made on behalf of employees as well such as withholdings and employer contributions to insurance and retirement plans. TCPS will include all payments to these vendors going forward.		
Recommendation 3b	Choose an item Agree	Estimated Completion Date:	December 2024
Please provide details of corrective action or explain disagreement.	TCPS prepared a corrected report for the year 2022 which includes payments omitted from the original report and submitted that to DBM in December 2024.		

Talbot County Public Schools

Agency Response Form

Human Resources and Payroll

Finding 4

TCPS had not obtained the Board's review and approval of certain salary scales and the salaries for four executive-level employees for which written contracts were not prepared, as required by State law.

We recommend that TCPS adhere to State law by

- a. obtaining the Board's review and approval for all salary scales, and
- b. ensuring employee compensation and benefits of executive-level employees are documented in written agreements that are reviewed and approved by the Board.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	While they don't sign the scales themselves, the TCPS Board signs the negotiated agreements which reference the salary scales. The Board directs the Negotiations Team who negotiate agreements for compensation. The Board's instructions to the Negotiations Team are based on their careful consideration of our salary scales and other benefits. After the negotiations process is complete, negotiated agreements are presented to the Board for approval and contract signature. The salary scales are attached to the negotiated agreements.		
Recommendation 4a	Choose an item Agree	Estimated Completion Date:	June 2025
Please provide details of corrective action or explain disagreement.	The TCPS Board reviews our salary scales as part of its guidance to the Negotiations Committee and signs all negotiated agreements in the appropriate signature area indicating its approval of the terms of the agreements, including changes to compensation such as percentage increases or advancement of step(s). Beginning with the 2026 negotiated agreements, they will sign the actual scales themselves as well.		
Recommendation 4b	Choose an item Agree	Estimated Completion Date:	June 2025
Please provide details of corrective action or explain disagreement.	The compensation and benefits for the Superintendent are documented in an employment contract. Increases are approved through an annual performance evaluation which is performed by the Board and documented. Per board policy 7.11 Salary Management, the Superintendent has discretion over the compensation of executive-level positions and Board approval is not required. The Superintendent has historically adjusted annual salaries for executive level staff by applying the same increase approved for other units subject to collective bargaining after they are approved by the Board. Newly hired executive		

Talbot County Public Schools

Agency Response Form

	level employees have been provided compensation in line with current executive employees in our district or surrounding districts. While TCPS has followed the board policy in the past, TCPS will obtain and document Board approval for executive level compensation beginning with the 2026 budget cycle.
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Talbot County Public Schools

Agency Response Form

Information Technology

The Office of Legislative Audits (OLA) has determined that the Information Technology section, including Findings 5 through 7 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(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 TCPS’ responses, have been redacted from this report copy, TCPS’ responses indicated agreement with the findings and related recommendations.

Finding 5
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 6
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 7
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Talbot County Public Schools

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Transportation Services

Finding 8

TCPS did not ensure that fuel rates charged by its fuel vendor agreed to the related contract.

We recommend that TCPS ensure fuel rates invoiced agree to contract rates by obtaining and retaining pricing information as specified in the contract.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	us		
Recommendation 8	Choose an item Agree	Estimated Completion Date:	Completed November 2024
Please provide details of corrective action or explain disagreement.	TCPS performed periodic spot checks of some invoices to ensure fuel rates were correct but did not document those reviews or perform for all fuel invoices. TCPS has adjusted our practices to check that the pricing charged on our invoices agrees to the rates specified in the DGS contract though the Statewide Automated Fuel Dispensing and Management System.		

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Finding 9

TCPS did not solicit bids or enter into written contracts when procuring bus maintenance and certain contractor services.

We recommend that TCPS

- a. adhere to TCPS' Procurement Policies for obtaining transportation related services (repeat), and
- b. ensure that formal contracts are executed (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	TCPS adhered to our Board Policy 4.6 Bidding Requirements and related Administrative Regulation ("AR") that only requires formal competitive bids for separate transactions that exceed the \$25,000 threshold. While the total dollar amount related to the two referenced vendors exceeded the \$25,000 competitive procurement threshold, this was the result of numerous transactions accumulated throughout the entire school year, not singular transactions.		
Recommendation 9a	Choose an item Agree	Estimated Completion Date:	August 2025
Please provide details of corrective action or explain disagreement.	TCPS will adhere to our revised Board Policy 4.6 Bidding Requirements and related AR. Formal contracts issued through a bid process would likely cause delays TCPS cannot afford to have with our limited bus fleet. Most of our bus repair vendors are used not for routine repairs but for emergency repairs. Thus, it would be difficult to bid this service out in advance because often the work is repair specific (i.e. accident repairs, mechanical failure, etc.) and at the time of the repair, time is of the essence. Our Board Policy AR 4.6 Section II provides for Emergency Purchasing Procedures to be used when an essential service has been curtailed which is generally the case when a bus or vehicle breaks down. TCPS will seek competitive quotes for routine or repetitive repairs/service and negotiate unit pricing from our regular vendors when practicable.		
Recommendation 9b	Choose an item Agree	Estimated Completion Date:	August 2025
Please provide details of corrective action or explain disagreement.	We will amend our procurement practices to require a negotiated contract pricing structure for transportation vendors with whom it is likely a series of transactions during the school year will exceed our competitive procurement threshold. As mentioned elsewhere, TCPS will likely request the increase of that threshold beyond \$25,000 when revising our Board policy 4.6 and related AR.		

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Food Service

Finding 10

TCPS did not obtain and review support for reimbursable food and labor costs to ensure amounts invoiced by the FSMC vendor were supported and complied with USDA guidelines.

We recommend that TCPS

- a. establish contract requirements for the FSMC vendor to provide support of reimbursable costs, and
- b. perform a documented review of labor and food charges to ensure they are supported and allowable in accordance with USDA guidelines.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 10a	Choose an item Agree	Estimated Completion Date:	July 2025
Please provide details of corrective action or explain disagreement.	TCPS' contract with our Food Service Management Company (FSMC) specifies in Section 9 that they will provide customized reporting to suit our needs and that their accounting and reporting systems "account for every penny that flows through the operation". Thus, while our contract already requires them to provide any requested documentation, TCPS will review contract language at our next renewal in July 2025 to more specifically indicate the specific support needed (i.e. reimbursable costs).		
Recommendation 10b	Choose an item Agree	Estimated Completion Date:	October 2025
Please provide details of corrective action or explain disagreement.	TCPS will perform a periodic detailed review of labor and food costs from our FSMC to verify labor and food costs agree with underlying supporting documentation. Then TCPS will perform variance analysis, ratio testing or other review of invoices in other months to provide reasonable assurance that invoices are fairly charging for labor and food.		

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School Board Oversight

Finding 11

As of December 2023, TCPS had not implemented changes to its ethics policies recommended by the State Ethics Commission in March 2022.

We recommend that TCPS, in conjunction with the Board, revise its ethics policies to conform with the requirements of State law.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 11	Choose an item Agree	Estimated Completion Date:	Completed December 2024
Please provide details of corrective action or explain disagreement.	Our Policy Committee and Board of Education reviewed our updated Ethics policy presented to them in November 2024. The Board approved these changes to policy at its December 2024 meeting. The changes incorporate the items needed to conform with the requirements of State law. The proposed changes to our policy were reviewed and accepted by the State Ethics Commission in September 2024 in advance of review by our own Ethics Committee.		

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Management of Other Risks

Finding 12

TCPS did not obtain and review claims data or verify the eligibility of enrolled dependents and did not adequately monitor the performance of its third-party administrator (TPA).

We recommend that TCPS

- a. obtain documentation to support actual claim payments and any additional information on the end of year settlement;
- b. verify the eligibility of dependents claimed by enrolled health care program participants (repeat); and
- c. establish a process to independently verify, on an annual basis, the TPA's compliance with required performance measures and assess penalties when performance goals are not met.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 12a	Choose an item Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	TCPS will investigate obtaining from our healthcare consulting firm additional supporting documentation and information for end-of-year settlement data that does not violate HIPPA privacy protections.		
Recommendation 12b	Choose an item Agree	Estimated Completion Date:	June 2027
Please provide details of corrective action or explain disagreement.	While TCPS doesn't believe that ineligible dependents receiving services constitute a significant risk, in 2024 TCPS launched a multi-year plan to increase documentation of dependents. TCPS audited the verification documents previously received. During the 2024-2025 Open Enrollment, TCPS strongly encouraged staff to upload documentation for dependents if they had not previously done so. TCPS plans to continue this voluntary practice for the 2025-2026 and 2026-2027 Open Enrollment cycles before making it a requirement to provide documentation. TCPS encourages new hires to provide documentation of dependents at their initial enrollment. When a covered employee has a life event, they are asked to upload documentation such as a marriage,		

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	birth, or death certificate as soon as possible. During the 2026-2027 year, TCPS will determine if a dependent eligibility audit is necessary.		
Recommendation 12c	Choose an item Agree	Estimated Completion Date:	January 2026
Please provide details of corrective action or explain disagreement.	TCPS concurs with the need to better monitor the TPA's compliance with reported performance measures and assess penalties when performance goals are not met. TCPS will work with our TPA to implement a process to independently assess their performance.		

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