

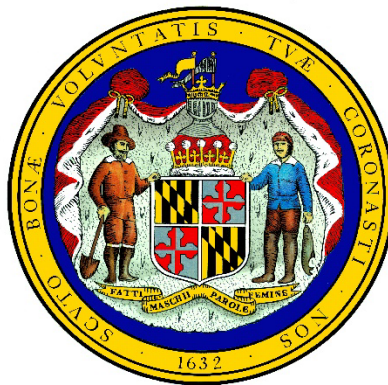
Financial Management Practices Audit Report

Baltimore City Public Schools

February 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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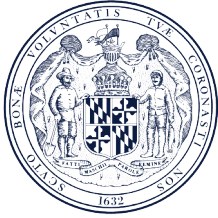
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Brian S. Tanen, CPA, CFE
Legislative Auditor

February 20, 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 Baltimore City Public Schools (City Schools) 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 City Schools' 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 City Schools did not always comply with procurement policies and maintain sufficient documentation related to disbursements. Overall, we noted seven issues with procurement and disbursements. For example, City Schools did not properly evaluate and document certain contract awards, and certain contracts totaling \$5.1 million appeared to have been improperly awarded. Additionally, City Schools did not ensure vendor invoices were paid timely, resulting in 16,632 invoices (12 percent) totaling \$142 million being paid over 90 days after the invoice date during the period from July 1, 2021 to February 28, 2023. Furthermore, certain requirements of State law and recognized best practices were not incorporated in City Schools' procurement policies and were not consistently used when obtaining goods and services under intergovernmental cooperative purchasing agreements.

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 that City Schools needs to improve internal controls and accountability in several areas, including transportation services, payroll processing, annual disclosure statements, and health care services. For example, an analysis of school police overtime was not performed and overtime was not always pre-approved as required by its policy. Additionally, required screenings were not always performed before hiring certain applicants for positions involving direct contact with minors. Furthermore, City Schools did not pursue reimbursement of \$1.5 million in salary costs from third parties and did not audit or adequately monitor the performance of vendors that provide health care claims processing services.

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 17 of the 20 findings contained in our preceding audit report. For the non-cybersecurity-related findings, we determined that City Schools satisfactorily addressed 6 of those 12 findings. The remaining 6 findings are repeated in this report.

City Schools' response to this audit is included as an appendix to this report. Consistent with State law, we have redacted the elements of City Schools' response related to the cybersecurity audit findings. We have also edited City Schools' response to remove certain vendor names or products and links to websites, as allowed by our policy.

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 City Schools.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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Background Information

Statistical Overview

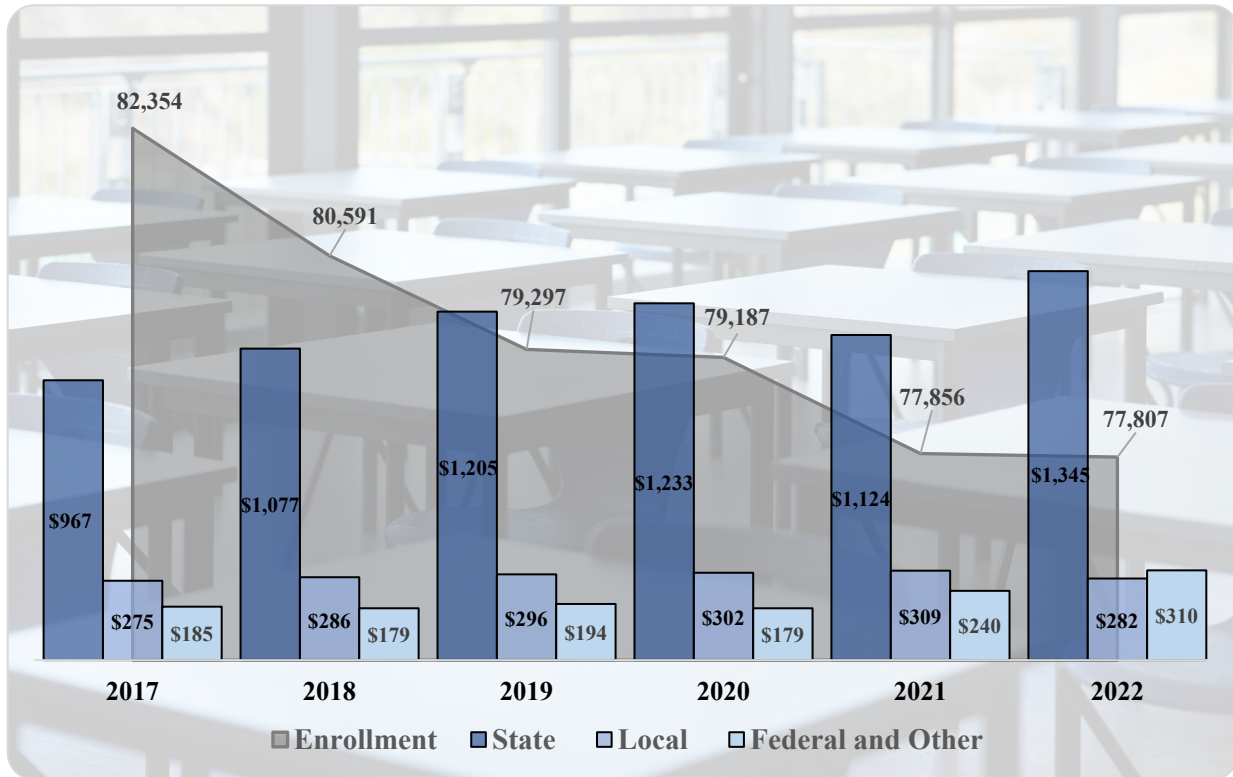
Enrollment

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), the Baltimore City Public School System (City Schools) ranks 5th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2022 full-time student enrollment was 77,807 students. City Schools had 154 schools (including 31 charter schools and 4 contract/transformational schools), consisting of 44 elementary, 71 elementary/middle, 4 middle schools, 11 middle/high, and 24 high schools.

Funding

City Schools' revenues consist primarily of funds received from the State, Baltimore City, and federal government. According to City Schools' audited financial statements, revenues from all sources totaled approximately \$1.9 billion in fiscal year 2022, including \$1.3 billion from the State. According to MSDE's records, the State funding included formula funding grants totaling \$822 million, capital projects totaling \$323 million, Blueprint for Maryland's Future grants totaling \$92 million, and State-share for employee pension payments totaling \$63 million. See Figure 1 on the following page for City Schools' funding by source for the six-year period from fiscal year 2017 through fiscal year 2022. See Figure 2 (on page 8) for revenue sources per enrolled student in fiscal year 2022 according to its audited financial statements.

Figure 1
City Schools Enrollment and Funding by Source
Fiscal Years 2017 through 2022
 (dollar amounts in millions)

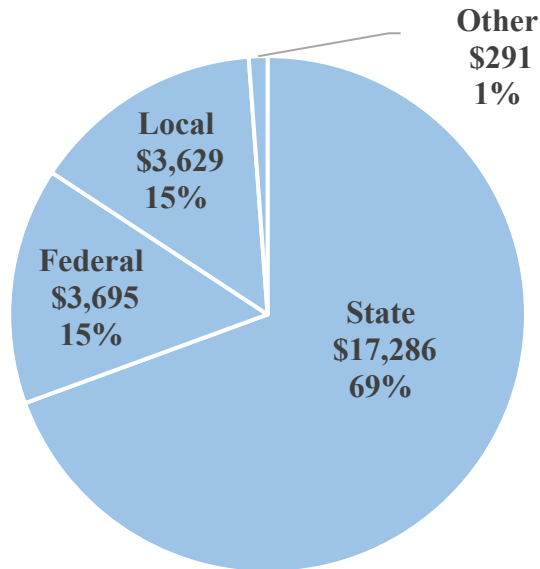


State funding for fiscal year 2022 included:

- \$822 million for Foundation Formula Grants
- \$323 million for Capital Projects
- \$92 million for Blueprint Grants
- \$63 million for the State-share of employee pension costs

Source: City Schools' Fiscal Year 2022 Audited Financial Statements and MSDE Data

Figure 2
City Schools Revenue Sources Per Enrolled Student
Fiscal Year 2022



Source: City Schools' Fiscal Year 2022 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 systems 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.

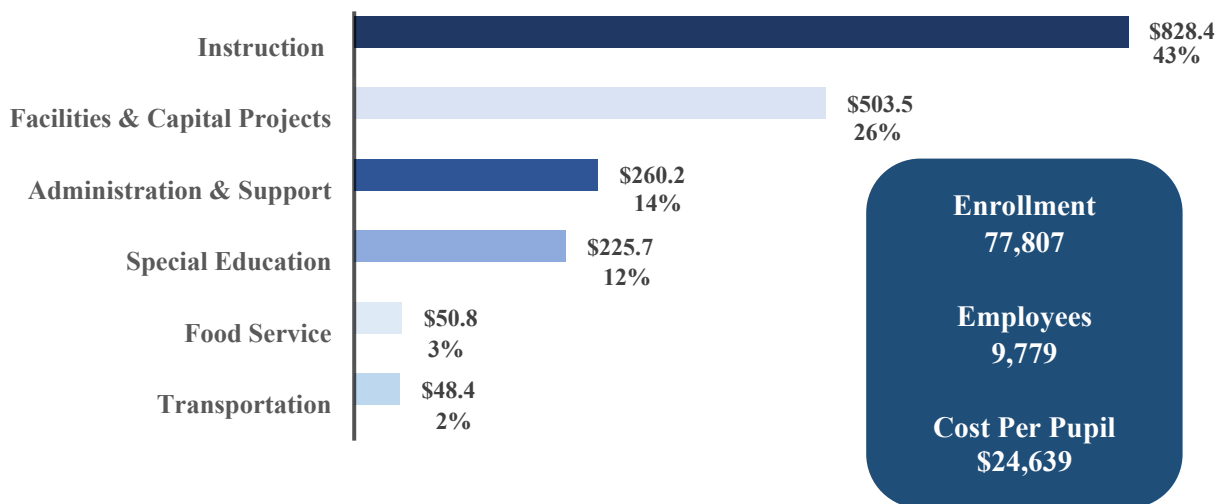
Blueprint allocates funding to schools based on a weighted-student formula. The funding formula provides resources to local education agencies based on the number of students enrolled at each school (known as Foundation Aid) and the characteristics of those students (such as Special Education, Concentration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

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.

Expenditures

According to City Schools' audited financial statements, fiscal year 2022 expenditures were approximately \$1.9 billion. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 55 percent of total expenditures during fiscal year 2022. According to MSDE records, during the 2021-2022 school year, City Schools had 9,779 full-time equivalent positions, which consisted of 6,973 instructional and 2,806 non-instructional positions. Instruction accounted for 43 percent of City Schools' expenditures on a categorical basis (see Figure 3).²

Figure 3
City Schools Expenditures by Category and Selected Statistical Data
Fiscal Year 2022
(amounts in millions)



Source: City Schools' Fiscal Year 2022 Audited Financial Statements and MSDE Data

² The percentage expended by City Schools on instruction in fiscal year 2022 (43 percent) was lower than most local education agencies because City Schools expended \$503.5 million (26 percent of the total fiscal year 2022 expenditures) on facilities and capital projects.

Oversight

City Schools is governed by a local school board, consisting of nine members appointed by the Mayor of Baltimore, two elected members and one voting student representative.³ MSDE exercises considerable oversight of City Schools 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 City Schools to comply with the requirements and mandates of federal law. The Baltimore City government also exercises authority over City Schools primarily through the review and approval of City Schools' 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 7-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.

³ 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 those relating to personnel matters, capital and operating budgets, collective bargaining decisions, and student discipline matters.

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 nine public reports related to City Schools' reviews and investigations. We considered these reports during our current audit.

External Audits

As required by State law, City Schools 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 City Schools as of June 30, 2017, 2018, 2019, 2020, 2021, 2022, and 2023, and the respective changes in its financial position and, where applicable, 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 City Schools' control over financial reporting and its tests of City Schools' 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 City Schools' 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 2017 through 2022 and examined the related work papers for the fiscal year 2022 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 receivables
- Federal grant activity

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 17 of the 20 findings contained in our preceding audit report dated October 17, 2018. As disclosed in Figure 4 on the following pages, for the non-cybersecurity related findings, we determined that City Schools satisfactorily addressed 6 of these 12 findings. The remaining 6 findings are repeated in this report.

Figure 4
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	City Schools did not properly monitor or bill amounts owed by outside organizations for the services of its employees.	Repeated (Current Finding 9)
Finding 2	City Schools did not obtain social security numbers for 5,600 students with individual education plans to help identify qualified students for whom Medicaid reimbursements could be obtained for eligible services.	Not repeated (Not followed up on)
Finding 3	City Schools did not have a formal process to review denied Medicaid claims in order to determine if the claims could be corrected for resubmission.	Not repeated (Not followed up on)
Finding 4	City Schools did not adequately restrict user access capabilities in its automated procurement and accounts payable system.	Status Redacted ⁴
Finding 5	City Schools did not document the appropriateness of using intergovernmental cooperative purchasing agreements (ICPAs) as required by State law. Additionally, City Schools did not obtain the original agreements from the initial procuring entity so that payment rates could be verified nor did it obtain itemized invoices for certain purchases it made under ICPA contracts.	Repeated (Current Finding 4)
Finding 6	City Schools did not document the basis for assigning work to pre-qualified vendors for certain services and, in certain cases, higher priced vendors received work prior to lower cost vendors.	Not repeated
Finding 7	Purchase orders were not always prepared and approved as required prior to obtaining the related goods or services.	Repeated (Current Finding 7)
Finding 8	City Schools did not always adequately monitor contracts to ensure goods and services were properly received or that invoices were proper prior to payment.	Repeated (Current Finding 3)
Finding 9	City Schools did not always adequately document the rationale for sole source contract determinations and sole source contract awards were not always published on <i>eMaryland Marketplace</i> as required.	Repeated (Current Finding 5)
Finding 10	Critical human resources and payroll transactions were not independently reviewed for propriety.	Not repeated
Finding 11	Certain overtime payments could not be substantiated or were improperly calculated.	Not repeated
Finding 12	Sensitive personally identifiable information (PII) maintained by City Schools was stored without adequate safeguards.	Status Redacted ⁴
Finding 13	Proper account and password controls were not established over the ERP system, ERP database logging did not exist for certain critical privileges and security-related changes, and City Schools could not substantiate that security monitoring was performed for its firewalls and the ERP system.	Status Redacted ⁴
Finding 14	Intrusion detection prevention system coverage for the City Schools' network had substantial gaps, and malware protection controls were not sufficient to provide City Schools with adequate assurance that its computers were properly protected.	Status Redacted ⁴

⁴ Specific information on the current status of this cybersecurity-related finding has been redacted from this publicly available report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

Figure 4
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 15	City Schools lacked assurance that adequate information technology security and operational controls existed over its student information system that was hosted, operated, and maintained by a service provider.	Status Redacted ⁵
Finding 16	Contract and payment processing issues specific to the prior arrangement with private bus contractors contributed to transportation costs being higher than necessary.	Repeated (Current Finding 14)
Finding 17	City Schools did not maintain documentation, including executed contracts, to support certain financial relationships with bus contractors.	Not repeated
Finding 18	City Schools' process for reviewing taxi company invoices did not adequately ensure the billings were proper and that payments were consistent with contractual terms, resulting in overpayments totaling \$1.2 million.	Not repeated (Not followed up on)
Finding 19	City Schools did not require charter school management personnel and board members to periodically renew conflict of interest disclosures and did not ensure the disclosures were completed as required.	Not repeated
Finding 20	City Schools did not properly track and monitor required documents to be submitted by each charter school nor did City Schools perform follow-up actions to obtain required documents from the schools.	Not repeated

⁵ Specific information on the current status of this cybersecurity-related finding has been redacted from this 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

Baltimore City Public School System (City Schools) revenues consist primarily of funds received from the State, Baltimore City, and the federal government. According to City Schools' audited financial statements, revenues from all sources totaled approximately \$1.9 billion in fiscal year 2022; including \$1.3 billion from the State.

External Audits

There were similarities between the work of the independent certified public accounting firm (CPA) that audited City Schools' 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.⁶ 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 2022, school activity collections totaled approximately \$2.1 million and the June 30, 2022 fund balance was \$1.2 million. 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.

⁶ In accordance with Board policy, the school activity funds are intended to promote the general welfare of students and to facilitate the normal extracurricular activities of the school.

Federal Funds

Background

City Schools 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 City Schools' Single Audit, fiscal year 2022 (latest available at the time of our audit) federal expenditures totaled approximately \$275.3 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 \$166.2 million in fiscal year 2019 to \$287.5 million in fiscal year 2022 (73 percent), due to COVID-19 pandemic grant funding. According to City Schools' records, as of March 31, 2023, it was awarded federal COVID-19 pandemic grant funds totaling \$786.3 million to be distributed over federal fiscal years 2020 to 2025 under the Coronavirus Aid, Relief, and Economic Security Act, Coronavirus Response and Relief Supplemental Appropriations Act, and American Rescue Plan.⁷

As of March 31, 2023, City Schools' expenditures related to these COVID-19 grants totaled \$329.5 million, from March 2020 to March 2023, and were primarily comprised of staffing, laptops, instructional software and materials, personal protection equipment and sanitary supplies. City Schools can request extensions until March 2026 from the federal grant programs for distributing any funds not used by the end of the grant period (which was generally by the end of federal fiscal year 2024). We were advised by City Schools 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 City Schools' federal grants and the objectives of our audit in this area. In addition to expressing an opinion on City Schools' 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 2017 through 2023. Our review

⁷ In addition to the federal grants, City Schools was also awarded four local and private COVID-19 grants totaling \$5.2 million, all of which had been spent as of March 31, 2023. Specifically, City Schools received a Baltimore City COVID-19 award of \$3 million and private awards of \$1.5 million for technology and a private award of \$739,000 for COVID testing. Local and private grants are subject to review and testing during our audit.

of the Single Audits did not identify any issues that warranted inclusion in this report.

Medicaid Funds for Eligible Services

City Schools 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 City Schools. 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 November 2022 of the results of its review of 15 student case files for 50 criteria. The report did not specifically address the propriety of Medicaid billing but overall concluded that City Schools was generally compliant with most criteria. For example, City Schools was 100 percent compliant with 32 criteria and between 80 and 99 percent compliant with 11 criteria.

According to City Schools' records, fiscal year 2023 State and federal reimbursements for Medicaid-subsidized services totaled approximately \$6.5 million, which was 21 percent higher than 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 City Schools' records, disbursements (excluding payroll) totaled \$872 million during fiscal year 2022. City Schools 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. 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 (along with a duplicate invoice sent to the requesting department for certain types

of invoices) 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 transfers the funds electronically, and then posts the payment to the financial records.

City Schools has various written procurement policies, administrative regulations, and guidance documents (hereinafter referred to as policies and regulations). City Schools' written procurement policies generally require that procurements exceeding \$50,000 be competitively bid in accordance with Section 5-112 of the Education Article of the Annotated Code of Maryland, and approved by the City School's Board.

Finding 1

City Schools did not properly perform and document bid evaluations resulting in a lack of assurance that contracts were awarded to the appropriate vendors including at least two contracts totaling \$5.1 million that appeared to have been improperly awarded.

Analysis

City Schools did not properly perform and document bid evaluations resulting in a lack of assurance that contracts were awarded to the appropriate vendors. City Schools' procurement policy provided for the use of an evaluation committee to evaluate proposals received in response to a request for proposals (RFP). Each committee member was to complete a scoring sheet for every bid which were consolidated on a bid evaluation summary for each contract. We reviewed four competitively bid contract awards made in fiscal year 2022 totaling \$9.4 million for which both technical abilities and pricing were considered. The four contract awards had 227 individual scoring sheets prepared by the bid evaluation committee members. Our review disclosed the following conditions:

- Neither the individual evaluation committee member scoring sheets nor the consolidated scores were signed by the evaluation committee members for any of the contracts tested.
- City Schools did not evaluate the bids using the criteria specified in the RFP. For example, the RFP for one contract specified that bids would be assessed using weighted values ranging from 3 to 14 points. However, the evaluation committee members scored each category without using the required weighted point values.

- For 3 contract awards totaling \$7 million, City Schools did not accurately enter the individual evaluation committee member scoring sheets into the bid evaluation summary. Specifically, 109 of 188 scoring sheets prepared by the evaluation committee members were not accurately entered (for example, wrong scores or rankings entered), and another 24 scoring sheets were not recorded at all. In addition, for one contract award totaling \$2.8 million, we noted that five of the eight bidders were not included on the scoring summary sheet. City Schools could not explain the inaccurate or omitted information.

Based on our review, at least 2 of the contract awards tested totaling \$5.1 million appeared to have been improperly awarded. For example, for one contract award totaling \$2.3 million, City Schools incorrectly calculated evaluation scores and our recalculation of the scores disclosed that another vendor that bid \$1.9 million (\$400,000 less) should have been awarded the contract. City Schools acknowledged that it had made an error when calculating the evaluation scoring for these vendors.

Recommendation 1

We recommend that City Schools properly perform and document bid evaluations to support contract award decisions. Specifically, City Schools should

- a. ensure individual evaluation committee member scoring sheets are properly completed, signed, summarized, and retained;**
- b. complete bid evaluations in accordance with the method specified in the contract solicitation to ensure contracts are properly evaluated; and**
- c. reevaluate its prior contract award decisions, including those noted above, to determine if bid evaluations properly supported the award and consult with legal counsel regarding necessary corrective actions for any contracts that were not properly awarded.**

Finding 2

City Schools did not monitor vendor invoices to ensure they were paid timely. Our analysis of vendor payments from July 1, 2021 to February 28, 2023 disclosed that 16,632 invoices (12 percent) totaling \$142 million were paid 90 days or more after the invoice date recorded on the City Schools' financial management system.

Analysis

City Schools did not monitor vendor invoices to ensure they were paid in a timely manner (within 30 days) as required by its policy. Specifically, it did not have a centralized process to track and monitor the timeliness of invoice payments.

Further, it did not generate a report from its automated financial management system to identify and follow up on invoices that remained unpaid for over 30 days after being recorded.

Our Data Analytics Unit performed an analysis of vendor payments totaling \$1.1 billion that City Schools processed during the period from July 1, 2021 to February 28, 2023. The analysis disclosed that 16,632 invoices (12 percent) totaling \$142.3 million were paid 90 days or more after the invoice date recorded in the financial management system. See Figure 5 for a breakdown of the timeliness of processing vendor invoices for payment for the period from July 1, 2021 to February 28, 2023.

Figure 5
Timeliness of Processing Invoice Payments
July 1, 2021 to February 28, 2023
(dollar amounts in millions)

Date Range of Payment after Invoice Date	Amount of Invoices	Percentage	Number of Invoices	Percentage
less than 30 days	\$564.6	51%	47,970	34%
30 days to 89 days	400.6	36%	74,611	54%
90 days and over	142.3	13%	16,632	12%
Total	\$1,107.5	100%	139,213	100%

Source: City Schools' Financial Management System

We tested 21 invoice payments totaling \$4 million that were made 123 to 1,382 days after the date of the vendor's invoice recorded in the system to determine the cause of the delays. City Schools advised that the majority of the delays were caused by employee staffing issues or improper routing of the invoices for payment. For example, City Schools advised us that one invoice totaling \$942,000 for a summer arts and learning program recorded as being received on August 30, 2022 was not paid until January 18, 2023 because the employee assigned to process it was on leave and a different employee was not assigned to process the payment. City Schools advised us that another invoice totaling \$198,000 for portable cooling units for classrooms, recorded as being received on September 22, 2022, was not paid until January 23, 2023 because it was routed to the wrong department.

Recommendation 2

We recommend that City Schools establish a centralized monitoring process to ensure that invoices are date stamped when received and paid timely.

Finding 3

City Schools did not obtain required supporting documentation from vendors to verify the propriety of amounts invoiced.

Analysis

City Schools did not obtain required supporting documentation from vendors to verify amounts invoiced. Our test of 9 invoices⁸ totaling \$5.1 million paid from November 2019 through January 2023, disclosed that 3 invoices totaling \$453,000 did not include certain details required by the related contracts. For example, City Schools paid a \$317,332 invoice for student program activities (such as yoga, sound therapy, and social and emotional learning practices) without obtaining any documentation of the students that participated or attended. The contract stated the vendor would be paid an established rate for services actually provided to students that participated or attended. Based on our request, City Schools obtained support from the vendors for the aforementioned 3 invoices which supported the amounts invoiced and paid. According to City Schools' records, as of February 28, 2023, these vendors had received payments totaling approximately \$8.1 million on the 3 contracts tested.

Similar conditions regarding the inadequate support for amounts invoiced were noted in our two preceding audit reports dating back to September 2012. In its response to our preceding audit report, City Schools stated it would disseminate information to its employees regarding compliance with invoice processing requirements and it would monitor contract purchasing and receiving activity. However, City Schools did not effectively implement these corrective actions as employees did not require vendors to provide the supporting documentation to enable the confirmation that amounts invoiced were proper.

Recommendation 3

We recommend that City Schools obtain required supporting documentation from vendors for invoices (repeat).

⁸ Invoices were selected for testing based on the significance of the related contracts and the process utilized to procure them.

Finding 4

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

Analysis

Certain requirements of State law and recognized best practices were not incorporated in City Schools' procurement policies and were not consistently used when participating in ICPAs. 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 assessing) in writing that the use of such arrangements will provide cost benefits, promote administrative efficiencies, or promote intergovernmental cooperation.⁹

According to its records, City Schools used the ICPA procurement method for 136 procurements with awards totaling \$266.8 million during the period from June 2018 through January 2023. Our review of City Schools' 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;
- Execute an addendum of participation with the lead contract agency and remove or incorporate necessary local terms and conditions; and
- Obtain a copy of the ICPA and related price lists for invoice verification.

⁹ 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.

In addition, we tested City Schools' participation in 6 ICPAs (selected based on significance), awarded during fiscal years 2019 to 2023, totaling approximately \$58 million. Our review disclosed that City Schools did not include some of the aforementioned best practices in the ICPAs tested. For example, City Schools did not analyze the costs of conducting competitive solicitations or research, compare, and evaluate other available ICPAs for any of the ICPAs tested. We further noted that City Schools had not prepared the statutorily required written assessments for any of the contracts tested to justify the use of the ICPA. Incorporating ICPA best practices into City Schools' procurement policies could help ensure they are consistently used.

A similar condition was commented upon in our preceding audit report. In response to that report, City Schools stated it would implement a checklist to ensure ICPA requirements and best practices were followed. During our current audit we noted that City Schools had created an ICPA checklist that included some of the aforementioned best practices, but the checklist was not being 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 4

We recommend that City Schools 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 (repeat).

Finding 5

City Schools did not always prepare required written justifications when procuring contracts using the sole source method and did not always publish contract awards on *eMaryland Marketplace Advantage (eMMA)*, as required.

Analysis

City Schools did not always prepare required written justifications when procuring contracts using the sole source method and did not always publish contract awards on *eMMA*,¹⁰ as required. City Schools' policies and regulations allow for sole source contracts when it is determined that only one vendor can provide the goods or services, it is in its best interest to award a contract without a competitive solicitation, the contract is for an emergency, or the contract requires confidentiality in connection with actual or potential litigation. During fiscal years 2020 and 2021, City Schools awarded sole source contracts totaling \$269 million.

Our arbitrary test of five of these sole source contracts (one for a teacher certification program, one for fuel, and three for software), totaling \$8.2 million, approved by the Board in fiscal years 2020 and 2021, disclosed the following conditions:

- City Schools did not prepare comprehensive sole source justification forms for all five contracts tested. City Schools' policies and procedures require written comprehensive sole source contract determinations to be provided to the Board when requesting approval that include details about the unique skills of the vendor proposed for award and the investigation performed to confirm that information. Although written explanations of the necessity of each of the contracts were included in the agenda for Board meetings, in our opinion the explanations lacked specificity to justify that the selected vendor was the only suitable or acceptable option to provide the services. For example, one vendor provided teacher recruitment and training in general and special education, but City Schools did not have documentation that other vendors could not provide the services or an explanation of what investigation was performed to make that determination.
- City Schools did not publish or did not timely publish three of the five sole source contract awards on *eMMA*' as required by State procurement regulations. State procurement regulations require local school systems to publish sole source contract awards valued at \$50,000 or more on *eMMA* not

¹⁰ *eMMA* is an Internet-based, interactive procurement system managed by the State of Maryland's Department of General Services.

more than 30 days after the approval of the contract. Our review disclosed that one contract was not published and two were published on *eMMA* approximately 19 months to 2.5 years after the contracts were awarded. Publishing awards on *eMMA* provides transparency over procurements including information about the winning bidder and the amount of the related award.

Similar conditions were noted in our preceding audit report. In response to that report, City Schools stated that it would include justification of the rationale for using the sole source in the letter submitted before each Board meeting and that it published guidance on posting solicitations and awards to *eMMA*. However, as noted above, the justifications provided were not comprehensive and the guidance provided was not sufficient to ensure awards were published as required.

Recommendation 5

We recommend that City Schools

- a. ensure that sole source contract justifications are prepared as required and include appropriate information to document the rationale for not performing a competitive procurement (repeat), and**
- b. publish sole source contract awards on *eMMA*, as required (repeat), including the contract award noted above.**

Finding 6

City Schools did not have adequate controls over vendor bid submissions.

Analysis

City Schools did not have adequate controls over vendor bid submissions. Specifically, City Schools instructed vendors to submit bids by email but did not require the bid submissions to be password protected. Consequently, bids could be opened without detection prior to the formal bid opening and confidential competitive bid information could be accessed and disclosed without detection to other prospective bidders prior to the bid due date.

City Schools' procurement policies and State procurement regulations require that vendor bid proposals are to be held in a secure place until the established due date. During fiscal year 2022, City Schools awarded contracts totaling \$234 million using a competitive procurement process and City Schools advised us that bid proposals for most of these contracts were submitted electronically.

Recommendation 6

We recommend that City Schools ensure all vendor bid proposals submitted are adequately secured prior to opening.

Finding 7

City Schools did not always prepare and approve purchase orders prior to obtaining goods or services, as required.

Analysis

City Schools did not always prepare and approve purchase orders prior to obtaining the related goods or services, as required by its procurement policy. Specifically, our analysis of City Schools' records during the six-year period from fiscal years 2017 to 2022 disclosed it retroactively processed 16,298 purchase orders totaling \$76.5 million after the goods and services had been ordered, received, and paid for. For example, one invoice totaling \$3.4 million for a hotspot service for virtual learning was dated 32 days prior to the creation of the purchase order and another invoice totaling \$143,000 for international educational standards exams was dated 108 days prior to the purchase order.

City Schools' procurement policy requires purchase orders to be prepared and independently approved prior to purchasing goods and services. City Schools' automated system for purchases and disbursements electronically matches vendor invoices to an established purchase order. When a vendor invoice does not have an established purchase order, the automated system controls prevent the invoice from being paid. Consequently, the Finance Office has to manually confirm the accuracy of the invoice with the department or school that obtained the goods and services and retroactively process a purchase order in order to process the invoice for payment.

A similar condition was noted in our preceding audit report. In response to that report, City Schools stated that beginning in January 2019, it would provide reports to allow systemic review and appropriate follow-up action. City Schools' Finance Office monitors for instances of invoices received without a corresponding purchase order and generally sends monthly notifications advising each department and school of the problematic nature of this activity. Although City Schools implemented the reporting process, it has not been effective to sufficiently reduce this practice.

Recommendation 7

We recommend that City Schools ensure that procurement policies and automated system controls are not bypassed by ensuring purchase orders are prepared and approved prior to obtaining the related goods or services (repeat).

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the City Schools' budget. According to City Schools' records, fiscal year 2022 salary, wage, and benefit costs totaled approximately \$1 billion, representing 55 percent of the total expenditures. According to Maryland State Department of Education reports, during the 2021-2022 school year City Schools had 9,779 full-time positions, which consisted of 6,973 instructional and 2,806 non-instructional positions.

City Schools 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).

Finding 8

City Schools did not always perform a newly required screening before hiring certain applicants for positions involving direct contact with minors.

Analysis

City Schools did not always perform a newly required screening before hiring certain applicants for positions involving direct contact with minors (such as, care, supervision, guidance, control, or routine interaction). State law effective July 1, 2019 (and updated July 1, 2021) requires local education agencies to provide screening of certain applicants. Specifically, the schools must obtain information from an applicant for positions that involve direct contact with a minor including a written statement whether they were the subject of a child sexual abuse or sexual misconduct investigation by any employer that resulted in a finding.¹¹ The law also requires local education agencies to contact the applicant's current or prior employers and obtain the same information.

¹¹ This is in addition to existing requirements to obtain a criminal background check.

According to City Schools' records, during fiscal year 2022, City Schools hired 1,550 individuals that were assigned to schools or student programs that would have contact with minors. We arbitrarily tested 12 employees hired during fiscal year 2022 and 2023 (after the aforementioned law) with direct contact with minors and noted that City Schools had not performed the screenings for 7 of the employees as of October 23, 2023 (296 to 436 days after the date of hire). For 3 employees, the screening documents were dated after our inquiries (425 to 768 days after the date of hire). Without a proper screening, City Schools lacks assurance that the individuals hired were not precluded from having direct contact with minors.

Recommendation 8

We recommend that City Schools perform and document the required screening for positions involving direct contact with minors, including those noted above, in compliance with State law.

Finding 9

City Schools did not pursue collection of \$1.5 million due from third parties for services being provided by five City School employees.

Analysis

City Schools did not pursue collection of \$1.5 million due from third parties for services being provided by five City School employees. City Schools authorizes temporary paid leave of absence for certain employees to provide services to outside organizations (such as education related employee unions and non-profits). In certain cases, such as for employee unions, the salaries and fringe benefits paid by City Schools for employees granted a paid leave of absence to work for outside organizations is to be reimbursed by those organizations in accordance with existing agreements. City Schools' personnel advised that it had not set up a process to regularly bill for these services.

According to City Schools' records, there were 14 employees granted a paid leave of absence to work for outside organizations for fiscal year 2023. Based on the applicable agreements, City Schools was to be reimbursed for six of these employees. Our test disclosed that City Schools had only billed and received reimbursements totaling \$194,000 for one of the six employees but did not attempt to recover \$1.5 million due for the other five employees, including \$963,000 for two employees due as far back as fiscal year 2020. Based on our inquiries, City Schools billed and collected the \$1.5 million due for the five employees.

A similar condition was commented upon in our two preceding audit reports dating back to September 2012. In response to our preceding audit report, City Schools indicated that appropriate collection efforts would be made. However, as indicated above, City Schools did not have an adequate process to bill and collect for employees working for outside organizations.

Recommendation 9

We recommend that City Schools take appropriate action to ensure appropriate and timely billing and collection efforts are made for amounts owed by outside organizations (repeat).

Finding 10

City Schools did not adequately monitor and control police overtime, and did not always pre-approve overtime as required by its existing policy.

Analysis

City Schools did not adequately monitor and control police overtime, and did not always pre-approve overtime as required by its existing policy. According to City Schools' records, during fiscal year 2022, it paid 40,078 overtime hours totaling \$2.1 million to 82 police officers.

City Schools Did Not Analyze Overtime Usage

City Schools had not performed an analysis of overtime hours for police work

shifts to ensure that overtime hours worked were not excessive and were consistent with its policies. We obtained City School police overtime records for fiscal year 2022 and based on our analysis, most of the overtime hours (78 percent) were worked by 37 officers (see Figure 6).

Figure 6
Summary of Overtime Hours Paid to Officers
Fiscal Year 2022

Range of Overtime Hours	Number of Officers	Overtime Hours Paid	Total Overtime Earnings
1,500 or more	1	1,647	\$94,710
1,000 to 1,499	9	10,391	565,003
500 to 999	27	19,079	995,817
0 to 499	45	8,962	454,366
Total	82	40,078	\$2,109,896

Source: City Schools' records

Overtime Policy Did Not Limit Overtime Worked

City School's *Overtime Policy* did not establish a limit on the number of overtime hours that could be worked during a given period. Specifically, the policy only states that "overtime shall be limited so that effective performance of duty of any

police officer may not become impaired” without providing maximum limits on overtime. Based on our research, certain other local police organizations established criteria that includes limits on overtime and secondary employment hours worked by officers. For example, the Baltimore City Police Department had a policy stipulating that employees can only work 32 hours of voluntary overtime per week. We noted that 5 of the 9 officers tested worked more than 32 hours in a week during the pay periods we reviewed.

Overtime Was Not Always Pre-approved as Required

Our test of overtime disclosed that the overtime was not pre-approved as required. We tested overtime hours charged for one pay period for 9 of the 10 officers that had 1,000 or more overtime hours in fiscal year 2022. Our test disclosed that for 7 of the 9 officers, 128 of the 481 hours of overtime totaling \$7,150 were not approved in advance as required.

City Schools’ policy requires a written request, prior to the overtime, that includes the conditions requiring the overtime, number of officers needed, the hours requested and date of the request. The overtime must be approved in advance by the authorizing supervisor requesting the overtime and by the on-duty officer after the work is completed. The officer in charge of the overtime unit and scheduling was indicted in September 2023 by the United States Attorney for the District of Maryland for allegations related to fraudulently obtaining overtime earnings while working for City Schools’ police department.

Recommendation 10

We recommend that City Schools

- a. analyze police overtime usage to ensure that it is not excessive and is consistent with its policies;**
- b. establish maximum limits on overtime and secondary employment hours worked by an officer to ensure the extra work does not impact their performance; and**
- c. ensure overtime is pre-approved as required by its policy.**

Equipment Control and Accountability

Background

According to City Schools’ audited financial statements, the undepreciated value of its capital equipment inventory (furniture, fixtures, and equipment) totaled \$67.5 million as of June 30, 2022. City Schools 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 was maintained in a database by the Information Technology Office. City Schools has established written equipment policies and generally performs inventories at each school every year of all sensitive equipment.

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 11 through 13 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 City Schools’ responses, have been redacted from this report copy.

Finding 11
Redacted cybersecurity-related finding.

Finding 12
Redacted cybersecurity-related finding.

Finding 13
Redacted cybersecurity-related finding.

Facilities Construction, Renovation, and Maintenance

Background

City Schools employs a staff of 532 employees to maintain its 154 schools (including charter, special education and alternative) and a number of other facilities (such as administrative and support offices). According to City Schools’ fiscal year 2024 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to City Schools’ facilities over the next

six years are estimated to cost \$809 million (this amount does not include the projects under the 21st Century School Buildings Program noted below).

City Schools' Capital Projects Were Competitively Procured and Approved by the Board and Related Expenditures Were Properly Supported

Our review of eight construction-related procurements awarded based on price only during fiscal years 2020 to 2023 totaling \$71.7 million, disclosed that the contracts were competitively procured and approved by the Board. In addition, our test of 15 invoices totaling approximately \$6 million (including 3 invoices totaling \$649,000 related to one of the eight contracts) disclosed that they were properly supported and generally in accordance with contract terms.

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

City Schools has processes in place to promote ongoing facility maintenance and minimize energy costs. For example, City Schools provides scheduled maintenance of its buildings and equipment with the goal of preventing emergency repairs. In addition, City Schools participates in a cooperative with other Baltimore area entities to purchase energy at the best possible terms for members of the cooperative. City Schools also utilizes a vendor energy management program to monitor and control heating and air conditioning usage and a utility bill management program to monitor related costs.

City Schools 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 efficiency. Further, City Schools makes limited use of solar and geothermal alternative energy sources. According to cooperative reports (which we did not audit), City Schools saved approximately \$25.9 million through energy cost avoidance from fiscal years 2007 to 2022.

21st Century School Buildings Program

In 2013, the Maryland General Assembly passed the Baltimore City Public Schools Construction and Revitalization Act. This Act created the 21st Century School Buildings Program (the Program) that authorized the Maryland Stadium Authority (MSA) to leverage \$60 million per year to provide approximately \$1.1 billion in bond proceeds for school renovation or replacement projects. A memorandum of understanding, approved by the Maryland Board of Public Works on October 16, 2013, outlines each party's roles and responsibilities in the multi-faceted project. Ultimately, MSA finances, procures, constructs, and self-certifies the building projects, and also reimburses City Schools for administrative and operational expenses related to the Program.

The original goal of the Program was to deliver a projected 23 to 28 replacement and/or renovated schools by 2020. According to MSA's 2022 annual Program report, due to efficient project management and innovative financial transactions on the bond issuances, the renovation of another school building was added to the Program in 2022. As of January 15, 2023, City Schools anticipate that this Program will deliver 29 replacement and/or renovated school buildings by 2026. The 29 school buildings will house 34 schools since five of the buildings contain more than one school (such as elementary and middle schools). According to the Program's 2022 annual report, 26 school buildings housing 30 schools have been completed, along with one under construction, one in the design phase, and one in the procurement study phase. As of January 15, 2023, the Program expenditures were \$1.5 billion, including approximately \$1.17 billion in construction related procurement awards.

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of City Schools' internal control over the facilities construction, maintenance, and energy management financial-related 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 maintained by City Schools and/or compiled by the Maryland State Department of Education (MSDE), approximately 44,891 of the 77,807 students enrolled (58 percent) for school year 2022 were eligible to receive student transportation services. Approximately 86 percent of students (38,716 of the 44,891) eligible to receive student transportation services were transported via public transportation services through the Maryland Transit Administration (MTA) funded primarily by the Baltimore City local government. The remaining 5,931 students eligible to receive student transportation were transported over 1 million route miles during the 2022 school year via 180 contractor-owned buses, 53 contractor-owned vans, 34 system-owned buses, and 17 system-owned vans.¹² There were also approximately 244 students transported by taxicabs (related route miles were not available).

According to City Schools' financial records, school year 2022 transportation costs totaled approximately \$43.1 million (See Figure 7 on the following page).

¹² City Schools has automated routing software for bus operations.

The transportation costs included \$23.3 million for school buses and vans operated by private contractors generally for transporting special needs children to their appropriate school, and \$6.1 million for System-owned school buses and vans (operated by City Schools' employees) used primarily to transport certain disabled students. Additionally, City Schools expended \$12.1 million for administrative costs (such as, transportation department employee salaries and benefits, and insurance) and \$1.2 million for taxicabs primarily for special need and homeless students.

As noted in Figure 7, a majority (54 percent) of City Schools' transportation expenditures were for bus contractors that transported only 12 percent of the students eligible to receive transportation services.

Figure 7
Transportation Expenditures and Students Transported During
School Year 2021-2022
(dollar amounts in millions)

Type of Transportation Expenditure	Expenditures		Students Transported	
Private Bus Contractors and Vans	\$23.3	54%	5,624	12%
City Schools' Owned Buses and Vans	6.1	14%	307	1%
Taxi	1.2	3%	244	1%
MTA*	0.4	1%	38,716	86%
Administrative Costs and Other	12.1	28%	-	-
Total	\$43.1	100%	44,891	100%

* Baltimore City local government primarily funds the cost of providing MTA transportation which is paid directly to MTA and not included in City Schools' budget.

Source: City Schools' and MSDE records

Contracts for Bus Transportation

During school year 2021-2022, City Schools had contracts with 10 bus contractors for student transportation. The contracts have a five-year term, which began with the 2018-2019 school year. Contracts are not automatically renewed and are subject to the Board's right to terminate the contract for various reasons (such as, available funding, cause, discretionary route reductions).

When City schools were closed between March 17, 2020 to August 30, 2021 due to the COVID-19 pandemic, bus contractors were paid at modified contract rates. The Board approved two amendments to the bus contracts in April 2020 and January 2021 that allowed City Schools, like many other LEAs, to continue to pay the bus contractors (initially at a universal reduced flat daily rate amount and then at a vendor-specific 75 percent of estimated route amount) when services were not needed in order to provide financial support and ensure it had school buses available to transport students to in-person learning opportunities.

Electric Bus Lease Agreement

In February 2023, City Schools entered into a 12-year lease (with a 3-year extension option) to replace 25 of their diesel school buses with 25 electric school buses at a cost of \$13.7 million. City Schools estimated the buses and related infrastructure to be operating by January 2024. The lease was procured under an intergovernmental cooperative purchasing agreement (ICPA) competitively procured by another Maryland local education agency and approved by the City Schools' Board. Our review of the lease agreement determined that it was an acceptable use of an ICPA.¹³

According to the lease agreement, the United States Environmental Protection Agency (EPA) is to award City Schools \$8.9 million for the 25 buses and \$500,000 towards infrastructure costs, both of which are to be paid to the vendor. The vendor will own the buses and infrastructure, which will be maintained by the vendor and made available to City Schools. City Schools will be responsible for the remaining \$4.3 million to be paid out over the 12-year lease period.

Investigative Audit of City Schools' Taxicab Services

During our preceding audit, we noted that taxicab vendors were being paid incorrect reimbursement rates and that payments were not always supported by ride vouchers, resulting in overpayments totaling \$1.2 million. City Schools agreed with our finding and established a promissory note with the main vendor to collect \$1.1 million of the overpayments.

In March 2023, the Maryland Office of the Inspector General for Education (OIGE) issued an investigative audit report on City Schools' student taxicab transportation services for school years 2018–2019 through 2021–2022.

¹³ The vendor and the other Maryland local education agency (LEA) were the subject of a July 2024 audit by the County's inspector general based on the late delivery of buses scheduled for fiscal years 2022 to 2025 and a lack of contract provisions to protect the interests of the LEA. Additionally, the buses had mechanical failures that rendered them inoperable for extended periods. The audit identified that the LEA had to acquire diesel buses to compensate for not receiving the anticipated electric buses from the vendor and the LEA should have assessed liquidated damages totaling approximately \$372,000.

According to the report, the OIGE initiated the review after it received a complaint in February 2022 that a taxicab vendor was billing City Schools for student transportation services that were not provided. The stated objective of the OIGE audit was to determine whether taxicab vendors are complying with all contractual and relevant state requirements while transporting students. At the time of the OIGE investigation, City Schools had contracts with four taxicab companies to provide transportation to students.

The OIGE report identified four findings and made several recommendations. For example, the OIGE compared monthly invoices to monthly attendance records and found over 3,900 instances where a vendor invoiced for rides that exceeded the students' recorded attendance. In some cases, the student had transferred, withdrawn or graduated before the date of the ride billed. In total, the OIGE identified charges totaling \$631,000 for 1,115 students that were not supported by attendance records.

The OIGE also determined that City Schools' Finance Office was not monitoring the collection of the aforementioned \$1.1 million promissory note. The taxicab company had stopped paying on the promissory note at the end of the 2019-2020 school year. According to the OIGE report, the outstanding balance as of February 10, 2023 totaled \$479,000. City Schools was generally in agreement with the findings and recommendations and resumed pursuing collection from the taxicab company after the issuance of the OIGE report.

Finding 14

City Schools could not document its review and approval of bus contractor invoices and did not assess certain available liquidated damages.

Analysis

City Schools could not document its review and approval of bus contractor invoices and its decision not to assess available liquidated damages.

- City Schools could not document that it verified the accuracy of contractor invoices, which totaled approximately \$94 million during school years 2019 to 2022. Specifically, City Schools could not provide documentation of its review of monthly bus contract invoice calculations, and approval of related payments for any invoices prior to August 2022. We were advised by Transportation personnel that the invoice review process was reassigned to a different employee in August 2022, and it could not locate documentation of the reviews prior to that date.

- City Schools did not assess available liquidated damages for non-operational GPS units. Our review of a system report that listed each GPS unit and its operational status disclosed that during school year 2021-2022, at least 75 buses did not have operational GPS units for at least 50 percent of the school year. The bus contracts provide for the assessment of liquidated damages equal to the entire route amount for failure to install, maintain and use GPS units and provide City Schools access to GPS data. Based on our estimates, liquidated damages totaling \$8.3 million could have been assessed during fiscal year 2022 for bus contractors that did not install, use, and maintain GPS units on buses as required by the respective bus contracts.

City Schools also did not always assess liquidated damages for other violations of contract terms. Specifically, our testing identified 6 invoices totaling \$2.5 million where City Schools only assessed \$5,000 of \$96,000 in available liquidated damages as provided for in its bus contracts for the vendor's use of uncertified drivers (4 instances), uncertified aides (3 instances), or operating uncertified buses (3 instances). City Schools could not document why the available liquidated damages were not assessed.

A similar condition regarding the verification of amounts invoiced was commented upon in our prior audit report. In response to that report, City Schools indicated that it agreed with our recommendation and had put in place procedures to ensure the propriety of contractor billings. However, as noted above, City Schools did not implement sufficient procedures to ensure the amounts invoiced were proper.

Recommendation 14

We recommend that City Schools

- a. conduct documented verifications of amounts invoiced (repeat); and**
- b. assess all available liquidated damages when vendors do not comply with the terms of applicable contracts, including for those instances noted above.**

Finding 15

City Schools paid bus contractors for van transportation services that were not included in the bus contracts and without any contract modifications or obtaining Board approval.

Analysis

City Schools paid bus contractors for van transportation services that were not included in the bus contracts and without any contract modifications or obtaining

Board approval. City Schools could also not readily support or justify the contractor daily flat rates for the van service paid which ranged from \$467 to \$543 and were similar to rates paid for bus transportation. State law, effective July 1, 2021, authorized all county school systems to utilize additional types of vehicles to transport students to and from schools, including vans. Beginning with the 2021-2022 school year, City Schools purchased vans and paid four of the ten bus contractors to transport students in vans. While City Schools' procurement policies require that modifications to contracts of \$100,000 or more obtain approval of the Board, no formal modifications were executed and approval was not obtained. According to City Schools' records, during school year 2022-2023, the four bus contractors used 50 vans to transport students at an estimated cost of \$3.2 million.

Recommendation 15

We recommend that City Schools process formal contract modifications for changes to the scope of the bus contracts, including those noted above.

Food Services

Background

According to City Schools' audited financial statements, food services operating expenditures totaled \$48 million in fiscal year 2022 and were primarily funded with federal funds totaling \$54 million. The federal funds are received from the United States Department of Agriculture based on an established rate per meals served. City Schools is allowed to retain federal funds it receives in excess of its annual food service operating costs to be used to offset future food service operating costs. According to City Schools' audited financial statements, the balance in City Schools' Food Service Fund totaled \$8.3 million as of June 30, 2022. According to MSDE records, in fiscal year 2022, City Schools had 293 food services positions for its 154 schools, consisting of 286 cafeteria positions and 7 administrative positions.

Similar to other Maryland local education agencies, City Schools 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 9.1 percent from 11 million in fiscal year 2020 to 12 million in fiscal year 2023. City Schools advised us that the number of meals increased because students were allowed back to school in-person after the COVID-19 pandemic and that no employees were laid off due to the COVID-19 pandemic.

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 Baltimore City Board of School Commissioners (the Board) is composed of nine members appointed by the Mayor of Baltimore, two elected members and one voting student representative. The Board contracted with a certified public accounting firm to conduct independent audits of City Schools' financial statements and federal programs. To assist in its oversight of various areas of City Schools' operation and governance, the Board has established several committees, such as an Audit Committee, Operations Committee, and an Ethics Panel. In accordance with State law, a Parent and Community Advisory Board has been established, which meets routinely in an open forum to hear public concerns and advise how parents, families, the community, and educators can collaborate to help youth succeed. The City Schools' Board and Chief Executive Officer are required to regularly consult with the Advisory Board.

City Schools Adopted an Ethics Policy

The Board has adopted a detailed ethics policy that is applicable to both Board members and City Schools' employees and includes provisions for conflicts of interest and financial disclosures by Board members and certain employees. In accordance with the policy, City Schools 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.

Finding 16

City Schools did not take appropriate follow-up action when individuals did not file the required annual disclosure statements.

Analysis

City Schools did not take appropriate follow-up action when individuals did not file the required annual disclosure statements. In accordance with City Schools' ethics policy, annual financial disclosure statements are required to be filed by Board members; the Superintendent and other administrators (such as supervisors, school principals, and agency buyers) by March 31st of each year. According to City Schools' records, 707 individuals were required to file in calendar year 2022.

Our review disclosed that City Schools did not follow up when individuals did not file. Based on our review of City Schools' records of required filers for the calendar year 2022 filing period, 73 individuals (or approximately 10 percent) had not filed the required statement as of July 2023 including, directors, assistant principals, principals, and supervisors. City Schools could not document that reminder letters were sent or any actions were taken to obtain the missing disclosure forms. In response to our inquiries City Schools advised that it determined that 26 of the 73 individuals did not have to file since they had either been terminated or had changed positions and that it referred the remaining 47 individuals to the Board's Ethics Panel in December 2023.

Recommendation 16

We recommend that City Schools

- a. ensure that all applicable individuals file the required annual disclosure statements; and**
- b. take appropriate documented follow-up action when individuals do not file as required, including those noted above.**

Management of Other Risks

Healthcare Background

City Schools is self-insured for its preferred provider network (PPN) and point of services (POS) medical plans and is fully insured for its health maintenance organization health plan. City Schools contracts with four third-party administrator firms (TPAs) for health care claims processing services¹⁴ for employee medical, prescription, dental, and vision costs. City Schools 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.

According to City Schools' records, the healthcare revenues and expenditures for calendar year 2022 totaled \$165.9 million and \$157.9 million, respectively (see Figure 8).

Figure 8
City Schools' Healthcare Financing
Calendar Year 2022
(amounts in millions)

Revenues	
Employer Contributions	\$139.2
Employee Contributions	18.9
Rebates	7.8
Total Revenue	\$165.9
Expenditures	
Claims Payments	\$146.4
Health Insurance Premiums	7.8
Administrative Fees	3.7
Total Expenditures	<u>\$157.9</u>

Source: City Schools' records

As of June 30, 2023, City Schools provided health insurance benefits to approximately 18,800 enrolled employees and dependents.¹⁵

¹⁴ City Schools has one TPA for the claims of the preferred provider and point of service medical and dental plans, and separate TPAs for the claims of the health management organizations medical, prescriptions, and vision plans.

¹⁵ Retiree health care cost is not reported by City Schools because Baltimore City government provides other postemployment benefits to qualified City Schools' retirees, and all related retirement plan costs are the responsibility of Baltimore City government. According to City Schools' records, the City of Baltimore pass-through expenditures for retirees' healthcare benefits totaled approximately \$11.8 million in calendar year 2022.

Finding 17

City Schools did not obtain and review claim data or audit healthcare activity from its third-party administrators.

Analysis

City Schools did not obtain and review claim data or audit healthcare activity, or otherwise monitor the performance of its third-party administrators (TPAs).

- City Schools did not obtain and review claim data to support the amounts billed by the TPAs for healthcare claims. Specifically, City Schools approved the amounts invoiced based on a high-level summary schedule of total claims paid for each health plan. It did not request or obtain a list of claims paid by enrolled employees and dependents to ensure it was only billed for eligible plan participants.
- City Schools did not obtain audits of healthcare claims paid by the TPAs to ensure that the billed services were actually provided to participants, were covered by the health plans, that amounts paid were proper, that all available drug rebates were obtained from drug manufacturers, and that self-reported performance measures were supported and accurate. City Schools' TPA contracts allowed it to procure periodic independent third-party audits of the accuracy and validity of claim reimbursements paid by City Schools. Our review disclosed that City Schools did not obtain audits of claims paid by the TPAs for the HMO, pharmacy, vision, and dental plans during the period under review and the most recent audit of claims paid by the TPA for the PPO and POS medical plans was for fiscal year 2017.
- City Schools did not always obtain or retain supporting documentation (such as certificates of birth, marriage, or adoption) to support new dependents met the enrollment criteria. Our test of dependent eligibility for 10 employees, hired during fiscal years 2018 to 2022 who added three or more dependents, disclosed that for 4 employees, supporting documentation was not available to support the validity of 11 of 58 total dependents. For example, for one employee with six dependents, City Schools could not provide documentation (such as birth certificates) for five dependents.

Recommendation 17

We recommend that City Schools

- a. obtain and review supporting documentation to ensure the propriety of TPA billings;**
- b. obtain audits in accordance with its contract to ensure the propriety of claims billed, assess the accuracy and validity of claim reimbursements**

- made by the TPAs, verify that all drug rebates due were received, and assess penalties when performance goals are not met; and**
- c. ensure that all required documentation for new employee dependents is obtained and retained for future reference, as required.**

Audit Scope, Objectives, and Methodology

We have conducted a performance audit of the Baltimore City Public School System (City Schools). 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. 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 City Schools' procedures and controls were effective in accounting for and safeguarding its assets.
2. Evaluate whether the City Schools' policies provided for the efficient use of financial resources.

In planning and conducting our audit of City Schools, 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 City Schools dated October 17, 2018, 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 City Schools' 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 City Schools. We also interviewed personnel at City Schools 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 City Schools' operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2021 to June 30, 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 City Schools' 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 City Schools' 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.

City Schools' 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 City Schools, 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 City Schools 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 City Schools and those parties responsible for acting on our recommendations in an unredacted audit report.

We conducted our fieldwork from February 2023 to November 2023. City Schools’ 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 City Schools regarding the results of our review of its response.

BALTIMORE CITY PUBLIC SCHOOLS

Brandon Scott, Mayor
City of Baltimore
Robert Salley, Chair
Board of School Commissioners
Sonja Brookins Santelises
Chief Executive Officer

January 17, 2025

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

City Schools thanks you for the opportunity to respond to your report of December 20, 2024. We view these audits as an opportunity to evaluate how we are performing and how we can improve, and we believe City Schools has improved as a result of your report and our interactions with the OLA team.

In general, we found your report to be a useful assessment of certain processes and practices at City Schools. As you review our responses, we hope you see the ongoing focus on improvement in our processes and policies, and the positive impact of the legislative audit. Though in some cases we may not agree on an exact interpretation of a given contract term or other details, we believe our collective work with you and your findings will help City Schools continue to improve our services to the schools, students and families of our city.

If you have any questions about this submission, please do not hesitate to contact me.

Best regards,



Christopher J. Doherty
Chief Financial Officer

Baltimore City Public Schools

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Procurement and Disbursement Cycle

Finding 1

City Schools did not properly perform and document bid evaluations resulting in a lack of assurance that contracts were awarded to the appropriate vendors including at least two contracts totaling \$5.1 million that appeared to have been improperly awarded.

We recommend that City Schools properly perform and document bid evaluations to support contract award decisions. Specifically, City Schools should

- a. ensure individual evaluation committee member scoring sheets are properly completed, signed, summarized, and retained;
- b. complete bid evaluations in accordance with the method specified in the contract solicitation to ensure contracts are properly evaluated; and
- c. reevaluate its prior contract award decisions, including those noted above, to determine if bid evaluations properly supported the award and consult with legal counsel regarding necessary corrective actions for any contracts that were not properly awarded.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	We would like to provide the following context: <ul style="list-style-type: none">• For 3 out of the 4 sampled RFPs, the final evaluation memos are signed by the committee members as documented and shared.• For the 4th RFP sample, due to the complexity of the procurement, we engaged a facilitator/consultant who compiled a comprehensive final evaluation report based on the committee's documented evaluation. Evaluators were required to review and acknowledge their evaluation roles and responsibilities. Each evaluator also signed a confidentiality agreement prior to the evaluation process.		
Recommendation 1a	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	City Schools will ensure that scoring sheets are completed. After bid evaluations are complete, City Schools will continue to retain documentation as required.		

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Recommendation 1b	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	<p>The correct vendor was awarded, and the final decision represents the best vendor for the project based on the vendor's qualifications and proposal.</p> <p>Moving forward, a quality control process has been integrated during the solicitation finalization and pre-evaluation kickoff meeting to ensure that the evaluation criteria are clearly understood and correctly applied, maintaining fairness and impartiality in all future evaluations.</p>		
Recommendation 1c	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	<p>City Schools has re-evaluated the contracts in this finding and maintains that the proper vendor was awarded.</p> <p>Moving forward, a quality control process has been integrated during the solicitation finalization and pre-evaluation kickoff meeting to ensure that the evaluation criteria are clearly understood and correctly applied, maintaining fairness and impartiality in all future evaluations.</p>		

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Finding 2

City Schools did not monitor vendor invoices to ensure they were paid timely. Our analysis of vendor payments from July 1, 2021 to February 28, 2023 disclosed that 16,632 invoices (12 percent) totaling \$142 million were paid 90 days or more after the invoice date recorded on the City Schools' financial management system.

We recommend that City Schools establish a centralized monitoring process to ensure that invoices are date stamped when received and paid timely.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	In July of 2023, City Schools updated our financial system to a new financial management system (ERP) which provides additional capabilities for reporting and monitoring payments. City Schools is currently in the process of updating our standard operating procedures, which includes a software program that would allow vendors access to a supplier portal, giving them the capability to upload invoices directly to our financial system that includes a time stamp which will be considered the receipt date.		

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Finding 3

City Schools did not obtain required supporting documentation from vendors to verify the propriety of amounts invoiced.

We recommend that City Schools obtain required supporting documentation from vendors for invoices (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	<p>City Schools' per pupil funding model allows departments and schools to procure goods and services via district managed contracts with centralized oversight. Like the formula in the Blueprint for Maryland's future, this model distributes resources based on student characteristics to meet the needs of students in each school and through the services provided by centralized departments. City Schools' Finance Department is taking steps to ensure consistent compliance with contract terms across departments and schools.</p> <p>To improve consistency between contract monitors, City Schools has already implemented two key strategies:</p> <ul style="list-style-type: none">• Training Modules for Contract Monitors: We are providing enhanced reference and training materials to staff listed as contract monitors on contracts. These individuals are responsible for ensuring that vendors comply with the contract terms and conditions, including verifying that appropriate documentation is submitted with invoices.• Creation of Centralized Contract Monitor Positions: For FY25, we have established two centralized contract monitor positions. These employees will oversee the district's largest contracts used by schools and central departments to monitor spending, ensure all submitted invoices are properly documented, and make certain invoices are in compliance with contract terms.		

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Finding 4

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

We recommend that City Schools 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 (repeat).

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	<p>City Schools will update our ICPA checklist and process to ensure that we are meeting all best practice standards. We would like to provide additional clarification on our current practices in utilizing ICPAs to ensure procurement efficiency and best value for the district:</p> <ul style="list-style-type: none">• The use of ICPAs is a valuable tool for obtaining necessary goods and services, aggregating volume, securing best pricing, and reducing administrative overhead. Public purchasers seek to optimize pricing, transaction costs, and processing time through strategic cooperative procurement.• Our procurement requests to the Board for ICPAs include extensive information in the Board letter request. These requests are reviewed and assessed by the Director of Procurement, and the selection methodology is carefully documented and approved at the determination of the Director of Procurement.• City Schools follows a checklist process for researching, comparing, and evaluating ICPAs to ensure the best value. Our ICPA checklist, which captures statutory requirements and best practices, helps verify competitive bidding, public advertisement, and the presence of piggyback clauses.• For each of the six (6) ICPAs referenced in the audit, a contract was executed for each of the procurements as provided to auditors, documenting City Schools' participation. While City Schools confirmed with the

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	<p>initiating/procuring agency that we could use the ICPA, City Schools did not document these interactions for the ICPAs that required it, such as those ICPAs unrelated to a Consortium or similar cooperative group. Moving forward, City Schools will document the cooperative agreement with the Lead Agency through an addendum or other appropriate recording methodology.</p> <ul style="list-style-type: none">• For each of the six (6) ICPAs referenced in the audit, comparative competitive contracts, were assessed to ensure City Schools chose the most favorable agreement for the district. Going forward, City Schools will retain the supporting documentation for the required Procurement reviews and appropriate evaluative comparisons conducted for the ICPAs, and will maintain this supporting documentation.		
Recommendation 4	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	ICPA Policy Update - On February 28, 2024, City Schools updated its ICPA policy to enhance best practice language, further aligning our procurement processes with ever-evolving standards and ensuring compliance with current regulations.		

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Finding 5

City Schools did not always prepare required written justifications when procuring contracts using the sole source method and did not always publish contract awards on *eMaryland Marketplace Advantage (eMMA)*, as required.

We recommend that City Schools

- a. ensure that sole source contract justifications are prepared as required and include appropriate information to document the rationale for not performing a competitive procurement (repeat), and
- b. publish sole source contract awards on *eMMA*, as required (repeat), including the contract award noted above.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	<p>City Schools acknowledges the audit's observations regarding the preparation of sole source justifications. During the audit period, the Sole Source Justification Form was primarily used for small procurements under \$50,000. For contracts requiring Board approval (over \$50,000), a separate justification form was not used because the Board letter included a justification section outlining the rationale for the sole source procurement.</p> <p>High-level written summaries for sole source procurements were included in Board agendas.</p> <p>While City Schools believes the justifications provided in the Board letters and agendas were sufficient, additional detail could have enhanced clarity. Going forward, City Schools will include a completed Sole Source Template Form for submission along with the Board Letter for compliance with Board Policy.</p>		
Recommendation 5a	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	City Schools will ensure that sole source contract justifications are prepared and include appropriate information to document the rationale for sole-source justification.		

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Recommendation 5b	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	City Schools recognizes the requirement to publish sole source contract awards on the eMaryland Marketplace Advantage (eMMA) platform and will ensure compliance.		

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Finding 6

City Schools did not have adequate controls over vendor bid submissions.

We recommend that City Schools ensure all vendor bid proposals submitted are adequately secured prior to opening.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 6	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	<p>City Schools acknowledges the auditors' concerns regarding electronically submitted vendor bid proposals and the associated policies and controls. The shift to electronic submissions was a direct response to the global COVID-19 pandemic, which required a rapid adaptation in procurement processes. Organizations that previously received hard copies of bids and proposals had to pivot quickly to electronic submissions, including email, to maintain operations.</p> <p>City Schools has always prioritized the security of bids and proposals prior to the bid due date, and while there is no statutory or regulatory mandate specifying how bids must be received, our practices have consistently aimed to ensure that vendor submissions are handled securely.</p> <p>In a meeting with the OLA auditors on June 14, 2023, it was recommended that City Schools consider password-protecting electronic submissions or transitioning to receiving bids through eMaryland Marketplace Advantage (eMMA). Following this discussion, City Schools made an immediate shift to using eMMA for sourcing bids. This was fully implemented on September 1, 2023, after the State of Maryland conducted training for our procurement staff on August 16, 2023.</p> <p>On February 28, 2024, City Schools updated our procurement regulations to include detailed procedures and controls for electronically submitted vendor bids. These updates reflect our commitment to maintaining secure and compliant procurement processes.</p>		

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Finding 7

City Schools did not always prepare and approve purchase orders prior to obtaining goods or services, as required.

We recommend that City Schools ensure that procurement policies and automated system controls are not bypassed by ensuring purchase orders are prepared and approved prior to obtaining the related goods or services (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 7	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	<p>City Schools agrees with this recommendation. It is important to note, however, that due to efforts aimed at reducing the number of confirming POs, City Schools has successfully decreased the number from more than 1,000 in FY23 to approximately 750 in FY24. By continuing these efforts—including sending compliance reports to offices detailing the number of POs and amounts, and requiring explanations for confirming POs—City Schools expects to see further reductions in the future.</p> <p>There are situations, such as emergency repairs or urgent transportation needs for students, where emergency procurement purchase orders must be issued after services have been provided. Confirming purchase orders may also be necessary when invoice dates predate the purchase order requisition date, for activities such as professional development registration, online training courses, or meeting space rental. For example, Baltimore City College is an International Baccalaureate school that requires an annual membership fee to an international organization. This organization mandates payment without a purchase order to maintain the school's membership.</p> <p>For all other instances not falling into these categories, schools and departments are expected to follow City Schools' procurement processes, ensuring that purchase orders are fully approved prior to the</p>		

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	<p>ordering of goods or services. This requirement is clearly outlined on the City Schools website for vendor awareness.</p> <p>City Schools will continue to provide compliance reports to offices, listing the number of POs and amounts and requiring explanation for the confirming PO.</p>
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Human Resources and Payroll

Finding 8

City Schools did not always perform a newly required screening before hiring certain applicants for positions involving direct contact with minors.

We recommend that City Schools perform and document the required screening for positions involving direct contact with minors, including those noted above, in compliance with State law.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 8	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	Immediate Documentation Collection The Office of Human Capital has implemented the following plan to gather the necessary documentation for employees hired or promoted since the law took effect: <ol style="list-style-type: none">1. Identification and Outreach: We have identified employees whose prior work history must be collected in accordance with HB 486 guidelines.2. Request for Information: Human Capital has begun contacting these employees via email on a rolling basis, requesting their work history for the past 10 years, as well as the contact information for their previous employers.3. Employer Verification: After receiving the contact information, Human Capital completes the employer portion of the required form and sends it to previous employers for verification.4. Document Management: Once the completed forms are returned by employers, Human Capital securely stores all HB 486 documents electronically. Process Automation To improve future compliance and reduce manual processing, we are in the process of procuring an integration with our employee records		

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	<p>systems. This integration will automatically collect HB 486 information and electronically send the required forms to former employers for completion. Once a new hire is cleared to start, their documentation will be sent to previous employers electronically, and completed forms will be returned via the same system, creating an efficient, manageable workflow. We are currently finalizing this procurement to secure the integration.</p>
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Finding 9

City Schools did not pursue collection of \$1.5 million due from third parties for services being provided by five City School employees.

We recommend that City Schools take appropriate action to ensure appropriate and timely billing and collection efforts are made for amounts owed by outside organizations (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	The specific issue in this finding stems from a historic agreement between City Schools and certain of our unions, which allowed employees to provide services to unions on a full-release basis. While there may have been gaps in billing, a comprehensive invoice was issued. As a result of these efforts, we were reimbursed in the amounts of \$331,385.93 on September 11, 2024 by one union, as well as \$779,761.40 on May 8, 2024 and \$344,155.83 on September 4, 2024 from another union. These three payments total \$1,455,303.16.		
Recommendation 9	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	City Schools agrees to ensure that we appropriately bill for amounts owed by outside organizations and make timely collection efforts.		

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Finding 10

City Schools did not adequately monitor and control police overtime, and did not always pre-approve overtime as required by its existing policy.

We recommend that City Schools

- a. analyze police overtime usage to ensure that it is not excessive and is consistent with its policies;**
- b. establish maximum limits on overtime and secondary employment hours worked by an officer to ensure the extra work does not impact their performance; and**
- c. ensure overtime is pre-approved as required by its policy.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 10a	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	With new leadership in place, City Schools is implementing enhanced procedures, including regular reviews of school police overtime data to ensure that overtime is used efficiently and appropriately. City Schools is launching a new timekeeping system that will require all employees—including police officers—to digitally clock in and out. This system has the capability to automate reports and provide regular monthly reports to support oversight and ensure proper overtime management.		
Recommendation 10b	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	With new leadership in place, City Schools is implementing enhanced procedures, including exploring placing limits on overtime. City Schools is launching a new timekeeping system that will require all employees—including police officers—to digitally clock in and out. This system has the capability to automate reports and provide regular monthly reports to support oversight and ensure proper overtime management.		
Recommendation 10c	Agree	Estimated Completion Date:	

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Please provide details of corrective action or explain disagreement.	<p>With new leadership in place, City Schools is implementing enhanced procedures, including ensuring that overtime is pre-approved.</p> <p>City Schools is launching a new timekeeping system that will require all employees—including police officers—to digitally clock in and out. This system has the capability to automate reports and provide regular monthly reports to support oversight and ensure proper overtime management.</p>
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Information Technology

OLA has determined that the Information Technology section, including Findings 11 through 13 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). Although, the specifics of the following findings, including the analysis, related recommendations, along with City Schools’ responses, have been redacted from this report copy, City Schools’ responses indicated agreement with the findings and related recommendations.

Finding 11
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 12
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 13
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

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Transportation Services

Finding 14

City Schools could not document its review and approval of bus contractor invoices and did not assess certain available liquidated damages.

We recommend that City Schools

- a. conduct documented verifications of amounts invoiced (repeat); and
- b. assess all available liquidated damages when vendors do not comply with the terms of applicable contracts, including for those instances noted above.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 14a	Agree	Estimated Completion Date:	June 2025
Please provide details of corrective action or explain disagreement.	City Schools has a strict process in place for reviewing and verifying invoices for bus contractors. We will clearly document this process and our procedures so that it is fully transparent and properly documented.		
Recommendation 14b	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	City Schools will closely monitor contracts and will assess damages where appropriate. City Schools will develop an internal process to support the City Schools conclusion to assess damages or to waive/reduce damages relating to contract issues. City Schools will document the reasoning per our written procedures to assess or waive/reduce damages. These considerations could include shared culpability, lack of certifications for drivers or buses, or other considerations. City Schools notes that the following liquidated damages have been assessed over the past several years:		

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	School Year	Total	Remarks
	SY2024-25	\$33,384.21	Through 9/30/2024
	SY2023-24	\$113,702.70	
	SY2022-23	\$202,375.98	
	SY2021-22	\$82,722.40	
To provide clearer guidance going forward, City Schools will update contract language to clarify that that City Schools "may" collect liquidated damages based on specific circumstances, and the possible application if those circumstances arise.			

Finding 15

City Schools paid bus contractors for van transportation services that were not included in the bus contracts and without any contract modifications or obtaining Board approval.

We recommend that City Schools process formal contract modifications for changes to the scope of the bus contracts, including those noted above.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 15	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	<p>It was the understanding of City Schools that our process was consistent with Maryland law and Baltimore City Board of School Commissioners policies and regulations. <i>See, e.g.,</i> Md. Code Ann. Educ. Sections 4-205(d), 5-112; Board Policy DJA; Administrative Regulation DJA-RA.</p> <p>The legal requirement is that the Board must approve contract awards for amounts in excess of \$100,000 (subject</p>		

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	<p>to certain exceptions). The Board regularly complies with this requirement. When City Schools submits contract award authorization requests to the Board, the procurement authorization request, which we call a Board letter, includes the total authorized “spend” amount of the contract, the duration/term of the contract, and any optional extension/renewal terms, and a high-level summary of the services or goods that are being authorized for purchase through the contract award.</p> <p>The Board authorizes City Schools staff, subject to review and approval by the Procurement Director, Chief Executive Officer, and Office of Legal Counsel, among others, to negotiate the specific terms and effectuate amendments to those specific contract terms.</p> <p>City Schools will document contract modifications and seek Board approval for any significant contract award changes exceeding \$100,000.</p>
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School Board Oversight

Finding 16

City Schools did not take appropriate follow-up action when individuals did not file the required annual disclosure statements.

We recommend that City Schools

- a. ensure that all applicable individuals file the required annual disclosure statements; and
- b. take appropriate documented follow-up action when individuals do not file as required, including those noted above.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	City Schools consistently reminded individuals to complete their statements and forwarded a list of those who did not complete statements to the Board of School Commissioners, who shared the list with the Baltimore City Public Schools' Ethics Panel in December of 2023. This action was entered into the public record when it was shared with the Board of School Commissioners during their Executive Board Meeting on December 12, 2023. Referral to the Board and the Ethics Panel constitutes appropriate follow-up action, as they are the entities in charge of these policies. Please see attached documentation that illustrates this assertion. ¹		
Recommendation 16a	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	City Schools will make efforts to have all applicable individuals file the required annual disclosure statements.		
Recommendation 16b	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	City Schools will make efforts to have all applicable individuals file the required annual disclosure statements.		

¹ City Schools did not provide the referenced documentation.

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Management of Other Risks

Finding 17

City Schools did not obtain and review claim data or audit healthcare activity from its third-party administrators.

We recommend that City Schools

- a. obtain and review supporting documentation to ensure the propriety of TPA billings;
- b. obtain audits in accordance with its contract to ensure the propriety of claims billed, assess the accuracy and validity of claim reimbursements made by the TPAs, verify that all drug rebates due were received, and assess penalties when performance goals are not met; and
- c. ensure that all required documentation for new employee dependents is obtained and retained for future reference, as required.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 17a	Agree	Estimated Completion Date:	December 2025
Please provide details of corrective action or explain disagreement.	City Schools reviews data and information regarding claims on a weekly and monthly basis. These reports are provided by our insurance providers and include standard information typically shared with large organizations that have self-funded insurance plans of our size. City Schools will work with our insurance provider and our healthcare benefits consultant, to determine what additional reporting can be offered without compromising employee privacy.		
Recommendation 17b	Agree	Estimated Completion Date:	December 2025
Please provide details of corrective action or explain disagreement.	Our healthcare audit began in September 2024 and our last audit was completed in 2017. The healthcare benefits consultant has recently recommended that we increase the number of audits to every 3 to 5 years; we have accepted this		

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	<p>recommendation and will be adjusting our audit schedule appropriately. We also conducted a pharmaceutical audit in 2023.</p> <p>We will work with our healthcare consultants and our TPAs to determine a reasonable process, aligned with best practices, to review performance measures.</p>		
Recommendation 17c	Agree	Estimated Completion Date:	Ongoing; November 2025
Please provide details of corrective action or explain disagreement.	<p>City Schools is consistent in collecting the documentation referenced before enrolling dependents. However, City Schools could not produce the documentation requested because these documents were accidentally destroyed several months earlier than our document retention schedule permits.</p> <p>Starting November, 2025 (postponed from January 2025), all document submissions will be stored electronically in our new ERP system. Documents will continue to be retained for the required 7-year period.</p> <p>When enrolling a dependent in a health plan, a copy of the following documentation is required. Documentation must also be resubmitted for dependents previously covered before the current plan year.</p> <ul style="list-style-type: none"> • Spouse: Marriage certificate and, if married for more than 12 months, a tax return filed within the past two years showing the same address for both spouses. • Dependent Child (by birth): Birth certificate. • Dependent Child (by adoption or guardianship): Birth certificate and official court documents. • Stepchild: Birth certificate and marriage certificate. <p>Disabled Dependent: Birth certificate and a completed Disabled Dependent Waiver Request Form (the dependent must have been covered under the plan prior to age 19).</p>		

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