



**Department of Legislative Services
Office of Legislative Audits**

**Financial Management Practices
Performance Audit Report**

Harford County Public Schools

Report Dated May 30, 2008



Department of Legislative Services Office of Legislative Audits

School Audits

- Audits are performed in accordance with State law, which requires OLA to audit all 24 public school systems once over a six-year period. As of January 2009, 14 reports have been issued.
- The purpose of the audits is to evaluate the effectiveness and efficiency of the school system's financial management practices in safeguarding assets and its use of financial resources.
- Audit approach consists of 11 functional areas previously approved by the Joint Audit Committee, as required by State law.
- When warranted, we used the work of other auditors to avoid duplication of effort.



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Functional Areas

The functional areas consisted of:

1. Revenue and Billing Cycle
2. Federal Funds
3. Procurement and Disbursement Cycle
4. Human Resources and Payroll
5. Inventory Control and Accountability
6. Information Technology
7. Facilities Construction, Renovation and Maintenance
8. Transportation Services
9. Food Services Operations
10. School Board Operations and Oversight
11. Other Financial Controls



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Overview

- FY 07 operating budget of \$474 million.
- Enrollment of approximately 39,600 students in 53 schools.
- Report contained 28 findings and 20 recommendations in 10 of the 11 areas reviewed.
- Internal control weaknesses existed over certain revenue and disbursement activity and the procurement and payroll automated systems.
- Efficiency recommendations were made in the areas of transportation, human resources and facilities management operations.
- Certain best practices were found to be in place in several areas, including facilities and food services.



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Key Findings – Internal Controls

Collections and Bank Accounts – (pgs.9-10, 54)

- Certain revenues received by cash or check (such Medicaid and E-Rate reimbursements) were not adequately controlled.
- Certain duties pertaining to the food service bank accounts were not adequately separated and bank reconciliations were not adequately reviewed.

Procurement and Payroll Systems– (pgs.17, 22)

- Numerous employees were given capabilities on the procurement and payroll systems that were not needed to perform their job duties. No procedures were in place to conduct independent reviews of transactions processed.



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Key Findings – Internal Controls

Procurements & Disbursements – (p.18-19, 40)

- Invoices were not always verified to contract prices and support documentation prior to payment.
- Complete procurement documentation was not maintained for certain construction contracts.

Information Technology – (p.34)

- HCPS needs to strengthen policies over system passwords, safeguard data upon disposal of computers and media storage devices, back up critical servers, and establish a more comprehensive disaster recovery plan.



Key Findings – Efficiency and Effectiveness

Transportation – (pgs.46-49)

- The cost efficiency of contracting out its regular bus services rather than owning and operating the bus fleet had not been determined.
 - Under the current arrangement which has numerous pay elements, HCPS assumes nearly all the risks for bus operations while essentially guaranteeing a profit to bus contractors.
 - The per vehicle allotment element provides for the contractor to recover the full cost of a bus plus a return on investment based on the bus' cost that is substantially above market rates. Because the rates are not adjusted, HCPS will pay out approximately \$9 million more than if the prime rate was used for 336 buses bought since 1996.
 - Cost comparisons are needed when procuring bulk fuel for vehicles.
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Key Findings – Efficiency and Effectiveness

Human Resources– (p.23)

- Work force planning does not include non-instructional positions

Facilities and Maintenance – (pgs.38-40)

- Performance measures need to be developed for general maintenance and custodial operations.
- The automated work order system was not fully used to control costs and evaluate performance.
- A cost-benefit analysis of the documented energy management plan was not prepared to determine if desired results were being achieved.



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Key Findings – Policies

Equipment – (p.27)

- Policies did not provide for adequate accountability and control of equipment items.

Facility Work Orders– (p.39)

- Formal guidelines for expected timeframes for completing general maintenance work orders had not been established.

Bus Contractor Rates – (p.48)

- No policy existed for how bus contractor payments were to be determined and presented to the Board.

Capital Leases– (p.64)

- A policy to govern the use of long-term lease obligations to finance operations did not exist.



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Key Findings – Other Issues

Internal Auditor – (p.59)

- The internal auditor's work should be expanded to include areas beyond student activity funds. Approximately 80% of the auditor's efforts were devoted to student activity funds.

Ethics Policy Coverage– (p.60)

- The ethics policy did not require filing of financial disclosures by the head of purchasing unit and the buyers in the unit.