

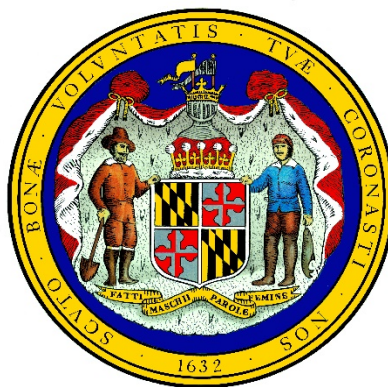
Financial Management Practices Audit Report

Carroll County Public Schools

July 2024

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.



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

| | |
|--|--------------------------------------|
| Senator Clarence K. Lam, M.D. (Senate Chair) | Delegate Jared Solomon (House Chair) |
| Senator Joanne C. Benson | Delegate Steven J. Arentz |
| Senator Paul D. Corderman | Delegate Andrea Fletcher Harrison |
| Senator Katie Fry Hester | Delegate Steven C. Johnson |
| Senator Shetty L. Hettleman | Delegate Mary A. Lehman |
| Senator Cheryl C. Kagan | Delegate David Moon |
| Senator Cory V. McCray | Delegate Julie Palakovich Carr |
| Senator Justin D. Ready | Delegate Stephanie M. Smith |
| Senator Bryan W. Simonaire | Delegate M. Courtney Watson |
| Senator Craig J. Zucker | One Vacancy |

To Obtain Further Information

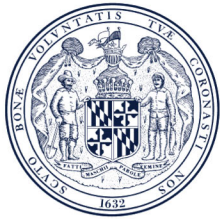
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201
Phone: 410-946-5900
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: webmaster@ola.state.md.us
Website: www.ola.state.md.us

To Report Fraud

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

Nondiscrimination Statement

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the United States Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.



Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Brian S. Tanen, CPA, CFE
Legislative Auditor

July 26, 2024

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

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Carroll County Public Schools (CCPS) 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 CCPS' 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 certain requirements of CCPS' procurement policies were not being consistently used when obtaining goods and services under intergovernmental cooperative purchasing agreements and the policies were not sufficiently comprehensive. In addition, CCPS did not have a sufficiently comprehensive policy to govern sole source procurements, resulting in written justifications not being prepared for such procurements. Furthermore, CCPS awarded a contract to a vendor for a school bus camera system without documenting that it obtained the best value.

Our audit also disclosed certain risks in CCPS' information systems. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted these findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term "cybersecurity" is defined in the State Finance and Procurement Article, Section 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 CCPS as well as those parties responsible for acting on our recommendations.

Our audit also disclosed that CCPS needs to improve internal controls and accountability for health care services. Specifically, CCPS did not audit or adequately monitor the performance of its third-party administrators 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 9 of the 13 findings contained in our preceding audit report. For the non-cybersecurity-related findings we determined that CCPS satisfactorily addressed 4 of those 5 findings. The remaining finding is repeated in this report.

CCPS' response to this audit is included as an appendix to this report. We reviewed the response and noted 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. Additionally, in accordance with our policy, we have edited CCPS' response to remove vendor names or products. Consistent with State law, we have also redacted the elements of CCPS' response related to the cybersecurity audit findings.

We wish to acknowledge the cooperation extended to us during the audit by CCPS. We also wish to acknowledge CCPS' willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

Table of Contents

| | |
|--|-----------|
| Background Information | 5 |
| Statistical Overview | 5 |
| Oversight | 9 |
| External Audits | 10 |
| Status of Findings From Preceding Audit Report | 11 |
| Findings and Recommendations | 13 |
| Revenue and Billing Cycle | 13 |
| Federal Funds | 14 |
| Procurement and Disbursement Cycle | |
| Finding 1 – Certain requirements of State law and recognized best practices were not incorporated into Carroll County Public Schools (CCPS) policies and were not consistently used when participating in intergovernmental cooperative purchasing agreements. | 16 |
| Finding 2 (Policy Issue) – CCPS did not have a sufficiently comprehensive policy to govern sole source procurements and did not prepare written justifications for certain sole source procurements. | 18 |
| Human Resources and Payroll | 19 |
| Equipment Control and Accountability | 20 |
| Information Technology | |
| Finding 3 – Redacted cybersecurity-related finding | 21 |
| Finding 4 – Redacted cybersecurity-related finding | 21 |
| Finding 5 – Redacted cybersecurity-related finding | 21 |
| Finding 6 – Redacted cybersecurity-related finding | 21 |
| Finding 7 – Redacted cybersecurity-related finding | 21 |
| Facilities Construction, Renovation, and Maintenance | 21 |

Transportation Services

Finding 8 – CCPS awarded a contract to a vendor for a school bus camera system without documenting that it obtained the best value. 24

Finding 9 – Redacted cybersecurity-related finding 26

Food Services 26**School Board Oversight**

Finding 10 – Certain requirements of State law were not incorporated into CCPS ethics policies. 27

Management of Other Risks

* Finding 11 – CCPS did not sufficiently ensure the propriety of billings and rebates or adequately monitor the performance of its third-party administrators that provide health care claims processing services. 29

Audit Scope, Objectives, and Methodology 31**Agency Response Appendix**

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

Background Information

Statistical Overview

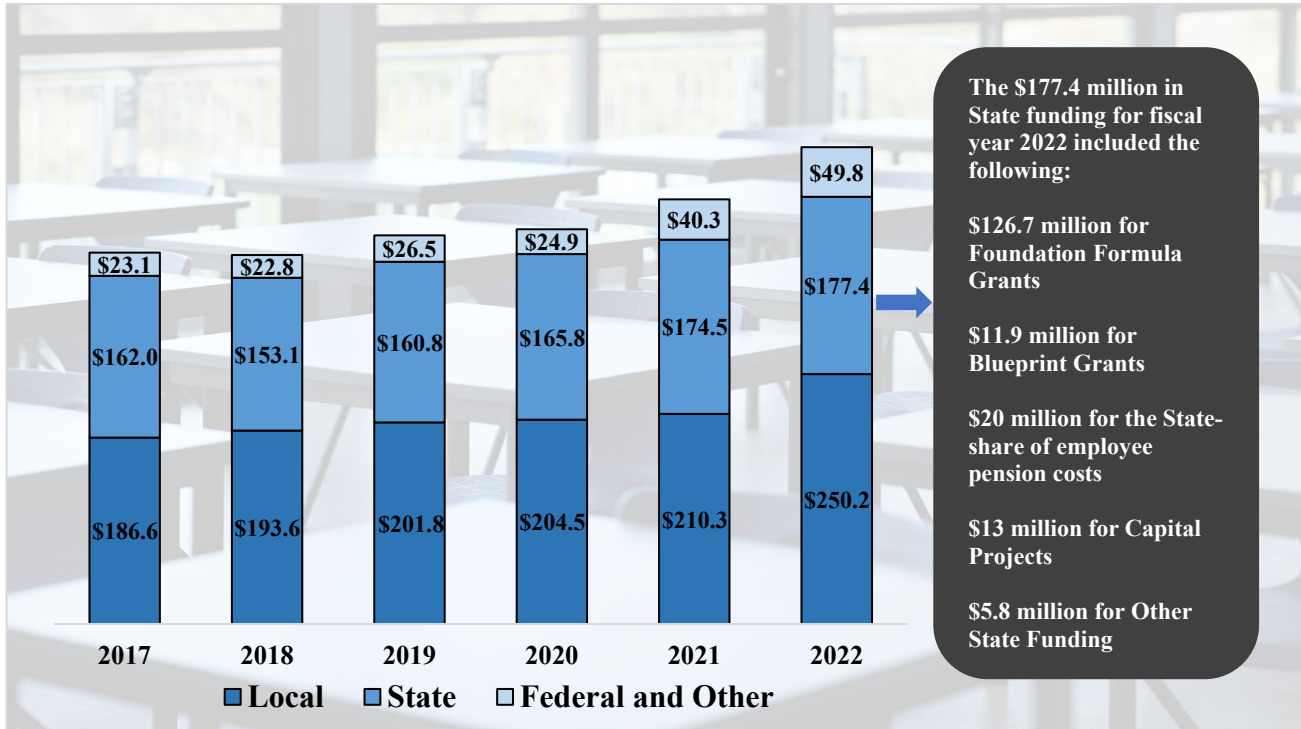
Enrollment

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Carroll County Public Schools (CCPS) ranks 10th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2022 full-time student enrollment was 25,054 students. CCPS had 40 schools, consisting of 22 elementary, 8 middle schools, 7 high schools, and 3 other types of schools (including special, alternative, and career and technical).

Funding

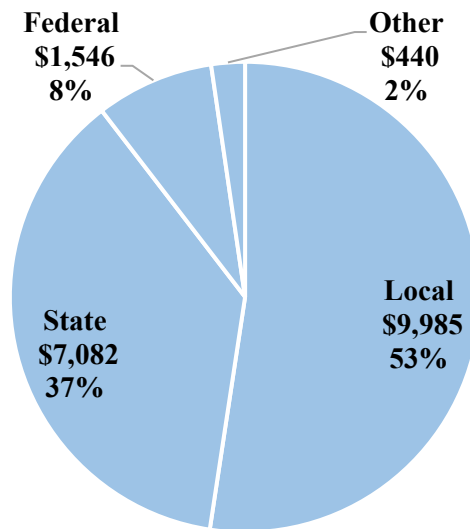
CCPS revenues consist primarily of funds received from Carroll County, the State, and federal governments. According to the CCPS' audited financial statements, revenues from all sources totaled approximately \$477.4 million in fiscal year 2022; including approximately \$177.4 million from the State. According to MSDE's records, the State funding included formula funding grants totaling \$126.7 million, Blueprint for Maryland's Future grants totaling \$11.9 million, State-share for employee pension payments totaling \$20 million, and other State funding sources, such as for capital projects, totaling \$18.8 million. See Figure 1 (on the following page) for CCPS' funding by source for the six-year period from fiscal year 2017 through fiscal year 2022. See Figure 2 (on page 7) for revenue sources per enrolled student in fiscal year 2022 according to its audited financial statements.

Figure 1
CCPS Funding by Source
Fiscal Years 2017 through 2022
(dollar amounts in millions)



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

Figure 2
CCPS' Revenue Sources Per Enrolled Student
Fiscal Year 2022



Source: CCPS' 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.

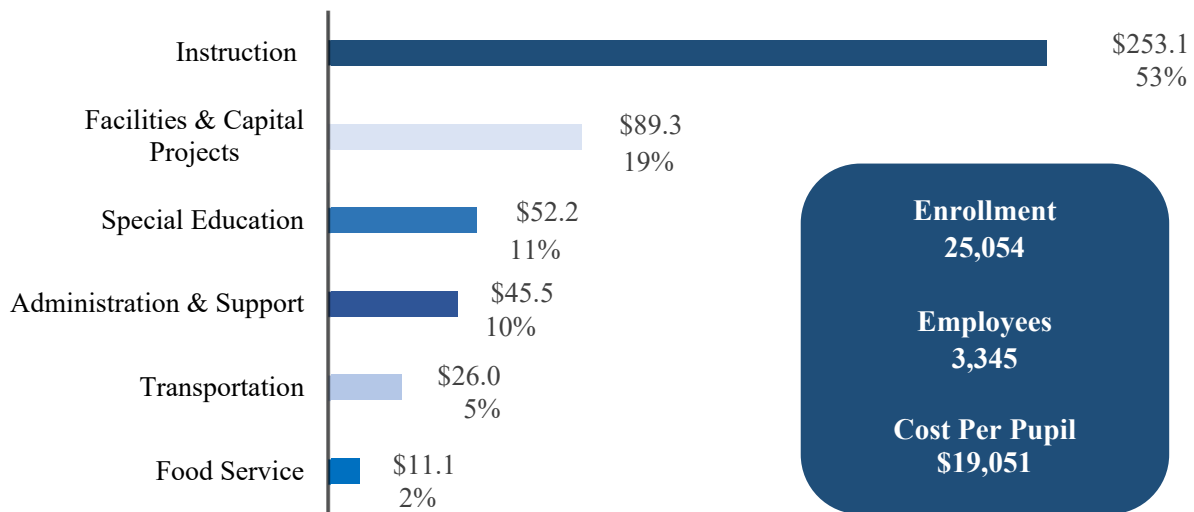
Blueprint allocates funding to schools based on a weighted-student formula. The funding formula provides resources to local education agencies based on the number of students enrolled at each school (known as Foundation Aid) and the characteristics of those students (such as Special Education, Concentration 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 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 CCPS' audited financial statements, fiscal year 2022 expenditures were approximately \$477.3 million. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 69 percent of total expenditures during fiscal year 2022. According to MSDE records, during the 2021-2022 school year, CCPS had 3,345 full-time equivalent positions, which consisted of 2,436 instructional and 909 non-instructional positions. Instruction accounted for 53 percent of CCPS' expenditures on a categorical basis (see Figure 3).

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



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

Oversight

CCPS is governed by a local school board, consisting of five elected voting members and one non-voting student member. MSDE exercises considerable oversight of CCPS 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 CCPS to comply with the requirements and mandates of federal law. The Carroll County government also exercises authority over CCPS primarily through the review and approval of CCPS' 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 advice and consent of the Senate. The Board Chair is designated by the Governor, the Senate President, and the Speaker of the House.

Office of the Inspector General for Education (OIGE)

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

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

review the OIGE issued one public report related to CCPS reviews and investigations. We considered the report during our current audit.

External Audits

As required by State law, CCPS 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 CCPS as of June 30, 2017, 2018, 2019, 2020, 2021 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Additionally, in accordance with *Government Auditing Standards*, as part of the audited financial statements the accounting firm also issued separate reports on CCPS' control over financial reporting and its tests of CCPS' compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. These reports are an integral part of the annual independent audited financial statements. In the report for the period ending June 30, 2017 the firm noted a material weakness in financial reporting regarding depreciation for four school buildings not being accurately calculated. CCPS corrected the deficiency and it was not repeated in subsequent years.

The accounting firm also conducts the Single Audit of CCPS' 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. In the Single Audit for the period ending June 30, 2019 the firm noted a significant deficiency in internal control over compliance where the Board used budgetary expenditures that did not include certain adjustments in determining the indirect costs charged to a federal grant, which resulted in those costs exceeding the negotiated indirect cost rate. However, this finding was not repeated during subsequent years.

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. 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

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

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 9 of the 13 findings contained in our preceding audit report dated May 16, 2018. As disclosed in Figure 4 on the following page, for the non-cybersecurity-related findings, we determined that CCPS satisfactorily addressed 4 of these 5 findings. The remaining non-cybersecurity-related finding is repeated in this report.

Figure 4
Status of Preceding Findings

| Preceding Finding | Finding Description | Implementation Status |
|--------------------------|--|---|
| Finding 1 | Individual schools did not always comply with established procedures governing school activity funds, and CCPS did not periodically audit certain schools with significant activity funds. | Not repeated (Not followed up on) |
| Finding 2 | CCPS did not ensure that certain parental approval was obtained to enable billing for Medical Assistance services performed for eligible students. | Not repeated (Not followed up on) |
| Finding 3 | Certain payroll adjustments processed by CCPS payroll staff were not subject to an independent review. | Not repeated |
| Finding 4 | Physical inventories of certain sensitive equipment were not properly performed and documented, and detail records were not always accurate. | Not repeated (Not followed up on) |
| Finding 5 | CCPS had not established automated scanning procedures to identify all personally identifiable information maintained on its computer systems and ensure such data were protected. | Status Redacted ² |
| Finding 6 | The monitoring of the student information system database's security-related events did not include all sensitive activities and appropriate documentation. | Status Redacted ² |
| Finding 7 | Intrusion detection prevention system protection existed for internally originated network traffic, but was not applied to untrusted traffic entering the CCPS network, and certain affiliated third parties had unnecessary network-level access to the internal network. | Status Redacted ² |
| Finding 8 | Malware protection controls relative to assigning administrative rights and updating vulnerable software products did not sufficiently protect CCPS' network. | Status Redacted ² |
| Finding 9 | CCPS had not implemented a process to verify the reported project benefits of its energy conservation contract. | Not repeated |
| Finding 10 | Certain elements used to determine payments to bus contractors did not reflect market conditions, were not properly documented, or did not consider available fuel credits, resulting in higher payments than necessary for student transportation services. | Not repeated |
| Finding 11 | CCPS did not have a process in place to ensure that financial disclosure forms were properly completed and reviewed by its ethics panel. | Not repeated |
| Finding 12 | CCPS did not ensure the propriety of certain claim payments for employee and retiree healthcare costs as well as prescription drug rebates. Sufficient documentation was not obtained to support dependents for healthcare. | Repeated (Current Finding 11) |
| Finding 13 | CCPS did not formally reevaluate its current investment practices and consider investing a portion of its funds in other legally permitted investment options. | Not repeated (Not followed up on) |

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

Findings and Recommendations

Revenue and Billing Cycle

Background

Carroll County Public Schools (CCPS) revenues consist primarily of funds received from Carroll County, the State, and the federal government. According to CCPS' audited financial statements, revenues from all sources totaled approximately \$477.4 million in fiscal year 2022 including approximately \$177.4 million from the State.

External Audits

There were similarities between the work of the independent certified public accounting firm (CPA) that audited CCPS' 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 review (related to the fiscal year 2022 audit) and testing disclosed no material weaknesses or significant deficiencies.

School Activity Funds

Schools collect funds for other purposes such as student activities, clubs, and school publications. Because they are not considered school revenue, these school activity funds are accounted for separately by each school and reported in summary in the audited financial statements. During fiscal year 2022, school activity collections totaled \$3.6 million and the June 30, 2022 fund balance was \$3.1 million.

CCPS' Board of Education (the Board) has a fiduciary responsibility to ensure that school activity funds were used only for intended purposes. CCPS contracts with a CPA to conduct limited reviews of the school activity funds at selected schools on a rotating basis.

In addition, CCPS' internal auditor conducts audits of school activity funds in accordance with an annual work plan approved by the Board's Audit Committee. During fiscal years 2022 and 2023, the internal auditor performed 23 reviews. The reviews consisted of evaluating and testing compliance with CCPS' policies, regulations, and procedures in accordance with the *Procedures Manual for School Funds*. The *Manual* establishes standard procedures for all schools to follow to ensure school activity funds are adequately safeguarded and accounted for in a uniform manner. The results of the reviews were provided to the respective school's principal and CCPS management.

Conclusion

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

Federal Funds

Background

CCPS 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 CCPS' Single Audit, fiscal year 2022 (latest available at the time of our audit) federal expenditures totaled \$37.7 million, not including federally funded fee-for-service programs such as Medicaid reimbursement for special education services.

According to the audited financial statements, federal fund revenues (excluding Medicaid) increased, from \$15.4 million in fiscal year 2019 to \$38.7 million in fiscal year 2022 (151 percent) due to COVID-19 pandemic grant funding. Specifically, according to CCPS' records, as of June 30, 2022, CCPS was awarded federal COVID-19 pandemic grant funds totaling \$43.4 million to be distributed over federal fiscal years 2020 to 2024 under the Coronavirus Aid, Relief, and Economic Security Act, the Coronavirus Response and Relief Supplemental Appropriations Act, and the American Rescue Plan.³

As of June 30, 2022, CCPS expenditures related to these COVID-19 grants totaled \$23.4 million, from March 2020 to June 2022, and were primarily comprised of staffing, laptops, instructional software and materials, personal protection equipment, and sanitary supplies. CCPS has policies and procedures to ensure grant funds are properly monitored and accounted for to ensure the funds are used to the fullest extent possible. In addition, reports of grant fund activity are presented periodically to the Board. CCPS initially funded the expenditures with State and local funds and will obtain reimbursement from the aforementioned programs to the extent allowed.

³ In addition to the federal grants, CCPS was also awarded two State and local COVID-19 grants totaling \$1.9 million, all of which had been spent as of June 30, 2022. For example, CCPS received a County health department award of \$1.8 million and a State broadband connectivity award of \$50,192. State and local grants are subject to review and testing during our audit.

Single Audit Reports Disclosed Minimal Reportable Conditions Regarding Federal Grant Management

There were similarities in the work performed by the independent CPA that conducted the Single Audit of CCPS' federal grants and the objectives of our audit in this area. In addition to expressing an opinion on CCPS 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 2022.

The related reports stated that CCPS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with, and the operation of, major federal programs, the auditors did not identify any material weaknesses or significant deficiencies, except for fiscal year 2019, the auditors identified one significant deficiency regarding inaccurate indirect costs. This deficiency was indicated as being resolved in the subsequent fiscal year's report.

Medicaid Funds for Eligible Services

CCPS 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 CCPS. 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 December 2021 of the results of its review of 63 student case files for 76 criteria (including the correct billing of Medicaid for eligible services). The report found that CCPS was generally compliant with most criteria. For example, CCPS was 100 percent compliant with 66 criteria and between 94 and 99 percent compliant with 6 criteria. According to CCPS records, fiscal year 2022 state and federal reimbursements for Medicaid-subsidized services totaled approximately \$1.4 million, which was generally consistent with the previous fiscal year.

Conclusion

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

Procurement and Disbursement Cycle

Background

According to the audited financial statements and CCPS' records, disbursements (excluding payroll) totaled \$150 million during fiscal year 2022. CCPS uses a combination of manual and automated methods to process purchases and disbursements. CCPS uses a financial management system for purchases and disbursements. Requisitions are manually created and approved by a supervisor in the requesting department. Approved requisitions are then entered into the financial management system and converted to purchase orders by the purchasing department, which also generally handles the solicitation, bid evaluation, and establishment of contracts.

Invoices are submitted by vendors to the requesting school or department for approval and then submitted to the accounts payable department for entry into the financial management system. The system matches the invoice to the related purchase order and then prints the vendor checks, which are manually matched to appropriate purchasing and receiving documents before mailing, and then posts the payment to the financial records.

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

Finding 1

Certain requirements of State law and recognized best practices were not incorporated into CCPS 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 into CCPS policies and were not consistently used by CCPS when participating in an ICPA. State law, which legal counsel to the Maryland General Assembly advised us is applicable to local education agencies, allows the use of ICPAs only after the using entity has met the statutory requirement of determining (or assessing) in writing that the use of such arrangements will provide cost

benefits, promote administrative efficiencies, or promote intergovernmental cooperation.⁴

According to CCPS records, CCPS used the ICPA procurement method for 98 procurements with awards totaling at least \$8.2 million during the period from July 1, 2019 through May 8, 2023. The total amount procured under this method could not readily be determined since CCPS did not include the award amounts for certain procurements in its records. Our review of CCPS 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, by obtaining the 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 lead agency and remove or incorporate necessary local terms and conditions; and
- Obtain a copy of ICPA and related price lists for invoice verification.

In addition, we tested CCPS' participation in 4 ICPAs (selected based on significance) awarded during fiscal years 2020 through 2022, with contract payments totaling approximately \$7.9 million during fiscal years 2021 and 2022. Our review disclosed that CCPS did not adhere to three best practices for all four ICPAs tested (preparing a written assessment of the benefits of using the ICPAs, analyzing the costs of conducting competitive solicitations, and researching, comparing, and evaluating other available ICPAs). In addition, CCPS did not execute an addendum of participation with the lead agency for one ICPA.

⁴ Section 13-110 of the State Finance and Procurement Article of the Annotated Code of Maryland, in part, defines an ICPA as a contract that is entered into by at least one governmental entity in a certain manner, that is available for use by the governmental entity entering the contract and at least one additional governmental entity, and that is intended to promote efficiency and savings that can result from intergovernmental cooperative purchasing. The aforementioned law applies to all ICPAs regardless of the services, goods, or commodities purchased. In addition, Section 5-112(a)(3) of the Education Article, of the Code provides that local education agencies do not need to conduct competitive procurements for goods and commodities if they use a contract awarded by public agencies or intergovernmental purchasing organizations and the originating procuring agency followed public bidding procedures.

We did find that other best practices were performed despite not being included in CCPS' policies. For example, CCPS verified the ICPA had a clause allowing utilization by other parties and verified the terms, scope of services, specifications and overall price met their needs for all four ICPAs tested. CCPS also ensured the amounts invoiced by the four ICPA vendors tested agreed with the original contract pricing. Incorporating ICPA best practices into CCPS procurement policies could help ensure they are consistently used.

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

Recommendation 1

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

Finding 2 (Policy Issue)

CCPS did not have a sufficiently comprehensive policy to govern sole source procurements and did not prepare written justifications for certain sole source procurements.

Analysis

CCPS did not have a sufficiently comprehensive policy governing sole source procurements and did not prepare written justifications for certain sole source procurements. Although CCPS' procurement policy states that State procurement law may be used as guidance for setting policy, it had not adopted the State's sole source requirement for written justification to use this procurement method.

According to a CCPS report of awarded purchase orders, CCPS used the sole source procurement method for 18 procurements with awards totaling \$1.1 million during the period from July 1, 2019 through May 8, 2023. CCPS established a policy to require written justification to use the sole source

procurement method for purchases charged to federal grants, but this policy did not apply to such purchases with State and local government funds. According to CCPS records of awarded purchase orders, CCPS used the sole source procurement method for 12 procurements with awards of State and local government funds totaling approximately \$800,000 during the aforementioned period.

Our test of four sole source procurements (selected based on materiality) awarded with State and local government funds during fiscal years 2020 through 2023 totaling \$405,790 disclosed that written justifications for not competitively procuring the contracts were not prepared. For example, CCPS awarded a \$262,000 sole source contract for a learning management information system without a written justification. Although there was documentation that CCPS established a committee that identified other vendors, there was no documentation to support the decision to use the selected vendor without a formal competitive solicitation.

State law requires that competitive procurement practices be used to the extent possible for purchases exceeding \$50,000. Further, State regulations require that a written justification be prepared by State agencies when there is only one source available.

Recommendation 2

We recommend that CCPS establish a comprehensive policy, approved by the Board, that governs sole source procurements and includes a requirement for written justifications when this non-competitive procurement method is used by CCPS.

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the CCPS budget. According to CCPS' records, fiscal year 2022 salary, wage, and benefit costs totaled approximately \$327 million, representing 68.5 percent of the total expenditures. According to Maryland State Department of Education reports, during the 2021-2022 school year, CCPS had 3,345 full-time equivalent positions, which consisted of 2,436 instructional and 909 non-instructional positions.

CCPS uses automated systems to maintain human resources information, record employee time, track employee leave usage, and process and record payroll transactions. The system generates payroll checks and direct deposit advices.

Payroll processing involves both automated processes (such as compiling leave and running edit reports) and manual processes (such as data entry of new employee information).

Conclusion

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

Equipment Control and Accountability

Background

According to CCPS' audited financial statements, the undepreciated value of its capital equipment inventory totaled \$52.3 million as of June 30, 2022. CCPS maintains centralized automated records for all equipment including assets with a cost of \$5,000 or more that are capitalized for financial statement purposes.

Control and recordkeeping of laptop computers assigned to schools, students, and employees was maintained in a database maintained by the Office of Technology Services. CCPS has established comprehensive written equipment policies and performs inventories at each school at least every two years.

Conclusion

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

Information Technology

We determined that the Information Technology section, including Findings 3 through 7 related to "cybersecurity," as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available report in accordance with the State Government Article, Section 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with CCPS' responses, have been redacted from this report copy.

Finding 3
Redacted cybersecurity-related finding.

Finding 4
Redacted cybersecurity-related finding.

Finding 5
Redacted cybersecurity-related finding.

Finding 6
Redacted cybersecurity-related finding.

Finding 7
Redacted cybersecurity-related finding.

Facilities Construction, Renovation, and Maintenance

Background

CCPS employs a staff of 324 employees to maintain its 40 schools (including vocational and special education) and a number of other facilities (such as administrative and support offices). According to its fiscal year 2023 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to CCPS' facilities over the next five years are estimated to cost \$188 million.

CCPS Capital Projects Were Competitively Solicited and Approved by the Board and Related Expenditures Were Generally Properly Supported

Our review of four construction-related procurements related to CCPS' two major capital projects awarded during fiscal years 2019 to 2021 totaling \$133 million, disclosed that all four contracts were competitively solicited and approved by the Board. In addition, our test of 10 invoices totaling \$18.7 million for these contracts disclosed that, generally, the invoices were properly supported and the amounts invoiced were in accordance with contract terms.

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

CCPS has processes in place to promote ongoing facility maintenance and to minimize energy costs. For example, CCPS provides preventive maintenance of its buildings and equipment with the goal of preventing emergency repairs. In addition, CCPS reviews utility billings to monitor energy usage and related costs. CCPS participates in various programs with the local utility companies that reduces energy usage during various non-peak periods, like the summer months. CCPS has written best practices that encourage both students and employees to be aware of and limit their energy use and conducts internal on-site reviews of building energy efficiency. Further, CCPS has initiatives in place involving limited use of solar and geothermal alternative energy sources.

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of CCPS' internal control over financial-related areas of operations for facilities construction, renovation, and maintenance. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Transportation Services

Background

According to statistics compiled by the Maryland State Department of Education, CCPS has approximately 24,700 students eligible to receive student transportation services. These students were transported using 256 contractor-owned buses. CCPS reported that 5.2 million route miles were traveled to transport students for the 2021-2022 school year.

CCPS bus contracts are for one-year terms and continue annually throughout the service life of the contractor's buses, subject to the Board's right to terminate the contract for various reasons (such as available funding, cause, contractor insolvency, and termination of routes to reduce or consolidate routes). During school year 2021-2022, CCPS had contracts with 38 bus contractors for student transportation. According to CCPS' financial records, fiscal year 2022 transportation costs totaled \$26 million, of which \$23 million (88 percent) were payments for the contracted bus services for various costs. The cost components for contractor bus payments for fiscal year 2022 are summarized in Figure 5 on the following page.

Figure 5
Cost Components for Bus Contractor Payments
Fiscal Year 2022
(dollar amounts in millions)

| Cost Component | Amount | |
|--|---------------|-----|
| Reimbursements for Drivers Hourly Rates | \$9.4 | 41% |
| Maintenance Fee and Fuel Costs | 8.0 | 35% |
| Per-vehicle Allotment (PVA) – reimbursement for the cost of purchasing a bus | 4.7 | 20% |
| Other Costs – (such as administrative fee and spare buses) | 0.9 | 4% |
| Total | \$23.0 | |

Source: CCPS Records

School Bus Safety Camera Program

As allowed by State and County law, CCPS contracted for the use of school bus safety cameras to monitor drivers who illegally pass a stopped school bus and entered into a Memorandum of Understanding (MOU) with the Carroll County Sheriff's Office to process citations and receive CCPS's share of program revenue. In June 2020, CCPS' School Board approved a five-year contract (with a five-year renewal option) to a vendor to install and operate cameras that would be owned and maintained by the vendor on CCPS' contracted school buses. The contract also provided for cameras to monitor the conduct of drivers and students inside the bus along with global positioning units to track the buses. Furthermore, under the contract, CCPS was provided with communications equipment, routing equipment, and software to develop and revise bus routes.

As of the date of the contract, vehicles that are caught on camera illegally passing a bus are assessed a \$250 fine. The cameras take videos and still images of vehicles (and license plate) passing a bus that is operating its alternating flashing red lights. The registered owner(s) of the vehicles are identified by vendor employees using access provided to Maryland Motor Vehicle Administration (MVA), the National Law Enforcement Telecommunications System (NLETS) and other databases. The Carroll County Sheriff's Office verifies the image of the event constitutes a violation and the vendor prints and mails the citation to the registered owner. Citations can be paid to the vendor by credit card, electronically through the internet, or by mailing a check. The vendor is required to develop automated processes to retrieve and post all daily payment data.

The contract provides that the excess monthly citation revenue would be disbursed 60 percent to the vendor and 40 percent to the County after the deduction of a monthly technology fee of \$440 per bus from gross citation revenue.

Finding 8

CCPS awarded a contract to a vendor for a school bus camera system without documenting that it obtained the best value.

Analysis

CCPS awarded a contract to a vendor for a school bus camera system without documenting that it obtained the best value. CCPS management advised us that it learned about the vendor's school bus safety camera program that was implemented in other school systems and CCPS approached this vendor to implement a similar program. Furthermore, CCPS advised it had contacted two other school systems with existing agreements with this vendor and also contacted at least one other vendor who offered similar services. Although there was no formal documented analysis, CCPS advised it obtained and reviewed applicable information obtained from these contacts, and determined the vendor in question met their needs and awarded a contract to this vendor using an intergovernmental cooperative purchasing agreement (ICPA).

However, our review of the ICPA between the vendor and the other LEA noted the following conditions (several of which were previously noted in finding #1 in this audit report):

- CCPS did not prepare a written assessment of the benefits for using the ICPA as required by State law and it did not research or compare other available ICPAs.
- Although the ICPA included a clause allowing participation by other governmental entities, the contract between CCPS and the vendor did not reference the ICPA and an addendum of participation was not executed.
- CCPS did not use any of the key terms and conditions of the existing ICPA. Instead, it negotiated its own terms and conditions with the contractor (see comments below).

Our audits of other Maryland local education agencies (LEAs) have disclosed that other vendors exist and at least one LEA has awarded a similar contract using a competitive bidding process. In addition, other LEAs have conducted procurements that have included negotiations of the financial terms (such as revenue sharing and other fees). Rather, CCPS negotiated with a vendor that had been previously competitively procured by another local school system; however,

instead of using the original contractual terms the vendor appears to have unilaterally imposed terms upon CCPS calling into question if CCPS had obtained the best value.

As a result, we concluded that with the exception of the general service provided, CCPS essentially procured its own unique contract with the vendor without a competitive procurement process and assurance that it obtained the best value. Specifically, CCPS' contract provided that the monthly citation revenue would be disbursed 60 percent to the vendor and 40 percent to the County after deduction of monthly technology fees of \$440 per bus from gross citation revenue. However, CCPS did not have support for how the technology fee was determined by the vendor or why it was necessary in addition to the revenue sharing.

Although the 60/40 revenue sharing agreement is consistent with the underlying ICPA used by CCPS, the underlying ICPA had a \$250 monthly technology fee versus the \$440 fee charged CCPS. Of the eight local school systems that we know used this vendor's camera system, we found that CCPS was paying the highest fee. The lack of support is significant, because CCPS has not received any share of the \$1.8 million in citation revenue received for the first 27 months of the program's operation (from November 1, 2020 through January 31, 2023). Subsequent to the end of our fieldwork, we were advised by CCPS management that it had renegotiated the revenue sharing terms of the school bus safety camera system contract and the vendor agreed to reduce the technology fee from \$440 to \$240.

Recommendation 8

We recommend that, in the future, CCPS

- a. ensure that it obtains the best value for services received through competitive procurements or properly considered ICPAs, as appropriate; and**
- b. ensure the basis and reasoning for revenue sharing and technology fees are documented in future school bus safety camera contracts.**

We determined that Finding 9 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 is 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 finding, including the analysis, related recommendation(s), along with CCPS’ responses, have been redacted from this report copy.

Finding 9
Redacted cybersecurity-related finding.

Food Services

Background

According to CCPS’ audited financial statements, food services operating expenditures totaled \$11.1 million in fiscal year 2022 and were funded with federal funds totaling \$15 million and food sales totaling \$725,769. The federal funds are received from the United States Department of Agriculture based on an established rate per meals served. CCPS 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 CCPS’ audited financial statements, the balance in CCPS’ food services fund totaled \$9.4 million as of June 30, 2022. According to MSDE records, in fiscal year 2022, CCPS had 85 food services positions for its 40 schools, consisting of 80 cafeteria positions and 5 administrative positions.

Similar to other Maryland Local Education Agencies, CCPS 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 118 percent from 1.7 million in fiscal year 2019 to 3.7 million in fiscal year 2022. CCPS food service expenditures increased by 71 percent (food costs and equipment) during the same period, from \$6.5 million to \$11.1 million. CCPS indicated 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 Food Services financial area of operations.

School Board Oversight

Background

The Carroll County Board of Education (the Board) is composed of five elected members and one non-voting student representative. The Board contracted with a certified public accounting firm to conduct independent audits of the CCPS financial statements and federal programs. To assist in its oversight of various areas of CCPS operation and governance, the Board has established several committees, such as a Community Advisory Council, an Audit Committee, and an Ethics Panel.

CCPS Adopted an Ethics Policy

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

In accordance with the policy, CCPS established an Ethics Panel consisting of five members appointed by the Board to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. Our review of the records for Board members and CCPS employees required to submit financial disclosure forms for calendar year 2021 and 2022 disclosed that all forms were submitted as required.

Finding 10

Certain requirements of State law were not incorporated into CCPS ethics policies.

Analysis

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

changes, SEC notified CCPS that its ethics policies conformed to State law in a letter dated February 23, 2015.

We were advised by CCPS management that the aforementioned letter dated March 22, 2022 was not addressed because of turnover in upper management. After we brought it to their attention, CCPS began work to revise its ethics policy as required. State law requires that local boards of education establish ethics policies that conform to ethics requirements in State law.

Recommendation 10

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

Management of Other Risks

Healthcare Background

CCPS is self-insured and contracts with three third-party administrator firms (TPAs) for health care claims processing services⁵ for employee and retiree medical, prescription, dental, and vision costs. CCPS 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. In addition, CCPS contracts with its TPA for medical insurance for stop-loss insurance, which indemnifies CCPS against health claim amounts that exceed \$700,000 per participant per plan year.

The health benefit plans for CCPS employees and retirees are financed through governmental funds, with a fiduciary fund (referred to as the Other Postemployment Benefits (OPEB) Plan Trust) established as an investment reserve for future retiree health benefit costs.⁶

⁵ CCPS has one TPA for the claims for the medical and prescription plans and two separate TPAs for the claims of the dental and vision plans.

⁶ These funds are invested with the Carroll County Master Benefit Retiree Trust and totaled \$31.5 million as of June 30, 2022.

According to CCPS records, the healthcare revenues and expenditures for fiscal year 2022 totaled \$65.3 million and \$63.4 million respectively (see Figure 6).

CCPS employs a verification process in its enrollment procedures whereby employees must submit documentation (such as birth certificates) for dependents they want added to their health plan. As of June 30, 2022, CCPS provided health insurance benefits to approximately 9,038 enrolled employees, dependents, and retirees.

Figure 6
CCPS 2022 Healthcare Financing
(amounts in millions)

| Revenues | |
|---------------------------------|----------------------|
| Employer/Employee Contributions | \$53.8 |
| Retiree Contributions | 7.9 |
| OPEB Trust Fund Net Additions | 3.6 |
| Total Revenue | \$65.3 |
| Expenditures | |
| Claims Payments | \$60.6 |
| Administrative Fees | 1.7 |
| Stop-loss and Vision Premiums | 1.1 |
| Total Expenditures | <u>\$63.4</u> |

Source: CCPS Records

Finding 11

CCPS did not sufficiently ensure the propriety of billings and rebates or adequately monitor the performance of its third-party administrators that provide health care claims processing services.

Analysis

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

- CCPS did not obtain and review claim data to support the amounts billed by the three TPAs for healthcare claims (including HMO costs). Rather, CCPS was provided with invoices that listed individual amounts and dates paid, but with no details regarding for what and for whom they were paid. CCPS approved the claim payments based on a review of the invoice data with no review of supporting documentation or verification that the charges were for eligible plan participants.
- CCPS did not have a process, and did not audit the pharmacy TPA, to ensure that it received all the prescription drug rebates the TPA received from drug

manufacturers. Drug rebates are determined based on volume and type of drug dispensed per agreements with drug manufacturers.

- CCPS did not routinely audit healthcare claims (including HMO costs) paid by the TPAs to ensure that the billed services were provided solely to participants, were covered by the health plans, and that amounts paid were proper. CCPS' TPA contracts allowed for periodic independent third-party audits of the accuracy and validity of claim reimbursements paid by CCPS.
- CCPS had not established a process, such as regular audits, to verify the accuracy of TPAs' self-reported compliance with performance measures. Specifically, the medical and pharmacy TPA reported self-assessed penalties of \$84,039 in calendar year 2022 based on its reported compliance with a maximum penalty of \$933,767 (medical) and \$300,000 (pharmacy), but CCPS did not have a process in place to verify the TPA's reported compliance. The dental insurance TPA contract included 11 performance measures including claim time-to-process, financial accuracy, and response timing. Additionally, the contract allowed for the assessment of penalties (up to \$12,111 annually) if the TPA did not meet the performance measures. However, CCPS had not determined whether any penalties were self-assessed by this dental TPA. Finally, the remaining vision coverage TPA included no performance measures and as such no reporting or verification was conducted.

A similar condition regarding the need to ensure the propriety of healthcare costs was commented upon in our two preceding audit reports and the need to verify prescription drug rebates was commented upon in our preceding audit report. Subsequent to our preceding report, CCPS contracted with an audit firm in March 2022 to conduct an audit of medical claims and prescription drug rebates for fiscal year 2021, but the related report had not been issued as of April 30, 2023.

Recommendation 11

We recommend that CCPS

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

Audit Scope, Objectives, and Methodology

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

In planning and conducting our audit of CCPS, 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 CCPS dated May 16, 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 CCPS 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 CCPS. We also interviewed personnel at CCPS 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 CCPS 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, 2020 to December 31, 2022.

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

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

We also extracted data from the CCPS 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.

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

We conducted our fieldwork from November 2022 to May 2023. CCPS’ 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 CCPS regarding the results of our review of its response.

APPENDIX



Building the Future
Cynthia McCabe, Ed.D.
Superintendent

Carroll County Public Schools

125 N. Court Street | Westminster, MD 21157

410-751-3000
MD RELAY 711
410-751-3030 FAX

June 24, 2024

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

Dear Mr. Hook,

Enclosed are the responses to the recommendations made in the draft report on the Financial Management Practices of the Carroll County Public Schools dated June 6, 2024.

I would like to thank the legislative auditors for providing us with feedback to help us become a more efficient organization.

Please do not hesitate to contact me if you need any additional information regarding this submission.

Sincerely,

Cynthia McCabe, Ed.D.
Superintendent of Schools

Enclosure

c: Rob Burk, Chief Financial Officer
Marsha Herbert, President, Board of Education
Susan Harrison, Internal Auditor

Carroll County Public Schools

Agency Response Form

Procurement and Disbursement Cycle

Finding 1

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

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

| Agency Response | | | |
|--|---|----------------------------|-----------|
| Analysis | | | |
| Please provide additional comments as deemed necessary. | N/A | | |
| Recommendation 1 | Agree | Estimated Completion Date: | 9/20/2024 |
| Please provide details of corrective action or explain disagreement. | We will continue to refine our process for using ICPAs, including more detailed procurement policies as recommended and documentation to support the process. | | |

Carroll County Public Schools

Agency Response Form

Finding 2 (Policy Issue)

CCPS did not have a sufficiently comprehensive policy to govern sole source procurements and did not prepare written justifications for certain sole source procurements.

We recommend that CCPS establish a comprehensive policy, approved by the Board, that governs sole source procurements and includes a requirement for written justifications when this non-competitive procurement method is used by CCPS.

| Agency Response | | | |
|--|---|----------------------------|---------|
| Analysis | | | |
| Please provide additional comments as deemed necessary. | N/A | | |
| Recommendation 2 | Agree | Estimated Completion Date: | 11/2024 |
| Please provide details of corrective action or explain disagreement. | CCPS will update the policies and procedures for sole source procurements to further detail the process including justification. Board approval will be obtained. | | |

Carroll County Public Schools

Agency Response Form

Information Technology

The Office of Legislative Audits (OLA) has determined that the Information Technology section, including Findings 3 through 7 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Although the specifics of the following findings, including the analysis, related recommendations, along with CCPS’ responses, have been redacted from this report copy, CCPS’ responses indicated agreement with the findings and related recommendations.

Finding 3
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 4
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 5
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 6
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 7
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Carroll County Public Schools

Agency Response Form

Transportation Services

Finding 8

CCPS awarded a contract to a vendor for a school bus camera system without documenting that it obtained the best value.

We recommend that, in the future, CCPS

- a. ensure that it obtains the best value for services received through competitive procurements or properly considered ICPAs, as appropriate; and**
- b. ensure the basis and reasoning for revenue sharing and technology fees are documented in future school bus safety camera contracts.**

| Agency Response | |
|---|--|
| Analysis | |
| Please provide additional comments as deemed necessary. | <p>CCPS believes it has obtained the best value for services. Prior to entering into a contract with the selected vendor, CCPS Transportation staff contacted the only two external bus camera companies that were known to be offering external red light violation citations to violators of the school bus stop law. Our comparison of the two systems clearly pointed to the selected vendor as being the only vendor who could ensure that all buses in the fleet would be equipped with external cameras. In addition, the selected vendor's 60/40 revenue split exceeded what was being offered by the second vendor. and only the vendor selected offered to include coverage for the additional operational technology required by Transportation management for safety and efficiency. *</p> <p>*The CCPS' Safety and Security Board Committee recommended for several years that CCPS Transportation improve its emergency communication and fleet tracking capability of the school bus fleet. Prior to the inclusion of push-to-talk communication devices and fleet tracking systems in the five- year agreement with the selected vendor, CCPS school buses relied on individual cell phones for communication and there was no live GPS fleet tracking available. The inclusion of communication devices, fleet tracking, and bus routing technologies as part of the technology fees within the selected vendor contract provided CCPS these technologies at no cost to CCPS. The estimated cost of these technologies to CCPS over the five- year agreement time period would have been approximately \$2.0M. The contract was reviewed by CCPS Purchasing after finding a similar contract (RFP) obtained by another Maryland public school district.</p> |

Carroll County Public Schools

Agency Response Form

| | | | |
|---|--|-----------------------------------|-----------|
| | | | |
| Recommendation 8a | Agree | Estimated Completion Date: | Ongoing |
| Please provide details of corrective action or explain disagreement. | CCPS will continue to strengthen generally accepted procurement practices including improvement of documentation to obtain the best value. | | |
| Recommendation 8b | Agree | Estimated Completion Date: | Completed |
| Please provide details of corrective action or explain disagreement. | CCPS and the selected vendor have renegotiated the revenue share coming back to the County and have extended the agreement for an additional five- year term. All outstanding technology fees owed to the vendor as of 9/30/2023 were absolved. The revised agreement has resulted in a monthly revenue share being returned to the Carroll County Sheriff's Office beginning for the month of October 2023. | | |

Carroll County Public Schools

Agency Response Form

OLA has determined that Finding 9 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 is subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Although the specifics of the finding, including the analysis, related recommendation(s), along with CCPS’ responses, have been redacted from this report copy, CCPS’ response indicated agreement with the finding and related recommendations.

Finding 9

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Carroll County Public Schools

Agency Response Form

School Board Oversight

Finding 10

Certain requirements of State law were not incorporated into CCPS ethics policies.

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

| Agency Response | | | |
|--|--|----------------------------|-----------|
| Analysis | | | |
| Please provide additional comments as deemed necessary. | N/A | | |
| Recommendation 10 | Agree | Estimated Completion Date: | Completed |
| Please provide details of corrective action or explain disagreement. | Required state law changes were made to BC Ethics and approved by the Board of Education November 8, 2023. | | |

Carroll County Public Schools

Agency Response Form

Management of Other Risks

Finding 11

CCPS did not sufficiently ensure the propriety of billings and rebates or adequately monitor the performance of its third-party administrators that provide health care claims processing services.

We recommend that CCPS

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

| Agency Response | | | |
|--|---|----------------------------|-----------|
| Analysis | | | |
| Please provide additional comments as deemed necessary. | N/A | | |
| Recommendation 11a | Agree | Estimated Completion Date: | Completed |
| Please provide details of corrective action or explain disagreement. | CCPS established a bi-annual independent audit of the TPA for all medical and prescription drug claims. | | |
| Recommendation 11b | Agree | Estimated Completion Date: | Completed |
| Please provide details of corrective action or explain disagreement. | CCPS established a bi-annual independent audit of TPA prescription drug claims and rebates that began with the 2023 plan year in February 2024. It was not completed by the time the legislative audit was concluded. | | |
| Recommendation 11c | Agree | Estimated Completion Date: | Completed |
| Please provide details of corrective action or explain disagreement. | CCPS established a bi-annual independent audit of TPA medical claims that began with the 2023 plan year in February 2024. It was not completed by the time the legislative audit was concluded. | | |

Carroll County Public Schools

Agency Response Form

| | | | |
|---|--|-----------------------------------|-------------------------------|
| Recommendation 11d | Agree | Estimated Completion Date: | FY2027 (As the budget allows) |
| Please provide details of corrective action or explain disagreement. | The TPA provides reporting on performance measures contained within the guarantees. CCPS has these reviewed by the consultant who assists CCPS with their pricing and bids. CCPS will pursue having these audited with the medical and prescription claims and prescription rebates by the outside audit firm. | | |

AUDIT TEAM

Raymond G. Burton Jr., CPA, CFE
Audit Manager

R. Brendan Coffey, CPA, CISA
Edwin L. Paul, CPA, CISA
Information Systems Audit Managers

Abdullah I. Adam, CFE
Senior Auditor

Edward O. Kendall, CISA
Matthew D. Walbert, CISA
Information Systems Senior Auditors

Daniel G. Johnson, CFE
Jacob M. Kasten
Thomas J. Kraemer
Staff Auditors

Joshua A. Nicodemus
Malcolm J. Woodard
Information Systems Staff Auditors