

Financial Management Practices Performance Audit Report

Somerset County Public Schools

March 2010



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

March 25, 2010

Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Somerset County Public Schools (SCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. SCPS is the second smallest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 10 schools, with fiscal year 2008 expenditures of \$48 million. The objectives of this audit were to evaluate whether SCPS 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, in many cases, SCPS had procedures and controls in place to ensure the safeguarding of assets and the efficient use of financial resources. Nevertheless, our report contains 23 recommendations to SCPS to enhance controls and to implement best practices used to improve operations in such areas as transportation, food services, procurement, facilities, and equipment inventory. For example, SCPS did not have a written policy establishing the criteria for calculating the bus contractors' table of payment rates, which included payments for the cost of the vehicle, bus driver wage rates, and maintenance cost reimbursements. Furthermore, certain components of the formula used to establish bus contractor payment rates should be reevaluated, as the rates appear to result in unnecessarily high payments, and could cost SCPS approximately \$1.4 million over the life of the new buses put into service since 1995. Also, SCPS should establish better controls over critical information technology systems and verify its health care costs. In addition, SCPS should establish a comprehensive performance measurement system to evaluate key operations.

An Executive Summary of our findings can be found on page i, immediately following this cover letter, and our audit scope, objectives, and methodology are explained on page 63. SCPS' response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by SCPS.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Executive Summary

The Office of Legislative Audits has conducted an audit to evaluate the effectiveness and efficiency of the financial management practices of the Somerset County Public Schools (SCPS) in accordance with the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. State law requires the Office to conduct such an audit of each of the 24 public school systems in Maryland and provides that the related audit process be approved by the Joint Audit Committee. Since the Committee approved the audit process in September 2004, we have issued audit reports related to 18 school systems; SCPS represents the nineteenth to date. The approved process included 11 functional areas to be audited at each system. The following are summaries of the findings in these areas at SCPS.

Revenue and Billing Cycle (see pages 9 through 12)

According to SCPS' audited June 30, 2008 financial statements, \$44.5 million in revenue was received from all sources during fiscal year 2008, the majority of which was received via electronic fund transfers from other governmental entities. Procedures and controls for significant revenue sources and for accounts receivable were generally found to be adequate. However, based on our audit, cash receipts received at the central business office were not adequately controlled. For example, checks were not restrictively endorsed upon receipt, collections were not properly safeguarded prior to deposit, and collections were not independently verified to deposit documentation.

Federal Funds (see pages 13 through 15)

Annually, SCPS is subject to an audit of its federally-funded programs (often referred to as the Single Audit, a requirement of Circular A-133, which is issued by the U.S. Office of Management and Budget). Due to parallels between that work and the scope of our audit, we placed significant reliance on the results of the independent audit of the fiscal year 2008 grant activity, for which reported expenditures totaled \$6 million. The related report stated

that SCPS complied, in all material respects, with the requirements applicable to its major federal programs. In addition, with respect to internal controls over compliance with, and the operation of, major federal programs, the auditors reported no matters considered to be material weaknesses and no significant deficiencies.

Although SCPS has processes for the identification of children eligible for Medicaid-subsidized services and for recovering the related costs, it should document the efforts to identify such children. SCPS fully participated in the E-Rate program, which provides financial assistance to schools for telecommunications expenses.

Procurement and Disbursement Cycle (see pages 17 through 21)

According to SCPS records, non-payroll disbursements totaled approximately \$18 million during fiscal year 2008. SCPS used existing governmental contracts as a way to obtain discounts and reduce procurement costs and had appropriate processes in place to control travel expenditures. However, SCPS needs to improve its procurement policies. For example, SCPS did not have any policies governing the procurement of services and the use of single (sole) source procurements and the policies did not require Board approval of any contracts, with the exception of construction-related contracts. In addition, SCPS should improve controls over its automated financial management system used for invoice payment.

Human Resources and Payroll (see pages 23 through 25)

SCPS employed 475 full-time equivalent employees as of October 2008, and associated payroll costs during fiscal year 2008 totaled \$30 million. SCPS uses a centralized hiring and approval process to help control payroll costs. SCPS should improve controls over its automated human resources and payroll systems. Although SCPS had implemented workforce planning for teachers and other instructional personnel, such planning was not comprehensive since it did not address the needs and processes for non-instructional personnel.

Inventory Control and Accountability (see pages 27 through 29)

SCPS should improve its policies and procedures to ensure that accountability and control is effectively maintained for its equipment inventory. In addition, procedures for controlling and maintaining an inventory of textbooks need to be improved and formalized. According to SCPS' audited financial statements, as of June 30, 2008, the capital equipment inventory had a undepreciated cost of \$5.9 million.

Information Technology (see pages 31 through 33)

SCPS maintains and administers a computer network, computer operations, and a number of significant administrative and academic-related information system applications. A master technology plan, which is periodically updated to address current and future school needs, has been developed. SCPS, however, needs to improve computer system access, security, and data back-up procedures, and develop a comprehensive disaster recovery plan to adequately safeguard applications and data systems.

Facilities Construction, Renovation, and Maintenance (see pages 35 through 40)

SCPS maintains 10 schools and several other facilities (such as administration and support offices) with a staff of 37 custodial and maintenance personnel. SCPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Plans are long-term, updated annually, and reflect input from the Board. However, SCPS should establish a performance measurement system and enhance the use of its work order system to better manage its maintenance operations. SCPS should also develop a formal process to identify and address its deferred maintenance needs and document all preventive maintenance performed. Furthermore, SCPS should comply with its procurement policies by obtaining bids for facility related purchases.

Transportation Services (see pages 41 through 48)

SCPS is responsible for the safe transportation of approximately 2,900 eligible students, of which three percent are disabled. SCPS uses several best practices to increase the efficiency of transporting students, such as staggering school start and stop times so buses can provide multiple trips on the same day. However, SCPS should use its automated routing software to help efficiently plan bus routes and develop a written policy establishing the criteria for determining bus contractor rates. SCPS should also reevaluate the formula used to determine payments to bus contractors. This payment formula may result in SCPS paying \$1.4 million more than necessary over the life of new buses put into service since 1995. Also, SCPS should perform an analysis to determine if it is cost beneficial to continue outsourcing its transportation services. In addition, SCPS should ensure the accuracy of amounts paid to contractors, and adhere to a related Board approved policy for fuel reimbursements. Finally, SCPS should expand its use of performance measures to evaluate its transportation operations and ensure its criteria for selecting bus contractors complies with applicable laws.

Food Services Operations (see pages 49 through 53)

SCPS currently uses a number of best practices in its food services operations. For example, it uses available USDA commodities and has procedures in place designed to maximize participation in the National School Meal Program. However, SCPS should improve controls over the procurement of food supplies and develop performance data. Also, the food service operation, which is intended to be self-sufficient, should account for all costs of operations when determining self sufficiency.

School Board Operations and Oversight (see pages 55 through 58)

The five-member Board has adopted policies governing certain operations of the Board and SCPS and exercised oversight of financial activities through independent audits. To enhance oversight, the Board should consider establishing an internal audit function and a confidential reporting process to receive reports of possible fraud, waste, or mismanagement. The Board should also

adopt comprehensive performance measures in key operational areas, such as transportation, food service, and facilities management. Finally, SCPS should ensure that financial disclosure statements are filed by all required individuals.

Other Financial Controls (see pages 59 through 60)

SCPS has appropriate practices in place to govern its cash and risk management. However, SCPS should establish sufficient controls to verify the propriety of its health care costs.

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Background Information

Oversight

Somerset County Public Schools (SCPS) is governed by a local school board, consisting of five elected members and two non-voting student members. The vast majority of SCPS funding is provided by the State and the Somerset County government. In addition, the Maryland State Department of Education (MSDE) exercises considerable oversight 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 SCPS to comply with the requirements and mandates of the federal No Child Left Behind Act of 2001. Oversight by the Somerset County government is limited, although the SCPS annual operational and capital budgets require County approval.

Statistical Overview

According to MSDE student enrollment records, SCPS is the second smallest school system based on student enrollment among the 24 public school systems in Maryland. From fiscal year 2000 through 2009, the total full-time regular and special education pupil population has decreased 4.9 percent from 3,063 to 2,912 with projected increases to 3,000 by 2017. For the 2008-2009 school year, SCPS had 10 schools, consisting of 5 elementary, 1 intermediate, 2 high schools, and 2 other schools. According to the fiscal year 2008 audited financial statements, total expenditures were \$48 million. The largest expenditure category is salaries and wages, including benefits, which accounted for approximately 63 percent of total expenditures during fiscal year 2008. SCPS budgeted full-time positions in fiscal year 2009 totaled 475, which consisted of 341 instructional and 134 non-instructional employees.

Certain statistical information contained in this report was taken from unaudited reports distributed by MSDE and represents the most current comparable information available at the time of our

audit. These reports are based on self-reported data from the 24 Maryland public school systems, and MSDE does not warrant the comparability or completeness of the data.

External Audit of Fiscal Year 2008 Activity

Annually, SCPS engages a certified public accounting firm to independently audit its fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of SCPS federal grant programs (as required by federal regulations). The two resulting audit reports for the 2008 fiscal year were issued in September 2008. Neither report disclosed any material weaknesses or significant deficiencies on SCPS record keeping, processes, and controls.

Chapter 1

Revenue and Billing Cycle

According to SCPS' audited financial statements for the fiscal year ended June 30, 2008, \$44.5 million of revenue was received by SCPS during fiscal year 2008. Due to similarities between the work of the independent certified public accounting firm that audited SCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the audit of the fiscal year 2008 financial statements for revenue transactions, including State, local, and federal sources and other sources of revenue (such as student activity fund¹ cash receipts of \$708,000) and for accounts receivable (for example, amounts due from other governments). The firm's procedural review and testing disclosed no material weaknesses² and no significant deficiencies³. Such testing included the most significant revenue types—the majority of which related to electronic fund transfers from other government

¹ The Board has a fiduciary responsibility to ensure that the school activity fund is used only for intended purposes by those to whom the assets belong. Receipts for the school activity fund are not included in the \$44.5 million revenue total because the Board cannot use these assets to finance its operations.

² A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements (or, with respect to Single Audit, material noncompliance with a type of compliance requirement of a federal program) will not be prevented or detected by any entity's internal control.

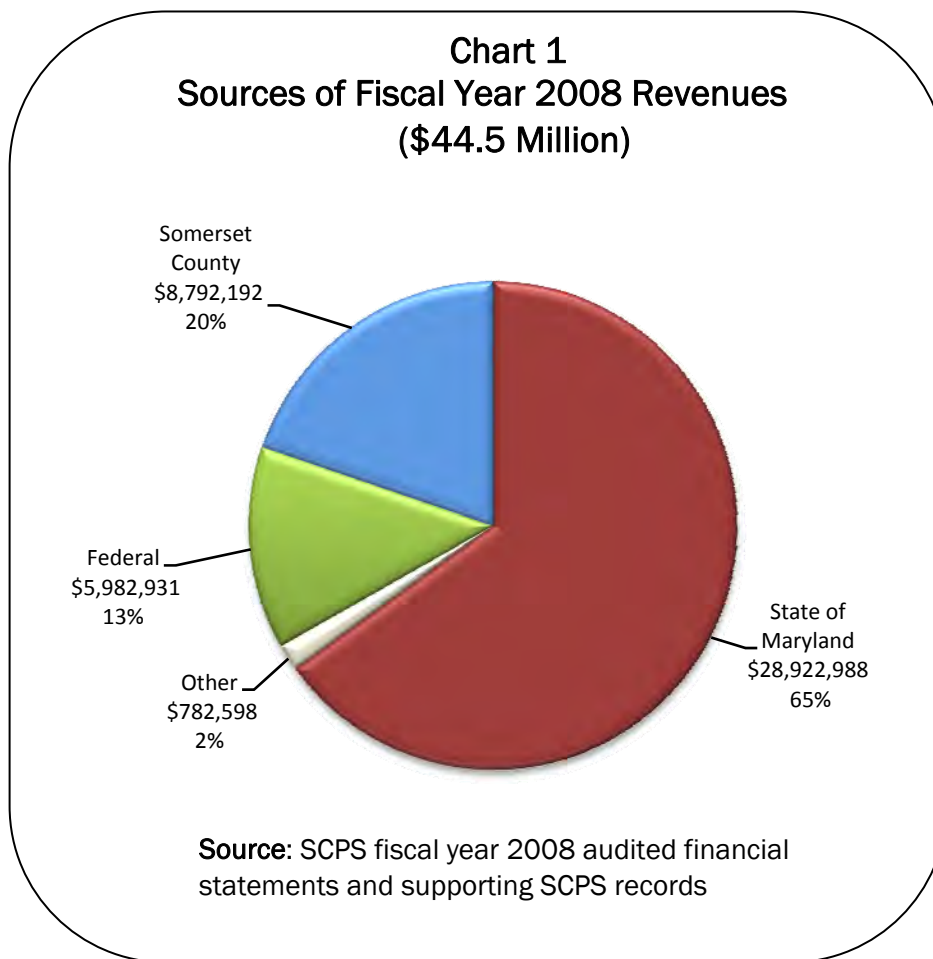
³ A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles (or, with respect to Single Audit, to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program) that is more than inconsequential will not be prevented or detected by the entity's internal control.

entities, as well as school activity funds and food service cash receipts.

Our audit of cash receipts received at the central business office, which totaled \$17.8 million during fiscal year 2008, disclosed that controls over these collections need to be improved.

Background

SCPS revenues consist primarily of funds received from the State, Somerset County, and the federal government. Other sources include receipts from the sale of food, facility rentals, and interest income. Chart 1 (see below) shows the breakdown of SCPS fiscal year 2008 revenues of \$44.5 million by major source.



In addition to the revenues in Chart 1, schools also collected funds for various purposes, such as student activity groups including yearbook and student activity funds. These school activity funds are accounted for separately by each school and are reported in summary in the audited financial statements. According to the audited financial statements, fiscal year 2008 school activity fund receipts totaled \$708,304, and the June 30, 2008 balance was \$264,822.

Controls Over Revenue and Billing Cycle Activity Were Generally Adequate for Significant Revenue Types

Due to similarities between the work of the independent certified public accounting firm that audited the SCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the independent audit of the fiscal year 2008 financial statements. The auditor's procedural review and testing disclosed no material weaknesses or significant deficiencies regarding the collection of any accounts receivable or revenues from local, State, federal and other sources (such as food service operations), including electronic fund transfer transactions. Student activity funds and cafeteria cash operations were also audited by the firm, including a review of internal controls and bank account reconciliations. The independent auditors identified findings involving student activity funds (for example, bank reconciliations were prepared by the same individuals who prepared the checks for the related bank accounts) at certain schools, which were addressed by school management.

Controls Over Cash Receipts Received at the Central Business Office Need to Be Improved

Receipts received by the central business office were not properly controlled; such collections totaled \$17.8 million during fiscal year 2008. Specifically, collections were not recorded and checks were not restrictively endorsed until up to a day after initial receipt. In addition, prior to deposit, cash receipts were stored in an unattended room readily accessible to headquarters employees. Furthermore, we noted that certain monthly checks were not always

recorded on the initial log. Finally, verifications that recorded collections were subsequently deposited were not performed.

Recommendation

1. SCPS should ensure that all receipts are immediately recorded and safeguarded until deposit, and that checks are restrictively endorsed upon receipt. In addition, an employee independent of the cash receipts process should verify that all recorded receipts were deposited.

Chapter 2

Federal Funds

Annually, SCPS is subject to an audit of its federally-funded grant programs (often referred to as the Single Audit, and required by Circular A-133, which is issued by the U.S. Office of Management and Budget). The report on the audit of fiscal year 2008 federal grant activity was issued by an independent certified public accounting firm on September 10, 2008.

In that report, the auditor stated that SCPS complied, in all material respects, with the requirements applicable to its major federal grant programs. In addition, with respect to internal controls over compliance with, and the operation of, major federal programs, the auditors noted no matters considered to be material weaknesses and no significant deficiencies.

SCPS had established a procedure to identify children eligible for Medicaid-subsidized⁴ services but the related efforts should be documented. In addition, SCPS did have a procedure to ensure that the related Medicaid reimbursements were actually received. SCPS also fully participated in the federal E-Rate program, which provides funding for telecommunications expenses.

⁴ The Federal Medical Assistance Program, or Medicaid, is not a grant program under Circular A-133 and is not included in the Single Audit.

Background

SCPS receives funds primarily from the State, Somerset County, and the federal government. Most funds received from Somerset County and from the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2008 expenditures of federal award funds totaled \$6 million.

SCPS Established Adequate Internal Controls Over Federal Grants and Complied with Federal Grant Requirements

Because of the accounting firm's work on SCPS federal fund expenditures, we relied on the auditor's results. Besides expressing an opinion on SCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the fiscal year 2008 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). In its report, the firm stated that SCPS complied, in all material respects, with the requirements applicable to its major federal grant programs. In addition, with respect to internal controls over compliance with, and the operation of, major federal programs, the auditors noted no material weaknesses and no significant deficiencies.

SCPS Should Document Its Efforts to Identify All Students Eligible for Medicaid-Subsidized Services

SCPS should document its efforts to identify all students eligible for Medicaid-subsidized services. According to SCPS records, during fiscal year 2009, there were 342 students deemed eligible for Medicaid-subsidized services. These records also indicate that fiscal year 2008 revenue for Medicaid-subsidized services totaled \$333,182.

SCPS advised us that it had a process in place for identifying students eligible for Medicaid-subsidized services. Specifically, SCPS advised that it compared all students receiving special education services to the Medicaid electronic eligibility verification system to identify Medicaid eligible students. Although this process would help identify all such children, these comparisons were not documented. Once eligible children were identified, SCPS did have a process in place to ensure that all identified Medicaid-eligible costs were recovered.

SCPS Participated in the Federal E-Rate Program

SCPS had a process in place to request and receive reimbursement for technology expenditures from the federal School and Libraries Universal Service Program (E-Rate). SCPS received \$98,564 in federal E-Rate funding for fiscal year 2008. The E-Rate program provides funding to schools for telecommunications expenses (such as, Internet access). The funding is based on the level of poverty and the rural status of the school district.

Recommendation

2. SCPS should document its efforts to identify all students eligible for Medicaid-subsidized services.

Chapter 3

Procurement and Disbursement Cycle

SCPS often used existing contracts procured by other governmental entities (referred to as “piggybacking”) as a way to obtain discounts and reduce procurement costs and had established policies and procedures to control travel costs. However, SCPS needs to improve its policies and procedures over procurements, as well as ensure it complies with existing policies. For example, SCPS did not have any policies governing the procurement of services and the use of single (sole) source procurements, and the policies did not require Board approval of any contracts, with the exception of construction-related contracts. In addition, SCPS needs to improve controls over its automated financial management system used for invoice processing and payment. Numerous employees had incompatible system capabilities, including the ability to post payment transactions, add vendors, and print checks.

Background

SCPS uses a manual system for purchasing goods and services and an automated system for paying the related invoices. Requisitions are manually prepared by departments and are subject to supervisory approval within the requesting departments. Purchase orders, contracts, solicitations, and bids are usually handled by the ordering department with the exception of construction and other facility related acquisitions, which are administered by the Facilities and Maintenance Department, and information technology purchases, which are handled by the Department of Technology. Purchases of goods over \$25,000 are required to be formally bid, and are required to be approved by the area supervisor and the

Director of Finance. Contracts exceeding \$25,000 must be approved by the Superintendent or a designee.

The ordering department documents the receipt of goods and services by signing a copy of the related purchase order, which is forwarded to the accounting department where an accounting associate ensures that the purchase order, packing slip, and invoice are in agreement. Payments are then processed on the automated system by the finance office's accounts payable unit. According to SCPS records, non-payroll disbursements totaled \$18 million during fiscal year 2008.

SCPS Used Several Best Practices to Address Its Procurement Needs and Control Travel Costs

SCPS had instituted certain best practices that should enhance the cost effectiveness of its procurements. These include “piggybacking” onto contracts already procured by the State and other local governments, and participating in cooperative purchasing organizations. These practices saved SCPS certain costs associated with the procurement of the contracts and may provide larger discounts as a result of the combined purchasing power of multiple entities. In addition, SCPS had written policies and procedures for the procurement of goods including the use of procurement cards.

Furthermore, SCPS had established adequate policies and procedures to control employee travel costs, including requirements that all travel reimbursements be approved by departmental supervisors, that expenses be documented with itemized receipts, and that expenses, such as meals and mileage, be subject to certain limits. Out-of-state travel is required to be reported to the Superintendent and the Board. Travel expenditures for fiscal year 2008 totaled approximately \$123,000 according to SCPS records.

SCPS Should Improve Its Procurement Policies and Procedures

SCPS' policies did not adequately address all procurements that it made.

- Unlike other school systems, SCPS' policy did not require Board approval of any contract, except those related to construction. For fiscal year 2008, there were 111 vendors who received payments of more than \$25,000. Payments to these vendors totaled approximately \$14.9 million.
- Policies do not address the procurement of services from vendors, such as the need to competitively bid those purchases. The policies also did not address the use or applicability of sole source procurements and related documentation requirements justifying such purchases. Although we were advised that such procurements were infrequent, the policies should recognize all procurement methods and associated requirements. For example, for sole source procurements, the rationale for using this procurement method should be documented and, if over a specified dollar amount, the contract should be reviewed and approved by the Board. According to SCPS' records, contracted services totaled approximately \$1.7 million for fiscal year 2008.

SCPS Had Not Established Adequate Invoice Processing and Payment Controls

SCPS had not established adequate controls over its automated invoice processing application. Specifically, we noted that 13 employees had been granted access that allowed them to perform critical incompatible functions (such as entering and posting payment transactions, adding vendors, and printing vendor checks). One of these employees routinely performed these incompatible duties. In addition, access to the check printer and signature plate were not properly restricted.

SCPS Should Comply with Its Procurement Policies and Better Document Procurement Decisions

SCPS did not always comply with its policies by obtaining goods through a competitive procurement process nor adequately document certain procurement decisions. Specifically, SCPS policy requires that procurements for goods over \$25,000 are to be formally bid and procurements between \$10,000 and \$25,000 require three written price quotes from vendors. Three oral price quotes are required for procurements between \$5,000 and \$9,999. That policy also requires the preparation of contracts with the lowest responsible bidders. Our test of 15 fiscal year 2008 and 2009 disbursements totaling \$654,000 disclosed that 3 of these disbursements totaling \$208,600 were not competitively bid. These purchases were for heating oil (\$25,400), playground equipment (\$19,600), and computer equipment (\$163,600). No contract existed with the vendor that provided the heating oil and, therefore, SCPS could not ensure that rates charged were proper. Furthermore, SCPS did not verify that the quantity of fuel paid for was actually received; this vendor was paid a total of \$311,000 during fiscal year 2008.

During fiscal year 2008, SCPS purchased certain computer items totaling approximately \$40,749 under a University System of Maryland (USM) contract. However, SCPS did not document that it received the specified discounts from the list price. USM's contract allows for Maryland school systems to purchase computer equipment and associated peripherals from selected vendors for an agreed upon percentage discount from the manufacturer's suggested retail price.

Although we were advised that SCPS performed an analysis to determine whether extending contracts was more beneficial than re-bidding the contract, the analyses were not documented. One contract (for waste management) has been renewed annually for at least five years; the amount paid to this vendor in fiscal year 2008 totaled \$82,228. Another contract (for hosting services) was recently renewed for an additional three years for a total of \$62,492. In general, when contracts expire, the original terms should be reevaluated to ascertain whether the contract represents the best value.

Recommendations

3. SCPS should amend its existing policies to require Board approval for all procurements over a specified amount and to address all categories of purchases, including services and sole source procurements.
4. SCPS should improve controls over its invoice processing system by segregating incompatible functions and restricting access to critical system functions to only those employees who need the capabilities to perform their job duties. Furthermore, SCPS should restrict access to the signature plate to employees who are independent of the invoice processing functions.
5. SCPS should obtain goods through a competitive procurement process in accordance with its policies and fully document procurement decisions. Furthermore, SCPS should ensure that it receives available discounts and that it documents analyses regarding extending contracts without rebidding.

Chapter 4

Human Resources and Payroll

SCPS uses automated systems to maintain human resources information; to record employee time and track leave; and to process and record payroll transactions. In addition, SCPS uses a centralized hiring and approval process to help control payroll costs. However, SCPS should address certain procedural deficiencies with respect to payroll processing. These deficiencies included unnecessary and incompatible access capabilities given to certain personnel on the SCPS payroll system and a lack of supervisory review of certain payroll transactions. Additionally, although SCPS had implemented workforce planning, it did not address the needs and processes for employees other than teachers and related instructional positions.

Background

Payroll costs represent the largest single cost component in the SCPS budget. According to SCPS records for fiscal year 2008, salary, wage, and benefit costs totaled \$30 million. According to MSDE reports, as of October 2008, SCPS had 475 full-time equivalent employees, of which 134 (28 percent) were non-instructional. The 6.1 to 1 ratio of SCPS students to full-time equivalent employees (both instructional and non-instructional) is lower than other similarly sized school systems (see Table 1 on the next page).

Table 1
Comparison of Student to Employee Ratios – Fall 2008 (Unaudited)

School System	Number of Students (as of September 30, 2008)	Number of Full-Time Equivalent Employees (as of October 1, 2008)	Student to Employee Ratio
Somerset Co.	2,912	475	6.1 to 1
Talbot Co.	4,419	607	7.3 to 1
Garrett Co.	4,425	643	6.9 to 1
Dorchester Co.	4,560	696	6.6 to 1
Kent Co.	2,219	355	6.3 to 1

Source: MSDE Student /Staff Publications

Note: School systems selected for comparison are those with student enrollments closest in number to SCPS.

Human Resources and Payroll Internal Controls Need to Be Strengthened

SCPS did not establish adequate internal control over its automated payroll systems and related processes.

- One employee had been granted unrestricted access to all critical payroll functions in the automated payroll system. These critical functions include adding and deleting employees, changing employee addresses, changing employee pay rates and direct deposit account information, entering time and attendance information, and preparing checks. In addition, this employee also had access to the check printer and signature plate.
- SCPS generated reports of payroll transactions and adjustments recorded and processed each pay period for independent review and approval. However, the employee responsible for approving these reports did not use supporting documentation to verify the propriety of the adjustments.
- Information (leave, employee data, and salary) recorded in the payroll system was not reviewed or approved after initial recordation. This could allow for inaccurate adjustments to employee records without detection.

Workforce Planning Should Be Expanded to Include Non-Instructional Positions

Although SCPS had implemented workforce planning for instructional positions, SCPS should expand its workforce planning efforts to include non-instructional positions which, as of October 2008, represent 28 percent of its workforce (134 non-instructional professional and support staff, out of 475 full-time equivalent positions). The SCPS Master Plan sets the strategic direction and provides coordination and focus for initiatives to address challenges faced by SCPS. The Plan includes a number of objectives and strategies to address human resource needs—which is evidence of workforce planning. However, it addresses only the recruitment and retention of highly-qualified instructional staff (that is, teachers and certain instructional aides).

Non-instructional positions play a key role in the ultimate success of SCPS in providing quality education and, therefore, should be included in workforce planning.

Recommendations

6. SCPS should ensure that payroll functions are adequately separated and that critical system access capabilities are granted in accordance with those functions. In addition, SCPS should ensure that all payroll-related transactions and information recorded in the system are reviewed and approved, at least on a test basis, by an employee independent of the payroll processing function using supporting documentation.
7. SCPS should expand its workforce planning to include key non-instructional positions in critical operational units.

Chapter 5

Inventory Control and Accountability

Our audit disclosed that SCPS has developed written procedures and policies for the acquisition and disposal of assets. However, SCPS could improve its controls and procedures which govern accountability over its equipment inventory. Additionally, SCPS had not established formal procedures for controlling textbooks, and processes established to maintain a comprehensive inventory of textbooks need improvement.

Background

According to SCPS audited financial statements, as of June 30, 2008, the undepreciated cost of capital equipment was \$5.9 million. Equipment items include computers, audio and video items, and various other items. All furniture and equipment items with a cost of \$1,000 or greater are to be included in the centralized inventory system. Generally, SCPS orders materials and supplies on an as-needed basis and does not maintain a central inventory location.

Existing Controls and Procedures Over Equipment Should Be Improved

While SCPS had written policies regarding the acquisition and disposal of assets, we noted several areas where controls and procedures over equipment were in need of improvement.

- SCPS policies and procedures did not address periodic physical inventories, reconciliation of the physical count to the inventory records, segregation of duties, and reporting of lost and stolen items. Furthermore, those policies did not address accountability and control over sensitive items (such as computers and other electronic equipment) costing less than \$1,000, as well as the requirements for independent review and approval of adjustments made to the equipment detail records.
- SCPS stated that a physical inventory of equipment may be performed every three to five years for non-IT equipment and annually for IT equipment. However, SCPS could not provide any documentation indicating when the last inventories were performed.
- SCPS detail records frequently lacked information to specifically identify individual items. For example, 227 of 912 items in one equipment category lacked a property tag number and, if applicable, a serial number to identify the items. In addition, IT inventory records did not include the purchase date and item cost. Furthermore, the official records did not include certain IT equipment items (such as digital and video cameras); these items were only recorded on individual schools' inventory records.

Textbook Procedures Should Be Enhanced

Procedures for accounting for textbooks need to be enhanced and formalized. Each school performed an annual physical inventory of its textbooks, and SCPS used the results of the inventory to make purchasing decisions and to redistribute excess books to other schools instead of making new purchases. However, even though each school maintained perpetual inventory records of textbooks, there were no documented comparisons of the number of books on

the inventory records to the number of books counted during the physical inventories. During fiscal year 2008, textbook expenditures totaled approximately \$689,000, according to SCPS records.

Recommendations

8. SCPS should develop comprehensive written policies and procedures to govern the recording, accounting, and safeguarding of equipment, including sensitive items costing less than \$1,000.
9. SCPS should develop formal policies and procedures for accounting and controlling its textbooks, which include a requirement that the physical count of textbooks be compared to the inventory records.

Chapter 6

Information Technology Services

SCPS maintains and administers a computer network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at the SCPS central offices. SCPS has established a written technology plan, which includes a comprehensive assessment of the technical needs of the schools. The plan provides a vision and mission for technology in SCPS and includes measurable goals and objectives.

However, we identified several areas in need of improvement. SCPS needs to strengthen its policies and procedures over passwords and accounts, and data back-up. SCPS should monitor security events involving critical servers, adopt physical security and environmental controls for the server room, and develop a comprehensive disaster recovery plan.

Background

SCPS operates a wide area network connecting the various schools within Somerset County. The SCPS Department of Technology maintains and administers the SCPS network, academic and human resources information applications, and other general computer operations.

Technology Plans Were Developed to Address Current and Future Needs of SCPS

SCPS has developed a written technology plan, which includes a comprehensive assessment of the technology needs of the schools. The plan identifies each school's information technology (IT) needs and the actions to be taken to address those needs. The plan also includes measurable goals and objectives, and addresses professional development and IT related budgets. The plan is periodically updated and monitored for implementation status of identified actions.

Steps Should Be Taken to Ensure Adequate Security Over IT Applications

Enhancements should be made to existing procedures to ensure that all access is appropriate – Our review disclosed several deficiencies in computer application security which increased the vulnerability of certain SCPS automated systems, programs, and data. SCPS' policies for controlling passwords did not require automatic password expirations nor establish a minimum password length (to make the passwords more difficult to hack). In addition, logging and reporting of security events for critical servers was not enabled. Furthermore, unnecessary user accounts existed on the server where the Financial and Payroll applications resided. Finally, software updates had not been installed on its production database, which made the database vulnerable to security threats and to unauthorized modifications of critical production data.

Physical controls over data processing functions should be improved – The computer server room was controlled by a master key; however, we determined that 44 individuals, who did not need access to this room, were provided a key to the room. In addition, the server room was not equipped with fire prevention devices. Furthermore, although critical back-up files were created, those files were stored in the same room as the original data. Accordingly, critical data might be lost if the facility was destroyed in a disaster.

SCPS Should Develop a Comprehensive Disaster Recovery Plan

SCPS did not have a comprehensive disaster recovery plan (DRP) for its computer systems. Specifically, SCPS had made no provision for the following critical elements of a DRP:

- Alternate site processing arrangements
- Current and complete list of required hardware and software components
- Current and complete network restoration procedures
- Current and complete list of applications prioritized for recovery
- Procedures for testing the DRP

Recommendations

10. SCPS should implement appropriate security measures to safeguard its applications and data systems by improving password protection, enabling logging and reporting of all critical security events, eliminating unnecessary accounts, and installing software updates. SCPS should also establish adequate physical controls and safeguards for its computer rooms and store backup copies of data from critical servers at an appropriate offsite location.
11. SCPS should develop and implement a comprehensive disaster recovery plan.

Chapter 7

Facilities Construction, Renovation, and Maintenance

SCPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Six-year plans are prepared and updated annually, and reflect input from the Board. SCPS has followed a number of best practices that should enhance project results and cost effectiveness in its Facilities and Maintenance Department.

Nevertheless, for its maintenance and custodial operations, SCPS had not established formal performance measures and related benchmarks, and did not fully use its work order system to assess program efficiency for both custodial and maintenance operations. Also, there was a lack of documentation that preventive maintenance had been performed, and SCPS should consider implementing a formal customer feedback program. Furthermore, SCPS did not formally determine the extent of its deferred maintenance needs. Finally, SCPS did not solicit bids for several facility-related purchases.

Background

SCPS maintains 10 schools and other administrative and support offices with a staff of 30 custodial and 7 maintenance personnel. SCPS uses a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. In the fiscal year 2010 CIP, necessary major renovations, repairs, and systemic improvements to existing schools over the next six years were estimated to cost \$24.3 million.

Table 2 below compares SCPS fiscal year 2007 plant costs (that is, maintenance and operational costs) with other similarly-sized school systems in Maryland. The table presents two measures used to assess plant costs: cost per student and cost per square foot. These statistics show that SCPS facilities operations and maintenance costs are generally higher than its peer group.

Table 2 Plant Cost Comparison Per Student and Per Square Foot Fiscal Year 2007 (Unaudited)					
School System	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student ❶	Per Square Foot		
Somerset Co.	\$3,235,377	\$1,112.96	\$6.47	172.06	500,178
Talbot Co.	4,799,956	1,095.13	6.95	157.61	690,787
Garrett Co.	4,505,304	982.19	5.64	174.23	799,176
Dorchester Co.	4,412,890	955.17	5.31	179.74	830,410
Kent Co.	2,803,692	1,203.82	5.23	230.19	536,108
Average of Comparable Schools	\$4,130,461	\$1,059.08	\$5.78	185.44	714,120

Sources: MSDE Financial Data, MSDE Fact Book, Maryland Public School Construction Square Footage Data (most recent data available)

❶ - Based on Average Daily Enrollment 2006-2007

A Number of Best Practices Were in Place to Enhance the Efficiency and Effectiveness of the SCPS Facilities and Maintenance Department

SCPS has instituted several best practices to enhance project results and cost effectiveness in its Facilities and Maintenance Department.

- A six-year Capital Improvement Plan has been developed that reflects a comprehensive process involving the Board, public, and county officials.
- Various processes have been implemented in order to reduce the need for additional construction, including the use of portable classrooms and the periodic evaluation of school district boundaries.
- SCPS has recently implemented an in-house energy conservation program directed toward reducing energy costs.
- SCPS participates in a consortium with other Eastern Shore entities to purchase energy at the best possible terms for the members of the consortium.

Certain Processes Should Be Implemented to Increase the Effectiveness of Maintenance and Custodial Operations

SCPS should develop a performance measurement system that establishes standards and expectations for maintenance and custodial operations – SCPS had not implemented a performance measurement system to measure and assess the efficiency of its maintenance and custodial operations, both for internal self-evaluation purposes and for comparisons with other systems. Furthermore, we were informed that SCPS had not compared the costs of maintenance and custodial operations to similarly-sized districts in Maryland or other states. Comparability with other systems in Maryland could not necessarily be done unilaterally since there would need to be a consensus on the measures and methodology; however, other states (for example,

Michigan, Florida, and Minnesota) have established measures and benchmarks (such as maintenance expenditures per square foot) to assist their school systems in the evaluation of costs and practices.

Use of the manual work order system could be enhanced to improve management of maintenance operations – SCPS uses a manual work order system to assign maintenance work and track completion of assigned tasks. However, SCPS was not fully using the system. Specifically, SCPS did not record estimated time and cost information, the use of which could help SCPS to control costs and assess performance of the departments and related personnel. Although all work orders were reviewed along with information related to the actual resources used to perform the tasks, no information was recorded indicating the resources expected to be used to perform the tasks, based on either past history or industry guidebooks. The establishment of time and cost estimates before work commences would enhance the department's efforts to evaluate efficiency and performance.

SCPS did not maintain documentation to substantiate that required preventive maintenance work had been performed – SCPS had implemented a preventive maintenance program that included, among other details, preventive maintenance (such as checking the operation of air conditioning units and inspecting boilers) and custodial task schedules and requirements. SCPS personnel indicated that periodic inspections and evaluations of preventive maintenance and custodial work were conducted; however, they did not document that all scheduled preventive maintenance tasks were performed.

SCPS should consider implementing a formal customer feedback program for facilities operations and maintenance – SCPS does not use a formal customer feedback program to address matters pertaining to the care and upkeep of its facilities. A formal feedback program can be an effective tool to gauge how well the department is serving the customers and to make needed adjustments to improve service.

SCPS Should Develop a Formal Process to Identify and Address Its Deferred Maintenance Needs

SCPS' capital improvement planning process did not formally determine the extent and impact of its deferred maintenance. Deferred maintenance is a practice of allowing infrastructure to deteriorate by postponing prudent but non-essential repairs to save cost, labor, and material. Generally, a policy of continuing deferred maintenance will ultimately result in higher costs than if normal maintenance had occurred. Although SCPS scheduled major maintenance repairs as part of its capital improvement plan, SCPS had not performed an analysis to identify, quantify, or prioritize maintenance projects that have been deferred.

Bids Should Be Obtained for Facility-Related Purchases

The Facilities and Maintenance Department did not always obtain quotes or bids for facility-related purchases. As previously noted, SCPS' policy states that procurements over \$25,000 are to be formally bid, procurements between \$10,000 and \$25,000 require three written price quotes from vendors, and procurements between \$5,000 and \$9,999 require three oral price quotes from vendors. Our test of 13 invoices totaling approximately \$1.2 million disclosed that no bids or quotes were received for 4 of these purchases totaling \$52,168. One of these purchases was for bleachers totaling \$26,998, and the remaining three purchases (three separate projects, each in excess of \$5,000) were for masonry work totaling \$25,170. The masonry work was performed by an SCPS employee, which appears to violate SCPS' ethics policy.

Recommendations

12. SCPS should develop a performance measurement system that establishes standards and expectations for maintenance and custodial operations, and report the measurement results to the Board. SCPS should also fully use the existing work order system for maintenance operations by recording estimated labor and material costs and using the system as a performance measurement and budgeting tool. Additionally, SCPS should retain documentation of all preventive

maintenance performed. Finally, SCPS should consider implementing a formal customer feedback program to assist in evaluating performance and improving maintenance and custodial operations.

13. SCPS should develop a formal process to identify, prioritize, plan, and report all deferred maintenance.
14. SCPS should comply with its procurement policy by obtaining bids for facility-related purchases and ensure that contract awards do not violate its ethics policy.

Chapter 8

Transportation Services

SCPS used a number of recognized best practices to increase student transportation efficiency, such as staggering school arrival and dismissal times to enable certain buses to perform multiple runs, combining middle school and high school bus runs to take advantage of their close proximity and using central collection points for transportation to the technical school.

Nevertheless, we noted areas where improvements could be made. For example, SCPS did not use its automated routing software to help efficiently plan bus routes and had not conducted any recent documented cost benefit analysis of its decision to outsource student transportation services. Also, SCPS did not have a written policy establishing the criteria for determining bus contractor payment rates. Furthermore, the methodology used to reimburse the bus contractors for the purchase cost of buses may result in paying \$1.4 million more than necessary for buses purchased over a 15-year period. In addition, SCPS had not developed formal performance measures to monitor and evaluate the efficiency and effectiveness of transportation services.

Background

SCPS is the second smallest school system in Maryland based on student enrollment. Approximately 2,900 students are eligible for student transportation. SCPS students were transported on a fleet of 34 buses owned by 33 contractors hired by the school system. Fiscal year 2008 transportation costs totaled \$2.3 million. Of the 778,284 reported route miles for the 2007-2008 school year, 14 percent were for transporting disabled students.

Table 3 below shows that SCPS' cost per rider is among the lowest of the four school systems that are of comparable size. SCPS cost per mile is lower than three of the four comparable school systems.

Table 3
Comparison of Transportation Costs per Rider and per Mile
Fiscal Year 2008 (Unaudited)

School System	Number of Eligible Riders		Miles (in thousands)		Expenditures (in thousands)	Average Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
Somerset Co.	2,832	77	669	110	\$2,270	\$780	\$2.91
Talbot Co.	2,838	13	595	27	2,541	891	4.08
Garrett Co.	4,413	45	1,069	70	3,893	873	3.42
Dorchester Co.	4,370	81	829	123	2,950	663	3.10
Kent Co.	1,951	47	482	121	1,727	864	2.86
Average of Comparable Schools	3,393	47	744	85	\$2,778	\$823	\$3.37

Sources: MSDE 2007-2008 Fact Book

Several Best Practices Were In Place to Enhance Student Transportation Services

The SCPS transportation department used several practices to enhance bus operations:

- Staggering school arrival and dismissal times so buses can make multiple runs on the same day
- Using central collection points for transportation to the technical school to reduce the need for additional buses to transport the affected students
- Combining middle school and high school students on the same bus to take advantage of the close proximity of the schools and to avoid sending multiple buses
- Assigning bus routes to drivers based on their proximity to the routes to reduce the number of miles driven with no students on the bus (deadhead miles)
- Providing transportation services only to students residing outside the limits specified for walking to school or when the conditions for walking are not considered safe

Routing Procedures Should Be Enhanced and Routing Software Should Be Used

Bus routing procedures should be more comprehensive –

SCPS needs to better document processes used to plan, review, and revise bus routes and ensure that such processes include all appropriate factors. Specifically, SCPS does not have adequate documented procedures that instruct routers on how to plan, review, and revise bus routes. The existing procedures provide only a general guideline for routing and do not establish documented policies for related areas such as bus loads (capacity) and maximum student ride times.

SCPS should use its automated routing software –

SCPS does not use its electronic routing software to assist in developing efficient bus routes. Recognizing the potential benefits of an electronic routing system, SCPS had previously purchased routing software in fiscal year 2006 for approximately \$5,000; however, usage of the software was discontinued because SCPS determined that it was easier to formulate and update routes by hand.

Using routing software is a recognized best practice that can be used to reduce the time it takes to design efficient routes, reduce student ride time, and help ensure that routes minimize the number of buses needed to transport students. In addition, the use of routing software can automate current manual processes, such as electronically mapping student addresses and developing routes.

It is current SCPS practice to use existing bus routes and then make changes on an as-needed basis versus periodically reviewing routes for efficiency. SCPS' transportation department relies on school administrators and bus drivers to notify it of problems with existing bus routes (for example, the number of students exceeds the bus capacity). Consequently, this policy forces personnel from the transportation department to correct problems reactively without necessarily ensuring the most efficient solution is found. This practice could also have a potentially negative impact on route efficiency. Our analysis of SCPS' 2007-2008 and 2008-2009 bus stop forms prepared by bus drivers, which listed the number of students at each stop on given days, disclosed that on 77 routes the buses were operated on average at 74 percent of SCPS

capacity.⁵ This rate is reduced to 59 percent when considering only elementary school bus routes. Implementation of the electronic routing system could help in the development of more efficient bus routes and assist in the periodic evaluation of routes.

Bus Contractor Rates Paid Were Not Based on Documented Criteria

SCPS does not have a written policy establishing the criteria for calculating the bus contractor table of payment rates, which included an annual per vehicle allotment (PVA), bus driver wage rates, maintenance and fuel costs per mile, and auxiliary fixed costs per bus. In addition, SCPS personnel informed us that the bus rates are adjusted each year to be competitive with similarly-sized local education agencies (LEAs) by comparing its rates to other schools' rates and then selecting rates that are close to the other LEAs (primarily Wicomico County). For example, SCPS' PVA is largely based on that used by Wicomico County Public Schools. SCPS had no policy to specify the method for establishing the various rates and no documentation to substantiate the rates actually used.

More Can Be Done to Ensure Cost-Effective Operations

Contractor pay should be periodically revised based on

current market conditions – SCPS pays contractors an annual per vehicle allotment (PVA) for each bus. The PVA formula includes reimbursement for the cost of the bus and a flat rate of return on the investment (ROI). SCPS contractors receive the annual PVA payment for the life of the bus or 15 years. In this regard, Maryland law allows SCPS to use a 15-year life of the bus, rather than the 12-year life used by most other LEAs. We were advised that SCPS has, for at least the past 15 years, been paying bus contractors an annual PVA based on amounts paid in other school systems (primarily Wicomico County). Specifically, SCPS was using a flat 9.5

⁵ Like other LEAs, SCPS uses a lower capacity rate than the manufacturer's stated bus capacities. For example, SCPS determined the capacity for high, middle, and elementary schools routes at 48, 50, and 72 respectively based on 72 passenger buses (manufacturer stated capacity).

percent return on investment (ROI), which was not adjusted to reflect market conditions. In addition, the cost reimbursement component of the PVA was calculated as if the bus will only be in operation for 10 years. Thus, since SCPS uses a 15-year bus life, bus contractors are paid 150 percent of the bus' cost over the life of each bus (10 percent of the cost each year for 15 years).

The PVA is one of several elements used to determine payment amounts to bus contractors. Bus contracts usually run for one-year terms but are renewable from term-to-term without either party being required to give notice of renewal and generally are renewed for the same length of time as the approved useful life of the bus (15 years).

To estimate the financial impact to SCPS of paying 150 percent of the bus cost and using a 9.5% ROI over the life of a bus, we calculated the PVA for each of the past 15 years (1995 to 2009) using a 15-year cost reimbursement rate and the prime interest rate⁶ as the ROI. Compared to our PVA results, SCPS' annual PVA payments per bus were from \$1,682 to \$6,111 higher than the payments would have been had the prime rate that existed at the time of purchase and a 15-year cost reimbursement been used in the calculation. The effect is that, over the 15-year life of the 29 new buses put into service by contractors since 1995, we estimate that SCPS will pay out approximately \$1.4 million more than if the prime rate and a 15-year cost reimbursement rate had been used. Of the \$1.4 million, \$629,000 has already been paid out through fiscal year 2009 and, unless changes are implemented, the remaining \$808,000 will be paid out during fiscal years 2010 to 2023. This analysis does not include the effects for any new bus purchases that may be made after fiscal year 2009 and the lost interest income that could have been earned by SCPS on the excess amounts paid.

Bus contractor selection criteria should be revised – SCPS, like many other Maryland school systems, uses an application process and selects bus contractors based on certain criteria. However, one of the requirements to be a SCPS bus contractor is residency in Somerset County. SCPS believes this requirement

⁶ We used the prime rate since this rate was recommended in a November 1999 study commissioned by another Maryland school system. Also, in 1975 an MSDE study recommended the prime rate as a reasonable prevailing interest rate.

helps promote business within the County. However, this policy precludes bus contractors outside of the County from providing student transportation services. According to an Assistant Attorney General we contacted, this policy may be in violation of State and federal laws dealing with equal protection and privileges and immunities.

Periodic cost benefit analysis should be performed – SCPS

had not formally reevaluated its decision to have a bus fleet owned by contractors. SCPS believes that a contractor-owned fleet is beneficial due to the up-front capital outlay needed to buy buses, the cost to operate maintenance shops, and the personnel-related costs (such as healthcare) associated with an in-house fleet. However, experiences in other states and Maryland school systems have found that an in-house fleet, or even a mixture of an in-house and outsourced fleet, may be more cost beneficial.

Fuel Payment Rates Were Not Reduced as Required by

Board Policy – SCPS did not reduce fuel rate payments made to bus contractors to reflect a decline in fuel prices. Specifically, in December 2007, the SCPS Board approved a sliding fuel scale that allows for a monthly increase or reduction of \$.01 per mile in the fuel payment rate for every \$.07 increase or reduction in the cost of fuel. However, while the bus contractors received the proper fuel adjustment increases, in December 2007, the transportation director decided not to reduce fuel payments to fully reflect declining fuel prices (that is, the maximum monthly reduction was limited to \$.03 per mile). This decision was not approved by the Board.

We reviewed fuel payment adjustments for November 2008 through February 2009 and noted that SCPS was paying bus contractors \$.05 to \$.15 per mile more than the amount calculated per the sliding scale. This resulted in overpayments of \$4,400 to \$11,900 per month, for a total overpayment of \$34,429 for the aforementioned period. After we brought this situation to SCPS' attention, we were advised that the Board decided not to recover these overpayments, although SCPS stated that it would adhere to the fuel policy in the future.

Control Over Payments to Bus Contractors Should Be Enhanced

SCPS did not ensure the accuracy of certain payments to the bus contractors. At the beginning of each school year, the contractors' drivers completed a manifest, which included the total time and miles driven on each route. SCPS uses the data recorded on these manifests to calculate the bus driver wages and maintenance and fuel cost components of the monthly payments to the contractors. While SCPS performs observations each year for half the routes, which included documenting the total time and mileage of the route, it does not compare for accuracy the data from its observation to the data reported by the contractors. Our limited test identified some differences that resulted in small overpayments, thereby demonstrating that a comparison of SCPS' observations to contractor supplied data could help ensure the propriety of payments to the contractors

Performance Should Be Measured and Reported Regularly to the Board

SCPS did not have a formal performance measurement system for its transportation services. Performance measures that could be developed and reported regularly to the Board include ridership compared to bus capacity, transportation cost per student, bus operating costs per mile, and number of accidents. This data should also be used to provide ongoing monitoring of performance and ensure overall accountability. The Government Finance Officers Association recommends that program and service performance measures be developed and used as an important component of long-term strategic planning and decision making.

Recommendations

15. SCPS should better document all procedures used to determine bus routes, including all appropriate factors that comprise the route planning process and should fully use its routing software to help ensure efficient services.

16. SCPS should establish a written policy on how components of the bus contractor table of rates are to be determined each year. SCPS should maintain documentation that shows each year how the rates were determined and that the policy was adhered to.
17. SCPS should analyze bus contractors pay (including the PVA) to determine whether the rates are reasonable and necessary. In addition, SCPS should ensure that its bus contractor selection requirements comply with all applicable laws and regulations. Furthermore, SCPS should periodically prepare a documented analysis to determine whether continued use of outside contractors to provide student bus services is, in fact, cost beneficial for the school system. Finally, SCPS should adhere to the Board approved policy for fuel reimbursements to bus contractors.
18. SCPS should use its observations of bus route times and distances to ensure that the applicable payments to contractors accurately reflect the actual bus services provided.
19. SCPS should develop a performance measurement system for transportation services and periodically report the results to the Board.

Chapter 9

Food Services Operations

SCPS has implemented a number of best practices to help reduce food service costs, such as participation in the United States Department of Agriculture (USDA) commodity program and membership in a multi-county food-purchasing cooperative. SCPS also has adequate procedures in place to identify students eligible for free and reduced-price meals under the federal National School Meals Programs. However, SCPS should improve internal controls over the procurement of food supplies and properly reflect all costs in determining its food service department operating costs. In addition, SCPS should establish a performance measurement system for food services.

Background

Except for two schools (the technical school and an alternative learning school), SCPS has a cooking cafeteria in which food is prepared and served at each of the other eight schools. SCPS has 25 full-time and 7 part-time cafeteria employees (as of June 2008). Fiscal year 2008 food service sales totaled \$1.3 million. SCPS reports for food service operations indicated that food service expenditures exceeded revenues by \$47,059 for fiscal year 2008. See Table 4 on the next page for information regarding food services.

Table 4
Food Service Activity for Fiscal Year 2008

Average cost per meal		\$ 2.58
Number of meals served		
Breakfast		
Paid	47,697	
Free	91,043	
Reduced Price	10,799	
		149,539
Lunch		
Paid	76,531	
Free	187,725	
Reduced Price	26,976	
		291,232
Meal Equivalents		
A La Carte Meal	72,254	
Snacks	3,720	
Summer Meals	6,292	
		82,266
Total Meals Served		<u>523,037</u>
Schools		
Full Kitchens		8
Full-time Employees		25
Part-time Employees		7
Revenues		
Federal		
Cash Payments	\$ 809,996	
USDA Commodities	63,844	
		\$ 873,840
Sales and other sources		348,994
State aid		81,654
Total Revenue (all sources)		\$ 1,304,488
Total Expenditures		<u>1,351,547</u>
Excess Expenditures over Revenues		<u>\$ (47,059)</u>

Source: SCPS Fiscal Year 2008 Audited Financial Statements, MSDE 2008 data,
and SCPS data

Certain Best Practices Were in Place

SCPS has implemented several practices to improve food service operations – These measures helped to both increase operational efficiency and reduce food supply and material costs.

- SCPS participated in the United States Department of Agriculture (USDA) commodities program, which is a free food program. According to SCPS records, \$64,000 in USDA commodities was received in fiscal year 2008.
- SCPS participated in a food purchasing cooperative in order to maximize its buying power and reduce food costs.
- SCPS maximized the use of convenience foods (heat and serve items) to reduce the labor needed to prepare foods.
- SCPS monitored food consumption, adjusted food production, and reheated certain items to reduce waste.

SCPS used several best practices to encourage participation in the free and reduced-price meal programs

– The best practices included the use of a family application process (instead of individual student applications) to simultaneously qualify more students for the free or reduced-priced meal programs. SCPS also used an automated point-of-sale system in cafeterias which helps to prevent easy identification of participating students thereby reducing any stigma associated with participating in the program. For fiscal year 2008, 85 percent of SCPS students eligible to receive free lunches and 83 percent of the students eligible to receive reduced-price lunches actually participated in the programs, which was higher than the averages of similarly-sized school systems.

Internal Controls Over Purchasing of Food Supplies Need to Be Improved

Our test of 36 fiscal year 2008 invoices totaling \$25,716, applicable to seven vendors, disclosed the following deficiencies:

- Supervisory personnel did not grant advance approval for purchases on 32 invoices totaling \$23,157. In addition, the employee responsible for making these purchases also signed

documentation of the receipt of the items and performed the monthly inventories of food supplies.

- No bids were obtained, and formal contracts did not exist, for purchases made from 3 of the 7 vendors included in our test. SCPS policies require three bids for purchases of supplies in excess of \$5,000 and preparation of contracts with the lowest responsible bidders. Consequently, there was no assurance that the goods were purchased at the lowest cost and payments were made based on the agreed-upon prices. Purchases from these three vendors totaled \$229,178 during fiscal year 2008.

Food Service Operations Should Recognize All Applicable Costs and Performance Measures Should Be Developed to Assess Efficiency

All applicable expenditures for food service operations were not recognized

– Although SCPS management stated that its food service operations was designed to be self-sufficient, we noted that SCPS general funds have been used to cover the costs for certain food service related expenses. For example, the SCPS food service department did not pay for the cafeterias' share of utility and custodial costs at SCPS schools; rather, these costs were funded by general funds. SCPS did not include these and other indirect costs in the annual budget prepared for food service operations. According to documentation prepared by MSDE for SCPS, estimated indirect costs totaled \$207,000 for the food service department for fiscal year 2007 (the most recent year for which such costs were determined). If these indirect costs had been included as a cost of food service operations, the operation would have incurred a \$235,000 deficit for fiscal year 2007 rather than the reported deficit of approximately \$28,000. Assuming those indirect costs are relatively consistent from year to year, a much larger deficit than the \$47,059 shown in Table 4 would have been incurred for fiscal year 2008 as well.

SCPS had not established a performance measurement system to assess the efficiency of its food service

operations – Best practice models recommend the use of benchmarks and goals to help school districts identify ways to

increase efficiency and reduce food service costs. Such a system should include realistic, justifiable benchmarks (or standards) and goals, with a process for periodic measurement and analysis of results. Examples of standards could include costs per meal, meal participation rates, and expected ratios for meals prepared to meals served.

Although SCPS calculated meals per labor hour, activity associated with a la carte sales was not reflected in its calculation, which is done by other local school systems. Furthermore, there was no indication that the results, when available, were used to improve food service operations. In addition, SCPS did not have other comprehensive performance and cost-efficiency measures (such as cost per meal and free or reduced price meal participation) in place to provide management with information to evaluate the entire food service program.

Recommendations

20. SCPS should improve controls over its purchase of food supplies by requiring advance approval by independent supervisory personnel for purchases and competitive bids in accordance with SCPS policies, and by entering into formal contracts with food suppliers, when applicable. In addition, duties should be properly segregated over the procurement and custody of food service items.
21. SCPS should identify all food service department costs, including utility and custodial costs, to properly reflect the department's full operating costs. In addition, SCPS should establish a performance measurement system to assist in monitoring the efficiency of food service operations.

Chapter 10

School Board Operations and Oversight

Generally, the Board has adequate policies to govern the operations of the school system. The Board meets periodically with the certified public accounting firm to review the results of the audits of the annual financial statements, the school activity fund, and federal funds. In addition, the Board is actively involved in the development of the SCPS annual budget.

Several opportunities exist for the Board to improve operations and oversight. The Board should consider establishing an internal audit function and a confidential hotline to enable employees and others to report operational concerns and suspected fraud, waste, and mismanagement. In addition, formal performance measures should be implemented to assist the Board in its oversight function. Finally, SCPS should ensure that all persons subject to the financial disclosure requirements of its ethics policy file the disclosure statements.

Background

SCPS is governed by a five-member board (excluding two student representatives) elected by the voters of Somerset County. The Board does not have an established committee structure due to its size and generally acts in whole to carry out its oversight duties. To assist in its oversight function, the Board has contracted with an independent auditor to conduct audits of the SCPS financial statements, federal programs, and student activity funds.

The Board is ultimately accountable for the success of the SCPS in providing the children of Somerset County with a quality education,

while wisely spending local, State, and federal funds. Following is the SCPS Board's stated beliefs and goals:

Beliefs

- We believe instruction must be rigorous and challenging with high expectations for success.
- We believe students must be taught effective problem-solving and decision-making skills.
- We believe in providing maximum technological learning and instructional opportunities for all students.
- We believe an ethnically diverse curriculum promotes multi-culturalism.
- We believe SCPS employees are responsible to model good work ethics, citizenship, moral and ethical values and social skills for all students.
- We believe SCPS is responsible for providing safe, clean, well disciplined nurturing learning environments for all students.
- We believe continuous parental involvement is an essential component in school programs.
- We believe parents are a child's first educators and are therefore responsible for providing a home environment that promotes education and learning as a lifelong process.
- We believe in family-friendly and community-friendly welcoming schools.
- We believe administrators, faculty, support staff, parents and community members must work collaboratively to accomplish the mission of our schools.
- We believe the school system benefits in working with community colleges, four-year institutions and our business and service community to integrate Pre-K-12 improvement initiatives and opportunities for SCPS students.

Mission

The Mission of Somerset County Public Schools is to unite the best efforts of our entire community in order to assure that all students achieve high standards, graduate from high school, and are equipped with the skills and behaviors needed to attain success in a rapidly changing world.

Goals

Goal I: Student Achievement:

Achievement will improve for each student so that on or before 2013-14, all students will reach or exceed high standards of proficiency in reading, language arts, mathematics, and science.

Goal II: High Qualified Educators

By 2005-2006, all students will be taught by highly qualified teachers who meet the County, State, and Federal criteria.

Goal III: Safe, Quality Environment

All Somerset County Public School students will be educated in learning environments that are safe, drug free, and conducive to learning.

Source: SCPS *Strategic Plan for Student Services* at
<http://www.somerset.k12.md.us/>

Certain Oversight Has Been Put in Place Regarding SCPS Operations

The SCPS Board uses a number of methods to oversee the operations of SCPS.

- The Board contracts annually for the audit of its Annual Financial Report.
- The Board receives and discusses detailed budget and expenditure information as part of the budget approval process.
- Board members receive an expenditure report each month with comparisons to budget amounts.

The Board Should Take Additional Steps to Assist in Governance of SCPS

The Board should consider establishing an internal auditor function – SCPS does not have an internal auditor. The use of an internal auditor, independent of school system management, is a recommended best practice of the Government Finance Officers Association (GFOA). The GFOA notes that internal auditors commonly assist directors in monitoring the design and proper functioning of internal controls and procedures, and can play a valuable role in conducting performance audits, special investigations, and studies. As cited in this report, our audit identified certain deficiencies in the SCPS system of internal control, such as procedures over disbursements.

The Board should consider establishing a confidential hotline – We noted that a confidential hotline had not been implemented to enable employees and others to report suspected fraud, waste, or mismanagement. If such a process was established, the internal audit position could conduct the initial investigations of information received via the hotline or direct the information to appropriate officials, such as law enforcement.

The Board should ensure that comprehensive performance measures are adopted and reported for key operations – The SCPS budget does not contain goals, objectives, and financial related performance measures. Performance information can

assist the Board in overseeing and evaluating the progress of its budget and Master Plan. Examples of useful performance measures may include comparisons, such as transportation and facility cost per student and cost per school meal served. When implemented correctly, financial and efficiency performance measures can be used to assist in decision-making processes, such as allocating resources and budgeting, and to report on departmental effectiveness and efficiency.

The Board should ensure its ethics policy is followed – The Board has adopted a detailed ethics policy that conforms to State law and includes provisions for conflicts of interest and financial disclosure. All provisions of this policy, except for financial disclosure, are applicable to Board members as well as all SCPS employees. SCPS established an Ethics Panel consisting of the Board attorney and two other members, who are not subject to the authority of the Board of Education, to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. According to the ethics policy, annual financial disclosure statements are required to be filed by Board members, the Superintendent, Assistant Superintendent, and other administrators (such as Director of Finance). We reviewed the related statements for calendar year 2008. Our review disclosed that 2 of the 12 persons required to file disclosure statements for 2008 had not done so. SCPS was not aware that the required financial disclosure statements had not been filed until we brought this matter to its attention.

Recommendation

22. The Board should enhance its oversight of SCPS operations by considering the establishment of an internal audit function and a hotline for the confidential reporting of operational issues and suspected fraud, waste, and mismanagement. In addition, the Board should adopt comprehensive performance measures in key operational areas, such as transportation, food service, and facilities management, to assist in its oversight duties; such data should be periodically reviewed by the Board. Furthermore, the Board should ensure that all required financial disclosure statements are filed.

Chapter 11

Other Financial Controls

This chapter addresses the management of cash, risk, health care costs, and long-term debt such as lease/purchase agreements. SCPS had procedures in place to govern its cash and risk management, and SCPS is not permitted to issue bonds or other long-term debt instruments to finance capital or operational needs. However, SCPS did not establish sufficient controls to ensure the propriety of health care costs.

Risk and Cash Management Best Practices Were in Place

For risk management, SCPS uses a combination of self-insurance and membership in the Maryland Association of Boards of Education (MABE) Workers Compensation Pool. The school system participates in the MABE Group Insurance Pool and the Workmen's Compensation Group Self-Insurance Fund for its general liability, property, and workmen's compensation insurance coverage. According to the audited financial statements as of June 30, 2008, settlements have not exceeded insurance coverage for the past three years. To control workers' compensation costs, SCPS used a variety of methods such as an informal return to work program.

Furthermore, SCPS invested its cash in either FDIC insured deposits or deposits that are collateralized with collateral that is held in SCPS' name. These investments are in accordance with the types permitted by the Annotated Code of Maryland. According to SCPS' audited financial statements, investments totaled \$3.2 million as of June 30, 2008.

SCPS Should Take Steps to Verify the Propriety of Health Care Costs

SCPS self-insures its health benefits. In this regard, SCPS is a member of the Eastern Shore of Maryland Educational Consortium (ESMEC) Health Alliance, which pools the buying power of six local school systems to negotiate more favorable insurance rates. Specifically, SCPS provides health benefit coverage to active and retired employees through a modified billing arrangement with a commercial insurance carrier. SCPS makes a monthly payment and at the end of each coverage period (annually), settles with the carrier for the difference between amounts paid and actual claims and expenses. For fiscal year 2008, SCPS made payments totaling \$4.8 million, and was eligible for a refund of \$47,000.

ESMEC has engaged consultants to review the commercial insurance carrier's performance and to seek recoveries when warranted. However, SCPS did not take certain actions that could help contain health care costs. Specifically, SCPS did not have a process in place to verify the authenticity of program participants and their listed dependents.

According to recommended practices published by the GFOA, health care cost containment is a critical component of long-term financial planning and budgeting. The GFOA recommends the establishment of a cost containment program including specific steps such as: evaluating plan design, management of vendors, management of employee health, aggregation, and cost sharing. Although some of these recommended steps (cost sharing by participating in ESMEC) were implemented by SCPS, more can be done.

Recommendation

23. SCPS should institute processes to verify the authenticity of health care program participants and their listed dependents.

Audit Scope, Objectives, and Methodology

Scope

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Somerset County Public Schools (SCPS). We conducted this audit under the authority of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland and performed it 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.

Objectives

We had two broad audit objectives:

1. To evaluate whether the SCPS procedures and controls were effective in accounting for and safeguarding its assets
2. To evaluate whether the SCPS policies provided for the efficient use of financial resources

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit approach, including the specific objectives of our local school system audits, was approved on September 14, 2004 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. As approved, the audit objectives excluded reviewing and assessing

student achievement, curriculum, teacher performance, and other academic-related areas and functions. We also 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. Finally, we did not evaluate the SCPS Comprehensive Education Master Plan or related updates.

Methodology

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 SCPS. We also interviewed personnel at SCPS, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate⁷). Our audit procedures included inspections of documents and records, and observations of SCPS 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, 2007 through December 31, 2008. For our audit work on revenue and federal grants, we primarily relied on the results of an independent audit of fiscal year 2008 activity.

In addition, we contacted a number of other state auditors' offices and legislative program evaluation agencies that had a history of conducting audits or reviews of local school systems. We interviewed those officials and inspected their work programs and resultant reports to identify specific audit techniques and operational practices at schools that could be adapted for our school system audits. Finally, we used certain statistical data—including financial and operational—compiled by the 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. For comparison purposes, information provided was generally limited to those Maryland school systems of similar sizes, based on student enrollment and/or system budget. In many cases, this information was self reported by the school systems. The data

⁷ During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

were neither audited nor independently verified by us. Finally, information provided in this report was obtained from various reports readily available during our fieldwork.

Other Independent Auditors

When developing the approach for the audits of school system financial management practices, a consideration was the reliance on the work of other independent auditors to the extent practicable to avoid unnecessary duplication of audit effort. With respect to SCPS, the results of other auditors that we considered were reported in three distinct audit reports: one related to the administration of its federal grants; second, the management letter from the audit of its financial statements audit; and third, independent audits of the school activities and cafeteria funds.

During the course of this audit, we relied on these results. We performed certain steps to satisfy ourselves as to the reliability of the reported results of the independent federal grants audits of the SCPS federal financial assistance programs for compliance with federal laws and regulations and the SCPS financial statement and school activity and cafeteria funds audits. Accordingly, we significantly reduced the scope of our work in Chapter 1 “Revenue and Billing Cycle,” and in Chapter 2 “Federal Funds.”

Limitations of Internal Control

SCPS 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.

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 less significant findings were communicated to SCPS that did not warrant inclusion in this report.

Fieldwork and SCPS Responses

We conducted our fieldwork from February 2009 to August 2009. The SCPS response to our findings and recommendations is included as an appendix to this report.



APPENDIX

Somerset County Public Schools

Dr. Karen-Lee N. Brofee
Superintendent of Schools
Mr. Douglas A. Bloodsworth, Jr.
Assistant Superintendent

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Board Members
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Chairperson
Mr. Stanley Pruitt
Vice Chairperson
Dr. H. DeWayne Whittington
BG Warner I. Sumpter USA (Ret)
Mr. Robert T. Wells

March 17, 2010

Bruce A. Myers, CPA
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street – Room 1202
Baltimore, MD 21201

Dear Mr. Meyers:

Enclosed you will find responses to the draft performance audit report. These have also been emailed to the responses account as per the instruction letter of March 4, 2010.

If you have any questions or require any additional information, please do not hesitate to call me.

Sincerely,

Vicki B. Miller
Director of Finance

Somerset County Public Schools Responses to Legislative Audit

Revenue and Billing Cycle

Recommendation 1

SCPS should ensure that all receipts are immediately recorded and safeguarded until deposit, and that checks are restrictively endorsed upon receipt. In addition, an employee independent of the cash receipts process should verify that all recorded receipts were deposited.

Response: We agree with the recommendation and will implement the process of recording cash receipts and restrictively endorsing checks as received. We agree with the need for an independent verification of the cash receipts and will review staff assignments to identify another person; however, with a small division, segregation of duties is challenging.

Federal Funds / Grants

Recommendation 2

SCPS should document its efforts to identify all students eligible for Medicaid-subsidized services.

Response: We agree with the recommendation in that identification and documentation of all MA eligible students is critical. As a small county, we are able to check all special education students (including 504 students) within the county using the MA Electronic Verification system. We will continue checking all students; going forward we will document the process of verification for review.

Procurement and Disbursement Cycle

Recommendation 3

SCPS should amend its existing policies to require Board approval for all procurements over a specified amount and to address all categories of purchases, including services and sole source procurements.

Response: We agree with the recommendation and will update Board policies in the next revision cycle.

Recommendation 4

SCPS should improve controls over its invoice processing system by segregating incompatible functions and restricting access to critical system functions to only those employees who need the capabilities to perform their job duties. Furthermore,

SCPS should restrict access to the signature plate to employees who are independent of the invoice processing functions.

Response: We agree with the recommendation and will reduce this number to four.

For the record, we do want to document that other controls are in place that restrict access to the check printer and signature plate. The check printer is maintained in an upstairs closet (there is no elevator), pre-printed check stock is not used and the signature plate is separate from the printer. Prior to and during the audit the door had been opened daily to facilitate the authorized individuals coming upstairs to print checks. This practice has now been discontinued. We remain firm in our belief that there was no significant risk.

Recommendation 5

SCPS should obtain goods through a competitive procurement process in accordance with its policies and fully document procurement decisions. Furthermore, SCPS should ensure that it receives available discounts and that it documents analyses regarding extending contracts without rebidding.

Response: Two points in the Finding Narrative need clarification. One, the computer equipment purchase was taken from the State bid list, discussed with the vendor who then provided a total cost below the amount on the bid list. We agree with the recommendation to competitively bid all procurements. However, we must be forthright and note in the absence of a Purchasing Department, the additional steps to verify appropriate discounts cannot take precedence over other fiscal and instructional priorities.

We agree with the recommendation to formally document analysis extending contracts; however, the examples cited were for “services,” which legally are not required to be bid. We will identify sole source procurements and in items such as the ones cited above. We will document how the change would have been detrimental to the years of work invested in setting up and using the data warehouse (\$62,492 hosting services).

Human Resources and Payroll

Recommendation 6

SCPS should ensure that payroll functions are adequately separated and that critical system access capabilities are granted in accordance with those functions. In addition, SCPS should ensure that all payroll-related transactions and information recorded in the system are reviewed and approved, at least on a test basis, by an employee independent of the payroll processing function using supporting documentation.

Response: We agree with the recommendation; however, with limited staff it is difficult to completely segregate duties. The Director of Finance will continue the practice of periodic random checking and reviewing information until such time as staff can be increased. We believe this current practice validates this audit's note of no evidence of any unauthorized payments.

Recommendation 7:

SCPS should expand its workforce planning to include key non-instructional positions in critical operational units.

Response: We agree with the recommendation. We wish to make note that all administrators are charged with developing future leaders as part of their annual evaluation; however, we agree that a formal plan for workforce development is necessary and would be beneficial.

Inventory Control and Accountability

Recommendation 8

SCPS should develop comprehensive written policies and procedures to govern the recording, accounting, and safeguarding of equipment, including sensitive items costing less than \$1,000.

Response: We agree with this recommendation and we have recognized the need for these controls for several years but have been fiscally unable to dedicate time and staff to making this become a priority. Additional staffing is necessary to fully implement this recommendation.

Recommendation 9

SCPS should develop formal policies and procedures for accounting and controlling its textbooks, which include a requirement that the physical count of textbooks be compared to the inventory records.

Response: We agree with the recommendation and a draft policy has been written and will be presented to the Board. We will be able to extend the Media Center inventory control system to include a comprehensive site textbook inventory.

Information Technology Services

Recommendation 10

SCPS should implement appropriate security measures to safeguard its applications and data systems by improving password protection, enabling logging and reporting of all critical security events, eliminating unnecessary accounts, and installing software updates. SCPS should also establish adequate physical controls and

safeguards for its computer rooms and store backup copies of data from critical servers at an appropriate offsite location.

Response: We disagree with this recommendation. We agree in theory that it would be good to have the ability to set these controls over the passwords in the student information system; however, it does not provide a direct way to implement these recommendations. We also disagree with this recommendation as it is referring to accounts that access the database which is in the background of the student information system. According to the student information system vendor, a user in the system does not have the ability to access these accounts. We do not have the ability to implement or change any controls over these accounts.¹

We disagree with the recommendation regarding the logging and reporting of security events. The student information system vendor does not recommend enabling database logging and SCPS does not have the ability to make changes to the database. The vendor's representative stated "Not only do I recommend that you not make any changes to your database but you as a customer do not have the ability to perform these changes. Direct modifications to the database outside of our support are not something that we can support you in".¹

We agree with the recommendation to improve physical controls and safeguards for the computer room. The school where the computer room is located is currently going through a three year renovation project and these items will be taken care of as part of the planned project.

Although we agree in theory with the recommendation that a backup be kept at a secure offsite location, the implementation is not as simple as storing tapes offsite. The student information system server does not backup to tapes, due to the large volume of data. Currently the data is being copied to a second server which is located in the same room. This backup server cannot be moved to another location because it serves other purposes at the school. SCPS will be purchasing additional hard drives and enclosures in order to be able to swap out the drives and move the backups offsite. Backup drives will be stored at another SCPS location which is 6.3 miles away from the current computer room location. A schedule for manually swapping out hard drives will be established.

¹ **Auditor's Comment:** With respect to passwords used to access SCPS' student information system, we acknowledge that SCPS does not have the capability to enforce certain password provisions through software security settings. Nevertheless, at a minimum, SCPS should establish a password policy to define attributes such as password length to mitigate the risks involved. With respect to SCPS' database, despite its response to the contrary, SCPS does have the capability to improve password protection over passwords used to access the database and to enable logging of critical security events related to its database activities.

Recommendation 11

SCPS should develop and implement a comprehensive disaster recovery plan.

Response: SCPS does have a DRP in place and we agree that it can be improved with the addition of the above mentioned items, with one exception. We will develop all of the lists and procedures mentioned above and add them into our current DRP. The exception is the recommendation for "Alternative site processing arrangements". A "best practices" solution for this would involve contracting with a vendor to provide this service. Funding is currently not available for a solution involving an outside vendor. We believe our revised backup procedures will be adequate to enable us to get our student information system server back online in the event of a system wide disaster. Procedure for this solution will be added to the DRP.

Facilities

Recommendation 12

SCPS should develop a performance measurement system that establishes standards and expectations for maintenance and custodial operations, and report the measurement results to the Board. SCPS should also fully use the existing work order system for maintenance operations by recording estimated labor and material costs and using the system as a performance measurement and budgeting tool. Additionally, SCPS should retain documentation of all preventive maintenance performed. Finally, SCPS should consider implementing a formal customer feedback program to assist in evaluating performance and improving maintenance and custodial operations.

Response: We agree that in an ideal world, a performance measurement system would be a needed enhancement; however, with limited staff and limited funding, implementation will be delayed. We will however, research various systems and report findings to the Board including potential benefits and risks. Research to date indicates that the Technology Division's work order system could also be applied to maintenance operations. It provides the ability to control priorities and analyze effectiveness.

Recommendation 13

SCPS should develop a formal process to identify, prioritize, plan, and report all deferred maintenance.

Response: We agree with the recommendation; however, we have been prioritizing maintenance projects based on available funds both within the Operating Budget and Capital Improvement Funding sources. The process will be formalized and documented.

Recommendation 14

SCPS should comply with its procurement policy by obtaining bids for facility-related purchases and ensure that contract awards do not violate its ethics policy.

Response: With regard to the bleachers referenced, the construction manager of the project (Somerset Intermediate School New Construction) obtained price quotes, reviewed them and recommended the best price to be with the same firm that was contracted for the project to provide the gymnasium equipment. With regard to the masonry work, it is important to note that these were three distinct and separate jobs. One of these three jobs was an emergency situation which should have been Board approved but was not. This process will be more closely monitored and corrected with future projects.

Transportation Services

Recommendation 15

SCPS should better document all procedures used to determine bus routes, including all appropriate factors that comprise the route planning process and should fully use its routing software to help ensure efficient services.

Response: We agree with the recommendation and will formalize the process and documentation. It should be noted that in recent years, we have had two separate consultants provide feedback on route efficiency. With the sprawling layout of the county, sparse population, minimal roads, and the consideration for student ride times, options are extremely limited.

Recommendation 16

SCPS should establish a written policy on how components of the bus contractor table of rates are to be determined each year. SCPS should maintain documentation that shows each year how the rates were determined and that the policy was adhered to.

Response: We agree with the recommendation and will be taking a policy to the Board in the immediate future.

Recommendation 17

SCPS should analyze bus contractors pay (including the PVA) to determine whether the rates are reasonable and necessary. In addition, SCPS should ensure that its bus contractor selection requirements comply with all applicable laws and regulations. Furthermore, SCPS should periodically prepare a documented analysis to determine whether continued use of outside contractors to provide student bus services is, in fact, cost beneficial for the school system. Finally, SCPS should adhere to the Board approved policy for fuel reimbursements to bus contractors.

Response: We agree with the recommendation; however, the PVA factor is part of the competitive process in procuring contractors; changes could hamper our ability to

attract and maintain contractors. We will investigate the legality of adjusting PVAs, the potential risks in so doing and take the findings to the Board for a final decision.

Response: We agree with the recommendation that cost benefit studies provide useful information; however, we are confident that the current use of outside vendors (contractors) is the most economical option for Somerset County. With dollars scarce, we cannot make such a study a priority at this time. It should be noted that in recent years, we have had two separate consultants provide feedback on route efficiency. With the sprawling layout of the county, sparse population, minimal roads, and the consideration for student ride times, options are extremely limited.

Having experienced (in a negative manner) the recovery of excess payments during the period January – June, 2008, the Board, in a closed session, advised no recovery efforts be made for November, 2008 – February, 2009. We agree that this should have been formally approved in open session.

Recommendation 18

SCPS should use its observations of bus route times and distances to ensure that the applicable payments to contractors accurately reflect the actual bus services provided.

Response: We have been verifying bus contractor manifests and going forward will institute a signature process for documentation. Additionally, the new video cameras installed in buses this year document miles; this documented information will also be used to verify the validity of the bus manifests.

Recommendation 19

SCPS should develop a performance measurement system for transportation services and periodically report the results to the Board.

Response: We agree that in an ideal world, a performance measurement system would be a needed enhancement and will research various systems and report findings to the Board including potential benefits and risks.

Food Services Operations

Recommendation 20

SCPS should improve controls over its purchase of food supplies by requiring advance approval by independent supervisory personnel for purchases and competitive bids in accordance with SCPS policies, and by entering into formal contracts with food suppliers, when applicable. In addition, duties should be properly segregated over the procurement and custody of food service items.

Response: We agree with the recommendation; however, it will be difficult to implement with limited staff. We currently manage internal control through

predetermined order forms (to limit item choice) and specific inventory control and monitoring. The FNS Coordinator will ensure that all orders are pre-approved and will use this information when reviewing monthly invoices to be paid. Small schools with limited staffing are challenged to provide the recommended segregation of duties.

Recommendation 21

SCPS should identify all food service department costs, including utility and custodial costs, to properly reflect the department's full operating costs. In addition, SCPS should establish a performance measurement system to assist in monitoring the efficiency of food service operations.

Response: We do not agree with the recommendation and further cite that it is not our practice to pass indirect costs to other Federal programs received.²

School Board Operations

Recommendation 22

The Board should enhance its oversight of SCPS operations by considering the establishment of an internal audit function and a hotline for the confidential reporting of operational issues and suspected fraud, waste, and mismanagement. In addition, the Board should adopt comprehensive performance measures in key operational areas, such as transportation, food service, and facilities management, to assist in its oversight duties; such data should be periodically reviewed by the Board. Furthermore, the Board should ensure that all required financial disclosure statements are filed.

Response: We agree with the recommendation; however, it cannot take priority over needed resources for students during this current economic environment.

We agree with the need to expand whistleblower protection through a separate policy. Some protection now exists in Policy 700-4 which deals with harassment. We encourage open communication, investigate all concerns and take appropriate action while honoring the confidentiality of all involved. With limited resources establishing a fraud hotline cannot be a priority at this time.

²**Auditor's Comment:** SCPS indicated that it did not agree to identify all food service department costs, including indirect costs. We continue to believe that SCPS should allocate indirect costs to the food service department so that the department's full operating costs can be determined and reported to the Board.

We agree that in an ideal world, a performance measurement system would be a needed enhancement. We will research various systems and report findings to the Board including potential benefits and risks.

We agree with the recommendation and will implement a detailed check off process and system to ensure all that all disclosures are completely investigated and a response returned in a timely manner.

Other Financial Controls

Recommendation 23

SCPS should institute processes to verify the authenticity of health care program participants and their listed dependents.

Response: We agree with the recommendation and will request that the vendor annually provide a list of individuals for whom claims have been paid for our review and validation that each individual is in fact a SCPS employee or eligible dependent. During the next open enrollment period, we will verify enrollment data and document that verification.

AUDIT TEAM

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Richard L. Carter, CISA
Information Systems Audit Manager

Ken H. Johanning, CFE
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Staff Auditors

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