

Financial Management Practices Audit Report

Kent County Public Schools

July 2020



OFFICE OF LEGISLATIVE AUDITS
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MARYLAND GENERAL ASSEMBLY

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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

July 6, 2020

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

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Kent County Public Schools (KCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. The objectives of this audit were to evaluate whether KCPS' 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 KCPS needs to improve internal controls and accountability in certain areas, including payroll processing, information systems, procurement and disbursements, and health care claims and fee processing. For example, adequate internal controls had not been established over the review of human resources and payroll transactions for propriety. Furthermore, adequate access controls had not been established over its financial management system.

We also found that significant risks existed within KCPS' computer network. For example, monitoring of security activities over critical systems were not sufficient and its computer network was not properly secured. In this regard, publicly accessible servers were located in the KCPS internal network rather than being isolated in a separate protected network zone to minimize security risks.

KCPS' procurement policies were not sufficiently comprehensive and KCPS did not always verify amounts billed with contract terms. We also found that KCPS did not ensure the accuracy of payments for employee and retiree healthcare costs and administrative fees. According to KCPS' records, during the plan year ended

August 31, 2018, healthcare expenditures totaled \$3.5 million, which included \$389,000 in administrative fees and stop-loss insurance coverage costs.

Finally, based on our current audit assessment of significance and risk to our audit objectives, our audit included a review to determine the status of 11 of the 12 findings contained in our preceding audit report. We determined that KCPS satisfactorily addressed 5 of these findings. The remaining 6 findings are repeated in this report.

KCPS' response to this audit is included as an appendix to this report. We reviewed the response to our findings and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA
Legislative Auditor

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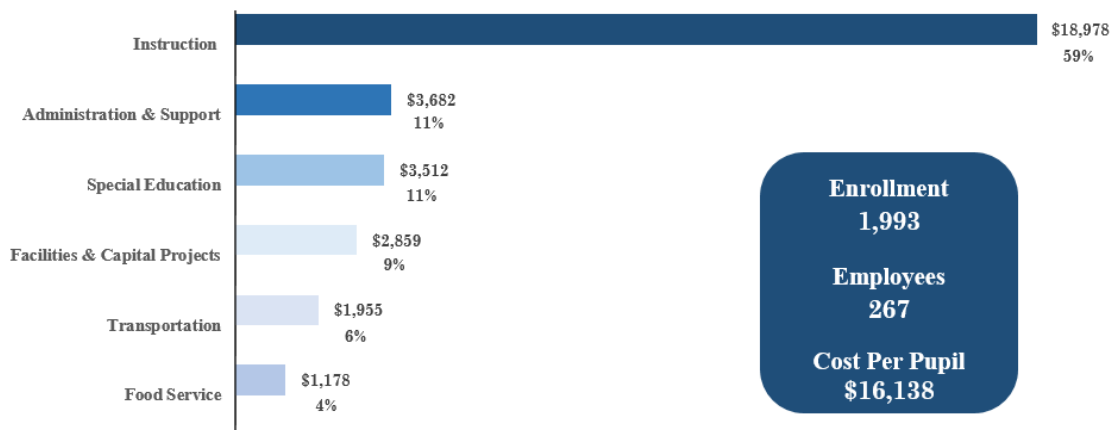
Background Information

Statistical Overview

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Kent County Public Schools (KCPS) ranks 24th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2018 full-time student enrollment was 1,993 students. KCPS has 5 schools, consisting of 3 elementary schools, 1 middle school, and 1 high school.

According to KCPS' audited financial statements, fiscal year 2018 expenditures were approximately \$32.2 million and revenues were approximately \$31.7 million. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 78 percent of total expenditures during fiscal year 2018. According to MSDE records, during the 2017-2018 school year, KCPS had 267 full-time equivalent positions, which consisted of 190 instructional and 77 non-instructional positions.

Table 1
KCPS Expenditures by Category and Selected Statistical Data
Fiscal Year 2018
(amounts in thousands)



Source: KCPS' Fiscal Year 2018 Audited Financial Statements and MSDE Data

Oversight

KCPS is governed by a local school board, consisting of five elected voting members and a non-voting student member. The State and the Kent County government provide the vast majority of KCPS funding. In addition, 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 KCPS to comply with the requirements and mandates of federal law. Kent County government exercises authority over KCPS primarily through the review and approval of KCPS' annual operating and capital budgets.

External Audits

KCPS engages a certified public accounting firm to independently audit its annual financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of KCPS' federal grant programs (as required by federal regulations). We reviewed the resulting financial statement audit and Single Audit reports for fiscal years 2014 through 2018, and examined the related work papers for fiscal year 2018, which were the latest available at the time we performed our audit fieldwork.

There were similarities between the work of the independent certified public accounting firm that audited KCPS' financial statements and conducted the Single Audit, and the risks and scope of our audit in certain areas. As a result, we reduced the scope of our audit work related to State and local government revenues received via wire transfer, accounts receivable, and federal grant activity.

Status of Findings From Preceding Audit Report

Based on our current audit assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of 11 of the 12 findings contained in our preceding audit report dated May 13, 2013. We determined that KCPS satisfactorily addressed five of these findings. The remaining six findings are repeated in this report, as noted in the following table.

Table 2
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	Accountability over student activity fund cash receipts was not maintained at one school.	Not repeated (Not followed up on)
Finding 2	KCPS did not have an independent verification process to ensure all amounts were deposited.	Not repeated
Finding 3	User access to the automated financial system was not restricted for certain employees and proper controls were not established over disbursements and wire transfers.	Repeated (Current Finding 1 and 4)
Finding 4	KCPS did not analyze the cost benefit of continuing to outsource certain facility management services.	Not repeated
Finding 5	Certain users of the automated human resources and payroll system had been assigned incompatible functions, and reports of payroll changes were not generated.	Repeated (Current Finding 3 and 4)
Finding 6	KCPS' policies and physical inventory procedures need improvement to promote more accountability over equipment.	Not repeated
Finding 7	Proper monitoring and authentication controls were not established over a critical database, application, and application server.	Repeated (Current Finding 5)
Finding 8	The KCPS network was not properly secured.	Repeated (Current Finding 5)
Finding 9	Controls over disaster recovery planning, backup of critical data and devices, and anti-virus protection of critical devices were not sufficient.	Not repeated
Finding 10	KCPS entered into a long-term agreement to purchase solar energy but did not establish sufficient procedures to verify the related billings.	Not repeated
Finding 11	KCPS financial disclosure forms were not always filed as required and the forms were not sufficiently comprehensive as required.	Repeated (Current Finding 6)
Finding 12	KCPS did not ensure that claims paid were reviewed for propriety or verify the eligibility of health care coverage participants.	Repeated (Current Finding 7)

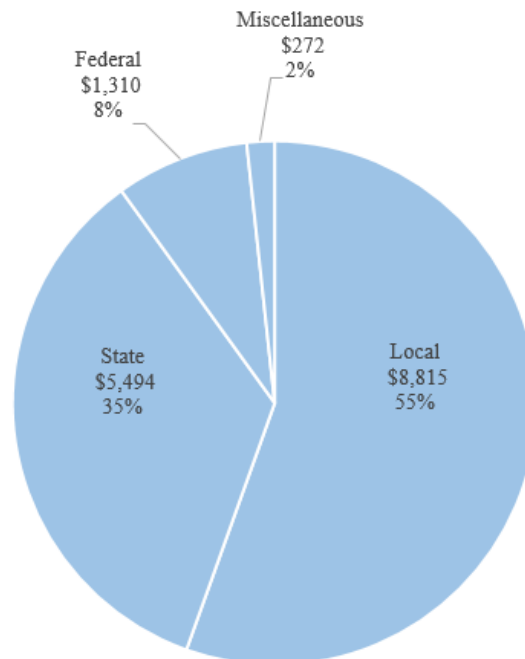
Findings and Recommendations

Revenue and Billing Cycle

Background

Kent County Public Schools (KCPS) revenues consist primarily of funds received from Kent County, the State, and the federal government. According to KCPS' audited financial statements, revenues from all sources totaled approximately \$32 million in fiscal year 2018, including approximately \$11 million from the State. See Table 3 below for KCPS' revenue sources per enrolled student in fiscal year 2018 according to its audited financial statements.

Table 3
KCPS Revenue Sources Per Enrolled Student
Fiscal Year 2018



Source: KCPS' Audited Financial Statements and MSDE Data

In addition, schools collect funds for other purposes such as student activities, clubs, and school publications. Because they are not considered school revenue, these school activity funds are accounted for separately by each school and

reported in summary in the audited financial statements. Although this revenue is raised through student-related activities, KCPS has a fiduciary duty to safeguard these funds. For fiscal year 2018, school activity fund collections totaled \$249,000 and the June 30, 2018 balance was \$114,000.

External Audits

There were similarities between the work of the independent certified public accounting firm that audited the KCPS financial statements and the objectives of our audit of certain revenue activities. As a result, we reduced the scope of our audit work related to State and local government revenues received via wire transfer and accounts receivable, for which the auditor's procedural review and testing disclosed no material weaknesses or significant deficiencies.

Reviews of School Activity Funds

KCPS' Board of Education (the Board) has a fiduciary responsibility to ensure that school activity funds were used only for intended purposes. KCPS has developed procedures to establish a uniform method for reporting receipts, expenditures, and balances related to school sponsored activities. The procedures indicate that bank and fund reconciliations are to be prepared for the principal's review and submitted monthly to the finance department. We also noted that a documented site visit was performed for each school annually that included a review of disbursements and deposits.

Conclusion

Based on our current assessment of significance and risk to our audit objectives, and in consideration of the work of the independent certified public accounting firm, our audit included a limited review of procedures and controls in the accounting for and safeguarding of assets to determine the status of a prior report item and we relied on the work of the firm to provide audit coverage pertaining to the procedures and controls related to the accounting for and safeguarding of cash receipts with respect to revenue and billing.

Federal Funds

Background

KCPS receives funds pertaining to federal government programs that are generally restricted for use for a specific program (such as the School Lunch Program or Special Education). According to the audited Schedule of Expenditures of Federal Awards in the KCPS Single Audit, fiscal year 2018 expenditures totaled \$2.6 million, including federally funded fee-for-service programs such as Medicaid reimbursement for special education services.

Single Audit Report Disclosed No Reportable Conditions Regarding Federal Grant Management

There were similarities in the work performed by the independent certified public accounting firm that conducted the Single Audit of KCPS' federal grants and the objectives of our audit in this area. In addition to expressing an opinion on KCPS' compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the required Schedule of Expenditures of Federal Awards (which includes claimed and reported grant expenditures) for fiscal year 2018.

The related reports stated that KCPS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with, and the operation of, major federal programs, the auditor did not identify any material weaknesses or significant deficiencies.

Conclusion

Based on our current assessment of significance and risk to our audit objectives, and in consideration of the work performed by the independent certified public accounting firm that conducted the Single Audits, we relied on the work of the firm pertaining to policies, procedures, and controls with respect to federal grants and expenditures.

Procurement and Disbursement Cycle

Background

According to the audited financial statements and KCPS records, non-payroll disbursements totaled \$7.2 million during fiscal year 2018. Generally, requisitions are entered into the automated payment system by the requesting department and are electronically approved by the respective department head and/or the Supervisor of Finance. A Finance Office employee converts the approved requisitions in the system to purchase orders which are then issued to vendors. Invoices are to be submitted by vendors directly to the Finance Office. The receipt of goods and services is confirmed by the requesting department before payments are processed by the Finance Office. The Finance Office uses an automated system to print vendor checks or transfer funds electronically and to post the payments to the financial records.

KCPS' written procurement policies require that procurements over \$25,000 be competitively bid in accordance with Section 5-112 of the Education Article of the Annotated Code of Maryland. The policies also require that contracts and agreements over \$25,000 be approved by the Board.

Finding 1

KCPS had not established adequate controls over procurements and disbursements as certain transactions processed were not subject to independent review.

Analysis

KCPS had not established adequate controls over procurements and disbursements as certain transactions processed were not subject to independent review.

- Vendors could be added, or information changed on the automated procurement and accounts payable system without adequate verification. Specifically, only verbal approval was obtained prior to adding new vendors to or changing vendor information in the system. In addition, KCPS did not periodically generate a report of vendor additions, or changes, for review by independent personnel to supporting documents, such as taxpayer number identification forms (W-9), to ensure that the vendor information recorded was accurate and proper.
- Although KCPS had a process in place to review all accounts payable transactions for propriety with supporting documentation, such as purchase orders, prior to payment processing, the employee responsible for this review also had system access capabilities that allowed them to process payments. Accordingly, this review was not an effective control process due to the lack of reviewer independence from the transaction processing function.

As a result, unauthorized purchases and disbursements could be processed without detection. Our review did not disclose any inappropriate transactions. A similar condition related to reviewing payments processed to supporting documentation were commented upon in our preceding audit report.

Recommendation 1

We recommend that KCPS strengthen its controls over procurements and disbursements. Specifically, we recommend that KCPS

- a. ensure that changes to the vendor information recorded in the automated accounts payable system are verified to appropriate source documentation by an independent employee; and**
- b. ensure that an independent employee conducts a documented comparison of transactions and checks processed to the related supporting documentation, at least on a test basis (repeat).**

Finding 2

KCPS procurement policies were not sufficiently comprehensive, as they did not incorporate certain best practices for consideration when evaluating possible participation in an intergovernmental cooperative purchasing agreement (ICPA). In addition, KCPS did not obtain contract copies to verify invoice pricing.

Analysis

KCPS procurement policies were not sufficiently comprehensive, as they did not incorporate certain recognized best practices or requirements of State law when evaluating the merits of possible participation in an ICPA. Specifically, the following critical best practices or statutory requirements were not included in KCPS' policies.

- Analyze all costs of conducting competitive solicitations
- Research, compare, and evaluate available ICPAs
- Verify that the ICPA has a clause allowing participation by other parties
- Verify the ICPA solicitation was competitively bid and publicly advertised and obtain originating agency's competitive procurement documentation (including public advertisements and proposal evaluations)
- Verify terms, scope of services, specifications and price meet the entity's needs
- Prepare a written assessment of the benefits of using an ICPA, as required by State law
- Execute an addendum of participation with the lead contract agency and remove or incorporate necessary local terms and conditions
- Obtain a copy of the ICPA and related price lists for invoice verification

Since the items in the above list were not included in the procurement policies, KCPS did not consistently follow these practices when using ICPAs.

Specifically, our test of KCPS' participation in four ICPAs during fiscal years 2018 and 2019 with contract awards totaling approximately \$587,000 disclosed that KCPS had not documented its assessment of the benefits of using the ICPA as required by State law. Additionally, KCPS had not obtained price lists for two ICPAs totaling \$240,000 and therefore, could not verify the accuracy of vendor billings. We obtained price lists and attempted to perform limited testing of invoices totaling \$237,000 paid to these two vendors during fiscal years 2018 and 2019, but we could not determine if the invoice and contract pricing agreed because the item descriptions contained in the two documents were dissimilar.

Furthermore, for three ICPAs, KCPS did not obtain the originating agency's competitive procurement documentation (including public advertisements and

proposal evaluation information) and did not execute an addendum to remove or incorporate necessary local terms and conditions. Finally, two ICPAs did not have a clause that allowed other entities, such as KCPS, to participate.

State law, which legal counsel to the Maryland General Assembly advised us is applicable to local education agencies, allows the use of cooperative purchasing arrangements or ICPAs only after the using entity has determined (or assessed) in writing that the use of such arrangements will provide cost benefits, promote administrative efficiencies, or promote intergovernmental cooperation¹. Further, the National Institute of Government Purchasing, as well as other public and educational organizations have published ICPA best practices that include comprehensive multi-step checklists that require, among other things (as per list above), that prospective ICPA users verify that the contract allows other entities to participate, the contract was awarded through a competitive procurement process, and requires that addendums be executed documenting their participation and incorporating local required terms and conditions.

Recommendation 2

We recommend that KCPS establish more comprehensive procurement policies for the use of ICPAs that incorporate the best practices listed above.

In particular, KCPS should

- a. ensure that the ICPA allows for the utilization of the contract;**
- b. obtain the originating agency's competitive procurement documentation, including public advertisements and proposal evaluation information;**
- c. ensure that price lists are obtained from ICPA vendors and used to verify the propriety of billed vendor costs;**
- d. comply with State law and ensure that a written determination is prepared of the benefits of using ICPAs; and**
- e. execute an addendum of participation with the lead agency and remove or incorporate necessary local terms and conditions.**

¹ Section 13-110 of the State Finance and Procurement Article of the Annotated Code of Maryland in part, defines an intergovernmental cooperative purchasing agreement (ICPA). As defined, an ICPA is a contract that is entered into by at least one governmental entity in a certain manner, that is available for use by the governmental entity entering the contract and at least one additional governmental entity, and that is intended to promote efficiency and savings that can result from intergovernmental cooperative purchasing. The aforementioned law applies to all ICPAs regardless of the services, goods, or commodities purchased. In addition, Section 5-112(a)(3) of the Education Article of the Code provides that local education agencies do not need to conduct competitive procurements for goods and commodities if they use a contract awarded by public agencies or intergovernmental purchasing organizations and the originating procuring agency followed public bidding procedures.

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the KCPS budget. According to KCPS' records, fiscal year 2018 salary, wage, and benefit costs totaled \$25 million representing approximately 78 percent of the total expenditures. According to Maryland State Department of Education reports, during the 2017-2018 school year KCPS had 267 full-time positions, which consisted of 190 instructional positions and 77 non-instructional positions.

KCPS uses an automated financial system to maintain human resources information and process and record payroll transactions. The system also generates payroll checks and direct deposit advices. A badge scanning system is used for most full-time employees to record employee time and create electronic bi-weekly timesheets for on-line supervisory approval, while manual timesheets are used for the remaining employees. A third system is used to track employee leave usage.

Finding 3

KCPS did not ensure critical human resources and payroll transactions were independently reviewed for propriety, and salary increases were not always approved by the Board as required.

Analysis

KCPS did not ensure critical human resources and payroll transactions were independently reviewed for propriety, and salary increases were not always approved by the Board as required.

- KCPS did not perform independent documented reviews of all critical personnel and payroll transactions processed. Specifically, the processing of new hires, other earnings transactions, and rate increases were not subject to independent review, and available system reports that could be used for that purpose were not generated. Although a supervisory review of salary levels was performed, on a test basis, for each payroll run in comparison to what was budgeted, this review was not independent, not documented, and did not include the use of supporting human resources records. In fiscal year 2017 and 2018, salary increases totaled \$1.9 million.
- Our review of payroll payments to 30 different employees totaling \$94,700 during fiscal year 2019, who had combined annual salaries of \$2 million, disclosed that for two employees the pay rates paid were in excess of the Board approved union contract rates. Specifically, two employees had each

received a salary increase in February 2017 that was \$5,000 in excess of the salary allowed by union contracts, without the required approval of the Board. Additionally, no approved payroll authorization forms were on file for the two employees, who continued to receive the additional payments, totaling approximately \$10,000, in fiscal year 2019.

Our test of payroll transactions and adjustments did not disclose any inappropriate or erroneous transactions (other than those commented on above). Similar conditions regarding the lack of supervisory review and approval of critical transactions were commented upon in our preceding audit report.

Recommendation 3

We recommend that KCPS ensure that adequate controls are in place over payroll processing. Specifically, we recommend that KCPS

- a. perform independent supervisory reviews of changes processed for the bi-weekly payroll, at least on a test basis, by agreeing changes to appropriate supporting documentation (repeat); and**
- b. ensure all salary increases are properly supported and approved, and retroactive Board approval is obtained for the two salary increases cited above or recover the excess payments.**

Equipment Control and Accountability

Background

According to KCPS' audited financial statements, the undepreciated value of its capital equipment was \$8.3 million as of June 30, 2018. KCPS maintains centralized automated records to track equipment inventory with a cost of \$5,000 or more (including assets capitalized for financial statement purposes). In addition, KCPS tracks equipment deemed as sensitive that is subject to theft (such as information technology items) with a cost of \$500 or more using automated records for control purposes.

Conclusion

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

Information Technology

Background

The KCPS Technology Department maintains and administers the KCPS computer network, computer operations, and onsite information systems applications. KCPS operates a wide area network, with internet connectivity, as well as connections to the individual schools and to the computer applications, resources, and servers within the KCPS headquarters building. The critical KCPS applications for the student management system and financial management system are hosted offsite by a cloud service provider.

Finding 4

KCPS did not ensure employee access to its automated financial system applications was appropriate.

Analysis

KCPS did not ensure that employee access to its automated financial system applications, such as accounts payable and payroll, was appropriate, as we found a number of employees with unnecessary or incompatible access capabilities.

- Six employees were assigned critical system user access capabilities that allowed them to perform incompatible procurement and accounts payable functions, such as adding or changing a vendor, entering invoices and processing payments. Furthermore, three of these employees had access to the blank check stock and two of these employees were responsible for printing checks that included access to authorized facsimile signatures. Also two Finance Office employees, including one who served as the system administrator, could perform all procurement and accounts payable system functions, and could add or change employee accesses, including their own, and change system settings. Additionally, KCPS had established a shared logon ID for use by external auditors that they believed was inquiry only, but we found inadvertently allowed them to perform a number of critical accounts payable system functions, including the processing of transactions. Our review did not disclose any inappropriate transactions processed using this shared logon ID.
- Eight employees were assigned critical system user access capabilities that allowed them to perform incompatible or unnecessary human resource and payroll functions, such as adding employees and processing payroll transactions without the need for online independent approval. Specifically, the same two Finance Office employees mentioned above could perform all human resource and payroll system functions and could also perform system

administrator functions. Additionally, four employees had access that allowed them to add employees, change salary and process payroll payments with one employee also having access to change direct deposit information. Finally, another two employees had access that we determined was not required for their job duties.

- Available transaction history reports identifying specific transactions unilaterally processed by the above users were not generated for review.
- KCPS had not established a formal process for granting or modifying system user access capabilities that required documented supervisory approval. The level of access was based upon either electronic mail messages or verbal requests made by supervisors. Furthermore, although a periodic supervisory review of general employee access was performed, it did not consider whether the employees had excessive capabilities or could perform incompatible functions.

A similar condition regarding the assignment of system access capabilities was commented upon in our preceding audit report.

Recommendation 4

We recommend that KCPS

- a. restrict user's capabilities to those needed to perform their job duties, and separate employee duties to eliminate incompatible functions (repeat);**
- b. utilize available transaction history reports that identify transactions processed by the above users for independent supervisory review of any such transactions for propriety;**
- c. establish a formal process for granting or modifying system user access capabilities that requires independent documented supervisory and system administrator approval; and**
- d. perform a periodic documented independent review of financial applications system access for employees with unnecessary or incompatible access capabilities.**

Finding 5

Proper logging and monitoring controls were not established over a critical database, and certain publicly accessible servers were improperly located within the internal network.

Analysis

Proper logging and monitoring controls were not established over a critical database, and certain publicly accessible servers were improperly located within the internal network.

- One critical system database was configured such that almost no database security and audit activity was logged. Examples of database activities which should be logged and monitored include direct changes to critical data tables and changes to database security settings. Additionally, usage of a powerful system account and certain critical privileges were logged, however, this logged information was not periodically reviewed for propriety. These conditions could result in unauthorized or inappropriate activities (affecting the integrity of the production database information) going undetected by management. Best practices identified in the State of Maryland *Information Technology Security Manual* require that information systems must generate audit records for all security-relevant events, and procedures must be developed to routinely (for example real time or weekly) review audit records for indications of inappropriate activities and report findings to appropriate officials for prompt resolution. A similar condition was commented upon in our two preceding audit reports.
- Certain publicly and widely accessible servers were located in the KCPS internal network rather than being isolated in a separate protected network zone to minimize security risks. These servers, if compromised, could expose the internal network's resources to attack from external sources. Best practices, identified in the *Information Technology Security Manual* require that publicly accessible servers reside in an external protected network zone to safeguard those servers as well as the entity's internal network. A similar condition was commented upon in our preceding audit report.

Recommendation 5

We recommend that KCPS establish appropriate logging and monitoring controls for critical databases and properly secure its publicly accessible servers. Specifically, we recommend that KCPS

- a. log all critical database security and audit events, regularly generate reports of these logged events, perform independent reviews of these**

- reports on a timely basis, and document and retain these reviews for future reference (repeat); and
- b. relocate all publicly accessible servers to a separate protected network zone to limit security exposures to the internal network segment (repeat).

Facilities Construction, Renovation, and Maintenance

Background

KCPS employs a staff of 21 employees to maintain 5 schools and a number of other facilities (such as administrative and support offices). According to its fiscal year 2018 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to KCPS' facilities over the next six years are estimated to cost approximately \$3.4 million (reported amount was \$29.7 million, but we adjusted the amount since two elementary schools initially included in the Plan have since closed).

KCPS Capital Projects Were Generally Competitively Procured and Related Expenditures Were Properly Supported

Our review of four construction-related procurements during fiscal years 2018 and 2019 totaling \$1.7 million disclosed that two of the four contracts totaling \$1.2 million were competitively procured. One of the remaining two contracts was an ICPA totaling \$347,000 that was commented upon earlier in Finding 2, while the other was a sole source contract totaling \$128,000. Our test of four invoices totaling \$95,000 for two of the four contracts disclosed that the invoices were properly supported and the amounts invoiced were in accordance with contract terms.

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

KCPS has processes in place to promote ongoing facility maintenance and to minimize energy costs. For example, KCPS provides preventive maintenance of its buildings and equipment to prevent emergency repairs. In addition, KCPS utilizes vendor energy metering systems to monitor heating and air conditioning usage. KCPS also has written policies that encourage both students and employees to be aware of and limit their energy use. Finally, KCPS participates in a consortium with other Eastern Shore entities to purchase energy at the best possible terms for members of the consortium. According to documents provided by KCPS from the consortium (which we did not audit), KCPS saved over \$299,000 through energy cost avoidance from fiscal years 2001 to 2018. KCPS also makes use of geothermal and solar alternative energy sources.

Conclusion

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

Transportation Services

Background

KCPS has approximately 1,700 students eligible to receive student transportation service. These students were transported on 13 contractor-owned buses and 10 system-owned buses during fiscal year 2018. According to KCPS financial records, fiscal year 2018 transportation costs totaled \$2.0 million with \$1.3 million (65 percent) representing payments for contracted bus services. KCPS reported that 657,000 route miles were traveled to transport students for the 2017-2018 school year.

Payments to bus contractors consist of amounts for the purchase of a bus (known as a per-vehicle allotment or PVA, intended as reimbursement for the cost of a bus and a flat rate for return on investment), hourly reimbursements for drivers, a per-mile maintenance fee, and fuel costs. KCPS bus contracts are for an initial 4-year term subject to a renewal term of two years thereafter over the 15-year useful life of the bus unless terminated by the Board at its discretion or by the contractor giving written notice by July 1 of the upcoming school year.

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of KCPS' internal control over the transportation services financial-related areas of operations reviewed. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Food Services

Background

According to the audited financial statements, food service operating expenditures totaled \$1.2 million in fiscal year 2018, which were primarily funded from federal sources totaling \$862,000 and food sales totaling \$183,000. According to MSDE records, KCPS had 17 food service positions in fiscal year 2019 consisting of 15 cafeteria positions and 2 administrative positions. Food and related supplies are

received and stored at a central warehouse and delivered to the schools as needed, and KCPS has a cooking cafeteria at all five of its schools.

Conclusion

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

School Board Oversight

Background

The Kent County Board of Education (the Board) is composed of five elected members and a non-voting student representative. In its oversight responsibilities, the Board contracted with a certified public accounting firm for independent audits of the KCPS financial statements and federal programs. The Board meets at least monthly for regular meetings and as needed for closed meetings during the school year.

KCPS Adopted an Ethics Policy that Met the Requirements of State Law

The KCPS Board has adopted a detailed ethics policy that conforms to State law and includes provisions for conflicts of interest and financial disclosure and was approved by the State Ethics Commission. Provisions of this policy are applicable to Board members as well as all KCPS employees. The policy required that KCPS establish an ethics panel consisting of three members to be appointed by the Board to interpret ethics policies and provide advice on policy implementation, as well as to review and rule on any reported complaints of ethics violations. According to the ethics policy, Board members, and candidates for the Board, are required to complete a comprehensive financial disclosure statement, and the Superintendent and seven department supervisors are required to file a less comprehensive annual gifts and conflict of interest disclosure statement, by April 30th of each year.

Finding 6

Financial disclosure statements were not filed or did not include all required information, and an ethics panel had not been established in accordance with KCPS' ethics policy.

Analysis

KCPS employees and Board members did not comply with the financial disclosure reporting requirements of KCPS' ethics policy. Our review of the

statement submissions for calendar year 2018, as of September 2019, disclosed the following conditions:

- None of the elected Board members had filed comprehensive financial disclosure statements since calendar year 2015. The comprehensive financial disclosure statements include disclosing interests in real estate and business entities and outside employment. Instead, the Board members filed a disclosure statement for gifts and conflicts of interest (self-identified), which was less in scope than the required comprehensive financial disclosure. Additionally, the eight employees that were required to file gifts and conflicts of interest disclosure statements, did not file the disclosures. Consequently, KCPS may not be aware of all conflicts of interest issues.
- An ethics panel had not been established as required by its policy since it became effective June 2012.

We commented on the failure to ensure all applicable school officials filed financial disclosure statements and reported information consistent with the requirements of its policy in our preceding audit report.

Recommendation 6

We recommend that KCPS ensure that

- a. all applicable Board members and employees file the applicable required annual disclosure statements in a timely manner (repeat), and**
- b. establish an ethics panel in accordance with its policy.**

Management of Other Risks

Healthcare Background

KCPS is a member of the Eastern Shore of Maryland Educational Consortium Health Alliance Trust (hereinafter referred to as the Consortium) for employee and retiree health care. The Consortium members are self-insured for healthcare costs up to a designated stop-loss amount of \$150,000 per participant per plan year. The Consortium negotiates contracts with a third-party administrator (TPA) for health care claims processing services for employee medical (including vision), dental and prescription costs and for the stop-loss insurance coverage.

The TPA bills KCPS monthly subscription charges based on the number of participants and their medical coverage and medical providers submit claims to the TPA who pays them on behalf of KCPS. KCPS also pays its TPA an administrative fee for these services. In a year-end settlement process, which

segregates the participating agencies for the plan year ending August 31, the TPA nets the amount of medical claims it paid against the monthly subscription charges billed to and paid by KCPS to determine any excess amount due from or to be reimbursed to either party.

According to the TPA's records for the plan year ended August 31, 2018, KCPS health care expenditures totaled approximately \$3.5 million including \$183,000 for administrative fees and \$206,000 for stop-loss insurance coverage. As of September 2019, according to the TPA's records, KCPS provided health insurance benefits to 626 enrolled employees, dependents, and retirees.

Finding 7

KCPS did not ensure the propriety of employee and retiree health care claims paid and did not verify plan administrative fees were properly charged. In addition, KCPS did not obtain copies or Board approval of the annual TPA administrative agreements.

Analysis

KCPS lacked procedures and controls to ensure that amounts paid to the TPA for medical claims and administrative fees were proper.

- KCPS did not audit the propriety of the medical claims paid on its behalf by the TPA to ensure that the services were actually provided, covered by the health plans, appropriately priced, and accurately reported on the year-end settlement. Furthermore, KCPS did not receive detailed claims data from the TPA to verify the propriety of the aforementioned items and correctness of the year-end settlement. A similar condition was commented upon in our preceding audit report.
- KCPS did not verify that administrative fees and premiums billed by the TPA agreed with its payroll records for enrolled employees. We were advised that the only verification performed was to ensure changes in coverage reported by the KCPS human resources office were reflected on the monthly invoice, but this verification was not documented. In addition, the monthly rates charged for the various coverage categories (medical, vision, dental, and prescription drug) and stop-loss insurance were not verified for agreement with the TPA contract. Our recalculation of the administrative fees and stop-loss insurance charges, for the 2017-2018 contract year, based on the listed participant counts on certain monthly invoices reviewed and the related contract rates did not disclose significant variances.

- KCPS had not requested or received copies of the annual administrative and stop loss agreements for fiscal years 2014 through 2018 nor were these agreements approved by its Board. The annual TPA agreements which were executed by a Consortium representative on KPCS' behalf, were obtained by KCPS at our request from the Consortium. The most recent agreement that we reviewed with KCPS' TPA for medical care services covered the one-year period from September 1, 2017 to August 31, 2018 at a cost of \$389,000 for administrative fees and stop-loss insurance coverage costs.

The State of Maryland's Office of Personnel Services and Benefits administers self-insured health plans for state employees, and contracts for comprehensive reviews of claims paid by plan administrators. According to the Office, improper payments identified from these reviews have consistently exceeded the cost of the reviews.

Recommendation 7

We recommend that KCPS establish procedures to verify the amounts paid for health insurance and TPA administrative fees. Specifically, we recommend that KCPS

- a. verify the propriety of health care claims paid, by obtaining documentation supporting amounts invoiced and ensuring audits are conducted of the claims reported as paid by the TPA (repeat);**
- b. compare its records of enrolled employees to TPA invoices and contract rates to determine the propriety of related fees and premiums billed; and**
- c. ensure all healthcare contracts are approved by the Board and retained on file to verify billings.**

Audit Scope, Objectives, and Methodology

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Kent County Public Schools (KCPS). 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.

We had two broad audit objectives:

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

In planning and conducting our audit of KCPS, we focused on 11 major financial-related areas of operations as approved on December 6, 2016 by the Joint Audit and Evaluation Committee of the Maryland General Assembly in accordance with the enabling legislation. The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of findings included in our preceding audit report on KCPS dated May 13, 2013, was limited to those findings that were applicable to the current audit scope for each of the 11 areas.

The audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. Also, we did not evaluate the KCPS Comprehensive Education Master Plan or related updates, and we did not review the activities, financial or other, of any parent teacher association, group, or funds not under the local board of education's direct control or management.

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by KCPS. We also interviewed personnel at KCPS and the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate). Our audit procedures

included inspections of documents and records, and observations of KCPS 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, 2017 to May 30, 2019. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits KCPS' financial statements and conducts the federal Single Audit.

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

We also extracted data from the KCPS automated financial management system for the purpose of testing expenditure and payroll transactions. We performed various audit procedures on the relevant data and determined the data were sufficiently reliable for the purposes the data were used during the audit.

KCPS' management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to KCPS, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate. In addition to the conditions included in this report, other findings were communicated to KCPS that were not deemed significant and, consequently, did not warrant inclusion in this report.

We conducted our fieldwork from May 2019 to October 2019. The KCPS response to our findings and recommendations is included as an Appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise KCPS regarding the results of our review of its response.

APPENDIX



Kent County Public Schools

Growing a Community of Leaders

Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore, Maryland 21201

June 23, 2020

Dear Gregory,

KCPS has received the Draft KCPS Audit Report detailing the audit process and findings that the Office of Legislative Audits conducted. We have reviewed the findings and recommendations OLA has suggested for KCPS to consider.

Enclosed in this email is KCPS's Agency Response Form.

KCPS understands improvements can always be made and we will do our best to adhere to the recommendations in the capacity allotted, noting KCPS is the smallest school system in Maryland with limited resources.

Sincerely,

Dr. Karen M. Couch

Cc: Joe Goetz, President, Kent County Board of Education
Alleesa M. E. Stewart, MBA, Supervisor of Finance, KCPS

Kent County Public Schools

Agency Response Form

Procurement and Disbursement Cycle

Finding 1

KCPS had not established adequate controls over procurements and disbursements as certain transactions processed were not subject to independent review.

We recommend that KCPS strengthen its controls over procurements and disbursements. Specifically, we recommend that KCPS

- a. ensure that changes to the vendor information recorded in the automated accounts payable system are verified to appropriate source documentation by an independent employee ; and
- b. ensure that an independent employee conducts a documented comparison of transactions and checks processed to the related supporting documentation, at least on a test basis (repeat).

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	We are the smallest school system in Maryland and do not have the funds to hire additional staff to address all the recommendations and unable to segregate all duties. In the future, the Supervisor of Finance will review user accounts is independent of processes.		
Recommendation 1a	Agree	Estimated Completion Date:	January 2020
Please provide details of corrective action or explain disagreement.	KCPS will implement a process to notify the Supervisor of Finance will of any vendor changes needed. The Supervisor of Finance will review all documentation for the vendor for verification and accuracy purposes. KCPS will also obtain training to see if this process can be documented and noted in the system.		
Recommendation 1b	Agree	Estimated Completion Date:	March 2020
Please provide details of corrective action or explain disagreement.	The Supervisor of Finance will review and evaluate the Accounts Payable process to compare the transactions and checks processed to ensure that the supporting documentation is correct. KCPS will attempt to test this periodically.		

Kent County Public Schools

Agency Response Form

Finding 2

KCPS procurement policies were not sufficiently comprehensive, as they did not incorporate certain best practices for consideration when evaluating possible participation in an intergovernmental cooperative purchasing agreement (ICPA). In addition, KCPS did not obtain contract copies to verify invoice pricing.

We recommend that KCPS establish more comprehensive procurement policies for the use of ICPAs that incorporate the best practices listed above. In particular, KCPS should

- a. ensure that the ICPA allows for the utilization of the contract;
- b. obtain the originating agency's competitive procurement documentation, including public advertisements and proposal evaluation information;
- c. ensure that price lists are obtained from ICPA vendors and used to verify the propriety of billed vendor costs;
- d. comply with State law and ensure that a written determination is prepared of the benefits of using ICPAs; and
- e. execute an addendum of participation with the lead agency and remove or incorporate necessary local terms and conditions.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	Estimated Completion Date:	January 2020
Please provide details of corrective action or explain disagreement.	KCPS will review contracts to determine if utilization of ICPA is possible.		
Recommendation 2b	Agree	Estimated Completion Date:	January 2020
Please provide details of corrective action or explain disagreement.	KCPS will obtain a copy of the bid, advertisements, and evaluation forms.		
Recommendation 2c	Agree	Estimated Completion Date:	January 2020
Please provide details of corrective action or explain disagreement.	KCPS will obtain copies of the price lists and verify invoices.		
Recommendation 2d	Agree	Estimated Completion Date:	January 2020

Kent County Public Schools

Agency Response Form

Please provide details of corrective action or explain disagreement.	KCPS will ensure that a written document of determination is performed by the individual procuring the items prior to receiving approval by the Board concerning the benefits of utilizing ICPA.		
Recommendation 2e	Agree	Estimated Completion Date:	March 2020
Please provide details of corrective action or explain disagreement.	KCPS will execute an addendum of participation with the leading agency and will review local terms and conditions.		

Kent County Public Schools

Agency Response Form

Human Resources and Payroll

Finding 3

KCPS did not ensure critical human resources and payroll transactions were independently reviewed for propriety, and salary increases were not always approved by the Board as required.

We recommend that KCPS ensure that adequate controls are in place over payroll processing. Specifically, we recommend that KCPS

- a. perform independent supervisory reviews of changes processed for the bi-weekly payroll, at least on a test basis, by agreeing changes to appropriate supporting documentation (repeat); and
- b. ensure all salary increases are properly supported and approved, and retroactive Board approval is obtained for the two salary increases cited above or recover the excess payments.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 3a	Agree	Estimated Completion Date:	January 2020
Please provide details of corrective action or explain disagreement.	The Supervisor of Finance will attempt to review any changes to bi-weekly payroll to ensure that the changes are aligned with the supporting documentation on a test basis. The Supervisor of Finance will assess the processes to ensure separation of duties are implemented given the small staff at KCPS. This will be documented when performed.		
Recommendation 3b	Agree	Estimated Completion Date:	January 2020
Please provide details of corrective action or explain disagreement.	Although the Board authorized the salary increases, we failed to document approval in the Closed Minutes. Retroactive approval was completed during January 13 th Board Meeting. Going forward, all salary changes will be properly supported and approved by the Board.		

Kent County Public Schools

Agency Response Form

Information Technology

Finding 4

KCPS did not ensure employee access to its automated financial system applications was appropriate.

We recommend that KCPS

- a. restrict user's capabilities to those needed to perform their job duties, and separate employee duties to eliminate incompatible functions (repeat);
- b. utilize available transaction history reports that identify transactions processed by the above users for independent supervisory review of any such transactions for propriety;
- c. establish a formal process for granting or modifying system user access capabilities that requires independent documented supervisory and system administrator approval; and
- d. perform a periodic documented independent review of financial applications system access for employees with unnecessary or incompatible access capabilities.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	We are the smallest school system in Maryland and do not have the funds to hire additional staff to address all the recommendations and unable to segregate all duties. In the future, the Supervisor of Finance will review user accounts is independent of processes.		
Recommendation 4a	Agree	Estimated Completion Date:	January 2020
Please provide details of corrective action or explain disagreement.	The Supervisor of Finance will review and evaluate user access for KCPS to the extent possible given a small staff. The Supervisor of Finance will identify the essential access needed by the specified users requesting access at KCPS; especially access needed for procurement and disbursement processes. Upon thorough review, user's access will be restricted based on determined job duties.		
Recommendation 4b	Agree	Estimated Completion Date:	March 2020
Please provide details of corrective action or explain disagreement.	The Supervisor of Finance will review and evaluate the Accounts Payable process to compare the transactions and checks processed to ensure that the supporting documentation is correct. KCPS will attempt to test this periodically.		
Recommendation 4c	Agree	Estimated Completion Date:	January 2020
Please provide details of corrective action or explain disagreement.	KCPS will attempt to review its processes, in order to, establish a more formal process for granting and/or modifying user access. KCPS will ensure that the process is documented and approved by the Supervisor, as well as, ensuring that the administrator is independent of the Procurement and Accounts Payable process. The Supervisor of Finance will work with the KCPS IT Department to create a System Access User		

Kent County Public Schools

Agency Response Form

	Form. <i>To be noted, the administrator that currently grants access is independent of both the Procurement and Accounts Payable process.</i>		
Recommendation 4d	Agree	Estimated Completion Date:	March 2020
Please provide details of corrective action or explain disagreement.	Given our limited resources, the Supervisor of Finance will review and evaluate the procurement and disbursement process to identify the essential access needed by the specified users requesting access at KCPS. This will be performed and documented periodically.		

Kent County Public Schools

Agency Response Form

Finding 5

Proper logging and monitoring controls were not established over a critical database, and certain publicly accessible servers were improperly located within the internal network.

We recommend that KCPS establish appropriate logging and monitoring controls for critical databases and properly secure its publicly accessible servers. Specifically, we recommend that KCPS

- a. log all critical database security and audit events, regularly generate reports of these logged events, perform independent reviews of these reports on a timely basis, and document and retain these reviews for future reference (repeat); and**
- b. relocate all publicly accessible servers to a separate protected network zone to limit security exposures to the internal network segment (repeat).**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 5a	Agree	Estimated Completion Date:	TBD
Please provide details of corrective action or explain disagreement.	KCPS has agreed to work with our critical system vendor to ensure proper logging and monitoring controls are in place. The publicly accessible server in question is hosted off-site through our cloud provider.		
Recommendation 5b	Agree	Estimated Completion Date:	TBD
Please provide details of corrective action or explain disagreement.	KCPS has agreed to work with Kent Gov (KCIT) to develop a DMZ containing any and all publicly accessible servers. We will also implement additional VLANS which will further restrict access to any and all KCPS servers.		

Kent County Public Schools

Agency Response Form

School Board Oversight

Finding 6

Financial disclosure statements were not filed or did not include all required information, and an ethics panel had not been established in accordance with KCPS' ethics policy.

We recommend that KCPS ensure that

- a. all applicable Board members and employees file the applicable required annual disclosure statements in a timely manner (repeat), and
- b. establish an ethics panel in accordance with its policy.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 6a	Agree	Estimated Completion Date:	September 2019
Please provide details of corrective action or explain disagreement.	All disclosure statements will be obtained annually.		
Recommendation 6b	Agree	Estimated Completion Date:	January 2020
Please provide details of corrective action or explain disagreement.	At the January 13, 2020 Board Meeting, Ethics Panel members were approved.		

Kent County Public Schools

Agency Response Form

Management of Other Risks

Finding 7

KCPS did not ensure the propriety of employee and retiree health care claims paid and did not verify plan administrative fees were properly charged. In addition, KCPS did not obtain copies or Board approval of the annual TPA administrative agreements.

We recommend that KCPS establish procedures to verify the amounts paid for health insurance and TPA administrative fees. Specifically, we recommend that KCPS

- a. verify the propriety of health care claims paid, by obtaining documentation supporting amounts invoiced and ensuring audits are conducted of the claims reported as paid by the TPA (repeat);
- b. compare its records of enrolled employees to TPA invoices and contract rates to determine the propriety of related fees and premiums billed; and
- c. ensure all healthcare contracts are approved by the Board and retained on file to verify billings.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 7a	Agree	Estimated Completion Date:	TBD
Please provide details of corrective action or explain disagreement.	As a member of the Consortium, KCPS has engaged an outside firm to conduct a claims audit. An audit will be conducted every 3 years.		
Recommendation 7b	Agree	Estimated Completion Date:	December 2019
Please provide details of corrective action or explain disagreement.	A monthly reconciliation of invoices and enrolled employees will be executed by an HR administrator to ensure appropriate fees and premiums are billed.		
Recommendation 7c	Agree	Estimated Completion Date:	TBD
Please provide details of corrective action or explain disagreement.	The Consortium holds the contracts with the providers. However, KCPS will attempt to communicate with the Consortium team to see if a contract or MOU can be obtained so that it can be approved by the Board. Further review will be conducted concerning this recommendation.		

AUDIT TEAM

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Information Systems Audit Managers

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