

Financial Management Practices Audit Report

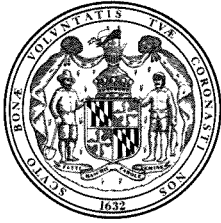
Kent County Public Schools

May 2013



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

-
- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
 - Electronic copies of our audit reports can be viewed or downloaded from our website at <http://www.ola.state.md.us>.
 - Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
 - The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.
-



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

May 13, 2013

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, 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 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 enhance internal controls and accountability for certain financial operations including procurement, disbursements, and payroll. For example, certain employees had been assigned critical automated financial system capabilities enabling them to perform incompatible functions such as the ability to prepare purchase orders, add vendors, process invoices, and approve payments.

Adequate security measures and monitoring procedures were not in place to protect KCPS' computer network and critical applications from security risks. For example, KCPS did not properly secure its internal network which could allow unauthorized access by certain users. In addition, KCPS had not developed a complete disaster recovery plan.

KCPS had taken various actions to improve efficiency and controls. KCPS conducted a reorganization of the system's facilities and closed its previous administrative offices as well as one middle school to address capacity issues and improve efficiency. KCPS also entered into a long-term agreement to purchase electricity generated by a solar field. The audit also disclosed that KCPS exercised proper controls over payments to its bus contractors and food services.

An executive summary of our findings can be found on page 5 of this report. KCPS' 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 KCPS.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas J. Barnickel III". The signature is written in a cursive style with a large initial "T" and a stylized "B".

Thomas J. Barnickel III, CPA
Legislative Auditor

Table of Contents

Executive Summary	5
Background Information	7
Statistical Overview	7
Oversight	7
External Audit of Fiscal Year 2012 Activity	7
Status of Findings From Preceding Audit Report	8
Findings and Recommendations	9
Revenue and Billing Cycle	
Finding 1 – Accountability Over School Activity Fund Cash Receipts Was Not Maintained at One School	9
Finding 2 – KCPS Did Not Have an Independent Verification Process to Ensure All Amounts Were Deposited	11
Federal Funds	12
Procurement and Disbursement Cycle	
Finding 3 – User Access to the Financial System Was Not restricted For Certain Employees and Proper Controls Were Not Established Over Disbursements and Wire Transfers	13
* Finding 4 – KCPS Did Not Analyze the Cost Benefit of Continuing to Outsource Certain Facility Management Services	14
Human Resources and Payroll	
* Finding 5 – Certain System Users Had Been Assigned Incompatible Functions and Reports of Payroll Changes Were Not Generated	15
Inventory Control and Accountability	
Finding 6 – KCPS Policies and Physical Inventory Procedures Need Improvement to Safeguard Equipment	16
Information Technology	
* Finding 7 – Proper Monitoring and Authentication Controls Were Not Established Over a Critical Database, Application and Server	17
Finding 8 – The KCPS Network Was Not Properly Secured	19
* Finding 9 – Controls Over Disaster Recovery, Backup of Critical Data and Devices, and Anti-Virus Protection Were Not Sufficient	20

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

Facilities Construction, Renovation, and Maintenance	
Finding 10 – KCPS Entered Into a Long-Term Agreement to Purchase Solar Energy But Did Not Establish Sufficient Procedures to Verify the Related Billings	22
Transportation Services	23
Food Service Operations	24
School Board Oversight	
Finding 11 – KCPS Financial Disclosure Forms Were Not Always On File and Were Not Sufficiently Comprehensive	25
Other Financial Controls	
Finding 12 – KCPS Did Not Ensure that Claims Paid Were Reviewed for Propriety or Verify the Eligibility of Health Care Coverage Participants	26
Audit Scope, Objectives, and Methodology	29
Agency Response	Appendix

Executive Summary

Legislative Audit Report on the Kent County Public Schools (KCPS) May 2013

According to data compiled by the Maryland State Department of Education, KCPS ranks lowest in student enrollment among the 24 public school systems in Maryland. In fiscal year 2012, KCPS had a total full-time regular and special education pupil population of 2,162 at its 7 schools. KCPS' operating and capital expenditures totaled \$32.7 million during that year.

The Office of Legislative Audits has conducted its second audit of KCPS' financial management practices. The results of the first audit were issued in a report dated May 11, 2007. While a number of our prior report findings were addressed, our current audit identified several opportunities for KCPS to improve internal controls and to consider the cost-effectiveness of a certain contractual arrangement.

KCPS Needs To Improve Internal Controls and Accountability in Certain Financial Areas

Although proper internal controls had been established in certain financial areas, such as transportation and food services, KCPS needs to improve internal controls and accountability in certain other financial areas. For example, KCPS needs to enhance controls over the processing of procurements and disbursements. We found certain employees had been assigned critical automated financial system capabilities enabling them to perform incompatible functions such as the ability to prepare purchase orders, add vendors, process invoices, and approve payments. Similar control weaknesses were identified for payroll processing functions.

Adequate security measures and monitoring procedures were not in place to protect KCPS' network and related critical devices from security risks. For example, KCPS did not properly secure access to its internal network which could allow unintended access to certain users. In addition, KCPS had not developed a complete disaster recovery plan or adequately secured backup files.

KCPS Should Evaluate the Cost Benefit of Continuing to Contract for Certain Services

KCPS has used a maintenance management contract to perform certain facility management services (such as overseeing custodial and maintenance work) since 1988. This contract, which was rebid in 2008, has an annual cost

of \$443,000 and includes provisions for paying the vendor administrative overhead as well as a specific profit amount. KCPS had not analyzed the cost benefits of using its own employees rather than contracting for the services.

Background Information

Statistical Overview

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Kent County Public Schools (KCPS) is the lowest in student enrollment among the 24 public school systems in Maryland. From fiscal year 2002 to 2012, the total full-time regular and special education pupil population has decreased 19 percent from 2,684 to 2,162 pupils. For the 2011-2012 school year, KCPS had 7 schools, consisting of 5 elementary, 1 middle, and 1 high school. According to KCPS' audited financial statements and required supplementary information, operating and capital expenditures totaled \$32.7 million in fiscal year 2012. The largest expenditure category was salaries and wages, including benefits, which accounted for 80 percent of total expenditures during fiscal year 2012. According to MSDE records, as of October 2012, KCPS had 310 full-time equivalent positions which consisted of 211 instructional and 99 non-instructional employees.

Oversight

KCPS is governed by a local school board, consisting of five elected voting members and one 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 review and approval of KCPS' annual operational and capital budgets.

External Audit of Fiscal Year 2012 Activity

KCPS engages a certified public accounting firm to independently audit its annual fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of KCPS federal grant programs, as required by federal regulations. The resulting financial statement for fiscal year 2012 and single audit reports were issued in September 2012 and December 2012, respectively. Neither report included any material

weaknesses¹ or deficiencies² in KCPS' record keeping, processes, and controls. Due to 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, we relied on the results of the independent audit of the fiscal year 2011 financial statements to reduce the scope of our audit work related to revenues, accounts receivable, federal grant activity, and school activity fund disbursements.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of 12 of the 15 findings contained in our preceding audit report dated May 11, 2007. We followed up on these 12 findings based on our current assessment of significance and risk relative to the audit objectives. We determined that KCPS satisfactorily addressed 8 of these findings. The remaining 4 findings are repeated in this report.

¹ A material weakness in internal control is a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the Board's 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 and corrected, on a timely basis.

² A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. With respect to Single Audit, a deficiency is a control deficiency, or combination of control deficiencies, that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

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 the KCPS audited financial statements, revenues from all sources totaled \$32.7 million during fiscal year 2012. In addition, KCPS maintains school activity funds that are collected to operate various student activities, clubs, and school publications. Each school maintains detail records which separately account for the activity of each group or club. Each school also maintains its own separate bank account. For fiscal year 2012, school activity fund collections totaled \$249,000 and disbursements totaled \$265,000. The June 30, 2012 balance based on the audited financial statements totaled \$57,000.

External Audit Disclosed No Reportable Conditions Regarding Revenue Activities

Due to the similarities between the work of the independent certified public accounting firm that audited the KCPS financial statements and the objectives of our audit in this area, we placed significant reliance on the results of that audit to reduce the scope of our audit procedures for certain revenues and accounts receivable (for example, amounts due from other governments). The auditor's procedural review and testing disclosed no material weaknesses or deficiencies regarding significant revenue types or accounts receivable. Such testing included the most significant revenue types--the majority of which related to electronic fund transfers from other government entities.

Finding 1

Accountability over school activity fund cash receipts was not maintained at one school.

Analysis

Internal controls over school activity fund cash receipts at one school tested (Kent County High School) were not adequate. Specifically we noted the following conditions:

- The transfer of funds from the event/activity coordinators to an administrative employee responsible for preparing the deposit and maintaining the related records was not adequately documented. Although this employee prepared a cash receipts form which was

generated from the automated cash receipts system and signed the form, this form was not always signed by the employee who initially received and delivered the funds to document the transfer.

- Collections were not verified to deposit by an employee independent of the cash receipts process. In addition, the employee who prepared the bank reconciliation also received, processed, and deposited cash receipts.
- Although a supervisory employee reviewed the monthly bank reconciliation, this process did not include a review of the supporting documentation, including deposit and related documents.
- The administrative employee had the ability to modify transactions in the system (such as voiding transactions) without supervisory review or approval. Although the system had the capability to generate a report of modifications, the school did not generate such a report for subsequent review. The same automated system was used at all KCPS schools; therefore, users assigned the applicable system access capabilities at those schools would also have the ability to modify posted transactions without independent review or approval.

Our test of 20 school activity fund deposits for fiscal years 2011 and 2012 totaling \$84,000 disclosed five deposits totaling \$29,000 where certain system documentation of funds received and processed did not agree to the validated deposit slip. Specifically, funds recorded into the system upon receipt from the event/activity coordinators exceeded the amounts deposited by \$8,000. We could not determine the reason for these differences. As a result, we tested all fiscal year 2012 deposits and found no additional instances of significant discrepancies between amounts recorded as having been received and amounts ultimately deposited.

In April 2012, KCPS contracted with its independent auditor to perform certain agreed upon procedures related to school activity funds at this school. In its resulting correspondence and report, the auditor stated that certain transactions could not be verified and made a number of recommendations to improve internal controls over school activity fund receipts. In September 2012, KCPS issued additional guidance over the processing of school activity fund receipts.

Recommendation 1

We recommend that KCPS ensure that

- a. deposits are properly recorded upon receipt by the school's administrative employee, including signatures to document the transfer of funds from the event/activity coordinators;**
- b. an employee independent of the cash receipts process verify that all collections are subsequently deposited;**
- c. an independent employee review and approve the monthly bank reconciliations, including a review of the related supporting documentation; and**
- d. an employee independent of the school activity funds' cash receipts and recordkeeping functions review all modified transactions recorded (such as voided transactions) in the system for propriety.**

We advised KCPS on accomplishing the necessary separation of duties using existing personnel.

Finding 2

KCPS did not have an independent verification process to ensure all amounts were deposited.

Analysis

KCPS did not have an independent verification process to ensure all amounts recorded as received at the central office were deposited. Specifically, after initially recording in a log by one employee, another employee restrictively endorsed the checks, prepared the deposit, and received the bank validated deposit slip. However, no comparison was made of the validated deposit slip to the log used to initially record all funds received by the office to ensure all receipts were deposited. Cash receipts received and processed by the central office totaled \$1.2 million in fiscal year 2012 (such as certain grants and certain payments from the State of Maryland).

Recommendation

We recommend that KCPS ensure that an employee independent of the collection and deposit functions verifies that all recorded collections were deposited. We advised KCPS on accomplishing the necessary separation of duties using existing personnel.

Federal Funds

Background

KCPS receives federal funds that 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 2012 expenditures of federal award funds totaled \$3.7 million.

Single Audit Report Disclosed No Reportable Conditions Regarding Federal Grant Management

Due to the work performed by the independent certified public accounting firm that conducted the Single Audit of the KCPS federal grant programs and the objectives of our audit in this area, we relied on the auditor's work and results. Besides 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 fiscal year 2012 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). The related report 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 auditors did not identify any material weaknesses or significant deficiencies.

Procurement and Disbursement Cycle

Background

According to KCPS records, non-payroll disbursements totaled \$6.6 million during fiscal year 2012. Board policies and procedures require the use of competitive bidding and the solicitation of bids or quotations for most procurements. KCPS has developed detailed procedures to govern the procurement process, including the use of automated approvals. All invoices are submitted by vendors directly to the finance office. The receipt of goods and services is confirmed by the requesting department before payment processing. Payments are processed by the finance office using an automated system that prints vendor checks and also posts the payment to the financial records.

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.

Analysis

KCPS did not establish adequate internal controls over its automated financial system and related verification processes. Specifically, our review disclosed the following conditions:

- KCPS did not adequately limit user capabilities on its automated financial system used to prepare purchase orders and process invoice payments. For example, our audit disclosed that three employees had unrestricted access to critical system functions such as the ability to prepare purchase orders, add vendors, process invoices, and approve payments. As a result of these incompatible capabilities, improper or erroneous transactions could be processed without detection. Our testing did not disclose any improper payments as all items tested appeared to be for valid KCPS business.
- Although KCPS implemented a process in April 2012 that required online supervisory review and approval of all invoices prior to payment, the employee responsible for this review function was one of the employees with the unrestricted access capabilities commented on above. In addition, this employee did not compare the payments entered into the automated system to the source documentation (such as the invoice).
- Controls over wire transfers used to make certain payments were inadequate. Specifically, four KCPS employees had the ability to initiate and authorize wire transfers, and there was no call-back confirmation from the bank to an independent KCPS employee. We were advised by the bank that the current agreement with KCPS only required one authorized employee to initiate and process a transfer. Our test of wire transfers processed by KCPS disclosed that the transfers tested were for appropriate KCPS disbursements and were properly supported.

Recommendation 3

We recommend that KCPS

- a. restrict critical system access capabilities so that incompatible functions are separated;**
- b. ensure that an employee independent of the disbursement process review supporting documentation (such as invoices) when approving payments in the automated system; and,**

- c. establish proper controls over the processing of wire transfers, specifically by requiring the bank to obtain call-back confirmation from an independent employee before executing the wire transfer.

We advised KCPS on accomplishing the necessary separation of duties using existing personnel.

Finding 4

KCPS did not analyze the cost benefit of continuing to outsource certain facility management services.

Analysis

KCPS did not analyze the cost benefit of continuing to outsource certain facility management services. KCPS has contracted with a vendor to provide custodian, grounds, maintenance, building, and management services for all facilities in the Kent County Public School System since 1988 and we were advised by KCPS management that no analysis was prepared to determine if outsourcing these services was cost beneficial for KCPS. The contract was competitively bid in 2008 and, after exercising renewal options, the contract with this vendor has been extended through fiscal year 2017 at an annual cost of \$443,000. Under the current contract, the vendor is responsible for the following:

- On-site managers
- Custodial supplies and equipment
- Waste disposal
- Automated maintenance management system

Maintenance and custodial personnel are KCPS employees; two contractor employees manage these individuals. In addition to the contracted services, the contract pricing includes administrative and management overhead of \$22,000 and profit of \$66,000 annually. KCPS has continued to contract with this vendor for over 20 years, and we are not aware of any other school system in the State that contracts for custodial and maintenance management services to this extent. A similar condition was commented upon in our preceding audit report.

Recommendation 4

We recommend that KCPS formally determine whether the continued use of an outsourced contractor for management of its maintenance and custodial operations is cost beneficial for KCPS (repeat).

Human Resources and Payroll

Background

Payroll represents the largest single cost component in the KCPS budget. According to KCPS records, fiscal year 2012, salary, wage, and benefit costs totaled approximately \$26.1 million. According to MSDE reports, as of October 2012, KCPS had 310 full-time equivalent positions including 99 non-instructional positions.

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.

Analysis

KCPS did not establish adequate internal controls over its automated human resources and payroll system and related processes. Specifically, our review disclosed the following conditions:

- KCPS did not adequately segregate duties by limiting authorized users' capabilities on the automated human resources and payroll system. Our review of the 11 user IDs with access to the automated human resources and payroll system disclosed that 4 employees had been assigned system capabilities that allowed them to perform all critical system functions (including the ability to add and delete employees and process payroll adjustments), even though these employees did not require these capabilities to perform their job duties. In addition, although the remaining seven users required access to perform their job duties, these employees had complete and unrestricted access to all human resources and payroll functions. As a result of these conditions, improper or erroneous transactions could be processed without detection.
- KCPS did not generate any report of changes made to payroll (such as the addition of new employees or pay rate changes) and, as a result, did not verify the propriety of the individual changes actually processed. Although we were advised that such changes were reviewed prior to processing, these reviews did not provide assurance that all processed changes were proper since changes entered in the payroll system were not subject to review after they were entered onto the system, and the employees responsible for this review also had the capability to process payroll changes on the system. A similar condition was commented upon in our preceding audit report.

Our tests of payroll changes and adjustments did not disclose any inappropriate or erroneous transactions.

Recommendation 5

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

- a. separate incompatible functions and only assign critical system functions to employees who need those capabilities to perform their job duties; and
- b. perform independent supervisory reviews of changes actually processed for the bi-weekly payroll, at least on a test basis, by agreeing changes to appropriate supporting documentation (repeat).

We advised KCPS on accomplishing the necessary separation of duties using existing personnel.

Inventory Control and Accountability

Background

According to KCPS records, the undepreciated value of its equipment totaled approximately \$9.4 million as of June 30, 2012. KCPS uses centralized automated records to track equipment items with an individual cost of \$5,000 or more for financial statement purposes. In addition, KCPS maintains secondary records of certain other technology sensitive equipment (such as laptops) for control purposes.

Finding 6

KCPS' policies and physical inventory procedures need improvement to promote more accountability over equipment.

Analysis

Our review disclosed that KCPS' policies over the recordation of sensitive equipment (such as laptops, projectors, and other electronic equipment) were not comprehensive. Although KCPS' policy required items costing more than \$5,000 to be capitalized and recorded on the detail records, KCPS did not have a formal policy addressing the recordation of sensitive items costing less than \$5,000 to help ensure proper accountability and control over those items.

Furthermore, we noted that the physical inventory counts taken by equipment custodians (the teachers and staff using the equipment) were not subject to independent verification, even on a test basis. In addition, the count sheets prepared by the custodians were forwarded to the central office but were not

reconciled to the detail records since equipment tag numbers were often not included on the count sheets. As a result, it was impossible for KCPS to reconcile the count sheets to the detail records and ensure that all equipment on the detail records was properly accounted for.

Our review of the physical inventories for fiscal years 2011 and 2012 disclosed that two locations (out of nine total locations) did not submit inventory results and one location did not include sensitive equipment on the fiscal year 2012 physical inventory count sheets. KCPS Board policy requires that inventories include all equipment.

Recommendation 6

We recommend that KCPS

- a. establish a formal policy addressing the recordation of sensitive items; and
- b. perform physical inventories of all equipment, record equipment tag numbers on the count sheets, independently verify the counts at least on a test basis, and reconcile the inventory results to the detail records.

Information Technology

Background

The KCPS Technology Department maintains and administers the KCPS computer network, computer operations, and information systems applications. KCPS operates a wide area network, with Internet connectivity, which connects the individual schools to the computer resources located at the KCPS headquarters building. This building hosts critical devices including computer servers which support KCPS' critical applications including its student management system and its financial management and payroll/human resources systems.

Finding 7

Proper monitoring and authentication controls were not established over a critical database, application, and application server.

Analysis

Monitoring and authentication controls over a critical database, application, and application server were not adequate. Specifically, we noted the following conditions:

- Account and password controls over the student information system application were not sufficient to properly protect critical resources.

Password lifetime, length, complexity, history, and account lockout were not in accordance with best practices prescribed by the State of Maryland Department of Information Technology (DoIT) *Information Security Policy*. For example, required password length was set to one character for administrators and teachers; however, the aforementioned *Policy* requires a minimum of eight characters.

- The student information system database was not configured to log any database security activity. Examples of database activities which should be logged and analyzed include direct changes to critical data tables, changes to database security settings, and use of certain critical privileges. This condition could result in unauthorized or inappropriate activities (affecting the integrity of the production database information) going undetected by management. The aforementioned DoIT *Information Security Policy* states that information systems must generate audit records for all security-relevant events and procedures must be developed to routinely review audit records for indications of unusual activities or suspected violations. A similar condition was commented upon in our preceding audit report.
- The server hosting the financial and payroll/human resources systems was not configured to log critical security events in accordance with the recommendations of the server operating system's vendor. Accordingly, critical events such as account logon failures were not logged. As previously mentioned, the aforementioned DoIT *Information Security Policy* requires logging and monitoring of such security events. A similar condition was commented upon in our preceding audit report.
- Three employees had unnecessary user security access capabilities which allowed these employees the ability to update, modify, change, or add user access. None of these employees required this access to perform their routine job duties. We also found a generic user ID (not assigned to a specific employee) with access capabilities that also allowed the ability to update, modify, change, or add user access. As a result, these users could create an improper user account or improperly modify existing user accounts.

Recommendation 7

We recommend that KCPS establish appropriate monitoring and authentication controls. Specifically, we recommend that KCPS

- a. establish appropriate account and password controls over the student information system application,**

- b. log the student information system database security events and monitor such events (repeat),
- c. log financial and payroll/human resources systems' critical security events and monitor such events (repeat), and
- d. establish user security access capabilities commensurate with the users' routine job duties.

Finding 8

The KCPS network was not properly secured.

Analysis

The KCPS network was not properly secured. Specifically, we noted the following conditions:

- Eight publicly and widely accessible servers were located on the KCPS internal network rather than isolating these servers in a separate protected network zone. These servers, which could potentially be compromised, exposed the internal network to attack from external sources. Recommended security procedures, per the National Institute of Standards and Technology *Guidelines on Firewalls and Firewall Policy* include placing publicly accessible servers in an external protected zone so as to protect those servers as well as an entity's internal network.
- KCPS did not adequately secure its internal network from improper network level access from KCPS high school computer lab workstations or school system laptops used by students. KCPS did not use network access control software or network level traffic filtering to protect its network from activity emanating from these computer lab workstations and school system issued laptops. Such access should be limited to devices and ports necessary for students to perform required tasks.

Recommendation 8

We recommend that KCPS

- a. segregate publicly and widely accessible servers in a separate protected network zone, and
- b. implement controls to limit network level student access to only authorized local school and headquarters network resources.

Finding 9

Controls over disaster recovery planning, backup of critical data and devices, and anti-virus protection of critical devices were not sufficient.

Analysis

Controls over disaster recovery planning, backup of critical data and devices, and anti-virus protection of critical devices were not sufficient. Specifically, we noted the following conditions:

- KCPS did not have a complete information technology disaster recovery plan (DRP) for recovering computer operations from disaster scenarios (for example, a fire or flood). The State of Maryland *Information Technology (IT) Disaster Recovery Guidelines* provide information on the minimum required elements needed for a complete information systems' DRP. KCPS' DRP did not address several of these minimum requirements. For example, the DRP did not contain listings of hardware and software components or prioritize applications for recovery. Without a complete DRP, a disaster could cause significant delays (for an undetermined period of time) in restoring information systems operations above and beyond the expected delays that would exist in a planned recovery scenario.
- Procedures for backing up the financial and payroll/human resources database and application server and critical network device configurations were not adequate. For example, the daily backups for the financial and payroll/human resources database and the configurations of critical core switches and the KCPS firewall were stored at the home of an employee rather than being stored in a secure, environmentally-controlled facility as specified by the aforementioned *Guidelines*.
- All of the KCPS' workstations and servers running a certain operating system did not have any anti-virus software installed. In addition, the server hosting the financial and payroll/human resource application did not have any anti-virus software installed. Finally, another important server had not had its virus definitions updated since December 31, 2009. Best practices identified in the aforementioned DoIT *Information Security Policy*, state that agencies, at a minimum, must protect against malicious code by implementing protections such as anti-virus software.

Similar conditions were commented upon in our preceding audit report.

Recommendation 9

We recommend that KCPS

- a. **develop and implement a comprehensive DRP that is in accordance with the State of Maryland *Information Technology (IT) Disaster Recovery Guidelines* (repeat);**
- b. **store all backups of data and device configurations at an off-site, secure, environmentally-controlled location (repeat); and**
- c. **maintain current anti-virus definitions and software on all computers that connect to its network and enable real-time virus scanning protection on all of its computers (repeat).**

Facilities Construction, Renovation, and Maintenance

Background

KCPS maintains 7 schools (totaling 504,000 square feet) with a staff of 5 maintenance and 23 custodial personnel. Fiscal year 2012 expenditures for maintenance and operations totaled \$2.7 million based on the audited financial statements. According to the fiscal year 2012 Capital Improvement Plan, the estimated cost of construction, major renovations, and systemic improvements that were needed for KCPS facilities over the next six years totaled \$15.8 million.

KCPS Reorganized its Schools to Address Student Capacity and Improve Efficiency

In fiscal year 2010, the Board of Education approved a school reorganization plan effective for the 2010–2011 school year. The reorganization consolidated three existing middle schools into one, created an additional elementary school and moved the existing administrative offices into a former elementary school. The existing administrative offices were declared surplus and transferred to the Kent County Commissioners after approval by the Board of Public Works. The primary reasons for the reorganization included a more efficient use of resources for middle school students, the creation of community-based elementary schools, and expansion of grades at all elementary schools (pre-kindergarten through fifth grade).

Processes are in Place to Minimize Energy Costs

KCPS has processes in place to minimize energy costs. For example, KCPS contracted with a vendor to implement an energy conservation program over a four-year period ending December 2011. The agreement was designed to reduce energy costs through the conservation and monitoring of energy usage. Energy usage would be monitored by a KCPS employee who also performs energy audits at KCPS facilities. According to reports prepared by

the program coordinator (which we did not audit), KCPS avoided \$1.5 million in energy costs during the contract period. In addition, KCPS participates in a consortium with other Eastern Shore entities to pool their buying power to purchase energy at the best possible prices and has entered into an agreement with a utility to purchase solar power.

KCPS Generally Performed Preventive Maintenance in Accordance with Predetermined Intervals

KCPS generally performed preventive maintenance in accordance with intervals specified in its Comprehensive Maintenance Plan. Our review of the automated work order system used to document performance of routine preventive maintenance, which we tested and found to be accurate, disclosed that KCPS completed a significant portion of the required tasks.

Finding 10

KCPS entered into a long-term agreement to purchase solar energy but did not establish sufficient procedures to verify the related billings.

Analysis

KCPS entered into a long-term agreement to purchase solar energy but did not ensure the propriety of the related billings. In October 2011, the Kent County Commissioners, on behalf of the County and KCPS, entered into an agreement with a utility that authorized the utility to build a solar power array on KCPS property. Under the agreement, the County and KCPS agreed to purchase all power generated by the array for a 20-year period commencing with the completion of the construction and initiation of power generation. The agreement includes the price per kilowatt hour over the duration of the agreement. Under the agreement, the power will be used for three KCPS facilities and two county facilities. All costs of construction were borne by the utility and the utility is responsible for all future maintenance.

The construction was completed, and the array was dedicated on July 10, 2012. The array will generate an estimated 1,600 megawatt hours per year. An analysis prepared by the utility estimated that anticipated savings resulting from the use of solar energy at the three KCPS facilities would total \$2.3 million over the life of the contract.

Although the array began operation in July 2012, KCPS had not been charged the rate for the solar power on its utility invoices through August 27, 2012. That is, the utility bills received by KCPS since the array began operation (two invoices) reflected the regular electricity rate, but KCPS had not been charged for any of its electricity usage at the potentially lower solar contract rate. We

were advised by KCPS' existing utility that separate meters had not yet been installed to accurately record usage from the solar array for each separate facility; therefore, usage could not be verified.

We contacted the County and were advised that it had received invoices that included the solar power at the agreed-upon contract price but that the usage appeared excessive compared to the County's historical usage for the locations included in the agreement. The County invoices appeared to include all electricity being generated by the array including power that should have been provided and billed to KCPS facilities. County personnel advised us that they were reviewing the invoices with the electric and solar utilities to determine the proper distribution of costs.

Recommendation 10

We recommend that KCPS work with the utilities and County to ensure that

- a. meters are installed to accurately record electric usage at each KCPS facility included in the contract,**
- b. solar power usage since the array started generating power is properly allocated to each facility, and**
- c. KCPS receives appropriate credit from the existing electricity utility for solar power usage since the installation of the array.**

Transportation Services

Background

KCPS has approximately 2,000 students eligible to receive student transportation services. These students were transported on one of 31 contractor-owned buses. According to KCPS records, fiscal year 2011 transportation costs totaled \$2.2 million, with 92 percent representing payments to contractors. Of the 713,000 reported route miles for the 2011 - 2012 school year, 14 percent represented miles traveled to transport disabled students.

Bus Contractor Payment Methodology Appeared Reasonable and Payments Were Properly Controlled and Supported

KCPS payment methodology for its bus contractors, as contained in the related contracts, appeared reasonable. In addition, adequate controls over the payment process were established. Contractors receive payments based on automated routing system reports that include driving time and mileage. In addition, KCPS personnel periodically verify this information to contractor prepared manifests (primarily when the contractor requests an increase based on additional time or mileage). Our tests of payments made to all

contractors for the month of February 2012 disclosed that payments agreed to routing software reports, contractor manifests, and contractually agreed upon rates.

KCPS Uses Automated Routing Software to Assist In Bus Routing Decisions

KCPS continually reviews bus routes and uses its automated routing software to assist in this process. We sighted documentation that KCPS regularly reviewed its bus routes with staff, parents, and bus contractors in order to attempt to develop efficient bus routes.

Food Service Operations

Background

KCPS has a cooking cafeteria at six of its seven schools. Food and related supplies are received and stored in a central warehouse and transported to schools weekly. In fiscal year 2011, KCPS had 28 food service positions (consisting of 25 cafeteria positions and 3 administrative positions). According to the audited financial statements, food service operations revenues exceeded expenditures by \$22,000 for fiscal year 2012.

Controls Over Food Ordering and Payment of Related Invoices Were Adequate

Our review of KCPS procedures over food ordering and usage disclosed that cafeteria managers monitor food usage on a daily basis and that this information is reviewed periodically by food service management. We also tested contracts procured for food supplies in fiscal year 2011 and 2012 and related invoices, and found that KCPS properly procured the contracts and that payments made to vendors were in accordance with the terms of the related contracts.

KCPS Had Processes in Place to Encourage Participation in the Free and Reduced Price Meal Programs

KCPS uses appropriate processes to help ensure that eligible students participate in the free and reduced price meal programs. For example, KCPS uses family applications (instead of individual student applications) to qualify more students. In addition, all students are assigned individual personal identification numbers for use with KCPS' automated point-of-sale system so that the system can identify all eligible students without any stigma of participating in the program. Based on KCPS records, for fiscal year 2011, 87 percent of KCPS students eligible to receive free lunches and 74 percent of the students eligible to receive reduced-price lunches actually participated in the programs.

School Board Oversight

Background

The KCPS Board of Education is composed of five elected members and one 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. Due to the size of KCPS and the limited membership of the Board, a committee structure is not used, but rather, individual members are periodically informed of and become involved in all aspects of operations and governance.

KCPS Adopted an Ethics Policy that Meets the Current Requirements of State Law

The Board has adopted a detailed ethics policy that conforms to State law and includes provisions for conflicts of interest and financial disclosure.

Provisions of this policy are applicable to Board members as well as all KCPS employees. KCPS established an Ethics Panel consisting of three 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, candidates for the Board, the Superintendent, Assistant Superintendents, and a number of other administrators (such as supervisors of human resources and transportation) by April 30th of each year.

Finding 11

KCPS financial disclosure forms were not always filed as required and the forms were not sufficiently comprehensive as required.

Analysis

Our review of calendar year 2010 and 2011 financial disclosure statements revealed that not all supervisory employees and Board members submitted financial disclosure statements as required. Specifically, for both years, 3 of 10 school officials required to submit the statement had not done so as of June 2012.

Furthermore, although KCPS modified their financial disclosure requirements to include additional information in May 2012, as of September 2012, the financial disclosure form had not been revised to reflect the changes to the ethics policies. The form KCPS used to report financial disclosures only required the reporting of gifts if received, and did not include any requirement to report additional information such as interests in business entities doing

business with KCPS, or certain outside employment which could disclose potential conflicts of interest.

Recommendation 11

We recommend that KCPS

- a. ensure that all applicable school officials file annual financial disclosure statements in a timely manner, and
- b. revise the financial disclosure statement form to ensure that requested information is consistent with the requirements of its policy (such as the requirements to disclose certain interests).

Other Financial Controls

Finding 12

KCPS did not ensure that claims paid were reviewed for propriety or verify the eligibility of health care coverage participants.

Analysis

KCPS did not ensure that health care claims paid were reviewed for propriety or verify the eligibility of health care coverage participants. KCPS provides health care coverage to employees and eligible dependents through the Eastern Shore of Maryland Educational Consortium Alliance. However, the Alliance and KCPS did not ensure that claims paid by the health care provider were reviewed for propriety. In addition, KCPS did not always verify the eligibility of enrolled program participants' dependents. As of June 2012, KCPS provided health care coverage to 857 employees, retirees, and their dependents.

The Alliance contracts with a health care provider and each local entity which is a member of the Alliance pays premiums directly to the provider. As KCPS is self insured, to the extent that premiums paid each year exceed actual and anticipated claims, KCPS is eligible for a refund (KCPS would reimburse the provider if claims exceeded premium payments for the year). According to its records for fiscal year 2012, KCPS paid the health care provider and the Alliance \$3.1 million and \$853,000, respectively. Based on the Alliance's year-end settlement, KCPS received a refund (that is, premium payments exceeded actual and expected claims payments) of \$496,400 applicable to fiscal year 2011. According to KCPS personnel, refunds are credited to KCPS' account to offset costs for the following year.

Recommended practices published by the Government Finance Officers Association state that health care cost containment, which include verification of enrolled participants, is a critical component of long-term financial planning and budgeting.

Recommendation 12

We recommend that KCPS institute processes to

- a. verify the propriety of claims paid by the health care provider, at least on a test basis; and**
- b. verify the eligibility of enrolled health care program participants and their listed dependents.**

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. To evaluate whether the KCPS procedures and controls were effective in accounting for and safeguarding its assets
2. To 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 September 14, 2004 by the Joint Audit 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 11, 2007, 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, the Maryland State Department of Education

(MSDE), and staff at other local school systems in Maryland (as appropriate).³ 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 January 1, 2011 through April 30, 2012. 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.

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.

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 KCPS that did not warrant inclusion in this report.

We conducted our fieldwork from May 2012 to September 2012. 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.

³ During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

APPENDIX



KENT COUNTY PUBLIC SCHOOLS

5608 Boundary Avenue Rock Hall, Maryland 21661 Phone 410-778-1595
Fax 410-778-6193

April 24, 2013

Department of Legislative Services
301 Preston Street
Room 1202
Baltimore, MD 21201

Dear Mr. Thomas J. Barnickel III, CPA:

This letter includes the responses in regards to the Financial Management Practice Audit for Kent County Public Schools that was conducted over the summer of 2012 with a draft report issued April 2013. Please note the findings listed with the management response listed below.

Finding #1-

Accountability Over School Activity Fund Cash Receipts Was Not Maintained at One School -

- The Supervisor of Finance became aware of this problem in March 2012. As stated in audit report an independent audit firm was contracted to perform certain agreed upon procedure related to school activity funds at this particular school. In the audit report issued in April 2012 the auditor states that certain transactions could not be verified and made a number of recommendations to improve internal controls over school activity fund receipts. In September 2012, the finance office issued additional guidance over processing the school activity fund receipts.
- Other measures put into place are the accountant; an employee independent of the collections, schedules a monthly visit to the finance office and verifies the funds are deposited properly by the use of the new student activities form. Accountant also reviews and approves monthly bank reconciliations and the supporting documentation monthly. All modified transactions are reviewed by accountant to ensure proper approval of modifications by the principal.

Finding #2-

Finding: KCPS did not have an independent verification process to ensure all amounts recorded as received at the central office were deposited.

- Management handles the verification process of deposits of cash as efficiently as possible, given the number of staff available. Mail is opened by finance secretary and stamped then passed to payroll secretary to log in a journal and then the deposit is then passed to the accountant to prepare the deposit. The deposit is prepared and given back to the finance secretary to drop at the bank at the end of the day.
- The data are given to the computer operator to enter in the finance system and the supervisor of finance signs off on the data. Deposit ticket is returned to the accountant and external auditors proof the journal as well as the deposit tickets during external audit. Cash collection is very minimal at the administrative office

SUCCESSFUL LEARNING FOR ALL STUDENTS

- level. Total cash collections for fiscal year 2012 amounted to less than 1% of total revenue. Over 99% of the local and restricted fund revenue is electronically deposited and does not require the handling of cash. Additional measure put into place is the deposit ticket is compared to the journal by finance secretary.

Finding #3-

User Access to the Financial System was not Restricted for Certain Employees and Proper Controls Were Not Established Over Disbursements and Wire Transfers

- KCPS just upgraded to a newer financial system at the end of April 2012. The legislative auditors arrived late May to begin their audit. In the short period of time with the upgrade we did not have time to review the controls adequately with security settings for individuals. All security settings had to all be re-set with the upgrade. However, the three individuals that had the access and the abilities to create purchase orders and add vendors would not have been able to initiate any transactions through the proper approval process as there are other check points in place. The accounts payable secretary initiates the disbursements of checks which are approved by the accountant and overseen by the supervisor of finance. These security settings have been modified to restrict access to the three named individuals.
- Although the accountant has online approval and review authority she now verifies the check payment with the data presented to the accounts payable secretary before approving. Again, these data are also verified through the monthly bank statement.
- Wire transfers are initiated by the accountant and are only wired to a specific list of approved vendors with Chesapeake Bank and Trust. In the event a transfer is requested to anyone other than the list of approved vendors the bank will call the supervisor of finance to verify the transaction. The accountant initiates the wire transfers and the supervisor of finance now signs the request before faxing to Chesapeake Bank and Trust. The supervisor of finance also signs the journal voucher immediately after the wire transfer. This process has always been in place and is not a reflection of this finding.¹

¹ **Auditor's Comment:** Although KCPS indicated that other procedures were in place (such as transfers only being wired to a specific list of approved vendors) to mitigate the risks associated with such transfers, we were advised by the bank that those procedures had not been instituted. Specifically, the bank advised that any of the individuals authorized to wire funds from KCPS accounts could solely initiate a wire transfer to any payee as long as sufficient vendor account information was provided to the bank. We were also informed that the wire agreement contains no restrictions to wire funds only to specified vendors or call-back requirements.

Finding #4-

KCPS Did Not Analyze the Cost Benefit of Continuing to Outsource Certain Facility Management Services

- KCPS did not bid out the renewal contract with Aramark because Aramark offered KCPS a full facilities assessment (valued in the amount of \$60,000) as well as no increase in the contract other than the general CPI increase. Management felt it was in the best interest to renew the contract with Aramark.
- KCPS will conduct a cost benefit analysis before the renewal of the next Aramark contract.

Finding #5-

Certain System Users Had Been Assigned Incompatible Functions and Reports of Payroll Changes Were Not Generated

- KCPS is very challenged with the separation of duties in the payroll department. KCPS currently has two employees that are involved in the payroll process who also perform other day to day duties. However, KCPS believes that we have adequate controls in place in regards to the processing of payroll. All payroll journals are reviewed before employees are paid by the supervisor of finance. Bank statements are reviewed by the accountant. There were two other employees that had the capabilities to add and delete employees and information, and also process payroll adjustments and those security settings have been adjusted.

Finding #6-

Finding: KCPS Policies and Physical Inventory Procedures Need Improvement to Safeguard Equipment

- All technology purchases will be inventoried using our Filemaker Pro database by the technology department to include number and date of purchase order, date of last inventory, and unit cost of equipment. An annual physical inventory will be conducted by the technology department on a building by building basis.

Finding #7-

Proper Monitoring and Authentication Controls Were Not Established Over a critical Database, Application and Server

- KCPS has addressed this finding by requiring password complexity and establishing a lifetime for administrators and teachers based on DOIT guidelines in August 2012. We plan to implement password complexity and lifetime for students and parents in the summer of 2013. In addition, we will enable account lockout after four attempts for teachers, administrators, students and parents. KCPS chose not to implement some of the recommendations during the school year since we had not given these groups sufficient notification of the required changes.
- KCPS will implement configuration changes so that our finance and student information system will generate audits of database activity for potential security threats in the summer of 2013. We will establish a procedure for timely review of these reports as well. We chose to do this in the summer once we have virtualized our finance system and configured its physical backup.
- Proper security access for the finance system has been given to employees based on based on their job duties.

Finding #8-

The KCPS Network Was Not Properly Secured

- Certain publicly accessible servers will be placed in secure network area in the summer of 2013.
- Students will be placed in separate VLANs in the summer of 2013 when installation of our new fiber network is expected.

Finding #9-

Controls Over Disaster Recovery, Backup of Critical Data and Devices, and Anti-Virus Protection Were Not Sufficient

- A complete DRP (Disaster Recovery Plan) will be completed in the summer of 2013.
- KCPS' student information system backup server has already been purchased and configured. It will be placed in an off-site location as soon as possible. KCPS plans to virtualize the finance application server and database. The current server will become the physical backup and placed off-site. Currently there are daily backups of the SIS and finance database stored offsite.
- All Windows servers and client workstations currently have updated virus protection. KCPS plans to install virus protection on all Apple servers and client workstations in the summer of 2013. KCPS will conduct research to determine whether there is a need to install virus protection on iPads.

Finding #10-

KCPS Entered Into a Long-Term Agreement to Purchase Solar Energy But Did Not Establish Sufficient Procedures to Verify the Related Billings

- KCPS has ensured that the meters have been installed properly. Choptank Electric installed the meter on September 22, 2012. Since then the supervisor of finance, supervisor of environmental services and the accountant have had numerous meetings with the County, Choptank Electric and Standard Solar to ensure that the costs are being distributed adequately. KCPS and the County have also consulted with legal counsel in regards to the credits with Choptank Electric. KCPS and the County believe they have resolved the billings issues and errors as of this date.

Finding #11

KCPS Financial Disclosure Forms Were Not Always On File and Were Not Sufficiently Comprehensive

- KCPS recognizes the oversight of the filing of the forms and will file the annual financial disclosure forms in a timely manner moving forward. KCPS will also revise the financial disclosure statement to ensure that requested information is consistent with the requirements of State law.

Finding #12

KCPS Did Not Ensure that Claims Paid Were Reviewed for Propriety or Verify the Eligibility of Health Care Coverage Participants

- KCPS verifies the propriety of claims paid by the health care provider on an annual basis. The Eastern Shore of Maryland Educational Consortium Alliance contracts with Bolton Partners, INC. for these services annually.
- Historically, KCPS has not requested birth certificates to verify employee dependents. Instead, we request the dependent's Social Security Number, which is required by our health insurance provider. Additionally, KCPS is contracting with Bolton Partners, INC. to conduct a dependent audit in fiscal year 2014.²

Kent County Public Schools believes they have addressed all of the findings and or concerns from the Financial Management Practice Audit. Please feel free to contact either myself at 410-778-7113 or Angela K Councill, Supervisor of Finance at 410-778-7123 if you have any questions.

Sincerely,



Dr. A. Barbara Wheeler, Superintendent



Angela K Councill, Supervisor of Finance

² **Auditor's Comment:** KCPS had not provided any documentation of third party reviews for the period under audit. Also, KCPS' response indicated that it obtained the social security number of dependents but did not otherwise verify the qualification as a dependent. KCPS does not explain how the social security number adequately establishes dependency.

AUDIT TEAM

Edward L. Shulder, CPA
Audit Manager

Richard L. Carter, CISA
Stephen P. Jersey, CPA, CISA
Information Systems Audit Managers

Menachem Katz, CPA
Senior Auditor

Eoghan J. Doherty, CPA
Roger E. Jaynes III, CFE
Staff Auditors

Eric Alexander, CPA
Information Systems Senior Auditor

Christopher D. Jackson
Information Systems Staff Auditor