



PRESENTATION TO



Joint Committee on the Management of Public Funds

Local School System Audits

December 9, 2009

Timothy R. Brooks, Director, Performance Audit Division



Education Fiscal Accountability and Oversight Act of 2004

- All 24 LEAs to be audited by June 30, 2010.
- Effectiveness of financial management practices.
- Audit process and program for 11 functional areas to be audited were approved by the Joint Audit Committee.
- LEA audits were begun in November 2004.
- When scheduling LEAs for audit only preference was if they were experiencing financial difficulty.



Senate Bill 243 of 2006 (Chap. 512)

- Establishes a process of the Joint Audit Committee to review an LEA's response to audit recommendations.
- OLA to advise the JAC when a response is not satisfactory.
- OLA could be directed to undertake a review to determine actions taken by a LEA to implement recommendations.
- JAC may make recommendations to the Governor, State Superintendent, and LEA officials.



Audit Status

- Eighteen audit reports issued to date.
- Four audits near completion.
- One audit currently in progress.
- One to start early in 2010.
- All completed audits have been presented at legislative hearings in January of each year.



Audit Status Summary

LEA	Students	Report Date / Status
Baltimore City	83,086	January 9, 2006
Prince George's	132,009	January 10, 2006
Queen Anne's	7,692	October 23, 2006
Carroll	29,060	January 5, 2007
Allegany	9,673	January 20, 2007
Kent	2,433	May 11, 2007
Washington	21,146	August 6, 2007
Anne Arundel	72,966	September 27, 2007
Talbot	4,442	December 3, 2007
Harford	40,006	May 30, 2008
Frederick	39,696	June 4, 2008
Baltimore	107,012	October 15, 2008
Wicomico	14,438	December 8, 2008
Montgomery	139,072	January 15, 2009
St. Mary's	16,502	April 9, 2009
Calvert	17,071	July 1, 2009
Cecil	16,390	September 10, 2009
Howard	48,741	October 23, 2009
Somerset	2,865	Report Under Review
Garrett	4,652	Report Under Review
Caroline	5,549	Completion 12/2009
Charles	26,363	Completion 12/2009
Worcester	6,732	In Progress
Dorchester	4,606	To Start Early 2010
	852,202	

Legislative Hearings	No. of LEAs	Counties
January 2006	2	Baltimore City, Prince George's
January 2007	3	Allegany, Carroll, Queen Anne
January 2008	4	Anne Arundel, Kent, Talbot, Washington
January 2009	5	Baltimore Co., Frederick, Harford, Montgomery, Wicomico
(Proposed)		
January 2010	4	Cecil, Calvert, Howard, St. Mary's
January 2011	6	Somerset, Caroline, Charles, Garrett, Worcester, Dorchester
	24	



Expiration of Audit Authority

- Law authorized only one round of audits of LEAs.
- All 24 LEA audits will be completed by the deadline specified.
- New authorization is needed for OLA to continue LEA audits after June 30, 2010.



The 11 Audit Areas

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



Audit Duplication Avoided

- When warranted, we use the work of other auditors to avoid duplication of effort.
- Usually we are able to do this for significant parts of the Revenue and Billing Cycle, and Federal Funds.
- At legislative hearings each January, the LEAs have acknowledged that our audits provide unique coverage and have not duplicated any preceding audits.



Other General Comments

- Existence of compensating and detective controls is always considered when evaluating internal control.
- Generally LEAs have seriously considered the audit recommendations for both their own audit and the audits of other LEAs.
- The audit reports do identify best practices and noteworthy accomplishments of the LEAs.
- LEA management and staff have been very cooperative.



General Issues

Spanning several audit areas is a broad issue re: policies and procedures.

- Have comprehensive Board policies and a corresponding Administrative/Accounting procedures manual been put in place?
- Is the procedures manual current and consistent with the Board policies?



Count of Findings in First Eighteen Audits

Functional Area	No. of Findings ¹
1. Revenue and Billing Cycle	17
2. Federal Funds	10
3. Procurement and Disbursement Cycle	72
4. Human Resources and Payroll	46
5. Inventory Control and Accountability	37
6. Information Technology Issues	66
7. Facilities Construction and Maintenance	72
8. Transportation Services	94
9. Food Services Operations	37
10. School Board Operations and Oversight	49
11. Other Financial Controls	24
¹ Exclusive of findings of best practices findings.	



Most Common Finding Areas

Of the 11 standard audit areas, the following four areas seem to have the most recurring/significant issues:

- Procurement / Accounts Payable
- Human Resources / Payroll
- Transportation Services
- Information Technology



More Common Issues

Procurement / Disbursement Cycle:

- Inadequate processing controls
- Documentation of procurement decisions
- Contract monitoring
- Monitoring of credit card activity

Human Resources and Payroll:

- Inadequate processing controls
- Expand workforce planning



More Common Issues

Transportation Services:

- Routing software (capacity issues) & bell times
- Contractor rates and payment monitoring
- Outsourcing vs. in-house



More Common Issues

Information Technology Issues:

- User access and security issues
- Program change procedures
- Physical security safeguards
- Disaster recovery plans & offsite storage
- IT planning and development



Concerns From Remaining Areas

- Controls over cash collections at schools.
- Health care cost containment.
- Existence/duties of internal audit function.
- Accountability for property and equipment.
- Financial benefit from energy management programs.



Final Thoughts

LEAs have significant networking opportunities which they appear to use:

- ASBO – Association of School Business Officials
- MABE – Maryland Association of Boards of Education
- ESMEC – Eastern Shore of Maryland Energy Consortium

MSDE Involvement / Coordination – May be appropriate, necessary or helpful for certain areas.



Exhibit 1 - LEA Background & Report Summary

Key Data	Local School System				
	Baltimore City	Prince George's	Queen Anne's	Allegany	Carroll
Background at Time of Audit:					
Operating Expenditures (including payroll)	\$964 million	\$1.3 billion	\$68 million	\$92 million	\$232 million
Payroll Expenditures	\$645 million	\$1.1 billion	\$50 million	\$73 million	\$191 million
Approximate Student Enrollment	90,900	133,600	7,700	9,700	28,800
Number of Schools	170	197	13	23	41
Audit Report Summary:					
Audit Report Date	January 9, 2006	January 10, 2006	October 23, 2006	January 5, 2007	January 5, 2007
Number of Audit Report Findings	46	67	22	27	30
Number of Audit Recommendations	23	24	12	17	22
Number of Functional Areas with Findings	10 of 11	11 of 11	10 of 11	9 of 11	11 of 11
Number of Findings by Functional Area:					
1. Revenue and Billing Cycle	n/a	5	1	n/a	1
2. Federal Funds	1	1	n/a	n/a	1
3. Procurement and Disbursement Cycle	5	7	3	5	8
4. Human Resources and Payroll	7	10	3	2	2
5. Inventory Control and Accountability	3	8	2	2	1
6. Information Technology Issues	5	7	3	3	2
7. Facilities Construction and Maintenance	6	6	2	2	3
8. Transportation Services	12	11	2	4	6
9. Food Services Operations	1	6	3	1	1
10. School Board Operations and Oversight	4	5	2	5	4
11. Other Financial Controls	2	1	1	3	1



Exhibit 2 - LEA Background & Report Summary

Key Data	Local School System			
	Kent	Washington	Anne Arundel	Talbot
Background at Time of Audit:				
Operating Expenditures (including payroll)	\$28 million	\$214 million	\$741 million	\$48 million
Payroll Expenditures	\$21 million	\$143 million	\$591 million	\$28 million
Approximate Student Enrollment	2,400	21,100	71,500	4,400
Number of Schools	8	42	117	9
Audit Report Summary:				
Audit Report Date	May 11, 2007	Aug. 6, 2007	Sept. 27, 2007	Dec. 3, 2007
Number of Audit Report Findings	18	26	29	24
Number of Audit Recommendations	15	17	16	18
Number of Functional Areas with Findings	9 of 11	11 of 11	9 of 11	10 of 11
Number of Findings¹ by Functional Area:				
1. Revenue and Billing Cycle	n/a	1	n/a	n/a
2. Federal Funds	n/a	1	n/a	1
3. Procurement and Disbursement Cycle	2	4	3	3
4. Human Resources and Payroll	2	2	3	2
5. Inventory Control and Accountability	1	1	2	1
6. Information Technology Issues	2	2	5	3
7. Facilities Construction and Maintenance	4	7	6	3
8. Transportation Services	3	3	6	5
9. Food Services Operations	2	1	1	1
10. School Board Operations and Oversight	1	2	2	3
11. Other Financial Controls	1	2	1	2



Exhibit 3 - LEA Background & Report Summary

Key Data	Local School System				
	Baltimore Co.	Frederick	Harford	Montgomery	Wicomico
Background at Time of Audit:					
Operating Expenditures (including payroll)	\$1.2 billion	\$410 million	\$474 million	\$2.2 billion	\$165 million
Payroll Expenditures	\$895 million	\$264 million	\$325 million	\$1.3 billion	\$112 million
Approximate Student Enrollment	105,800	40,200	39,600	137,700	14,400
Number of Schools	158	64	53	199	27
Audit Report Summary:					
Audit Report Date	Oct. 15, 2008	June 4, 2008	May 30, 2008	Jan. 15, 2009	Dec. 8, 2008
Number of Audit Report Findings	18	26	28	23	21
Number of Audit Recommendations	18	18	20	19	13
Number of Functional Areas with Findings	8 of 11	11 of 11	10 of 11	11 of 11	8 of 11
Number of Findings by Functional Area:					
1. Revenue and Billing Cycle	n/a	1	2	2	n/a
2. Federal Funds	n/a	1	n/a	1	n/a
3. Procurement and Disbursement Cycle	2	4	5	3	2
4. Human Resources and Payroll	3	1	2	1	1
5. Inventory Control and Accountability	2	2	2	2	1
6. Information Technology Issues	2	4	4	4	4
7. Facilities Construction and Maintenance	6	3	3	3	4
8. Transportation Services	1	5	4	2	5
9. Food Services Operations	1	2	2	1	1
10.School Board Operations and Oversight	1	2	3	2	3
11.Other Financial Controls	n/a	1	1	2	n/a



Exhibit 4 - LEA Background & Report Summary

Key Data	Local School System			
	St. Mary's Co.	Calvert	Cecil	Howard
Background at Time of Audit:				
Operating Expenditures (including payroll)	\$193 million	\$222 million	\$203 million	\$775 million
Payroll Expenditures	\$142 million	\$172 million	\$142 million	\$559 million
Approximate Student Enrollment	16,900	17,400	16,300	49,900
Number of Schools	24	24	30	73
Audit Report Summary:				
Audit Report Date	April 9, 2009	July 1, 2009	September 10, 2009	October 23, 2009
Number of Audit Report Findings ¹	30	30	26	33
Number of Audit Recommendations	20	19	20	21
Number of Functional Areas with Findings	11 of 11	9 of 11	11 of 11	10 of 11
Number of Findings by Functional Area:				
1. Revenue and Billing Cycle	1	n/a	1	2
2. Federal Funds	1	n/a	1	1
3. Procurement and Disbursement Cycle	4	3	3	6
4. Human Resources and Payroll	2	1	2	n/a
5. Inventory Control and Accountability	2	2	2	1
6. Information Technology Issues	1	4	4	7
7. Facilities Construction and Maintenance	3	4	5	2
8. Transportation Services	7	7	4	7
9. Food Services Operations	4	5	1	3
10. School Board Operations and Oversight	3	2	2	3
11. Other Financial Controls	2	2	1	1