



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

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Legislative Auditor

November 29, 2016

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of the Joint Audit Committee

Ladies and Gentlemen:

The Office of Legislative Audits (OLA) is seeking the Joint Audit Committee's (JAC) approval to amend the overall scope of the financial management practices performance audits of local school systems. In addition, we are proposing to tailor the scope of each local school system audit to address each system's particular financial management risks. Changing the overall audit scope, coupled with tailoring the audit scope for each local school system, would reduce the audit effort by concentrating our work on the most important financial management matters.

The State law (Education Fiscal Accountability and Oversight Act of 2004) that authorized OLA to conduct a financial management practices performance audit of each local school system once every six years required OLA to obtain JAC's approval of the audit scope prior to commencing the audits. At its September 14, 2004 meeting, JAC approved OLA's proposed scope, consisting of 12 general audit areas, collectively including 34 objectives. Since OLA had no prior experience auditing school systems, the scope was developed based on research and discussions with other state auditors performing similar audits.

OLA believes that a change in the overall audit focus is warranted. OLA has gained experience and knowledge of Maryland's school system operations over the last 12 years, during which OLA has generally completed two six-year audit cycles. Based on that work, we believe focusing on the most critical financial management areas would result in a more efficient audit and reduced workload for school system personnel, while still providing the General Assembly and local officials with an objective and meaningful assessment of each system's major financial operations. Furthermore, the enactment of recent legislation (Chapter 261, Laws of Maryland, 2016), which provides an exemption from the next six-year audit cycle for individual school systems if certain requirements are met, suggests to OLA that a more targeted approach is desirable.

Senator Guy J. Guzzone, Co-Chair
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OLA is proposing that the overall audit scope be revised to eliminate 16 of 34 audit objectives (see Proposed Audit Scope Outline and Proposed Audit Scope Deletions) that were previously approved by the JAC. Furthermore, unlike the past two audit cycles, we may not perform work in each of the 12 general audit areas based on our assessment of the primary financial management risks for each local school system. Previously, for every school system, we have performed audit work in each of the general audit areas, although the extent of such work varied.

Thank you for your consideration of our proposal.

Sincerely,

A handwritten signature in black ink, appearing to read "TJ Barnickel III", with a stylized flourish at the end.

Thomas J. Barnickel III
Legislative Auditor

cc: Warren G. Deschenaux, Executive Director, Department of Legislative Services

Proposed Audit Scope Outline 2016

Local Education Agencies (LEA)

Section A – General/Planning

Objective 1 – Obtain an understanding of the LEA, its staffing and facilities for purposes of planning the remainder of the audit and identification of areas that may warrant consideration.

Section B – Revenues and Receivables

Objective 2 – Does the LEA have procedures to ensure that revenues are collected, processed, recorded and promptly deposited, and all available revenues are maximized?

Objective 3 – Do the LEA's billing and accounts receivable processes ensure that all monies owed are billed and collected timely?

Section C – Federal Grants and Revenues

Objective 4 – Does the LEA have processes to identify all students eligible for Medicaid-subsidized services, and to recover eligible reimbursable costs?

Section D – Procurements and Payments

Objective 5 – Does the LEA have safeguards in place to ensure that procurements and disbursements for goods and services are only for appropriate and properly authorized purposes?

Objective 6 – Does the LEA have and use a formal policy for procuring goods and services (not including those related to employment) that promotes competition and best value?

Objective 7 – Does the LEA use corporate credit cards and, if so, does it have controls in place to prevent unauthorized or inappropriate usage?

Section E – Human Resources and Payroll

Objective 8 – Do policies and procedures and actual practices address the control and maintenance of payroll and personnel records related to timekeeping, leave and payroll disbursements?

Section F – Equipment Control and Accountability

Objective 9 – Are adequate policies and procedures in effect to provide control and accountability for equipment?

Section G – Information Technology

Objective 10 – Has the LEA developed information technology plans, policies and procedures that address management oversight, network security, computer resource needs, system security, the protection of PII, and disaster recovery in the event of a catastrophic system failure?

Proposed Audit Scope Outline 2016

Local Education Agencies (LEA)

Section H – Facilities

Objective 11 – Are appropriate practices followed for bidding, procuring and monitoring construction and major renovation projects?

Objective 12 – Does the LEA have processes in place to promote ongoing facility maintenance and energy efficiency?

Section I – Student Transportation Services

Objective 13 – Does the LEA effectively use route scheduling to improve transportation efficiency?

Objective 14 – Does the LEA’s bus acquisition policies help ensure that student transportation services are operated in a cost-effective manner? If outsourcing is used, are contractors appropriately monitored and related cost supported?

Section J – Food Service Operations

Objective 15 – Has the LEA taken steps to address the efficiency and effectiveness of its food operations with respect to related revenues and costs?

Section K – School Board Oversight

Objective 16 – Have Board governance policies and procedures been formally adopted? Are mechanisms in place for the Board to independently assess LEA operations?

Objective 17 – Are there policies and procedures to identify actual or potential conflicts of interest involving school personnel (Board members and employees)?

Section L – Management of Other Risks

Objective 18 – Evaluate other areas for existence of substantial risk. For risks deemed substantial, evaluate policies and procedures to manage and minimize those risks. (For example, the LEA may face risks related to health care costs, student activity funds, lawsuits, investment collateral, insurance coverages, and debt issuances.)

Proposed Deletions from 2004 JAC Approved Audit Scope Local Education Agencies (LEA)

Section A – General/Planning

Objective 1 – How does the LEA’s financial and statistical information compare with that of similarly sized LEAs and the State as a whole?

Section B – Revenues and Billing Cycles

No substantive change

Section C – Grants

Objective 2 – Does the LEA have an effective grant management system to properly account for grant activity (including Federal grants such as Title I and Special Education) and to help maximize its use and recovery of available funds?

Objective 3 – Does the LEA successfully participate in the Federal E-Rate program?

Section D – Procurement and Disbursement Cycle

Objective 4 – Have employee travel policies been instituted and complied with?

Section E – Human Resource Functions

Objective 5 – Has the LEA developed a workforce plan that identifies appropriate staffing levels and future workforce needs?

Section F – Inventory Control and Accountability (Non-Food or Transportation Related) Materials and Supplies

Objective 6 – Has the LEA implemented a system for ordering, receiving, storing and issuing materials and supplies that provides safeguards from theft and eliminates waste and abuse?

Section G – Information Technology Issues

Objective 7 – Has the LEA implemented practices to provide for the effective monitoring of system development projects?

Section H – Physical Plant

Facility Planning and Construction/Renovation

Objective 8 – Has the LEA developed a planning process for school facilities that establishes priorities and standards, and promotes efficiency?

Proposed Deletions from 2006 JAC Approved Audit Scope Local Education Agencies (LEA)

Section H – Physical Plant (continued)

Maintenance/Operations

Objective 9 – Does the LEA assess its Plant Operations and Maintenance (POM) costs (as compared to local and/or national benchmarks) and institute programs to improve efficiency?

Section I – Student Transportation Services

Objective 10 – Does the LEA assess its transportation expenditures and other related data (as compared to other similar LEAs and/or established benchmarks)?

Section J – Food Service Operations

Objective 11 – Are adequate procedures in place to ensure that revenue from food sales is recorded and deposited?

Objective 12 – Does the LEA contain costs by using available USDA commodities and standardizing recipes and serving sizes?

Objective 13 – Does the LEA have a process in place to maximize the participation of all eligible students in the National School Meals Programs?

Objective 14 – Has the LEA established adequate safeguards over the ordering, storage and issuance of food commodities so that only necessary items and appropriate quantities are obtained and used?

Objective 15 – Has the LEA investigated the possibility for cost savings or service enhancements through outsourcing of various in-house food service functions (if not used currently)?

Section K – School Board Operations and Oversight

Objective 16 – Is key performance data captured and verified, and along with financial (budget) data made available to the appropriate parties on a timely basis?

Section L – Other Financial Controls and Miscellaneous Issues

No substantive change