

Financial Management Practices Audit Report

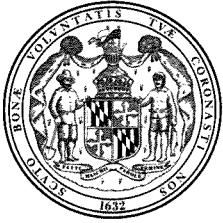
Talbot County Public Schools

July 2013



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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Legislative Auditor

July 17, 2013

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 Talbot County Public Schools (TCPS) 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 TCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

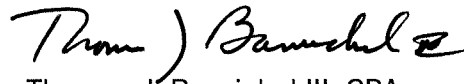
Our audit disclosed that TCPS needs to improve internal controls over human resources and payroll, inventory, food service, and procurement and disbursement activities. For example, human resource and payroll transactions were not subject to supervisory review, and we identified a number of employees with unnecessary access to the human resources and payroll system. Additionally, competitive procurement methods were not always used and sole source justifications were not documented. Furthermore, additional measures and monitoring procedures need to be implemented to protect the TCPS automated systems from security risks.

TCPS should also implement steps to improve cost-effectiveness and efficiency, especially as it relates to its student bus transportation. For example, TCPS did not effectively use automated bus routing software, and ridership on routes we selected for testing was significantly lower than bus capacities.

Finally, TCPS needs to establish policies governing student transportation and debt management.

An executive summary of our findings can be found on page 5 of this report. The TCPS 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 TCPS.

Respectfully submitted,

A handwritten signature in black ink, reading "Thomas J. Barnickel III" with a stylized flourish at the end.

Thomas J. Barnickel III, CPA
Legislative Auditor

Table of Contents

Executive Summary	5
Background Information	7
Statistical Overview	7
Oversight	7
External Audits of Fiscal Years 2011 and 2012	7
Status of Findings From Preceding Audit Report	8
Findings and Recommendations	9
Revenue and Billing Cycle	9
Federal Funds	
Procurement and Disbursement Cycle	
* Finding 1 – Internal Control Deficiencies Could Allow Improper Payments	11
* Finding 2 – TCPS Did Not Always Ensure That Procurements Were Competitively Procured as Required or Justified as Sole Source Procurements	11
Human Resources and Payroll	
* Finding 3 – Certain Users Had Unneeded System Capabilities and Personnel and Payroll Changes Were Not Adequately Reviewed for Propriety	12
Inventory Control and Accountability	
* Finding 4 – TCPS’ Policies and Physical Inventory Procedures Need Improvement to Safeguard Equipment	14
Information Technology	
* Finding 5 – Administrative Access to the TCPS Network Was Excessive and Database Monitoring and Password and Account Controls Over Critical Systems Were Not Sufficient	15
* Finding 6 – TCPS Did Not Have an Information Technology Disaster Recovery Plan and Anti-Virus Protection Was Frequently Not Installed or Up-to-Date	16
Finding 7 – TCPS’ Network Was Not Properly Secured	17
* Denotes item repeated in full or part from preceding audit report	

Facilities Construction, Renovation, and Maintenance	18
Transportation Services	
* Finding 8 – TCPS’ Routing Procedures Were Not Comprehensive and Its Routing Software Capabilities Were Not Fully Utilized	19
Finding 9 – TCPS Did Not Follow Proper Procurement Procedures for Bus Maintenance and Contractor Services	21
Food Service Operations	
Finding 10 – Internal Controls Over the Purchasing of Food Supplies Should be Strengthened	22
School Board Operations	23
Other Financial Controls	
* Finding 11 – TCPS Had Not Properly Collateralized Certain Cash Deposits	24
* Finding 12 – TCPS Had Not Established a Debt Management Policy	24
Finding 13 – TCPS Had Not Implemented Procedures to Ensure the Propriety of Health Care Costs	25
Audit Scope, Objectives, and Methodology	27
Agency Response	Appendix

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

Executive Summary

Legislative Audit Report on the Talbot County Public Schools (TCPS) July 2013

According to data compiled by the Maryland State Department of Education, TCPS ranks 21st in student enrollment among the 24 public school systems in Maryland. During the fiscal year ending June 30, 2011, TCPS had a total full-time regular and special education pupil population of 4,547 at its 8 schools. TCPS' operating and capital expenditures totaled \$60 million during fiscal year 2011, and revenues totaled \$60 million.

The Office of Legislative Audits has conducted its second audit of TCPS' financial management practices. Our current audit identified a number of opportunities for TCPS to improve internal controls, to adopt more cost-effective processes, and to enhance policy direction. Most of these issues were identified in our first audit report issued in December 2007.

TCPS Needs To Improve Internal Controls and Accountability

TCPS needs to improve internal controls in several critical areas. We noted that TCPS lacked an independent review to ensure that critical personnel actions and payroll payments processed in the human resource and payroll system were proper. In addition, we identified a number of employees who have access to certain human resource and payroll functions that were not necessary. Furthermore, we also noted one employee who had complete access to certain modules of the purchasing and accounts payable system that could allow this employee to process improper payments. Internal controls are also needed to ensure that competitive procurement methods are used whenever possible or justified as sole source procurements.

TCPS also needs to implement adequate security measures and monitoring procedures to protect critical computer network resources. For example, some users were given capabilities which would allow them to process unauthorized modifications to critical data. Also, TCPS had not developed a disaster recovery plan to restore its systems after an emergency event.

TCPS Should Consider Implementing Certain Steps to Improve Cost Effectiveness

TCPS should take steps to ensure the efficiency of its bus operation. Our tests disclosed that ridership was significantly lower than bus capacity. In addition, TCPS did not effectively use automated bus routing software. Furthermore,

TCPS did not procure bus maintenance services and certain bus contractor services via a competitive process to ensure the services were obtained at the best possible cost.

TCPS also needs to implement procedures to ensure that health insurance claims paid by the third-party administrator are reviewed for propriety. In addition, the eligibility of dependents enrolled in the health insurance program should be verified.

TCPS Needs to Establish Certain Comprehensive Policies

TCPS needs to develop formal policies pertaining to student bus transportation (such as bus capacity utilization) and debt management.

Background Information

Statistical Overview

According to Maryland State Department of Education (MSDE) student enrollment records, the Talbot County Public Schools (TCPS) ranks 21st in student enrollment among the 24 public school systems in Maryland. From fiscal years 2001 through 2011, the total full-time regular and special education pupil population has increased 1 percent from 4,516 to 4,547 students. For the 2011-2012 school year, TCPS had 8 schools, consisting of 5 elementary, 1 middle, 1 combined (middle and high) and 1 high school. According to TCPS' audited financial statements, fiscal year 2011 expenditures were \$60 million and revenues were also \$60 million. The largest expenditure category was salaries and wages which, including benefits, accounted for approximately 66 percent of total expenditures during fiscal year 2011. According to MSDE records, as of October 2011, TCPS had 616 budgeted full-time positions, which consisted of 387 instructional and 229 non-instructional employees.

Oversight

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

External Audits of Fiscal Years 2011 and 2012

TCPS 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 TCPS federal grant programs, as required by federal regulations. The resulting financial statement and Single

Audit reports for fiscal year 2011 were issued in September 2011. Neither report included any material weaknesses¹ or significant deficiencies² in TCPS' record keeping, processes, and controls.

The financial statement and Single Audit reports for fiscal year 2012 were issued on September 28, 2012. Neither report included any material weaknesses or significant deficiencies.

Due to similarities between the work of the independent certified public accounting firm that audited the TCPS 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 and Single Audit to reduce the scope of our audit work related to revenues, 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 20 of the 24 findings contained in our preceding audit report dated December 3, 2007 (the 24 findings resulted in 18 detailed recommendations in that report). We followed up on these 20 findings based on our current assessment of significance and risk relative to the audit objectives. We determined that TCPS satisfactorily addressed 9 of these findings. The remaining 11 findings are repeated as 9 findings in this report.

¹ A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements (or, with respect to Single Audit, material noncompliance with a type of compliance requirement of a federal program) will not be prevented or detected by the entity's internal control.

² A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles (or, with respect to Single Audit, to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program) that is more than inconsequential that will not be prevented or detected by the entity's internal control.

Findings and Recommendations

Revenue and Billing Cycle

Background

Talbot County Public Schools (TCPS) revenues consist primarily of funds received from Talbot County, the State, and the federal government. According to the TCPS audited financial statements, revenues from all sources totaled \$60 million during fiscal year 2011. In addition, TCPS collects funds for various purposes, such as student activity groups and clubs and school publications. 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, TCPS has a fiduciary duty to safeguard these funds. For fiscal year 2011, school activity fund collections totaled \$943,000 and the June 30, 2011 balance was \$166,000. These funds were audited by an independent certified public accounting firm.

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 TCPS financial statements and the objectives of our audit in this area, we placed significant reliance on the results of that audit for revenues including those of school activity funds. The auditor's procedural review and testing disclosed no material weaknesses or deficiencies regarding significant revenue types, accounts receivable, or school activity funds. Such testing included the most significant revenue types, the majority of which related to electronic fund transfers from other governmental entities, and also included receipts for school activity funds.

Federal Funds

Background

TCPS 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 Federal Awards, fiscal year 2011 expenditures totaled \$5 million, not 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

Due to work performed by the independent certified public accounting firm that conducted the Single Audit of the TCPS federal grants and the objectives of our audit in this area, we relied on the auditor's work and results. Besides expressing an opinion on TCPS 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 2011 required Schedule of Federal Awards (which includes claimed and reported grant expenditures). The related report stated that TCPS 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.

Medicaid Funds Were Received for Eligible Services

TCPS had established a procedure to identify children eligible for Medicaid-subsidized services. Our test of 16 services provided to students receiving Medicaid-subsidized services disclosed that reimbursement was requested for all services provided. According to TCPS records, fiscal year 2011 reimbursement for Medicaid-subsidized services totaled \$196,349.

Procurement and Disbursement Cycle

Background

According to TCPS records, non-payroll disbursements totaled \$20.1 million during fiscal year 2011. Requisitions are computer generated by the requesting department and must be approved by supervisory personnel (such as a respective department head). The TCPS Finance Department is responsible for procuring goods and services requested by individual schools and departments. TCPS purchasing policy generally requires that procurements over \$25,000 be made through a formal competitive bid process. The policy also requires solicitation of quotes (either verbal or written) for purchases under \$25,000. Payments are processed by the finance department through an automated system that prints vendor checks and also posts the payment to the financial records.

Finding 1**Internal control deficiencies could allow improper payments.****Analysis**

Our review identified internal control deficiencies over the automated accounts payable and procurement system. Specifically, we noted that one finance office supervisory employee was provided system capabilities, in excess of what the employee's job duties required, allowing this individual to independently record and process critical accounting and procurement transactions. For example, this employee could add a vendor, create a purchase order, process an invoice, and print checks. Furthermore, checks were generated with the authorized signature automatically printed on the checks by the system. Consequently, this employee could process improper transactions without detection since there was no independent review of this employee's activity.

Recommendation 1

We recommend that TCPS implement effective internal control over its accounts payable and procurement system (repeat). Specifically, we recommend that TCPS

- a. restrict employees' capabilities on the system to only those needed to perform their job duties and eliminate incompatible functions, and
- b. ensure that a verification of disbursement transactions to supporting documentation is performed for all transactions by an employee not having the capability to process the related transactions.

Finding 2**TCPS did not always ensure that procurements were competitively procured or justified as sole source procurements.****Analysis**

Our test of 55 disbursements totaling \$1.96 million disclosed 11 disbursements for which TCPS only received a single quote and did not include any explanation as to why no other quotes were received as required by TCPS policy. The total amount paid to the vendors for which competitive quotes were not obtained, related to the aforementioned 11 disbursements, totaled approximately \$132,000. For purchases of \$25,000 and under, TCPS' policy requires that two or more quotes are necessary to establish competitive prices, and if only one quote is used a note of explanation should accompany the purchase requisition. In addition to the aforementioned 11 disbursements, for one additional vendor, the total paid to the vendor for

fiscal year 2011 totaled \$72,000 but was not competitively bid as required. Specifically, TCPS' policy requires a formal competitive bid process when the total amount of the purchase exceeds \$25,000.

Recommendation 2

We recommend that TCPS ensure that all procurements are performed in accordance with TCPS policies (repeat), and specifically should

- a. adhere to the competitive procurement policies and procedures; and**
- b. adequately document the justification for sole source procurements, when appropriate.**

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the TCPS budget. According to TCPS records, fiscal year 2011 salary, wage, and benefit costs totaled \$40 million. According to MSDE reports, as of October 2011, TCPS had 616 full-time equivalent positions.

TCPS uses an automated integrated human resources and payroll system to maintain personnel information, record employee time, track leave usage, and process and record payroll transactions. The system automatically generates biweekly time records and any adjustments are processed by central payroll personnel. The system generates payroll checks and direct deposit advices. Payroll processing involves both automated processes (such as compiling leave and running edit reports) and manual processes (such as data entry of new employee information).

Human Resources and Payroll

Finding 3

Certain system users had unneeded capabilities in the automated human resources and payroll system, and reports of personnel and payroll changes were not generated for review.

Analysis

TCPS did not establish adequate internal controls over its automated human resources and payroll system and related processes. Our review disclosed the following conditions:

- TCPS did not adequately restrict employee capabilities in its automated human resources and payroll system to those functions required by the employees to perform their job duties. In this regard, five employees had been assigned system capabilities that allowed them to perform certain incompatible system functions (including the ability to add employees and process payroll adjustments), even though these employees did not require such access to all components of the system in order to perform their job duties.
- TCPS lacked an independent review to ensure that critical personnel data and payroll payments were proper. Specifically, we noted that there was no report generated for changes to employee data entered or updated (such as salaries), and there was no independent review of payroll transactions entered and processed (such as overtime amounts) in the system.

Similar conditions were commented upon in our preceding audit report. These conditions are significant internal control deficiencies that could permit unauthorized changes or transactions to be made without detection. Our test of personnel and payroll transactions did not disclose any unauthorized or questionable transactions.

Recommendation 3

We recommend that TCPS ensure adequate internal controls are in place over the human resources and payroll system (repeat). Specifically, we recommend that TCPS

- restrict employees' capabilities on the system to only those needed to perform their job duties and eliminate incompatible functions; and**
- periodically generate a report of changes and perform an independent supervisory review of the changes processed for payroll and personnel data, including agreeing changes to appropriate supporting documentation at least on a test basis.**

Inventory Control and Accountability

Background

According to TCPS' audited financial statements, the undepreciated value of its capital equipment inventory totaled \$21.6 million as of June 30, 2011. All furniture and equipment items with a cost of \$500 or more are recorded upon purchase, and items with a cost of \$1,000 or more are capitalized for financial statement purposes.

Finding 4

TCPS' policies and physical inventory procedures need improvement to safeguard equipment.

Analysis

Our review disclosed that TCPS' procedures and controls were not adequate to ensure accountability over equipment. Specifically, we noted the following conditions:

- TCPS equipment policies did not address segregation of duties regarding custody, record keeping, and physical inventory counts or requirements for periodic physical inventories. No complete and documented physical inventory of equipment has been performed in over five years, other than for approximately 3,700 laptop computers that were accounted for at the end of each school year.
- TCPS policy does not contain appropriate procedures to be followed (such as investigations and management notification) when equipment items are identified as lost or stolen.
- Our test of 10 equipment items with a cost totaling approximately \$194,000 that were removed from the equipment records during fiscal years 2012 and 2011 disclosed that all items were disposed of without the supervisory approval required by TCPS policy.
- We noted that essentially all non-computer equipment was not tagged to identify TCPS ownership. TCPS inventory records include 11,248 non-computer equipment items with a total cost of approximately \$18.6 million. TCPS' procedures require all furniture and equipment to be tagged. However, only information technology items (such as laptops, computers, and smart-boards) were regularly tagged.

Recommendation 4

We recommend that TCPS develop and implement policies and procedures to ensure that accountability and effective control is maintained over all of its equipment (repeat). Specifically, TCPS

- a. **should update its policies to require proper segregation of duties, to establish periodic physical inventory requirements, and to require documented follow up on lost or missing items;**
- b. **should ensure all disposals of equipment are approved by supervisory personnel as required by TCPS policy; and**

- c. should ensure all equipment items are properly tagged or otherwise identified as TCPS property as required by TCPS policy.

Information Technology

Background

The TCPS Information Technology Department maintains and administers the TCPS computer network, computer operations, and information systems applications. TCPS operates a wide area network, with Internet connectivity, which connects the individual schools' to the computer resources located at its headquarters and data center. The data center hosts critical devices including the Internet firewall and computer servers that support critical applications including the student information system, the accounts payable and procurement system, and the human resources and payroll system.

Finding 5

Administrative access to the TCPS network was excessive, and database monitoring and password and account controls over critical systems were not sufficient.

Analysis

Administrative access to the TCPS network was excessive, and database monitoring and account and password controls over critical systems were not sufficient to properly protect critical network resources. Specifically, we noted the following conditions:

- At least seven accounts (assigned to seven users) were improperly classified as domain administrators. As a result of this condition, these accounts had full control over the applicable computer resources and could make unauthorized modifications to critical data without detection by management. These accounts did not require domain administrator capabilities to perform their job functions. Similar conditions were commented upon in our preceding audit report.
- The student information system database was not configured to log any sensitive database 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. Best practices as prescribed by the

State of Maryland Department of Information Technology (DoIT) *Information Security Policy* state 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.

- Application, network, and database password and account controls were not sufficient to properly protect critical resources. Password age, length, complexity, and history were not in accordance with the best practices prescribed by the aforementioned DoIT *Information Security Policy*. For example, the student information system application password aging and complexity requirements were not enforced and password length was set to one character for administrators and teachers. In addition, account lockout was not enforced for the network and application accounts and as of February 22, 2012, we identified 31 active network accounts that had not been used for more than 370 days. Similar conditions were commented upon in our preceding audit report.

Recommendation 5

We recommend that TCPS

- a. limit the individuals in the domain administrator group to employees who require such capabilities for their job responsibilities (repeat),**
- b. implement proper database logging and monitoring, and**
- c. implement appropriate password controls and ensure account lockout is enforced for network and application accounts (repeat).**

Finding 6

TCPS did not have an information technology disaster recovery plan and anti-virus protection for TCPS computers was frequently not installed or up-to-date.

Analysis

TCPS did not have an information technology disaster recovery plan and anti-virus protection for TCPS computers was frequently not installed or up-to-date. Specifically, we noted the following conditions:

- TCPS did not have an information technology disaster recovery plan for recovering computer operations from disaster scenarios (for example, a fire or flood). Without a complete disaster recovery plan, a disaster could cause significant delays (for an undetermined period of time) in restoring operations above and beyond the expected delays that would exist in a planned recovery scenario. The State of Maryland *Information Technology (IT) Disaster Recovery Guidelines* provide detailed guidance in preparing a

disaster recovery plan. A similar condition was commented upon in our preceding audit report.

- Our tests of nine computers disclosed that six of these computers, including one critical production database server, did not have any anti-virus software installed. In addition, two of the computers with anti-virus software installed, were not configured to perform automatic updates of virus definitions and had virus definitions that, as of March 15, 2012, had not been updated for more than 250 days. Best practices identified in the DoIT *Information Security Policy*, state that agencies, at a minimum, must protect against malicious code by implementing protections such as anti-virus software.

Recommendation 6

We recommend that TCPS

- a. **develop and implement a comprehensive disaster recovery plan that is in accordance with the State of Maryland *Information Technology (IT) Disaster Recovery Guidelines* (repeat), and**
- b. **install an effective anti-virus program on every TCPS computer and that the virus definitions be kept current via an automated update process.**

Finding 7

The TCPS network was not properly secured.

Analysis

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

- Firewall rules allowed numerous insecure and unnecessary connections to critical network devices. For example, firewall rules were not configured to adequately secure connections into the TCPS network from the Internet. The DoIT *Information Security Policy* requires firewalls be configured to achieve a “least privilege” security strategy that grants privileges only needed to perform assigned tasks.
- Eleven publicly and widely accessible servers were located on the TCPS 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, established by the National Institute of Standards and Technology *Guidelines on Firewalls and Firewall*

Policy include placing publicly accessible servers in an external protected zone to protect those servers as well as an entity's internal network.

- TCPS did not adequately secure its internal network from improper network level access from certain TCPS high school computer lab workstations or privately-owned laptops used by students. Specifically, TCPS 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 privately-owned laptops. Such access should be limited to devices and ports necessary for students to perform required tasks.

Recommendation 7

We recommend that TCPS

- a. configure its firewalls to achieve a “least privilege” security strategy giving individuals and devices only those privileges needed to perform assigned tasks,**
- b. segregate publicly and widely accessible servers in a separate protected network zone, and**
- c. implement controls to limit network level student access to only authorized local school and headquarters network resources.**

Facilities Construction, Renovation, and Maintenance

Background

TCPS maintains 8 schools (totaling 697,250 square feet) and an administrative building with a staff of 35 custodial and 9 maintenance personnel. TCPS uses a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. The annual CIP was developed using student demographic data and input from various sources, including public meetings, and was approved by the Board. In the fiscal year 2013 CIP, necessary construction, major renovations, and systemic improvements to TCPS over the next six years were estimated to cost \$2 million.

An Inclusive Process is Used to Plan for School Facility Construction, Major Renovation, and Repair Projects

TCPS uses a comprehensive process, which includes the solicitation of input from various sources, to plan for future school construction, major renovation, and repair projects. For example, TCPS uses public meetings, student demographic data and other internal sources (such as current curriculum mandates) to develop its six-year CIP. The CIP is presented to and approved

by the Board, as well as elected local officials. In addition, the Educational Facilities Master Plan that is used to guide overall TCPS operations incorporates certain CIP objectives and strategies related to school facilities. Our review of the fiscal year 2013-2018 CIP disclosed that it appeared to address the needs of TCPS based on items such as student demographics and facility assessments. In addition, our test of project expenditures disclosed contracts were properly procured, and related payments were properly supported by a formal inspection process and were approved by management.

Processes Are in Place to Minimize Energy Costs

TCPS utilizes an energy management system that monitors and accounts for energy usage and employs an energy management program manager trained in conservation techniques and energy monitoring practices (such as usage reports and year-to-year comparisons). According to reports prepared by the program manager (which we did not audit), TCPS has achieved net savings of approximately \$1.2 million in energy costs during the six years since implementation of the program in November 2005.

Transportation Services

Background

TCPS has approximately 4,354 students eligible to receive student transportation services. These students were transported using 44 school-owned buses. According to MSDE records, fiscal year 2011 transportation costs totaled \$2.3 million, with \$1.3 million (57 percent) representing payments for salaries. Of the 738,000 reported route miles for the 2010-2011 school year, 14 percent represented miles traveled to transport disabled students.

Finding 8

TCPS' bus routing procedures were not comprehensive and automated routing software capabilities were not adequately used to develop more efficient routes.

Analysis

Although TCPS has a process for planning, reviewing, and changing existing bus routes, its process was not comprehensive. For example, the process did not consider all relevant factors, such as bus ridership targets, the optimal number of riders on a bus given its size, and student ride times, when determining the most appropriate bus routes.

Furthermore, TCPS did not adequately use automated bus routing software capabilities to develop more efficient routes. For example, the automated routing system has the capability to generate reports of bus routes with student ride times and bus occupancy. Although our review disclosed that the TCPS transportation department uses certain reporting capabilities of the routing software primarily to map out existing routes, it did not factor in student ride times and actual bus ridership when planning routes. Rather, TCPS uses existing bus routes and makes modifications to accommodate students' school assignments without periodically reviewing all routes for efficiency on a system-wide basis. Using routing software is a recognized best practice that can be used to reduce the time it takes to design efficient routes, reduce student ride time, and help ensure that routes minimize the number of buses needed to transport students.

The lack of a system-wide route analysis could have a potentially negative impact on route efficiency. Our analysis of student ridership disclosed that ridership was significantly less than bus capacity. Specifically, our review of TCPS' December 2010 and November 2011 bus manifests for 141 bus runs disclosed that 97 runs were below 75 percent of TCPS' ridership goal.³ On 51 of these 97 runs, student ridership was less than 50 percent of available capacity.

Utilizing the full capabilities of the automated routing software could help develop more efficient bus routes and assist in the periodic evaluation of routes.

Increasing bus ridership may be difficult in rural systems with smaller populations since the schools are often spread out over a larger area and there are fewer concentrated population centers, making the length of trips a concern. Therefore, to achieve savings, TCPS should also consider using smaller buses on routes with low ridership. TCPS primarily used 78-passenger and 84-passenger buses (17 percent and 57 percent of total fleet, respectively) for routine student transportation. Smaller buses (for example, 64-passenger buses) are less costly to purchase and are generally less costly to operate. For example, the purchase prices for 64-passenger buses purchased for the 2011-2012 school year by other Maryland school systems averaged approximately \$88,770, whereas the purchase prices for 78 and 84 passenger buses purchased by TCPS for the 2011-2012 school year averaged \$109,278.

³ TCPS does not have a formal, documented bus ridership target. School bus capacities are lower than manufacturer stated capacities and differ depending on the school. We used target capacities based on TCPS' informal bus ridership goals for high/middle and elementary schools routes at 67% and 83% of the manufacturers stated capacity, respectively.

Similar conditions were commented upon in our preceding audit report.

Recommendation 8

We recommend that TCPS take action to increase the cost-effectiveness of bus operations (repeat). Specifically, we recommend that TCPS:

- a. establish policies delineating student bus ridership targets and travel times,**
- b. require periodic evaluation of actual bus ridership relative to target capacities,**
- c. fully use its automated routing software to assist in periodically reevaluating all routes on a system-wide basis in order to establish more efficient bus routes and increase utilization, and**
- d. reduce costs by considering the use of smaller school buses on routes with a small number of riders.**

Finding 9

TCPS did not solicit bids when procuring bus maintenance and certain bus contractor services, or enter into contracts for the services.

Analysis

Our review of current transportation procurement practices disclosed that bids were not solicited for bus maintenance or bus contractor services for extracurricular school activities. Additionally, TCPS did not enter into contracts for these services. TCPS' policy requires two or more quotes to establish competitive prices for purchases of \$25,000 and under and a formal competitive bid process for purchases exceeding \$25,000.

- TCPS outsourced its major bus repairs (such as brakes, transmission, and tires); however, TCPS did not use a competitive bid process or enter into contracts for these services. In fiscal year 2011, expenditures for bus maintenance totaled approximately \$197,000 with \$174,000 being paid to two vendors.
- TCPS used bus contractors for some of its extracurricular transportation needs. However, TCPS did not solicit bids for these services, or enter into formal contracts. In fiscal year 2011, payments to bus contractors for extracurricular services totaled approximately \$112,000, the majority of which was paid to two vendors. In addition, TCPS did not verify the time and mileage used to bill for these bus contractor services. As a result of these conditions, TCPS could be overpaying for these bus contractor services.

Recommendation 9

We recommend that TCPS:

- a. adhere to TCPS' competitive procurement policies and procedures for the procurement of transportation related services,
- b. ensure that formal contracts are executed for significant purchases in accordance with TCPS policies, and
- c. verify the propriety of bus contractor charges.

Food Service Operations

Background

TCPS has a cooking cafeteria at 6 of its 8 schools. Food and related supplies are received and stored at each school. In fiscal year 2011, TCPS had 41 food service positions (consisting of 39 cafeteria positions and 2 administrative positions). According to TCPS' audited financial statements, food service operations expenditures (\$1,902,096) exceeded revenues (\$1,833,421) by \$68,675 for fiscal year 2011.

Finding 10

TCPS should strengthen internal controls over the purchasing of food supplies.

Analysis

TCPS should strengthen its internal controls over the purchasing of food supplies. According to TCPS records, food expenditures for fiscal year 2011 totaled \$954,000. Specifically, our test of food purchases from 5 vendors, with expenditures totaling \$888,500 for fiscal year 2011, and 10 related invoices totaling \$10,750 (2 invoices for each vendor) disclosed:

- A formal contract was not executed with one vendor from whom purchases totaling \$184,875 were made during fiscal year 2011.
- For the 8 invoices that had a formal contract, there was no evidence that TCPS agreed invoiced prices to contracted prices prior to or after making payments.

As a result of these conditions, there was a lack of assurance that TCPS paid the correct amount for food purchases.

Recommendation 10

We recommend that TCPS ensure:

- a. that formal contracts are executed for significant purchases in accordance with established TCPS policies, and**
- b. that invoiced prices are compared to contract prices prior to payment.**

School Board Operations

Background

TCPS' Board of Education is composed of seven elected voting 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 TCPS financial statements and federal programs. Due to the size of TCPS, a committee structure is not used, but rather individual members are periodically informed of and become involved with all aspects of operations and governance.

TCPS Adopted an Ethics Policy that Met 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 and was approved by the State Ethics Commission. Provisions of this policy are applicable to Board members as well as all TCPS employees. TCPS 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 school principals and department heads) by April 30th of each year. Our test indicated that financial disclosure forms for calendar year 2011 were submitted as required.

Other Financial Controls

Finding 11

TCPS had not properly collateralized certain cash deposits.

Analysis

TCPS cash deposits as of June 30, 2011 totaled \$10,142,330. The notes to the fiscal year 2011 audited financial statements indicate that \$3,942,662 of the TCPS' bank balance was exposed to custodial credit risk (that is the risk that, in the event of a bank failure, TCPS' deposits may not be returned to it) because it was not insured by the Federal Deposit Insurance Corporation and, although fully collateralized by securities held by the pledging financial institution's trust department or agent, the collateral was not held in the Board's name. A similar condition was commented upon in our preceding audit report.

Recommendation 11

TCPS should ensure all deposits are properly secured with collateral held in the Board's name (repeat).

Finding 12

TCPS had not developed a formal debt management policy.

Analysis

TCPS had not adopted formal policies governing its use of debt to finance operations, as recommended by the Government Finance Officers Association (GFOA). TCPS does use notes and capital lease payables to purchase buses. According to the TCPS' audited financial statements, notes and capital lease payables totaled \$499,195 at June 30, 2011.

In addition, TCPS has an outstanding debt to the State Retirement and Pension System of Maryland totaling \$488,127 at June 30, 2011 to cover an actuarially determined unfunded pension liability. According to TCPS' audited financial statements, State law permits TCPS to pay the unfunded liability using a payment schedule through 2036 which, including interest, totals \$1,399,845 for all years from 2012 to 2036.

Consideration of funding for multi-year arrangements is especially important to TCPS due to potential limited revenues in future years. Specifically, TCPS disclosed in the "Management Discussion and Analysis" in the 2011 audited financial statements that one of the most significant factors bearing on the

Board's future is the "revenue cap" instituted in November 1996 as the result of a County Referendum. There is a two percent cap⁴ on annual increases in the amount of revenue that Talbot County government can raise in any fiscal year from real property taxes. The cap limits the benefit the County receives from growth of the assessable tax base for real property. TCPS believes that the cap severely restricts the county's ability to raise revenue to meet population growth and accompanying services.

GFOA recommended practices for government entities include establishing a detailed debt management policy. Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. An effective debt management policy provides guidelines for a government entity to manage debt in line with its resources. Debt management policies are written guidelines and restrictions that affect the amount and type of debt issued, the issuance process, and the management of the debt portfolio.

Recommendation 12

TCPS should adopt a formal policy governing management of long-term debt in accordance with best practices recommended by GFOA (repeat).

Finding 13

TCPS had not verified the eligibility of dependents enrolled in TCPS' health insurance program and had not ensured that claims paid by the third-party health care administrator were reviewed for propriety.

Analysis

TCPS did not verify the eligibility of health care coverage enrollee dependents or ensure that health care claims paid were reviewed for propriety. TCPS provides health care coverage to employees and eligible dependents through the Eastern Shore of Maryland Educational Consortium Health Alliance. However, neither the Alliance, nor TCPS, verified the eligibility of enrollee dependents by reviewing birth certificates or marriage licenses. As of November 2011, TCPS provided health care coverage to 813 employees, retirees, and dependents.

Additionally, TCPS did not conduct or contract for any recent comprehensive claim reviews to ensure that the vendor paid claims only for eligible individuals in accordance with the contract terms, and did not review claims

⁴ The cap, or ceiling, is the lower of two percent or the Consumer Price Index for all urban customers' percentage of change for the latest calendar year, as determined by the U.S. Department of Labor.

documentation to ensure that services were actually provided or were medically necessary and appropriate. The most recent claims review was performed in 2008 covering claims for 2005, 2006, and 2007.

The Alliance contracts with a health care provider and each of the members pays premiums directly to the provider. As TCPS is self-insured, to the extent that premiums paid each year exceed actual and anticipated claims, TCPS is eligible for a refund (TCPS would reimburse the provider if claims exceeded premium payments for the year). According to its records for fiscal year 2011, TCPS paid the health care provider \$5.7 million. Based on the Alliance's year-end settlement, TCPS received a refund of \$803,722 applicable to fiscal year 2011. According to TCPS personnel, refunds are credited to TCPS' account to offset costs for the following year.

Recommended practices published by the GFOA state that health care cost containment is a critical component of long-term financial planning and budgeting. The Maryland Department of Budget and Management, which has similar claims processing contracts for State employees, contracts with a third-party vendor (other than the vendor processing claims) to conduct reviews of claims paid.

Recommendation 13

We recommend that TCPS institute processes to

- a. verify the eligibility of dependents claimed by enrolled health care program participants; and**
- b. verify the propriety of claims paid by the third-party administrator, at least on a test basis.**

Audit Scope, Objectives, and Methodology

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Talbot County Public Schools (TCPS). 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 TCPS procedures and controls were effective in accounting for and safeguarding its assets
2. To evaluate whether the TCPS policies provided for the efficient use of financial resources

In planning and conducting our audit of TCPS, 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 TCPS dated December 3, 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 TCPS 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 direct control or management of the Talbot County Board of Education.

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 TCPS. We also interviewed personnel at TCPS, the Maryland State Department of Education

(MSDE), and staff at other local school systems in Maryland (as appropriate).⁵ Our audit procedures included inspections of documents and records, and observations of TCPS 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, 2010 through December 31, 2011. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits TCPS' 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.

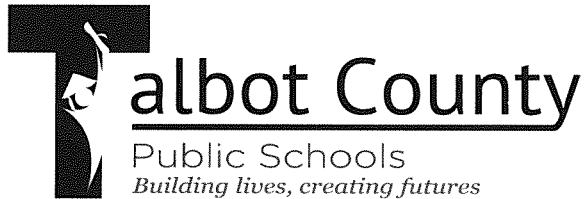
TCPS' management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of 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 TCPS that did not warrant inclusion in this report.

We conducted our fieldwork from January 2012 to November 2012. The TCPS 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 TCPS regarding the results of our review of its response.

⁵ During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

APPENDIX



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July 10, 2013

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Barnickel:

Enclosed are the responses to recommendations made in the Financial Management Practices Audit Report for Talbot County Public Schools dated June 2013. We have provided a schedule indicating our concurrence with the recommendations and expected completion dates.

I would like to thank the legislative auditors for providing us feedback in several areas where we can become a more efficient organization.

Please call me if you have any questions, or additional suggestions for our responses.

Sincerely,

A handwritten signature in black ink, appearing to read 'Charles C. Connolly, III', is written over a horizontal line.

Charles C. Connolly, III CPA
Director of Finance

Enclosures

Cc: Kelly L. Griffith, Interim Superintendent of Schools

Accredited K-12 by the Middle States Association of Colleges and Schools

Kelly L. Griffith
Interim Superintendent of Schools

Robert F. Burris
President, Board of Education

Monica D. Heinsohn
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Greg Criniti

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Talbot County Board of Education
Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
PROCUREMENT AND DISBURSEMENT CYCLE					
Internal control deficiencies could allow improper payments	1	<p>a. Restrict employees' capabilities on the system to only those needed to perform their job duties and eliminate incompatible functions, and</p> <p>b. Ensure that a verification of disbursement transactions to supporting documentation is performed for all transactions by an employee not having the capability to process the related transactions.</p>	<p>a. The Director of Finance access is now limited to review and approval process only. The TCPS finance department is limited to 5 individuals including the Director of Finance. Segregation of duties is not always possible with a small staff and cross training of staff and access to the finance system is necessary to provide backup.</p> <p>b. The Director of Finance access is now limited to review and approval process only. In an effort to increase internal control, duties have been reassigned among the staff in the finance department. FY 2012 the Talbot County Government reduced its appropriation to TCPS \$1,800,000 below maintenance of effort. This resulted in the reduction of 18 positions and major cuts in all categories.</p>	<p>1/22/13</p> <p>7/1/12</p>	<p>Yes</p> <p>Yes</p>

Talbot County Board of Education
Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
TCPS did not always ensure that procurements were competitively procured or justified as sole source procurements.	2	a. Adhere to competitive procurement policies and procedures: and	a. Board of Education approves all purchases over \$25,000 that is competitively bid. TCPS follows state law and its policy.	1/22/13	No ¹
		b. Adequately document the justification for sole source procurements, when appropriate.	b. To monitor the compliance with policy TCPS has developed a quotation form to attach to purchases and for justification of sole source procurements.	1/22/13	Yes
Certain system users had unneeded capabilities in the automated human resources and payroll system, and reports of personnel and payroll changes were not generated for review.	3	a. Restrict employees' capabilities on the system to only those needed to perform their job duties and eliminate incompatible functions; and	a. As of 1/22/13 TCPS has changed the access codes so that the Director of Finance will be limited to view status only. The TCPS finance department is limited to 5 individuals including the Director of Finance. Segregation of duties is not always possible with a small staff and cross training of staff and access to the finance system is necessary to provide backup.	1/22/13	Yes
		b. Periodically generate a report of changes and perform an independent supervisory review of the changes processed for payroll and personnel data, including agreeing changes to appropriate supporting documentation at least on a test basis.	b. Each month the Human Resources Department generates a report detailing all payroll adjustments and changes for the month. TCPS Board Members review the personnel report each month during the closed session of the board meeting as part of an independent review. This report details all changes in staffing and is voted on during regular session by the Board Members. Human Resources have the ability to monitor payroll changes on a daily basis.	6/13/13	Yes

¹ **Auditor Comment:** It is unclear from the response why TCPS does not agree with the finding and/or recommendation. When previously discussed with them, TCPS management acknowledged that certain purchases costing \$25,000 or less were made without two or more documented quotes, as required by its policies. The response indicating that the Board of Education approves all purchases over \$25,000 that are competitively bid is not germane to this finding.

Talbot County Board of Education
Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
TCPS' policies and physical inventory procedures need improvement to safeguard equipment	4	a. Should update its policies to require proper segregation of duties, to establish periodic physical inventory requirements, and to require documented follow up on lost or missing items	a. Administration Regulation 4.5 was updated 3/20/13 to reflect all purchases of equipment over \$500 to be recorded in inventory. Annually, TCPS school administrators are given detail inventory list of items located in their building and asked to review and notify the Finance Department of any changes.	3/20/13	Yes
		b. Should ensure all disposals of equipment are approved by supervisory personnel as required by TCPS policy: and	b. Supervisory personnel will adhere to inventory procedures as outlined in Board Policy 4.5 and related Administrative Regulation.	3/20/13	Yes
		c. Should ensure all equipment items are properly tagged or otherwise identified as TCPS property as required by TCPS policy.	c. As of 3/20/13 all equipment over \$500 is tagged and bar coded.	3/20/13	Yes
Administrative access to the TCPS network was excessive, and database monitoring and password and account controls over critical systems were not sufficient	5	a. Limit the individuals in the domain administrator group to employees who require such capabilities for their job responsibilities.	a. As of 3/30/12 TCPS has removed administrator accounts.	3/30/12	Yes
		b. Implement proper database logging and monitoring, and	b. TCPS will request that vendors implement the additional procedures specified in the audit on their proprietary software in order to guarantee that TCPS remains within the confines of its support agreements.	8/30/12	Yes
		c. Implement appropriate password controls and ensure account lockout is enforced for network and application accounts.	c. As of 9/30/12 TCPS is implementing automated password policies on user and application accounts. TCPS is also in the process of incorporating HTML based password management to enforce automated password policies across device platforms.	9/30/12 – 9/30/13	Yes

Talbot County Board of Education
Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
TCPS did not have an information technology disaster recovery plan and anti-virus protection for TCPS computers was frequently not installed or up-to-date.	6	a. Develop and implement a comprehensive disaster recovery plan that is in accordance with the State of Maryland Information Technology (IT) Disaster Recovery Guidelines, and	a. A fully documented disaster recovery plan is in its final stages and will be approved for publication.	9/30/13	Yes
		b. Install an effective anti-virus program on every TCPS computer and that the virus definitions be kept current via an automated update process.	b. As of 7/31/12 anti-virus applications have been standardized on all desktop and server systems.	7/31/12	Yes
The TCPS network was not properly secured	7	a. Configure its firewalls to achieve a "least privilege" security strategy giving individuals and devices only those privileges needed to perform assigned tasks	a. TCPS has transitioned to secure socket layers on all critical web based services and administrative interfaces available for the internet. TCPS will continue to modify edge firewall policy to meet "least privilege" strategy.	12/31/13	Yes
		b. Segregate publicly and widely accessible servers in a separate protected network zone, and	b. TCPS is currently working on the redesign of the network to ensure it's properly secured.	12/31/13	Yes
		c. Implement controls to limit network level student access to only authorized local school and headquarters network resources.	c. TCPS will be segregating device access by students and restricting physical access to those networks. Such controls will be implemented by TCPS as part of the restricted service zone.	8/30/13	Yes

Talbot County Board of Education
Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
TCPS bus routing procedures were not comprehensive and automated routing software capabilities were not adequately used to develop more efficient routes	8	a. Establish policies delineating student bus ridership targets and travel times	a. TCPS follows its policy and state law.	7/1/12	No ²
		b. Require periodic evaluation of actual bus ridership relative to target capacities	b. TCPS uses the upgraded routing software to match student ride time to bus capacity. Student information is updated and evaluated daily.	7/1/12	Yes
		c. Fully use its automated routing software to assist in periodically reevaluating all routes on a system-wide basis in order to establish more efficient bus routes and increase utilization	c. The reorganization of the transportation department included an administrative assistant position to improve the efficiency and use of the routing software. July 2012 TCPS upgraded its routing software so that the student information system used in the schools can be uploaded on a daily basis to the transportation routing system. This provides the most up-to-date addresses on all school children and develops more efficient bus routes. This individual monitors each route and reroutes buses to optimize seating capacity.	7/1/12	Yes
		d. Reduce cost by considering the use of smaller school buses on routes with a small number of riders	d. TCPS uses the upgraded routing software to match student ride time to bus capacity. Student information is updated and evaluated daily.	7/1/12	Yes

² **Auditor Comment:** It is unclear from the response why TCPS does not agree with the recommendation to establish student bus ridership targets and travel time. Such policies help ensure that management's intentions regarding the factors that influence bus routing decisions are considered during the scheduling process. In addition, other Maryland school systems have established these policies to help develop efficient and reasonable bus routes.

Talbot County Board of Education
Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
TCPS did not solicit bids when procuring bus maintenance and certain bus contractor services, or enter into contracts for the service	9	a. Adhere to TCPS competitive procurement policies and procedures for the procurement of transportation related services	a. As of 7/1/13 TCPS will adhere to competitive procurement policies and procedures for extracurricular activities when a TCPS bus is not available. TCPS implemented in July 2012 a bus maintenance and repair schedule so that all buses can be tracked and serviced at the proper time. TCPS employs a part time mechanic that has become ASE Certified as a school bus technician. This reduces the need for external school bus repairs.	7/1/13	Yes
		b. Ensure that formal contracts are executed for significant purchases in accordance with TCPS policies and	b. TCPS will review all contracts to ensure they are in compliance with its policies.	7/1/13	Yes
		c. Verify the propriety of bus contractor charges	c. As of 1/22/13 all invoices for transportation services for extracurricular activities include odometer readings and start/stop times of drivers. This information is then compared to MapQuest to ensure mileage is being charged correctly. .	1/22/13	Yes
TCPS should strengthen internal controls over the purchasing of food supplies	10	a. That formal contracts are executed for significant purchases in accordance with established TCPS policies, and	a. TCPS is changing its procedure to ensure that all purchases have supervisor approval.	2/14/13	Yes
		b. That invoiced prices are compared to contract prices prior to payment.	b. TCPS is changing its procedure to ensure that all purchases have supervisor approval. Invoices are compared and verified to contract prices.	2/14/13	Yes
TCPS had not properly collateralized certain cash deposits	11	a. TCPS should ensure all deposits are properly secured with collateral held in the Board's name.	a. TCPS transfers daily to Maryland Local Government Investment Trust all funds that exceed two weeks operating expenses. MLGIT is an investment trust fund of the State of Maryland and is administered by the Maryland Office of the State Treasurer. TCPS has been working closely with its independent auditors to ensure it meets all federal and state requirements.	1/28/13	Yes

Talbot County Board of Education
Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
TCPS had not developed a formal debt management policy	12	a. TCPS should adopt a formal policy governing management of long-term debt in accordance with best practices recommended by GFOA.	a. TCPS will adopt a formal debt management policy	8/21/13	Yes
TCPS had not verified the eligibility of dependents enrolled in TCPS health insurance program and had not ensured that claims paid by the third-party health care administrator were reviewed for propriety.	13	a. Verify the eligibility of dependents claimed by enrolled health care program participants; and	a. TCPS will work with an independent consultant to verify eligibility of participants and their dependents. The new enrollment process includes verification of dependent eligibility.	5/1/13	Yes
		b. Verify the propriety of claims paid by the third-party administrator, at least on a test basis.	b. Blue Cross/Blue Shield performs various audits to ensure all claims are valid	6/30/13	Yes

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