

Financial Management Practices Audit Report

Baltimore City Public School System

October 2018



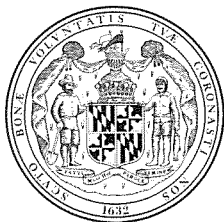
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

For further information concerning this report contact:

Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900
Toll Free in Maryland: 1-877-486-9964
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

October 17, 2018

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, 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 Baltimore City Public School System (BCPSS) 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 BCPSS' 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, in a number of financial areas, BCPSS needs to establish better procedures and internal controls and ensure those processes are effectively operating to comply with its policies and to control costs.

Contrary to BCPSS policy, goods and services were frequently purchased without prior issuance and approval of purchase orders, and some vendors were paid before BCPSS received all related services. For example, according to its records, BCPSS had identified that during fiscal year 2016 there were 2,001 purchase orders totaling \$10.4 million that were retroactively processed (prepared and approved) after receiving an invoice from the vendor. Also, BCPSS frequently used contracts executed by other governments (that is, intergovernmental cooperative purchasing agreements – ICPAs), but did not document the appropriateness of using them as required by State law. For the three ICPAs we reviewed totaling \$4.6 million, BCPSS did not ensure the initial contracting entities used competitive bidding to award the contracts, nor had BCPSS obtained the agreements to verify the rates charged on the applicable vendors' invoices.

We found that personnel and payroll transactions recorded during fiscal year 2017 that resulted in net annual pay increases of up to \$81.5 million were

not subject to a documented independent review to ensure the propriety of the transactions. Furthermore, certain manual adjustments to provide additional compensation totaling \$818,450 were not supported by required approvals. In addition, none of the overtime payments totaling \$63,664 made to 23 employees we selected for testing had been approved in advance as required by policy. Although identified during our prior audit, BCPSS had not corrected the overtime rate paid to employees in a certain union, which resulted in excess payments totaling \$208,000 during calendar years 2015 and 2016.

We identified bus contractor and taxi company payment errors and missed opportunities to reduce payments totaling approximately \$2.2 million. For example, BCPSS' template provided to bus contractors to calculate billing adjustments for fuel price fluctuations during the 2014-2015 school year contained an undetected formula error, which resulted in contractors being overpaid \$498,000. Furthermore, certain billing errors by contractors resulted in overpayments totaling approximately \$176,000 during the 2015-2016 school year that had also gone undetected. BCPSS paid certain duplicate fees to taxi companies totaling \$1.1 million during the 2016-2017 school year, and used the wrong mileage rate, which resulted in further overpayments of \$126,700 over two school years. Subsequent to our audit fieldwork, BCPSS solicited new contracts with its bus contractors beginning for the 2018-2019 school year, which may help alleviate some of the aforementioned bus contractor payment problems.

We also identified significant security and control risks that existed within BCPSS' computer systems and network. For example, BCPSS lacked assurance that proper security existed for its student information system application that was hosted, operated, and maintained by a third-party service provider. Furthermore, the intrusion detection prevention system that secures against untrusted traffic entering the network had substantial gaps, and procedures for maintaining and securing numerous computers against malware were not sufficient. Although certain safeguards were in place, the controls over certain sensitive personally identifiable information were not as comprehensive as necessary. We noted that over 64,000 unique social security numbers along with names and addresses were stored without encryption.


There appears to be opportunities to increase Medicaid reimbursements for services provided to eligible students by obtaining social security numbers for all students with individual education plans (IEP), and by reviewing and resubmitting denied Medicaid claims. As of September 2017, BCPSS did not have social security numbers for 5,600 of the 12,600 students with an IEP to

help identify eligible students and facilitate the process of seeking reimbursement for Medical Assistance services provided to those students. According to BCPSS' records, during fiscal year 2017, approximately 113,000 claims totaling \$14.6 million were denied and were not subject to review and resubmission.

Finally, BCPSS did not require charter school operators and board members to periodically submit conflict of interest disclosures and did not properly track and monitor the receipt of required documents (such as, quarterly financial reports) from charter schools.

The BCPSS 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 BCPSS.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "TJ Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

Table of Contents

Background Information	8
Statistical Overview	8
Oversight	9
Efforts to Address Baltimore City Public School System (BCPSS)	9
Budget Gap	
External Audits	11
Status of Findings From Preceding Audit Report	11
Findings and Recommendations	12
Revenue and Billing Cycle	
* Finding 1 – BCPSS did not properly monitor or bill amounts owed by outside organizations for the services of its employees.	13
Federal Funds	
Finding 2 – BCPSS did not obtain social security numbers for 5,600 students with individual education plans to help identify qualified students for whom Medicaid reimbursements could be obtained for eligible services.	15
Finding 3 – BCPSS did not have a formal process to review denied Medicaid claims in order to determine if the claims could be corrected for resubmission.	16
Procurement and Disbursement Cycle	
* Finding 4 – BCPSS did not adequately restrict user access capabilities in its automated procurement and accounts payable system.	17
Finding 5 – BCPSS did not document the appropriateness of using intergovernmental cooperative purchasing agreements as required by State law.	18
Finding 6 – BCPSS did not document the basis for assigning work to pre-qualified vendors for certain services and, in certain cases, higher priced vendors received work prior to lower cost vendors.	19
* Denotes item repeated in full or part from preceding audit report	

	Finding 7 – Purchase orders were not always prepared and approved as required prior to obtaining the related goods or services.	21
*	Finding 8 – BCPSS did not always adequately monitor contracts to ensure goods and services were properly received or that invoices were proper prior to payment.	22
	Finding 9 – BCPSS did not always adequately document the rationale for sole source contract determinations and sole source contract awards were not always published on <i>eMaryland Marketplace</i> as required.	23
	Human Resources and Payroll	
*	Finding 10 – Critical human resources and payroll transactions were not independently reviewed for propriety.	25
*	Finding 11 – Certain overtime payments could not be substantiated or were improperly calculated.	26
	Inventory Control and Accountability	28
	Information Technology	
	Finding 12 – Sensitive personally identifiable information maintained by BCPSS was stored without adequate safeguards.	29
*	Finding 13 – Proper account and password controls were not established over the Enterprise Resource Planning application system, used for finance and human resource functions.	30
	Finding 14 – The BCPSS network’s intrusion prevention system had substantial gaps and malware protection controls over computers were not sufficient.	31
	Finding 15 – BCPSS lacked assurance that adequate information technology security and operational controls existed over its student information system that was hosted, operated, and maintained by a service provider.	33
*	Denotes item repeated in full or part from preceding audit report	

Facilities Construction, Renovation, and Maintenance	35
Transportation Services	
Finding 16 – Contract and payment processing issues specific to the prior arrangement with private bus contractors contributed to transportation costs being higher than necessary.	39
Finding 17 – BCPSS did not maintain critical documentation, including executed contracts, to support certain financial relationships with bus contractors.	42
Finding 18 – BCPSS’ process for reviewing taxi company invoices did not adequately ensure the billings were proper and payments were consistent with contractual terms resulting in overpayments totaling \$1.2 million.	43
Food Services	45
School Board Operations	45
Management of Other Risks	
Finding 19 – BCPSS did not require charter school management personnel and board members to periodically renew conflict of interest disclosures and did not ensure the disclosures were completed as required.	47
Finding 20 – BCPSS did not properly track and monitor required critical documents to be submitted by each charter school nor did BCPSS perform follow-up actions to obtain required documents from the schools.	48
Audit Scope, Objectives, and Methodology	50
Agency Response	Appendix

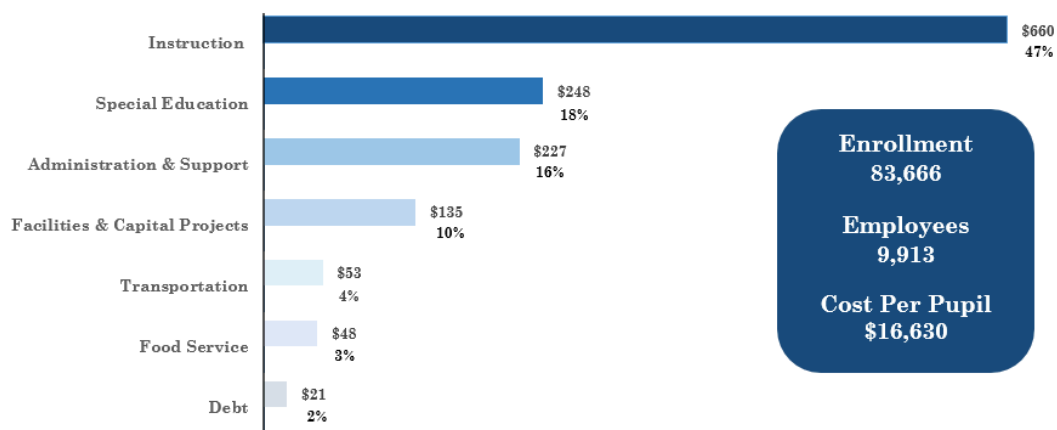
Background Information

Statistical Overview

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), the Baltimore City Public School System (BCPSS) ranks 4th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2016 full-time student enrollment was 83,666 students. BCPSS has 160 schools (including 36 charter schools and 5 contract/transformational schools) consisting of 115 elementary, 6 middle schools, 12 intermediate, 21 high schools, and 6 other types of schools (including vocational and special).

According to BCPSS' audited financial statements, fiscal year 2016 revenues were \$1.4 billion and expenditures were \$1.4 billion. The largest expenditure category was salaries and wages, including benefits, which accounted for 73 percent of total expenditures during fiscal year 2016. See the chart below for BCPSS' expenses by category in fiscal year 2016 according to its audited financial statements. According to MSDE records, during the 2015-2016 school year, BCPSS had 9,913 full-time equivalent positions, which consisted of 7,076 instructional and 2,837 non-instructional employees.

BCPSS Expenditures by Category and Selected Statistical Data Fiscal Year 2016 (amounts in millions)



Source: BCPSS' Fiscal Year 2016 Audited Financial Statements and MSDE Data

Oversight

BCPSS is governed by a local school board, consisting of nine members jointly appointed by the Mayor of Baltimore and the Maryland Governor, and one student member with partial voting rights. The State and Baltimore City government provide the vast majority of BCPSS funding. In addition, MSDE exercises 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 BCPSS to comply with the requirements and mandates of federal law. The Baltimore City government exercises authority over BCPSS primarily through the review and approval of BCPSS' annual operating and capital budgets.

Efforts to Address BCPSS' Budget Gap

During the development of its fiscal year 2018 budget, BCPSS determined that there was a structural budget gap totaling \$130 million between expected revenues and expenses. Additionally, BCPSS' budget projections reflected that the annual budget gap would continue to increase to \$190 million until fiscal year 2020. BCPSS attributed the fiscal year 2018 structural gap to increased expenses that had not been offset by inflation-adjusted revenue sources. Specifically, BCPSS cited the current State funding formula that does not distinguish between real growth in the Baltimore City's tax base and paper wealth resulting from the financial impact of public-private partnerships which impacts actual tax revenue collected. Additionally, declining student enrollment has resulted in less State funding.

In the spring of 2017, to address potential budget gaps, the State of Maryland and the City of Baltimore announced that additional resources would be provided to BCPSS. Those resources would take two forms:

- 1) State legislation (Chapter 6, 2017 Laws of Maryland) providing revenue totaling \$22 million would be added to BCPSS' general fund projections in fiscal year 2018 and \$20 million in both fiscal years 2019 and 2020 above the local appropriation provided in fiscal year 2017, and
- 2) Certain services would be provided to BCPSS by the State or City without cost.

The combined effect of these additional resources had an estimated annual value totaling \$59.4 million for fiscal years 2018 through 2020. Additionally, in finalizing its 2018 annual budget, BCPSS reduced expenses and made position cuts that yielded a net decrease of 278.2 full time equivalent

positions for fiscal year 2018. BCPSS estimated these reductions would result in annual savings totaling \$25 million.

The aforementioned 2017 law also required BCPSS to contract with an independent certified public accountant (CPA) on or before December 31, 2017 to conduct a comprehensive audit of BCPSS. As of July 2018, BCPSS was in the process of finalizing a contract with the CPA firm that independently audits its annual financial statements to conduct this comprehensive audit. In accordance with the law, the findings and recommendations from the audit are required to be reported on or before December 31, 2019 to the Department of Budget and Management (DBM), MSDE, the General Assembly budget committees, the Mayor of Baltimore City, and the Baltimore City Board of School Commissioners.

The law also required the Board to develop a *Financial Recovery Plan* to address all repeat findings from our Office's Financial Management Practices audit of BCPSS and include steps to address the following conditions:

- 1) eliminate BCPSS' structural deficits by 2020;
- 2) balance the BCPSS budget and future deficits;
- 3) alter permanent and temporary staffing levels and review existing employment contracts and attrition levels to achieve greater efficiency, including size and scope of the BCPSS central office;
- 4) alter the administrative organization of BCPSS to achieve greater efficiency;
- 5) conduct special audits or further studies to analyze the effectiveness of the financial recovery plan; and
- 6) establish a capital budget that maximizes the use of available resources to address infrastructure deficiencies.

As required by the law, the Board submitted the *Financial Recovery Plan* on August 1, 2017 to the Mayor, DBM, and the General Assembly budget committees. The publicly available *Plan* addressed BCPSS' efforts and strategies to reduce staffing, renegotiation of union contracts, reduction of surplus facilities, and capital improvements of school buildings. Finally, the law requires the Board to report quarterly on its progress in implementing the actions identified in the *Plan* to the Mayor, DBM, and the General Assembly budget committees. We noted that the first quarterly status report was submitted on November 1, 2017, and subsequent reports were also submitted with the latest being dated August 1, 2018.

External Audits

BCPSS engages a certified public accounting firm to independently audit its annual financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of BCPSS federal grant programs (as required by federal regulations). We reviewed the resulting financial statement audit and Single Audit reports for fiscal years 2015 and 2016, and examined the related work papers for fiscal year 2016, which were the latest available at the time we performed our audit fieldwork.

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

Status of Findings From Preceding Audit Report

Based on our current audit assessment of significance and risk to our audit objectives, our audit included a review to determine the status of 25 of the 26 findings contained in our preceding audit report dated September 28, 2012. We determined that BCPSS satisfactorily addressed 19 of these findings. The remaining 6 findings are repeated in this report.

Findings and Recommendations

Revenue and Billing Cycle

Background

Baltimore City Public School System (BCPSS) revenues consist primarily of funds received from the State, Baltimore City, and the federal government. According to the BCPSS audited financial statements, revenues from all sources totaled \$1.4 billion during fiscal year 2016. In addition, schools collect funds for other purposes such as student activities, clubs, and school publications. Because they are not considered school revenue, these school activity funds are accounted for separately by each school and reported in summary in the audited financial statements. Although this revenue is raised through student related activities, BCPSS has a fiduciary duty to safeguard these funds. For fiscal year 2016, student activity fund collections totaled \$5 million and the June 30, 2016 balance was \$1.6 million.

External Audits

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

Reviews of School Activity Funds

The BCPSS internal auditor conducts audits of school activity funds to determine whether proper controls have been established over collections and disbursements, and funds have been properly accounted for. The audits of the school activity funds at BCPSS schools identified some control weaknesses at certain schools that were addressed by school management. The reports we reviewed disclosed that internal control weaknesses identified were not prevalent. The internal auditor audits all schools' activity funds on a rotating basis and reports any findings to the respective school principal and the central administrative staff.

The independent certified public accounting firm contracted by BCPSS to perform its annual financial statement audit also conducts a limited review of the school activity funds. These reviews consist primarily of tests of bank reconciliations, and receipt and disbursement transactions at selected schools. Our review of the firm's findings for fiscal year 2016 disclosed that

internal control weaknesses identified were not prevalent. In addition, the firm's testing did not identify any improprieties.

Finding 1

BCPSS did not properly monitor or bill amounts owed by outside organizations for the services of its employees.

Analysis

BCPSS did not properly monitor or bill amounts owed by outside organizations for services provided by its employees, which are required to be reimbursed under certain circumstances.

Amounts due to BCPSS for employees granted paid leave of absences to work for outside organizations had not been recorded properly in the centralized accounts receivable records and were not adequately billed and pursued for collection. Specifically, according to its policy, BCPSS is required to be reimbursed for the costs paid for salaries and fringe benefits for employees granted a paid leave of absence to work for outside organizations, such as employee unions. Although the BCPSS Office of Human Capital was tasked with collecting these receivables, there was no oversight to ensure all amounts were billed and collected. According to BCPSS records, as of February 2017, there were eight employees granted a leave of absence to work for outside organizations for fiscal year 2017.

Our test of four employees working for outside organizations during fiscal years 2016 and 2017, disclosed that BCPSS had not properly billed \$352,500 for two employees. For example, BCPSS did not bill any of the actual payroll costs totaling \$271,562 for one employee. Additionally, the BCPSS Office of Human Capital did not maintain complete documentation supporting the approval of the leaves of absence to work for outside organizations. For example, there was no documentation that the Board was notified as required that these four employees were on leaves of absence with outside organizations.

A similar condition regarding the recordation of amounts in the accounts receivable records and the billing to and collection of amounts owed from outside organizations was commented upon in our preceding audit report.

Recommendation 1

We recommend that BCPSS

- a. include all amounts owed to BCPSS in its centralized accounts receivable records (repeat),

- b. ensure appropriate and timely collection efforts are made for amounts owed by outside organizations (repeat), and
- c. maintain documentation supporting the approval of an employee's leave of absences to work for outside organizations.

Federal Funds

Background

BCPSS receives funds pertaining to federal government programs that are generally restricted for use for a specific program (such as the School Lunch Program or Special Education). According to the audited Schedule of Expenditures of Federal Awards, fiscal year 2016 expenditures totaled \$138 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 BCPSS' federal grants and the objectives of our audit in this area, we reduced the scope of our audit work related to federal grants. Besides expressing an opinion on BCPSS' compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the required Schedule of Federal Awards (which includes claimed and reported grant expenditures) for fiscal years 2015 and 2016. The related reports stated that BCPSS 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 for Eligible Services

Although BCPSS had established a procedure to identify children eligible for Medicaid-subsidized services, we noted certain opportunities to enhance the reimbursement process. Medicaid is an entitlement program for which certain service costs can be reimbursed to BCPSS. Medicaid activity is not covered by the Single Audit of federal grants. According to BCPSS records, fiscal year 2017 state and federal reimbursements for Medicaid-subsidized services totaling approximately \$19.6 million were obtained through approximately 229,000 reimbursement claims.

Finding 2

BCPSS did not obtain social security numbers for 5,600 students with individual education plans to help identify qualified students for whom Medicaid reimbursement could be obtained for eligible services.

Analysis

BCPSS did not obtain social security numbers (SSNs) for all students with individual education plans (IEPs). SSNs represent a critical piece of information used by BCPSS to determine which students are eligible for Medicaid reimbursement through an automated data-matching program with the State Medicaid records. The matching program, which is based on the SSN, provides BCPSS with the required medical assistance number needed to allow for the billing of Medicaid-eligible services for these students. BCPSS advised us that it did not collect a student's SSN when preparing an IEP, and it did not perform alternate procedures (such as, using the student's full name and date of birth) to obtain the required medical assistance number. Nevertheless, BCPSS did advise us that parents or guardians sometimes volunteered to provide the SSN or medical assistance number during IEP meetings.

According to BCPSS' records, as of September 2017, BCPSS did not have social security numbers for approximately 5,600 of the 12,600 students having an IEP, to help identify all qualified students for whom Medicaid reimbursement could be obtained for eligible services provided to those students. The extent to which these 5,600 students qualified, because they have a medical assistance number, was not available; but our review of five such students suggests additional Medicaid reimbursement is possible.

For three of the five students, their IEP indicated they were Medicaid eligible and for two of these students the data-matching indicated the existence of a medical assistance number that potentially could have been used to obtain reimbursement for services provided to them. Regarding the other two students, one was not eligible and the other student had a medical assistance number and billings had been made for the eligible services provided to this student.

Recommendation 2

We recommend that BCPSS obtain social security numbers for students with individual education plans and bill to obtain Medicaid reimbursements for eligible services provided to qualified students.

Finding 3

BCPSS did not have a formal process to review denied Medicaid claims in order to determine if the claims could be corrected for resubmission.

Analysis

BCPSS did not have a formal process to review denied Medicaid reimbursement claims to determine if the claims submitted for children provided services under an IEP could be corrected and resubmitted. BCPSS submits Medicaid reimbursement claims for daily services provided to each student previously deemed eligible; however, claims are denied for various reasons.¹ BCPSS advised us that denied claims are not reviewed due to the large volume of denied claims and staffing limitations. However, reviewing denied Medicaid reimbursement claims is important since BCPSS only has a year from the date of the service to obtain reimbursement. According to BCPSS' records, during fiscal year 2017, approximately 113,000 claims were denied that totaled \$14.6 million.

Although many of the denied claims could be for reasons that would not justify resubmission, such as, ineligible student, claims exceeding certain limitations, and third-party insurance, our analysis identified denied claims that could in fact be valid and resubmitted after being researched and corrected. We identified approximately 14,000 claims (based on the code associated with the reason for denial) totaling \$522,000 in fiscal year 2017, where the denial was most commonly due to the mismatched diagnosis codes or the student's name not matching the unique medical assistance number filed with the claim, conditions which appear to be easily correctable.

Specifically, our test of five of these denied claims, totaling \$886, disclosed four claims, totaling \$856, were not researched and resubmitted. We reviewed the documentation related to the four claims and found that corrections to the diagnosis code, medical assistance number, or the student's name could have been made in order to obtain reimbursement. The documentation was reviewed with a responsible BCPSS official who agreed with our conclusion on the four claims and that, if the denied claims were corrected as we proposed, BCPSS would have been able to resubmit the claims for reimbursement.

¹ Reasons for denial could include, ineligible student, other insurance coverage exists, claim exceeds certain limitations, mismatched diagnosis codes, or the student's name did not match the unique medical assistance number filed with the claim.

Recommendation 3

We recommend that BCPSS develop a formal process to review denied claims for Medicaid reimbursements to determine if the claims could be corrected and resubmitted.

Procurement and Disbursement Cycle

Background

According to the audited financial statements and BCPSS records, non-payroll disbursements totaled \$353 million during fiscal year 2016. BCPSS uses an automated system for purchasing and disbursements. Requisitions entered via the system by departments are subject to on-line departmental and purchasing office approval. Approved requisitions are then converted to purchase orders by the purchasing office, which also generally handles the solicitation, bid evaluation, and establishment of contracts. The receipt of goods and services is entered into the automated system by the receiving school or department and payments are then processed by the finance office. Payments are processed by the finance office through the automated system that prints vendor checks and posts the payment to the financial records.

BCPSS written procurement policies require that procurements over \$25,000 be competitively bid in accordance with Section 5-112 of the Education Article of the Annotated Code of Maryland. The policies also require that these procurements be approved by the Board with the exception of: textbook purchases and other materials of instruction, emergency items, sole-source procurements, and the use of intergovernmental agreements and purchasing cooperatives. Although exempt from board approval, the aforementioned procurements are presented to the Board for information purposes. Furthermore, the policies generally require the solicitation of written or oral quotes for any purchase of \$5,000 or greater and formal competitive bidding for contracts of \$25,000 or greater.

Finding 4

BCPSS did not adequately restrict user access capabilities in its automated procurement and accounts payable system.

Analysis

BCPSS did not adequately restrict user access capabilities in its automated procurement and accounts payable system. Our review of system access as of September 2017 disclosed that 20 employees had been assigned system capabilities that allowed them to perform incompatible critical functions. For

example, 6 employees had the ability to enter invoices, approve payments, and override the system matching requirements that help ensure invoices agree with the terms of previously authorized purchase orders. Additionally, 2 of these 6 employees also had the capability to add and update vendors. As a result, unauthorized disbursements could be processed without detection, although our testing found no evidence of inappropriate transactions.

A similar condition related to restricting user capabilities has been commented on in our two preceding audit reports.

Recommendation 4

We recommend that BCPSS restrict assigned capabilities to eliminate the ability of users to perform incompatible duties (repeat).

Finding 5

BCPSS did not document the appropriateness of using intergovernmental cooperative purchasing agreements (ICPAs) as required by State law. Additionally, BCPSS did not obtain the original agreements from the initial procuring entity so that payment rates could be verified nor did it obtain itemized invoices for certain purchases it made under ICPA contracts.

Analysis

BCPSS did not document the cost savings and other benefits associated with using ICPAs, as required by State law. BCPSS advised us that it is not its practice to document the appropriateness of using the ICPAs. Additionally, BCPSS did not obtain the original agreements from the initial procuring entity so that payment rates could be verified nor did it obtain itemized invoices for certain purchases it made under ICPA contracts. Based upon a review of BCPSS records, during fiscal year 2016, we identified 176 active ICPA contracts, including 146 contracts valued at \$73.2 million and 30 additional contracts without a defined estimated contract value.

State law requires a written determination of the benefits of using an ICPA. The law, which legal counsel to the Maryland General Assembly advised us is applicable to local education agencies, allows the use of cooperative purchasing agreements only after the using entity has determined in writing that the use of such arrangements will provide costs benefits, promote

administrative efficiencies, or promote intergovernmental cooperation.² Our test of three ICPA contracts active in 2016 and totaling \$4.6 million disclosed that BCPSS had not documented the benefits of using the three ICPAs nor had it obtained the original agreements and verified the propriety of the rates charged on the related invoices. At our request, BCPSS obtained three of these agreements. Our review of one billing from each of the three ICPAs, totaling \$1.1 million, confirmed that the rates paid for two of the three billings appeared to be in accordance with the agreements. However, for one of the three invoices totaling \$127,000, we were still unable to verify the amount paid because the invoice was not itemized making it impossible to compare the rates to the original agreement. Finally, BCPSS did not ensure that the three ICPA contracts were properly procured (that is, through a competitive procurement process) by the initial procuring entity, as required by State law.

Recommendation 5

We recommend that BCPSS

- a. comply with State law and ensure that a written determination of the benefits for the use of an ICPA is prepared,**
- b. obtain the original ICPA contracts and verify invoices to the terms contained in the ICPA, and**
- c. obtain evidence to satisfy the requirements of State law that the ICPA contract was properly procured by the initial procuring entity.**

Finding 6

BCPSS did not document the basis for assigning work to pre-qualified vendors for certain services and, in certain cases, higher priced vendors received work prior to lower cost vendors.

Analysis

BCPSS did not establish a methodology for assigning work to pre-qualified vendors, with differing prices, on multiple-award contracts. Using a

² Section 13-110 of the State Finance and Procurement Article, of the Annotated Code of Maryland in part, defines an intergovernmental cooperative purchasing agreement as a contract that is entered into by at least one governmental entity in a manner consistent with the purposes set forth in Section 11-201 of the Article, that is available for use by the governmental entity entering the contract and at least one additional governmental entity, and that is intended to promote efficiency and savings that can result from intergovernmental cooperative purchasing. The aforementioned law applies to all ICPAs regardless of the services, goods, or commodities purchased. In addition, Section 5-112(a)(3) of the Education Article, of the Annotated Code of Maryland provides that local education agencies do not need to conduct competitive procurements for goods and commodities if they use a contract awarded by public agencies or intergovernmental purchasing organizations and the lead procuring agency followed public bidding procedures.

competitive solicitation, BCPSS established contracts with a group of vendors that met specific technical qualifications to provide various services (such as, temporary district office staff, substitute teachers, skilled nursing, and special education aides). These contracts included BCPSS-approved rates which were based on the vendors' initial bids. This resulted in a pool of pre-qualified vendors, with differing cost structures, from which BCPSS could select for the specific personnel services on an as-needed basis.

BCPSS did not have a formal documented process for subsequently selecting vendors from the pre-qualified list to perform specific services as needed during the term of each contract. We were advised by BCPSS management that, although not documented, previous BCPSS experience with a vendor was the primary factor for selection even though each pre-qualified vendor had the technical expertise to provide the services. Since the differing cost rates between vendors were not considered in selecting a vendor, higher costs may have been incurred than if the lowest cost pre-qualified vendor had been selected.

Based on the budgets for five multiple-award contracts totaling \$65.2 million (approved by the Board from June 2013 through July 2015), there may have been opportunities to allocate a greater portion of the services under each of these contracts to lower cost vendors. For example, of the 14 qualified vendors for a multiple-award contract to provide special education aides, one vendor was budgeted to receive 46 percent of the \$28.5 million contract value even though six other qualified vendors had lower rates. These six vendors were budgeted to receive a combined 30 percent of the contract value. Additionally, one of the five qualified vendors for a multiple-award contract to provide temporary district office staff received 67 percent of the \$9 million contract value even though two other qualified vendors had lower rates overall. The extent to which the actual usage was consistent with the contract budgets was not ascertained.

Recommendation 6

We recommend that BCPSS establish a formal methodology for selecting from pre-qualified vendors on multiple-award contracts, which documents the basis for selection and appropriately considers vendor costs for the services to be provided.

Finding 7

Purchase orders were not always prepared and approved as required prior to obtaining the related goods or services.

Analysis

Although BCPSS policy requires that purchase orders be prepared and independently approved prior to making purchases of goods or services, we noted that this policy was not routinely being followed by BCPSS units. According to its records, BCPSS had identified that during fiscal year 2016 there were 2,001 purchase orders totaling \$10.4 million that were retroactively processed (prepared and approved) after receiving an invoice from a vendor for goods or services, including approximately \$3.6 million of these purchase orders related to BCPSS' Information Technology Division or the Chief Operating Office.

BCPSS' Purchasing Office monitors for this type of activity and sends bi-weekly notifications advising each department and school of the problematic nature of this activity. According to the notification memos, this activity distorts the financial activity of BCPSS since the expenses are not known before hand, it results in additional processing time for invoices and other inefficiencies, and contributes to higher costs due to a lack of competitive bids. The extent to which competitive procurements should have been undertaken for the aforementioned 2,001 purchase orders was not determined by BCPSS.

BCPSS' automated system for purchases and disbursements requires that each vendor invoice be electronically matched to an established purchase order. When a vendor invoice does not have an established purchase order, the automated system controls prevent the invoice from being paid. Consequently, the Finance Office has to confirm manually the accuracy of the invoice with the department or school that obtained the goods and services and retroactively process a purchase order in order to process the invoice for payment.

Recommendation 7

We recommend that BCPSS ensure that procurement policies and automated system controls are not bypassed by ensuring purchase orders are prepared and approved prior to obtaining the related goods or services.

Finding 8

BCPSS did not always adequately monitor contracts to ensure goods and services were properly received or that invoices were proper prior to payment.

Analysis

BCPSS did not always adequately monitor contracts to ensure goods and services were properly received or that invoices were proper prior to payment.

Our test of 20 invoices totaling \$5.4 million paid from July 2015 to July 2016 disclosed that for 4 invoices totaling \$1.9 million, BCPSS had recorded the receipt of the services in its automated procurement and accounts payable system before the services had been provided and the invoices were received. The tested invoices were judgmentally selected from 20 contracts totaling \$93 million; the 4 contracts for which BCPSS had recorded in its system that services had been received prior to vendors having actually provided the services totaled \$6.5 million. These contracts were for temporary staffing, extended learning, and summer school. By recording the receipt of all services in the system, the subsequent invoices for these vendors were automatically approved for payment upon recordation in the system, bypassing the intended control provided by the use of receiving reports.

For example, on June 24, 2016, BCPSS recorded the receipt of all services for a \$1.7 million summer school contract, which had a service delivery period from June 1, 2016 to August 5, 2016. In this case, the vendor was paid the entire contract amount, via an invoice dated July 25, 2016, which included services delivered after June 24, 2016 and for which there was no additional receipt of services recorded by BCPSS in its system. We also noted that services were not provided for one day due to extreme summer weather, but the vendor was paid based on BCPSS' premature recordation of services delivery, resulting in an overpayment of \$4,050.

BCPSS' policies require that good and services be recorded in the automated procurement and accounts payable system when they are actually received. A similar condition was noted in our prior report regarding the approval of invoices for payment prior to obtaining documentation that the related services were provided.

Recommendation 8

We recommend that BCPSS monitor contracts and related billings to ensure goods and services are provided in accordance with the contractual terms and conditions prior to payment and that invoices accurately reflect the services rendered (repeat).

Finding 9

BCPSS did not always adequately document the rationale for sole source contract determinations and sole source contract awards were not always published on *eMaryland Marketplace* as required.

Analysis

BCPSS did not always appropriately document the rationale for its sole source contract determinations. Additionally, sole source contract awards were not always published on *eMaryland Marketplace* (eMM) as required. BCPSS' Procurement Policy allows for sole source contracts when it is determined that only one vendor can provide the goods or services, it is in BCPSS' best interest to award a contract without a competitive solicitation, the contract is for an emergency, or the contract is in connection with actual or potential litigation. Our test of five sole source contracts totaling \$14.5 million, approved by the Board between January 2013 and March 2016 disclosed the following conditions:

- The sole source determinations for four sole source contracts totaling \$10.7 million lacked specificity to justify that the selected vendor was the only suitable or acceptable option to provide the services as required by BCPSS policy. Specifically, the justifications simply stated that the organizations were successful in providing services to BCPSS previously. Two contracts totaling \$8.1 million were for special education services and two contracts totaling \$2.6 million were for the operation of elementary summer school programs.
- None of the five sole source contracts awards were published on eMM as required by State procurement regulations. eMM is an Internet-based, interactive procurement system managed by the State of Maryland's Department of General Services and State procurement regulations require local school systems to publish sole source contract awards valued at \$15,000 or more on eMM. Publishing awards on eMM provides transparency over procurements including information about the winning bidder and the amount of the related award.

Furthermore, although BCPSS advised us that its procurement system had the ability to identify and track the type of procurement method it used for awarding contracts, BCPSS had not developed a report to obtain this information. Consequently, we could not readily determine the number and value of BCPSS' sole source contracts. In May 2018, BCPSS advised us that it would develop this report.

Recommendation 9

We recommend that BCPSS

- a. ensure that sole source contract determinations include appropriate information to document the rationale for not performing a competitive procurement,
- b. publish sole source contract awards on *eMaryland Marketplace*, and
- c. develop a system report that tracks the procurement method used for each contract to aid in verifying compliance with existing policies.

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the BCPSS budget. According to BCPSS records, fiscal year 2016 salary, wage, and benefit costs totaled \$935 million, or 73 percent of the total operating expenditures. According to Maryland State Department of Education (MSDE) reports, during the 2015–2016 school year BCPSS had 9,913 full-time positions, which consisted of 7,076 instructional positions and 2,837 non-instructional positions.

The vast majority of BCPSS employees (including teachers and police officers) are represented by various unions that negotiate contracts with BCPSS that specify the terms of employment, including salaries. All union contracts expired on or before June 30, 2017 and were extended on a month-to-month basis. A new teachers' contract was negotiated and ratified by the Baltimore Teachers Union in March 2018. According to the new union agreement, teachers are to receive a 2.5 percent pay increase over the next two years, which includes a 1 percent raise to be applied retroactively to July 1, 2017 and the remaining raise in January 2019. The other union contracts were under negotiation as of March 2018. Non-affiliated employees, including school system administrators, do not belong to a union.

BCPSS uses an automated system to maintain human resources information, record employee time, track leave usage, and process and record payroll transactions. Employees prepare paper timesheets or timecards that are approved by supervisors and forwarded to timekeepers throughout the school system. Timekeepers record adjustments to the standard work schedules, such as overtime, on an exception basis in the automated timekeeping system based on these paper time records. The timekeeping system interfaces with the payroll system to process the payroll. Additional adjustments (such as for accumulated leave payments) are processed by

BCPSS central payroll personnel. The system generates payroll checks and direct deposit advices.

Finding 10

Critical human resources and payroll transactions were not independently reviewed for propriety.

Analysis

Critical human resources and payroll transactions on the automated system were not independently reviewed for propriety. Without an independent review of changes processed, BCPSS lacked assurance that all transactions were properly authorized and were correctly entered into the automated system.

- There was no independent review to ensure employee personnel and payroll transactions recorded in the automated system were correct and accurate. Six employees had the ability to enter human resources data into the system, such as new employees and employee pay rates, without an independent review for propriety. Furthermore, available transaction reports of new employees added to the system or changes to employee data, including salary changes, were not generated for verification to authorized source documentation for independent supervisory review and approval. According to BCPSS records (which we did not verify) its human resources employees entered 11,174 changes to employee salaries and pay rates during fiscal year 2017, resulting in net annual pay increases totaling up to \$81.5 million, including 973 entries for the hiring of new employees with salaries totaling \$45.9 million. One of the six aforementioned employees processed approximately 8,500 of these adjustments totaling \$14.7 million. Similar conditions were noted in our two preceding audit reports.
- Nine employees could process manual adjustments to provide additional compensation and adjust leave balances without a timely review to ensure the adjustments are appropriate and properly approved. These adjustments were necessary when an employee's hours needed to be corrected after the standard payroll process, for payments of accumulated leave, and for employee grievance settlements and should be supported by an approval form signed by the Payroll Director. Although BCPSS began generating a quarterly report in June 2015 to monitor and review these adjustments on a test basis, the reports were not generated timely each quarter. For example, as of October 24, 2017, the most recently completed review was for the quarter ended December 2016 and that review did not begin until May 2017, when the report was generated. The

quarterly reviews were intended to ensure that these manual adjustments were accurately entered in the payroll system and properly supported by the required approval forms.

Our test of 22 additional compensation payments totaling \$1.5 million that were processed as manual adjustments during calendar year 2016 disclosed that eight payments totaling \$818,450 were not supported by the required form to authorize the adjustment. Additionally, for one other payment of \$36,794, the approval form was on file, but not signed by the Payroll Director, as required. During calendar year 2016, BCPSS processed manual adjustment for additional compensation totaling \$11.2 million. A similar condition was noted in our prior audit report.

Recommendation 10

We recommend that BCPSS establish adequate internal controls over the various aspects of payroll and human resources system processing to ensure the propriety of payments to employees. Specifically, we recommend that BCPSS

- a. generate output reports of critical changes and adjustments made to the automated human resources and payroll data (repeat); and**
- b. at least on a test basis, independently verify system output reports of these critical changes and adjustments to appropriate supporting documentation, including the properly completed authorization and approval forms, in a timely manner (repeat).**

Finding 11

Certain overtime payments could not be substantiated or were improperly calculated.

Analysis

Certain overtime payments could not be substantiated or were improperly calculated.

Overtime Not Substantiated

BCPSS personnel in various departments who were responsible for comparing overtime to supporting documents (such as sign-in sheets and overtime approval forms) and approving overtime for payment did not properly perform these responsibilities. Specifically, we found certain overtime payments tested could not be substantiated by approved sign-in sheets indicating hours worked and/or the required overtime approval forms. The overtime approval forms are required to be approved in advance by supervisors, and the sign-in sheets serve as the basis for recording overtime in the timekeeping system.

As a result, there is a lack of assurance that the related hours were actually worked for all paid overtime.

Our test of overtime totaling \$63,664 paid to 23 employees during certain pay periods in calendar year 2016 disclosed that the overtime hours were not approved in advance and often were not supported by sign-in sheets. During calendar year 2016, these 23 employees individually were paid overtime ranging from \$2,821 to \$51,849, with total collective overtime payments of \$392,813. The following table summarizes the results of the overtime payments tested.

Table 1
Summary of Documentation Discrepancies
From OLA Overtime Test for 23 Employees

	Overtime Not Documented on Either Sign-in Sheets or Overtime Approval Forms		Overtime Not Documented on Sign-in Sheets but Approved After the Fact		Overtime Documented, but Approved After the Fact		Overtime Totals for 23 Employees Tested
Hours	830	49%	595	36%	251	15%	1,676
Costs	\$26,624	42%	\$28,063	44%	\$8,977	14%	\$63,664

Overtime Payments Improperly Calculated

BCPSS paid overtime to employees of one union (that represented approximately 1,000 employees) at an earnings rate that was 9.1 percent higher than provided for under the related collective bargaining agreement in force at the time. This same condition existed during our preceding audit, at which time we were advised that this incorrect overtime rate for employees of this union dated back to when BCPSS payroll was processed by Baltimore City government and was never corrected when BCPSS transitioned to processing its own payroll in 2004. In response to our preceding audit report, BCPSS stated it would correct this overtime calculation. Overtime paid to members of this union totaled approximately \$2.5 million during calendar years 2015 and 2016. We calculated that approximately \$208,000 was overpaid during these two years because the incorrect overtime rate was used.

According to BCPSS records, overtime costs during calendar year 2016 totaled approximately \$3.4 million, including \$913,000 for the aforementioned union employees.

Recommendation 11

We recommend that BCPSS

- a. investigate the aforementioned discrepancies and determine the extent of other unsubstantiated payments and take appropriate actions, such as recovery of improper payments (repeat);
- b. ensure supervisors verify work hours, including overtime, recorded in the timekeeping system to supporting documentation including sign-in sheets and overtime approval forms, at least on a test basis, prior to approving the timekeeping records (repeat); and
- c. correct the aforementioned overtime payment calculation in its automated system to reflect the overtime rate provided for in the related union agreement (repeat) and seek legal advice regarding the permissibility of recovering past amounts overpaid.

Inventory Control and Accountability

Background

According to BCPSS' financial statements, the undepreciated value of its capital equipment was \$53 million, as of June 2016. BCPSS uses a centralized fixed asset inventory system to track capital equipment (that is, items with a cost of \$5,000 and greater). In addition, BCPSS' Information Technology Office maintains automated records for its sensitive information technology equipment (such as all computers and laptops) regardless of cost.

Our review found that BCPSS had established written policies for the acquisition, capitalization, physical inventory, and disposal of its capital and sensitive equipment. Furthermore, our testing found that generally, periodic physical inventories for certain capital equipment were conducted and reconciled to the detail records.

Information Technology

Background

BCPSS' Information Technology Office (ITO) manages and administers the BCPSS computer network, computer operations and information systems applications. BCPSS and a contractor operate a wide area network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at the BCPSS' headquarters. ITO maintains two data center locations containing computer servers that support BCPSS' information systems applications, which include an Enterprise Resource Planning (ERP) application for finance and human resources functions.

BCPSS' student information system is hosted, maintained, and operated by an outside service provider.

Finding 12

Sensitive personally identifiable information (PII) maintained by BCPSS was stored without adequate safeguards.

Analysis

Sensitive PII maintained by BCPSS was stored without adequate safeguards. Specifically, we reviewed one application and determined that as of August 2017 one table within BCPSS' ERP database contained 64,564 unique social security numbers stored in clear text along with associated names and addresses. In addition, we were advised that this sensitive PII was not protected by other substantial mitigating controls of a comprehensive nature. Furthermore, BCPSS had not performed an inventory of its systems to identify all sensitive PII, determined if it was necessary to retain the PII, and deleted PII identified as unnecessary.

PII is commonly associated with identity theft and typically includes demographic information for individuals such as name and social security number, address, and date of birth. Accordingly, appropriate information system security controls need to exist to ensure that such confidential information is safeguarded and not improperly disclosed. Best practices identified in the State of Maryland *Information Security Policy* state that confidential data should be protected using encryption and/or other substantial mitigating controls.

Recommendation 12

We recommend that BCPSS

- a. perform an inventory of its systems, identify all sensitive PII, and delete all unnecessary PII; and**
- b. use approved encryption methods or other substantial mitigating controls to properly protect all sensitive PII.**

Finding 13

Proper account and password controls were not established over the ERP system, ERP database logging did not exist for certain critical privileges and security-related changes, and BCPSS could not substantiate that security monitoring was performed for the its firewalls and the ERP system.

Analysis

BCPSS had not established proper account and password controls over its ERP system, and ERP database logging did not exist for the use of certain critical privileges and security-related changes. Additionally, BCPSS could not substantiate that security monitoring was performed for the ERP system and BCPSS' firewalls.

- The account and password controls over the ERP application, database, and the server that hosts the ERP database were not always in accordance with best practices identified in the State's *Information Security Policy* with respect to account lockout and password age and length. For example, we identified 662 ERP application accounts that did not have any related password age expiration setting. A similar condition was commented upon in our preceding audit report.
- ERP database logging did not include operations performed by accounts using several critical database privileges, such as altering security roles or updating any table. In addition, the ERP database auditing options were not configured to log security-related changes recorded for five critical database tables, such as personnel addresses or pay amounts. A similar condition was commented upon in our preceding audit report.
- BCPSS had not established procedures for overseeing the setup and execution of the managed security services performed over its ERP system and firewalls by its security contractor. Logs of security-related information from these sources were forwarded to a BCPSS network appliance that the contractor configured, maintained, and operated for security monitoring on behalf of BCPSS. We determined that BCPSS personnel did not understand how the network appliance was initially configured, nor could they view the control settings supporting the security monitoring service. Furthermore, BCPSS was unable to provide any documentation evidencing that the security contractor had generated and reviewed comprehensive security monitoring reports.

Best practices identified in the State's *Information Security Policy* require that information systems generate audit records for all security-relevant events,

including all security and system administrator accesses. The *Policy* also requires that procedures must be developed to routinely (for example, daily or weekly) review audit records for indications of unusual activities, suspicious activities or suspected violations, and report findings to appropriate officials for prompt resolution.

Recommendation 13

We recommend that BCPSS implement appropriate account, and password controls for the ERP system and ensure that the ERP system and BCPSS' firewalls are subject to regular security monitoring. Specifically, we recommend that BCPSS

- a. establish appropriate account and password controls over the ERP application, database, and the server hosting this database; (repeat)**
- b. enable logging for actions involving use of critical ERP database privileges and for security-related changes to critical database table; (repeat) and**
- c. establish procedures for overseeing the process used by its security contractor for monitoring its critical logged ERP system and firewalls security and audit events, which include the capabilities to view related control settings and confirm that comprehensive security reporting is generated, reviewed and documented.**

Finding 14

Intrusion detection prevention system coverage for the BCPSS network had substantial gaps, and malware protection controls were not sufficient to provide BCPSS with adequate assurance that its computers were properly protected.

Analysis

Intrusion detection prevention system (IDPS) coverage for the BCPSS network had substantial gaps, and malware protection controls were not sufficient to provide BCPSS with adequate assurance that its computers were properly protected.

- IDPS coverage did not exist for substantial amounts of untrusted traffic (both encrypted and unencrypted) entering the BCPSS network. For example, neither server host-based intrusion prevention system (HIPS) coverage, nor network device decryption and inspection coverage occurred for encrypted traffic. We identified 27 firewall rules that allowed traffic from any source to 84 unique BCPSS network destinations via encrypted methods without IDPS coverage. The absence of IDPS coverage for untrusted traffic entering the network creates network security risk as such traffic could contain undetected malicious data. Best practices in

the State's *Information Security Policy* require protection against malicious code and attacks by using IDPS to monitor system events, detect attacks, and identify unauthorized use of information systems and/or confidential information.

- BCPSS did not periodically verify that malware protection software was installed and operational on all of its 39,568 active computers. Our testing as of October 10, 2017 noted that the console that BCPSS used to manage its malware protection software on the aforementioned computers only included 22,976 computers with operational malware protection software. Therefore, BCPSS lacked assurance that 16,592 of its computers had malware protection software that was operational and current.
- Certain BCPSS workstations had not been updated with the latest releases for software products that are known to have significant security-related vulnerabilities. Although the vendors for these software products frequently provide software patches to address these vulnerabilities, BCPSS had not updated these workstations by applying these patches. For example, as of September 2017, we identified that 8 of 12 tested workstations were running outdated versions of a commonly vulnerable application where the older software versions installed on the workstations had release dates that ranged from June 2008 to October 2015.
- Local administrative rights were not properly restricted. Our test of 10 regular employee users identified that 3 users were inappropriately assigned local administrative rights to their workstations. If these 3 workstations were infected with malware, the malware would run with administrative rights and expose these workstations, and possibly the BCPSS network to a greater risk of compromise than if the workstations' user accounts operated with user rights. In addition, the administrative rights would permit these 3 users to disable the malware protection software on their workstations.

Best practices stated in the State's *Information Security Policy* require protection against malicious code and attacks by using IDPS to monitor system events, detect attacks, and identify unauthorized use of information systems and/or confidential information. The *Policy* also states that agencies, at a minimum, must protect against malicious code (viruses, worms, Trojan horses) by implementing anti-malware solutions that, to the extent possible, include a capability for automatic updates. Also, industry best practice recommends that workstation accounts for regular employees (non-

administrators) run with standard user rights to lessen the risk of compromise from malware.

Recommendation 14

We recommend that BCPSS

- a. perform a documented review and assessment of network security risks and identify how IDPS coverage (which may include HIPS) should be best applied to the network and, based on this review and assessment, implement the necessary coverage;
- b. ensure that all computers are running current versions of the malware protection software used by BCPSS;
- c. promptly install all critical security-related software updates for commonly vulnerable applications on all computers; and
- d. ensure that administrative rights on workstations are restricted to system and network administrators.

Finding 15

BCPSS lacked assurance that adequate information technology security and operational controls existed over its student information system that was hosted, operated, and maintained by a service provider.

Analysis

BCPSS lacked assurance that adequate information technology security and operational controls existed over its student information system that was hosted, operated, and maintained by a service provider, under a contract effective September 15, 2015 through September 14, 2020. Our review concerning independent security assurances needed for this system disclosed that as of September 2017 BCPSS had not obtained a System and Organization Controls (SOC) report or any other similar independent security assurances report.

Upon our inquires, it was found that the service provider had a recent SOC 2 Type 2 review performed, with a related report issued on April 5, 2017, covering the period of February 1, 2016 to January 31, 2017. At our request, BCPSS obtained the SOC report and our review disclosed that the report identified no exceptions on the service organization's system description and the suitability of the design and operating effectiveness of controls, but did list two issues related to data access and physical facilities.

In addition, we noted that the scope of the SOC review was not as comprehensive as necessary. Specifically, while the SOC review addressed system security (that is, determining the system is protected against

unauthorized access and disclosure of information, and damage to the system), this coverage did not address critical controls related to encryption of sensitive data at rest. Also, the scope did not include audit logging and monitoring of activities related to privileged or unauthorized access, system exceptions, and information security events. Furthermore, the SOC review did not address the data availability (that is, information and systems are available for operation and use to meet the entity's objectives) trust criteria. As such, the SOC report did not address several key availability controls necessary for the student information system related to data backup and offsite storage nor stipulate that disaster recovery and business continuity policies, processes, and procedures existed, or had been regularly tested.

The American Institute of Certified Public Accountants has issued guidance concerning examinations of service providers. Based on this guidance, service providers may contract for an independent review of controls and resultant independent auditor's report referred to as a SOC report. There are several types of SOC reports, with varying scopes and levels of review and auditor testing. One type of report, referred to as a SOC 2 Type 2 report, contains the service organization's description of its system and the results of the auditor's examination of the suitability of the system design, operating effectiveness for the period under review, and can include an evaluation of system security, data availability, processing integrity, confidentiality, and privacy trust criteria. Due to the nature and sensitivity of the information contained in BCPSS' student information system, we believe a SOC 2 Type 2 report covering both the system security and data availability trust criteria is necessary.

Recommendation 15

We recommend that BCPSS

- a. ensure that its existing service provider agreement requires annual SOC 2 Type 2 reviews, which cover appropriate trust criteria including, at a minimum, system security and data availability and all related controls; and**
- b. annually obtain and review copies of these SOC 2 Type 2 reports to ensure that the related independent reviews adequately address all necessary critical security and operational concerns and that the service provider implements all critical report recommendations.**

Facilities Construction, Renovation, and Maintenance

Background

BCPSS employs a staff of approximately 600 custodial and maintenance personnel to maintain its 160 school facilities. BCPSS' expenditures for necessary construction, major renovations, and systemic improvements to existing facilities totaled \$38.3 million during fiscal year 2016. According to BCPSS' fiscal year 2018 Capital Improvement Plan, which we did not audit, expected funding requests over the next 6 years totaled \$370 million for construction, major renovations, and system improvements to BCPSS facilities. This amount excludes additional significant deferred maintenance needs. According to BCPSS' fiscal year 2017 Comprehensive Maintenance Plan, deferred maintenance was estimated at approximately \$1.1 billion.

Policies and Procedures are in Place for Construction Contracts

We reviewed BCPSS' policies and procedures for construction contract bidding, inspections, and change orders. Our test of five construction contracts totaling \$39.2 million and related invoices totaling \$2.4 million disclosed that the contracts were properly procured and monitored.

Processes are in Place to Minimize Energy Costs

BCPSS has processes in place to minimize energy costs. For example, BCPSS uses an automated system to analyze energy bills to ensure accuracy, converted to the use of smart meters, and participates in a regional energy company's cost savings program.

In addition, BCPSS offers an incentive program for school principals to use less energy, whereby individual schools would receive a percentage of the energy cost savings. Furthermore, BCPSS participates in a consortium with other entities to purchase energy at the best possible terms for the members of the consortium. According to documents provided by BCPSS (which we did not audit), BCPSS claims to have avoided an estimated \$2.7 million in energy costs from fiscal year 2014 through fiscal year 2016.

21st Century School Buildings Program

In 2013, the Maryland General Assembly passed the Baltimore City Public Schools Construction and Revitalization Act. This Act created the 21st Century School Buildings Program that authorized the Maryland Stadium Authority (MSA) to issue up to \$1.1 billion in bonds, which are being used to support up to 28 school renovation or replacement projects. A memorandum of understanding (MOU) was created between BCPSS, the City of Baltimore, and MSA that clarified roles and responsibilities related to the Program. The MOU and a subsequent amendment made MSA responsible for all

procurement and payment-related activities. BCPSS can request reimbursement from MSA for any expenses (such as payroll costs for employees) it incurs related to the Program. According to the Program's 2016 Annual Report, the overall progress of the Program has continued in a successful manner with both MSA and BCPSS working effectively together to address the mission of the Program and the requirements of the MOU. BCPSS is still in the process of implementing certain requirements (as described below).

During the period from fiscal year 2015 through fiscal year 2017, Program expenditures totaled \$205 million (paid from the bond proceeds). As of November 2017, 2 school renovation/replacement projects have been completed, 8 schools were either in construction or construction documents were being compiled, 5 schools were in the design development phase, and 13 schools were in the feasibility study phase.

The MOU required BCPSS to increase the average utilization rates of school buildings and, in 2014, to develop a Comprehensive Maintenance Plan (CMP) for preventive and ongoing maintenance of all school buildings. BCPSS pledged to increase the average utilization rates of the school buildings to 80 percent for the 2015-2016 school year and 86 percent for the 2019-2020 school year.

BCPSS has completed an annual CMP as required since 2014, and the 2017 CMP provided updates on its initiatives to improve Facilities Maintenance and Operations that were originally detailed in the 2014 CMP. According to the 2017 CMP, BCPSS anticipated the average utilization rate of 86 percent for the 2019-2020 school year might not be reached due to a drop in enrollment projections. Additionally, BCPSS provided an update on its implementation of a computerized maintenance management system (CMMS) that was required by the MOU. The CMMS consists of four applications:

- 1) maintenance: maintain and monitor work orders through BCPSS;
- 2) inventory: real time information on the inventory maintained in the storeroom;
- 3) preventive maintenance: manage and track preventive maintenance, including an asset assessment of all BCPSS buildings to enter into the CMMS; and
- 4) utility management: monitor and track utility usage at each building.

Except for the preventive maintenance application, BCPSS anticipated that the other applications will be implemented by the end of the 2017-2018 school year. Before the preventive maintenance application can be fully

implement, BCPSS advised that it first needs to perform an asset assessment for all of its buildings. An asset assessment includes focusing on the heating system, ventilation system, air conditioning system, roofing system, electrical system, plumbing, vertical transportation, building envelope (exterior), structural components, site paving, and major kitchen equipment and will allow BCPSS to develop a comprehensive and integrated process for tracking and monitoring necessary preventive maintenance for critical systems (such as, boilers and air conditioners). BCPSS is currently contracting with a vendor to perform the asset assessment and it is expected to be completed by June 2020.

Transportation Services

Background

BCPSS provides transportation to approximately 32,500 students. Students were transported 2.8 million route miles during the 2015-2016 school year using 339 contractor-owned buses and 33 school system-owned buses and certain students were transported using public transportation and taxicabs. See the table below for BCPSS' 2016 transportation expenditures by type and number of students transported. BCPSS has automated routing software for bus operations.

According to BCPSS' audited financial statements, fiscal year 2016 transportation costs totaled approximately \$52.5 million. These costs included \$30.3 million for school buses operated by private contractors generally for transporting special needs children to their appropriate school, \$6.9 million paid to the Maryland Transit Administration (MTA) for public transportation services for students unable to safely walk to their school, \$8.0 million for taxicabs primarily for special need and homeless students and \$2.9 million for System-owned school buses (operated by BCPSS employees) used primarily to transport certain disabled students. The remaining \$4.4 million was for Transportation Department administrative costs. As noted in the Table below, a majority (58 percent) of BCPSS' transportation expenditures were for private bus contractors that transported 12 percent of the students.

Table 2
Type of Transportation Expenditures and Number of Students
Transported
During 2015-2016 School Year
(Expenditures in Millions)

Type of Transportation Expenditure	Expenditures		Students Transported		Approximate Annual Cost per Student
Private Bus Contractors	\$30.3	58%	3,927	12%	\$7,700
BCPSS Owned Buses	2.9	6%	305	1%	9,500
Transportation on MTA Buses	6.9	13%	27,375	84%	250
Taxi Companies	8.0	15%	856	3%	9,300
Administrative Costs	4.4	8%	-	-	-
TOTAL	\$52.5	100%	32,463	100%	\$1,600

Source: BCPSS and MSDE records

Contracts for Bus Transportation

BCPSS entered into five-year contracts beginning July 1, 2013 with eight bus contractors. For each bus route operated by these contractors, BCPSS paid a daily fixed route rate, which varied depending on the type of route and whether the route driven involved regular or disabled students requiring wheel-chair assistance. During the 2015-2016 school year, the daily fixed route rate ranged from \$344 to \$479, with routes requiring up to 4.5 hours of bus driver time and 60 miles of roundtrip distance. BCPSS also reimbursed contractors for fuel and paid contractors \$1.6 million for additional time and mileage to operate bus routes beyond the 4.5 hour and 60 mile thresholds, based on time and mileage records provided by the contractors. The contracts generally provided for an annual rate adjustment of 2.5 percent, to the extent funding was available. The bus contractors were also paid an annual program fee to cover a variety of certification and training costs.

In 2018, BCPSS issued two invitations for bids (IFBs) to procure bus services beginning with the 2018-2019 school year. Under the IFBs, price proposals were submitted based on the bus type (size of bus) and type of route (such as, curb to curb or corner to corner service). The price proposals also considered varying ranges of billable roundtrip mileage levels (such as, 30 miles or less, 31 to 50 miles, 51 to 60 miles) and whether the routes were for transporting

students to schools in Baltimore City or outside of the City (as with other local school systems, some students, based on their needs, are transported to educational facilities outside of the system). Under the new contracts, the bus contractors are to be paid a daily flat rate based on these factors and, therefore, there will no longer be payments for fuel, or additional time and mileage over established thresholds as is the case with the current contract. BCPSS was in the process of negotiating the final details of these new contracts as of late August 2018.

Independent Reviews of BCPSS' Transportation Services

In March 2017, an assessment of BCPSS' Transportation Routing and Scheduling process was performed by a consultant. The report contained various recommended actions to improve the efficiency and effectiveness of the Transportation Department. The recommendations primarily addressed improvements to resolve issues with employee training, productivity, and communication and not the contractor payment structure.

Additionally, an independent performance audit of BCPSS' Transportation Department was conducted based on the recommendation of the National Transportation Safety Board following a fatal traffic accident that occurred on November 1, 2016 involving a school bus operated by a BCPSS contractor. The audit, dated January 31, 2018, contained various recommendations to improve the safety and effectiveness of BCPSS' transportation operations (such as, ensuring compliance with certain Federal and State requirements).

As of February 2018, BCPSS' management advised us that it was in the process of implementing the recommended actions contained in these two reports.

Finding 16

Contract and payment processing issues specific to the prior arrangement with private bus contractors contributed to transportation costs being higher than necessary.

Analysis

Contract and payment processing issues specific to the prior arrangement with private bus contractors contributed to transportation costs being higher than necessary. Specifically, certain circumstances were noted in which bus contractors were overpaid or BCPSS incurred excessive costs totaling at least \$1,031,720 over a three-year period ending June 30, 2016.

Contract Issues

- Although the contracts permitted contractors to be reimbursed for fuel costs, there was no provision for BCPSS to exclude federal and state excise taxes when paying bus contractors for fuel, as permitted by federal and State law. As a result, we calculated that BCPSS' total fuel payments to bus contractors were \$358,000 higher than necessary for fiscal years 2014 through 2016 based on the permitted federal exemption and we projected that fiscal year 2017 fuel payments to bus contractors could potentially be \$148,000 higher than necessary related to the recently enacted Maryland fuel tax exemption. According to federal law, BCPSS contractors were exempt from the \$0.244 per gallon federal excise tax on diesel fuel and, under Maryland law effective July 1, 2016, BCPSS contractors were exempt from the \$0.3425 per gallon State excise tax on diesel fuel.
- BCPSS had not documented the basis for the time and mileage thresholds used to establish the daily fixed route rates paid to the bus contractors. BCPSS used thresholds of 4.5 hours of bus driver time and 60 miles of roundtrip distance as the basis for daily fixed route rates. These thresholds were critical since bus contractors received additional payments for each hour and mile in excess of the established time and mileage thresholds.

Based on our review of BCPSS' bus routes recorded in its routing system as of April 2016, 86 percent of the 341 established daily routes were 50 miles or less and 57 percent of the routes were 3.5 hours or less, so the thresholds could be overstated for a majority of the routes. Conversely, during fiscal years 2016 and 2017, BCPSS paid bus contractors a total of \$4.8 million for time or mileage in excess of the established time and mileage thresholds used for the daily fixed route rates.

Payment Processing Issues

- BCPSS' template provided to bus contractors to calculate billing adjustments for fuel price fluctuations during the period from September 2014 to June 2015 contained an undetected formula error. We determined that this error resulted in contractors being overpaid \$498,000 during that period. The template for the following school year was properly designed so that this error did not recur.
- BCPSS did not have a process in place to verify contractor-reported billing data for fuel costs, resulting in overpayments to three bus contractors totaling \$142,600 during the period from September 2015 to June 2016. For example, BCPSS overpaid one bus contractor \$38,000 based on the

contractor using the incorrect baseline fuel price and overpaid another bus contractor \$22,400 based on the contractor using an incorrect vehicle miles per gallon.

- The BCPSS Transportation Department's review of school bus contractor invoices did not adequately ensure the propriety of the billings for time and mileage. BCPSS had not implemented a global positioning system to monitor the time and mileage incurred by bus contractors in order to verify invoiced charges for time and mileage above the threshold amounts. Consequently, BCPSS did not have the means to review these charges for propriety and reasonableness. Our tests disclosed certain obvious errors. One contractor incorrectly reported the excess bus operating time charges for 2 buses in 2 different months due to billing afternoon routes as starting at 2:00 AM and 2:15 AM instead of 2:00 PM and 2:15 PM. The 12-hour difference for these routes resulted in the contractor incorrectly billing \$33,120 for excess time during May and June 2016.

We were advised that certain of the above issues should be eliminated by virtue of the changes made to the structure of the bus services contracts mentioned in the Background Section above. For example, under the new contractual arrangements, bus contractors will be paid a fixed daily rate based on the billable mileage level and other factors, without provisions for time and mileage incurred beyond predetermined thresholds and fuel price adjustments. Also, the rates bid by contractors under the new contract structure are supposed to reflect the fuel costs after considering exempt taxes.

While potentially simplifying the contract terms and payment process, BCPSS will still need to make sure the contract structure is cost beneficial. For example, BCPSS needs to ensure the billable mileage levels established under the contracts are appropriate thresholds given the actual length of routes and verify contractors are billing the proper rates.

Recommendation 16

We recommend that BCPSS

- a. establish a process to periodically assess the operational costs and efficiency of its bus contractor services under the new contract structure;**
- b. verify the propriety of contractor billings, including the rates charged; and**
- c. recover the aforementioned overpayments related to contractor billing errors.**

Finding 17

BCPSS did not maintain documentation, including executed contracts, to support certain financial relationships with bus contractors.

Analysis

BCPSS did not maintain documentation related to bus contractors, such as executed contracts and justification to support certain changes to contractual terms with bus contractors, exceeding \$1.2 million in value.

- During the period from September 2015 to April 2017, BCPSS used three additional bus contractors (separate from the eight contractors BCPSS contracted with in July 2013) to provide student transportation on an emergency basis without executing written contracts. Although BCPSS documented the emergency condition, and obtained approval from the BCPSS Chief Executive Officer and the Board of School Commissioners to enter into emergency contracts, formal written contracts were not executed. BCPSS paid these three bus contractors a total of \$781,000 during the aforementioned period, based on negotiated daily rates ranging from \$450 to \$475.

In addition to setting forth all financial terms and conditions, written contractual agreements are essential in order to define the duties and responsibilities of the parties and to protect each party in the event of default. Critical factors to be considered in a contract for student transportation services would include BCPSS' ability to review bus personnel driving records, criminal records, drug and alcohol testing records, and criminal background checks. In addition, a written agreement should also establish the contractor's insurance requirements, defaults and remedies, and BCPSS' ability to assess liquidated damages. Such factors and conditions were included in the contracts with the previously procured eight contractors.

- Justification was not maintained to support certain changes to the contractual terms for two bus contractors with existing contracts. Specifically, BCPSS did not have documentation supporting its approval to increase one bus contractor's daily fixed flat rates by 17 percent (from \$370 to \$433 and \$378 to \$441). BCPSS advised us that the increased rate was negotiated with the bus contractor based on claims that the original agreed-upon rates provided for in the contract did not compensate the bus contractor enough for deadhead mileage. However, BCPSS did not obtain documentation justifying the contractor's assertion, which served as the basis for the increase. The bus contractor began billing BCPSS the increased rate in February 2016. During the period from

February 2016 to June 2017, the bus contractor was paid approximately \$490,000 in additional compensation related to the increased rate. For another contractor, BCPSS could not explain the justification for, and did not have documentation supporting, a \$259,000 reduction of assessed liquidated damages totaling \$1.14 million for multiple occurrences of using uncertified drivers and aides.

Recommendation 17

We recommend that BCPSS

- a. ensure that written contracts are executed that clearly define all terms and conditions and the duties and responsibilities of the parties; and
- b. maintain formal written documentation justifying changes to critical contract terms, including contract billing rates, and reductions in liquidated damage assessments.

Taxi Companies

Finding 18

BCPSS' process for reviewing taxi company invoices did not adequately ensure the billings were proper and that payments were consistent with contractual terms, resulting in overpayments totaling \$1.2 million.

Analysis

BCPSS' process for reviewing taxi company invoices did not adequately ensure the billings were proper and payments were consistent with contractual terms. We identified overpayments of \$1.2 million due to the use of incorrect reimbursement rates. In addition, certain payments were not supported by student ride tickets to evidence the transport.

- The BCPSS reimbursement rates paid to taxi companies included duplicate administrative fees and mileage rates greater than permitted by the respective contracts and Public Service Commission (PSC) regulations. Consequently, we determined that from September 2015 to June 2017, BCPSS paid the various taxi service providers \$1.2 million more than required for student transportation. Specifically, during the period from September 2015 to May 2017, we estimated that BCPSS paid taxi companies \$1.1 million in duplicate administrative fees. As permitted by the contracts, and consistent with PSC regulations, taxi companies may charge an 11.5 percent administrative fee in addition to the approved mileage rate. However, BCPSS paid taxi companies the administrative fees twice by including the administrative fee in its mileage

reimbursement rate and by allowing the taxi companies to bill the administrative fee separately.

During the period from September 2015 to June 2017, we also noted that BCPSS overpaid taxi companies by up to an estimated \$126,700 due to the use of an unapproved mileage rate. Under the contracts, the taxi companies were to charge the PSC-approved rate of \$3.80 per mile (\$1.80 for the first 1/11 of a mile and \$0.20 for each 1/11 of a mile or fraction thereafter). However, BCPSS reimbursed taxi companies at \$4.00 for each mile and could not explain the basis for that higher payment amount.

BCPSS was unaware of these issues until we brought them to its attention. BCPSS agreed with our findings and, in August 2017, BCPSS advised the taxi companies that future payments would be consistent with the rates and fees specified in the contracts. However, as of November 2017, BCPSS had not taken action to recover the identified overpayments from the taxi companies.

- Our test of payments to taxi companies totaling \$47,200 for transporting 20 students disclosed that payments totaling \$12,200 for 7 students were not always supported with ride tickets. Under the contracts, ride tickets are to be prepared and signed by the student and the cab driver to document each trip, and submitted with the companies' billings. Specifically, available ride tickets only supported charges of \$8,300 of the \$12,200 paid, indicating a potential overpayment of \$3,900.

During fiscal year 2016, BCPSS paid taxi companies \$8.0 million.

Recommendation 18

We recommend that BCPSS

- a. ensure that payments made to taxi companies are in accordance with the terms of the contracts;**
- b. investigate and recover the aforementioned overpayments of administrative fees and mileage rates from the taxi companies;**
- c. ensure that taxi company billings are supported by the required signed ride tickets; and**
- d. review past taxi company billings for properly completed ride tickets and recover any improper payments, including the aforementioned amounts.**

Food Services

Background

BCPSS provides meals free (breakfast, lunch, snack, and dinner) to all of its students. According to MSDE's records, 88 percent of BCPSS' approximately 83,600 student qualified for free and reduced meals as of October 31, 2015. BCPSS has the third largest food services operation in the State's school systems in terms of the number of meals served. Specifically, BCPSS served 16.4 million meals during fiscal year 2016. According to its audited financial statements, BCPSS food services revenues (\$50.9 million) exceeded expenditures (\$48.1 million) by \$2.8 million during fiscal year 2016.

BCPSS participates in the federal Community Eligibility Program (CEP), which allows schools that are in high poverty districts to serve meals to all students at no cost without collecting applications for free and reduced meals. Through CEP, BCPSS is reimbursed for meals using a formula based on the percentage of students eligible for free meals based on their participation in other specific means-tested programs (such as the Supplemental Nutrition Assistance Program and Temporary Assistance for Needy Families). BCPSS is currently reimbursed for 100 percent of its cost through CEP. The reimbursement factor remains effective until the end of the 2019 school year, at which time a new factor will be calculated.

Since BCPSS participates in CEP and its current reimbursement factor is 100 percent and none of its students are required to pay for meals, we did not perform any audit work in the area of food service operations.

School Board Operations

Background

The Baltimore City Board of School Commissioners (the Board) is composed of nine members jointly appointed by the Mayor of Baltimore and the Governor, and one student member with partial voting rights. In its oversight responsibilities, the Board contracted with a certified public accounting firm for independent audits of the BCPSS financial statements and federal programs. The Board has an operations committee that meets monthly to discuss fiscal matters, including relevant internal and external audit activities, as well as other areas of BCPSS operations and governance. The Board also has an audit committee that meets on a quarterly basis. The Board meets monthly for regular board meetings during the school year and schedules additional meetings as needed. The Board has its approved policies available on the BCPSS website.

Management of Other Risks

Health Insurance

BCPSS is self-insured and uses a third-party administrator (TPA) to oversee and administer its employee and retiree healthcare plans. Specifically, for medical coverage, BCPSS contracts with a TPA to provide administrative services, such as claims processing for participants' medical costs and for stop-loss coverage. Stop-loss coverage indemnifies BCPSS against health insurance claim amounts that exceed a certain threshold for a member. BCPSS has a separate prescription drug contract with a different TPA.

Medical providers submit claims to the TPA who pays them on behalf of BCPSS. BCPSS reimburses the TPA for the claims it reports as paid on behalf of BCPSS and pays an administrative fee for these services. In addition, on a monthly basis BCPSS verified the eligibility of program participants and their listed dependents and hired a contractor to periodically audit the propriety of claims paid by the TPA. BCPSS paid approximately \$109 million in claims during fiscal year 2016.

Our review found that BCPSS generally had processes in place to adequately review monthly invoices, ensure that eligibility and claims audits were performed, and that follow-up was undertaken based on the results of audits.

Charter Schools

Each charter school receives funding from BCPSS based on the number of students attending the school and the per pupil cost to educate a student in BCPSS schools (excluding certain costs such as for special education services and debt payments). Charter school expenditures for fiscal year 2016 totaled approximately \$141.3 million according to BCPSS records, which primarily consisted of salary and benefit costs paid directly by BCPSS to BCPSS employees who worked at the charter schools. BCPSS disburses the remaining available funds (after deducting payroll and other costs incurred by BCPSS) to the charter schools to cover other costs, such as supplies. For fiscal year 2016, BCPSS had 41 operator run schools (includes 34 traditional charter schools and 7 contract or transformational schools) operated by outside organizations that enrolled 15,824 students and had 1,065 full-time equivalent employee positions, according to BCPSS records.

Finding 19

BCPSS did not require charter school management personnel and board members to periodically renew conflict of interest disclosures and did not ensure the disclosures were completed as required.

Analysis

BCPSS did not require charter school management personnel and board members to periodically renew conflict of interest disclosures and did not ensure the disclosures were completed as required. Specifically, charter school management personnel are required to complete a conflict of interest disclosure form during the application process to establish a charter school, but BCPSS did not require the schools to renew the disclosures periodically (such as annually), as is required for BCPSS personnel. The disclosures are required for all board members and management personnel (including principals and vice principals) of charter school operating entities.

BCPSS advised us that the conflict of interest disclosure requirement began during the 2009-2010 school year and it only applied to new charter school operators. Therefore, charter school operators that existed prior to the 2009-2010 school year were never required to complete conflict of interest disclosures. According to BCPSS' records, 19 of the current charter schools existed prior to the 2009-2010 school year.

Our test of seven charter schools disclosed that one school was required to submit conflict of interest disclosures and confirmed that for the other six schools, which began operating before the 2009-2010 school year, no disclosures were on file at BCPSS. However, for that one school, which began operation in the 2009-2010 school year, BCPSS had obtained disclosures for just three of the eleven individuals who at that time were required to complete a disclosure.

Charter school conflict of interest disclosures inform BCPSS of any related parties and secondary interests, which may affect the decision-making of an individual in a position of governance responsibility. For example, individuals have to disclose if they, or their spouse, have contractual agreements with the school, have ownership interests in entities doing business with the school, real estate transactions or loan guarantees with the school. The required disclosures for charter school officials are similar to BCPSS' own annual financial disclosure statements for similar key employees and Board members. Since charter school officials act in similar capacities as those BCPSS individuals but with more autonomy, annual submission of the disclosures would be a reasonable requirement and would be consistent with State of Maryland and BCPSS' financial disclosure reporting requirements.

Recommendation 19

We recommend that BCPSS

- a. require all charter school management personnel and board members to periodically (such as annually) file conflict of interest disclosures;**
- b. ensure the disclosures are completed by all required individuals; and**
- c. review all disclosures for, and resolve any, apparent conflicts.**

Finding 20

BCPSS did not properly track and monitor required documents to be submitted by each charter school nor did BCPSS perform follow-up actions to obtain required documents from the schools.

Analysis

BCPSS did not properly track and monitor the annual submission and receipt of required documents from charter schools, including quarterly financial reports, annual audited financial statements, budgets, and various compliance-related documents such as certificates of insurance and occupancy. Our tests identified a number of instances of missing documents. In addition, BCPSS did not perform follow-up actions to obtain the required documentation from the schools. The failure to obtain required documents hindered BCPSS's ability to monitor certain aspects of the charter schools' operations.

In accordance with the terms of the agreements between the charter schools and BCPSS, these documents are subject to review by BCPSS. If charter schools do not submit these documents, BCPSS is supposed to notify the school in writing to request submission. According to BCPSS policy, these documents and a charter school's history of timely response to and compliance with such written notices are supposed to be taken into consideration by BCPSS when evaluating the charter school's periodic renewal to continue operating.

Our review of the BCPSS log used to track and monitor the receipt of these documents during the three-year period from 2015 to 2017 for seven charter schools disclosed several instances of incomplete or inaccurate information to evidence the receipt of all required documents. For example, the log did not always record whether or not the documents were received. There were 30 instances in which BCPSS advised us that the required documents were received, but the applicable tracking records did not reflect the receipt of the documents nor could copies be readily located in the BCPSS files. These 30 missing documents included audited and quarterly financial statements,

insurance certificates, and other required documents. Eventually, BCPSS was able to locate 15 of these documents.

Additionally, in cases where required documents were noted as missing on the log, there were 17 instances in which there was no evidence of BCPSS submitting a written request to the applicable charter school to obtain the missing documents. Charter school expenditures totaled \$23.4 million for these seven schools in fiscal year 2016.

Recommendation 20

We recommend that BCPSS

- a. properly track and monitor the submission of required documents by charter schools, and**
- b. perform follow-up actions (such as written notifications) to obtain required documents from the schools when it is not submitted.**

Audit Scope, Objectives, and Methodology

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Baltimore City Public Schools (BCPSS). We conducted this audit under the authority of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland, and performed it in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We had two broad audit objectives:

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

In planning and conducting our audit of BCPSS, we focused on 11 major financial-related areas of operations as approved on December 6, 2016 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 BCPSS dated September 28, 2012, included 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 BCPSS 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 BCPSS. We also interviewed personnel at BCPSS and the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate). Our audit procedures included inspections of documents and

records, and observations of BCPSS 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, 2014 through December 31, 2016. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits BCPSS' financial statements and conducts the federal Single Audit.

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

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

BCPSS' 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 findings were communicated to BCPSS that were not deemed significant and, consequently, did not warrant inclusion in this report.

We conducted our fieldwork from January 2017 to December 2017. The BCPSS 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 BCPSS regarding the results of our review of its response.

APPENDIX

BALTIMORE CITY PUBLIC SCHOOLS

Catherine E. Pugh
Mayor, City of Baltimore

Cheryl Casciani
*Chair, Baltimore City Board of
School Commissioners*

Dr. Sonja Brookins Santelises
Chief Executive Officer

October 15, 2018

Thomas J. Barnickel III, CPA
Legislator Auditor
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

City Schools thanks you for the opportunity to respond to your report dated September 27, 2018. We view these audits as an opportunity to reflect internally on how we can improve, and we believe that for City Schools the result has clearly been improvement.

The 2018 audit shows improvement from 2012, most notable in human resources and payroll, facilities construction, renovations and maintenance, inventory control and accountability, and school board operations. In stark contrast to 2012, your 2018 report includes 20 findings; a decrease of 6 from the 2012 audit. City Schools has noted that:


- Of these 20 findings, 6 are repeat findings and 14 are entirely new
- OLA reviewed the status of 25 of the original 26 findings from 2012 and found that City Schools satisfactorily addressed 19 of them in 2018, while 6 remain repeat findings.

In general, we found your report to be a useful assessment of certain financial processes at City Schools. Of the 20 findings, we found agreement or partial agreement with the suggested recommendations. Of these 20 findings, we believe that some of those findings have already been resolved while others have corrective action plans in progress.

As you review our responses, we hope you will see the ongoing improvement in our processes and policies and the positive impact of the legislative audit in helping us to improve. Though in some cases we may not agree on an interpretation of contracts or law, we believe that on balance your work has helped City Schools to continue to improve.

As always, thank you for your work on behalf of Maryland's students.

Best regards,



Sonja B. Santelises, Ed.D.
Chief Executive Officer

Finding 1

BCPSS did not properly monitor or bill amounts owed by outside organizations for the services of its employees.

Recommendation 1

We recommend that BCPSS

- a. include all amounts owed to BCPSS in its centralized accounts receivable records (repeat),**
- b. ensure appropriate and timely collection efforts are made for amounts owed by outside organizations (repeat), and**
- c. maintain documentation supporting the approval of an employee's leave of absences to work for outside organizations.**

Response:

- a. City Schools partially agrees with this recommendation. City Schools records accounts receivable for employees on external assignments in accordance with the City Schools understanding/interpretation of the contractual obligations of the external agencies and their historical application. City Schools will review the applicable requirements of the current contracts to ensure compliance with the external agency contracts, and will confirm that appropriate billing is recorded for all employees on external contracts. Regarding billing for tuition reimbursements per the terms of the contracts, City Schools will revise its regular timeline for initiating collection actions. The Human Capital Office will refer to the Finance Office all former employees who owe repayment of tuition reimbursement and resigned after the prior year referral by October 31, 2018. Thereafter, collection actions for employees whose resignations are received and effective during each subsequent fiscal year quarter will be initiated within 60 days of the quarter ending date with the submission of the referral to the Finance Office.
- b. City Schools partially agrees with this recommendation. Appropriate collection efforts will be made for outstanding balances of all receivable amounts including external assignments and tuition reimbursements, in accordance with the City Schools Accounts Receivable processes.
- c. City Schools partially agrees with this recommendation. City Schools will implement revised procedures to maintain complete documentation supporting the approval of leaves of absence to work for outside organizations (i.e. employee unions). Before the first day (July 1) of each fiscal year, the Director of Labor Relations & Negotiations will ensure that complete documentation of the request for a paid leave of absence has been received and approved in accordance with the terms of the applicable collective bargaining agreement. Subsequently, by July 1 of each fiscal year, the Human Capital Office will provide to the Finance Office a copy of all approvals of paid leaves of absence for which reimbursement must be collected from outside organizations for that fiscal year. If any such leave of absence is requested after the start of a fiscal year, the Director of Labor Relations & Negotiations will ensure review within 30 days of receipt and will provide to the Finance Office Accounts Receivable staff a copy of any approval within 30 days of the approval.

Finding 2

BCPSS did not obtain social security numbers for 5,600 students with individual education plans to help identify qualified students for whom Medicaid reimbursement could be obtained for eligible services.

Recommendation 2

We recommend that BCPSS obtain social security numbers for students with individual education plans and bill to obtain Medicaid reimbursements for eligible services provided to qualified students.

Response:

City Schools agrees with the recommendation. Medicaid reimbursements can be further maximized if social security numbers were provided for all students with an Individualized Education Plan (IEP). Commencing September 3, 2018, City Schools has been requesting this information from parents/guardians via the Parental Consent Letter which is distributed the first week of school. This letter and the request for information is also distributed throughout the school year as students enroll and transfer within City Schools. Parents/guardians are not required to provide this information but City Schools may request it. This information was previously provided to City Schools as part of a multiple State Agency quarterly data sharing process which was discontinued in July 2017 due to technical difficulties. Discussions with various State Agencies have been held regarding the resumption of the existing data sharing process until a new process can be developed.

Finding 3

BCPSS did not have a formal process to review denied Medicaid claims in order to determine if the claims could be corrected for resubmission.

Recommendation 3

We recommend that BCPSS develop a formal process to review denied claims for Medicaid reimbursements to determine if the claims could be corrected and resubmitted.

Response:

City Schools agrees with this recommendation. On December 13, 2017, Third Party Billing implemented a formal process to research claims denied for incorrect Medical Assistance names and numbers. Denied claims must be reviewed on a case-by-case basis. Recipient information relating to submitted claims may be verified utilizing a Claim Lookup function on the Maryland Medical Programs Web Services site, to allow rebilling. In cases where the diagnosis code is incorrect, the provider of service must make the correction. Monthly reports will be generated and provided to the Related Services Department, which will list services reported and denied with an incorrect primary diagnosis code. The Office of the Chief Financial Officer is supporting Third Party Billing with additional staff to maintain the Medical Assistance database used for billing, as well as to correct denied but billable claims.

Finding 4

BCPSS did not adequately restrict user access capabilities in its automated procurement and accounts payable system.

Recommendation 4

We recommend that BCPSS restrict assigned capabilities to eliminate the ability of users to perform incompatible duties (repeat).

Response:

City Schools partially agrees with this recommendation. Two staff members had the overlapping functions of invoice entry and supplier entry. Supplier entry access has been removed from these staff members and this supplier entry function has been reassigned to staff in other departments. Regarding the system matching override question, the six staff members with Accounts Payable functions do not have the capability to override system matching requirements. Payment for transactions not requiring purchase orders, such as employee expense reimbursements, NonPublic tuition, payments to Maryland State Department of Education, etc. are processed utilizing a non-purchase order process. Commencing March 2017 these non-purchase order transactions have also been reviewed and approved by Finance staff prior to entry, and the transactions in Accounts Payable system are reviewed and confirmed after system entry. Procurement process approval clarity will be investigated and considered for possible enhancement.

Finding 5

BCPSS did not document the appropriateness of using intergovernmental cooperative purchasing agreements (ICPAs) as required by State law. Additionally, BCPSS did not obtain the original agreements from the initial procuring entity so that payment rates could be verified nor did it obtain itemized invoices for certain purchases it made under ICPA contracts.

Recommendation 5

We recommend that BCPSS

- a. comply with State law and ensure that a written determination of the benefits for the use of an ICPA is prepared,**
- b. obtain the original ICPA contracts and verify invoices to the terms contained in the ICPA, and**
- c. obtain evidence to satisfy the requirements of State law that the ICPA contract was properly procured by the initial procuring entity.**

Response:

- a. City Schools agrees with this recommendation. On May 11, 2017, City Schools implemented a Piggyback Checklist that requires the completion of a price comparison

prior to the Board approval of an ICPA. The Director of Procurement will continue to reinforce this requirement.

- b. City Schools agrees with this recommendation. City Schools will itemize the individual pricing reflected in the ICPA commencing January 1, 2019.
- c. City Schools agrees with this recommendation. On May 11, 2017, City Schools implemented a Piggyback Checklist that requires the retrieval of all ICPA documentation to comply with State law.

Finding 6

BCPSS did not document the basis for assigning work to pre-qualified vendors for certain services and, in certain cases, higher priced vendors received work prior to lower cost vendors.

Recommendation 6

We recommend that BCPSS establish a formal methodology for selecting from pre-qualified vendors on multiple-award contracts, which documents the basis for selection and appropriately considers vendor costs for the services to be provided.

Response:

City Schools agrees with this recommendation. The City Schools formal vendor selection process plan is in development and will be implemented November 2018, to include the following corrective actions:

- Contracts with multiple vendors will require a spreadsheet from the Contract Monitor, showing the allocation of contract amounts by vendor. The Contract Monitor will also provide a justification supporting the amount allocated to each vendor.
- Buyers will also maintain a spreadsheet that documents any changes to CPA amounts requested by the contract monitor.
- Contract Administrator will attach documentation to the Financial/Procurement Systems corresponding record.

Finding 7

Purchase orders were not always prepared and approved as required prior to obtaining the related goods or services.

Recommendation 7

We recommend that BCPSS ensure that procurement policies and automated system controls are not bypassed by ensuring purchase orders are prepared and approved prior to obtaining the related goods or services.

Response:

City Schools agrees with this recommendation. Certain circumstances require that Emergency Procurement purchase orders are issued after services have been provided, such as performing emergency repairs or to meet immediate transportation needs for students. Confirming purchase orders would also be indicated where invoice dates predate the purchase order requisition date, for activities such as professional development registration, online training courses, meeting space rental, or other similar expenses. Unless included in categories of this type, the requesting schools/departments should comply with the City Schools Procurement processes such that purchase orders are fully approved prior to the ordering of the related goods or services. This information is also available on the City Schools website so that City Schools vendors should be aware of this requirement as well.

City Schools Management will disseminate this compliance information to the various Officers who will emphasize the compliance requirements with their various schools/departments. Commencing January 2019, Procurement will provide recurring Confirming Purchase Order Compliance Reports which provides purchase order details by Officer, to allow systemic review of the confirming purchase order activities and appropriate follow-up action.

Finding 8

BCPSS did not always adequately monitor contracts to ensure goods and services were properly received or that invoices were proper prior to payment.

Recommendation 8

We recommend that BCPSS monitor contracts and related billings to ensure goods and services are provided in accordance with the contractual terms and conditions prior to payment and that invoices accurately reflect the services rendered (repeat).

Response:

City Schools agrees with this recommendation. Unless purchase orders fall within the categories where the circumstances dictate that services are provided in advance of purchase orders, such as Emergency Procurements for emergency repairs, immediate transportation needs, conference registration, or similar expenses, the City Schools schools/departments are required to comply with the established procurement processes. Requisitioners are required to post receipts in K12Buy to confirm that services have been rendered or materials received. Receipts should not be posted prior to the completion of this confirmation process as receipt posting is an integral part of the internal control associated with the three-way match of the purchase order system.

City Schools Management will disseminate this compliance information to the various Officers who will emphasize the compliance requirements with their various schools/departments, by January 2019. The Procurement Office will work with Information Technology Department to develop a recurring report which will indicate certain exceptions for additional review, such as posting of the full purchase order amount shortly after purchase order creation or other anomalies. These specific receipt postings may be subsequently reviewed to determine if they were posted appropriately as the goods or services had been fully provided.

Finding 9

BCPSS did not always adequately document the rationale for sole source contract determinations and sole source contract awards were not always published on eMaryland Marketplace as required.

Recommendation 9

We recommend that BCPSS

- a. ensure that sole source contract determinations include appropriate information to document the rationale for not performing a competitive procurement,
- b. publish sole source contract awards on *eMaryland Marketplace*, and
- c. develop a system report that tracks the procurement method used for each contract to aid in verifying compliance with existing policies.

Response:

- a. City Schools agrees with this recommendation. The City Schools Board Letter process requires that a sole source justification is listed within the selection methodology section of the Board Letter. As of September 1, 2018, the Procurement Director requires all sole source procurement Board Letters to include justification language that documents the rationale for not performing a competitive solicitation.
- b. City Schools agrees with this recommendation. On October 6, 2017 Procurement published and implemented guidance (*eMM Requirements for the Publishing of Solicitations and Posting of Contract Awards*) pertaining to posting non-competitive contract awards to eMaryland Marketplace.
- c. City Schools agrees with this recommendation. The report indicating procurement method has been developed and has been available as of September 1, 2018.

Finding 10

Critical human resources and payroll transactions were not independently reviewed for propriety.

Recommendation 10

We recommend that BCPSS establish adequate internal controls over the various aspects of payroll and human resources system processing to ensure the propriety of payments to employees. Specifically, we recommend that BCPSS

- a. generate output reports of critical changes and adjustments made to the automated human resources and payroll data (repeat); and
- b. at least on a test basis, independently verify system output reports of these critical changes and adjustments to appropriate supporting documentation, including the properly completed authorization and approval forms, in a timely manner (repeat).

Response:

- a. City Schools agrees with this recommendation. The Office of Human Capital and the Payroll Department had partnered with the Information Technology Department to develop a series of reports for Compensation and Payroll functions. These reports provide information related to salary and wage changes, as well as leave accruals and changes and leave accrual-related payments. The Manager, Human Capital Strategy developed the format and elements of the report of changes to salaries and wage rates, along with a sampling methodology, in June 2018. The Payroll Director had previously identified two quarterly reports which would provide the total earnings register information and change reports, to allow for sample testing.
- b. City Schools agrees with this recommendation. The Manager, Human Capital Strategy will conduct a review of a sample of the newly developed Office of Human Capital report on a monthly basis between October 2018 and December 2018, with the sample review to be conducted quarterly thereafter. Based upon the sample testing, reviews will verify that system output reports of these critical changes and adjustments are linked to appropriate supporting documentation, including independent approval forms. Finance will resume the quarterly monitoring team review for the FY19 quarterly reports, which includes review and confirmation of a sample of the transactions of the earnings register and the change reports to the supporting documentation and various required approvals.

Finding 11

Certain overtime payments could not be substantiated or were improperly calculated.

Recommendation 11

We recommend that BCPSS

- a. investigate the aforementioned discrepancies and determine the extent of other unsubstantiated payments and take appropriate actions, such as recovery of improper payments (repeat);

- b. ensure supervisors verify work hours, including overtime, recorded in the timekeeping system to supporting documentation including sign-in sheets and overtime approval forms, at least on a test basis, prior to approving the timekeeping records (repeat); and
- c. correct the aforementioned overtime payment calculation in its automated system to reflect the overtime rate provided for in the related union agreement (repeat) and seek legal advice regarding the permissibility of recovering past amounts overpaid.

Response:

- a. City Schools partially agrees with this recommendation. Nearly all recommendations relate to the School Police time entry as the prior system provided information on overtime only. Due to the issues related to the nature of police work assignments, the school police did not have an effective time tracking system for recording work or absences during their scheduled shifts. The audit review indicated that without the shift schedule verification, the identification of the overtime start time could not be determined. The City Schools Information Technology Department and an external contractor developed an electronic time sheet form to enter, track, and approve school police shift time hours.
- b. City Schools agrees with this recommendation. The weekly time sheet electronic form to enter, track, and approve school police shift time hours was in the testing phase in April 2018 and has been implemented since September 2018. Both the school police scheduled hours and overtime hours are recorded in their respective electronic form and are approved by their appropriate supervisors.
- c. City Schools partially agrees with this recommendation. The overtime rate that had been paid to a specific collective bargaining unit resulted from historical practice, and did not align to that collective bargaining unit agreement. The City Schools Director of Labor Relations & Negotiations notified the collective bargaining unit in July 2018 that the calculation of overtime would be adjusted to align with the written language of the negotiated agreement. This change became effective September 2018.

Finding 12

Sensitive personally identifiable information (PII) maintained by BCPSS was stored without adequate safeguards.

Recommendation 12

We recommend that BCPSS

- a. perform an inventory of its systems, identify all sensitive PII, and delete all unnecessary PII; and
- b. use approved encryption methods or other substantial mitigating controls to properly protect all sensitive PII.

Response:

- a. City Schools agrees with this recommendation. City Schools has identified all systems that have PII information and a matrix is created and maintained and a periodic review (Semi-Annual) to ensure the catalog is updated with new information and is kept current. City Schools will expand the PII matrix to designate and categorize systems as low-impact, moderate-impact, or high-impact for the security objectives of confidentiality, integrity, and availability per Federal Information Processing Standard (FIPS) 199. The expected resolution date is July 1, 2019.
- b. City Schools agrees with this recommendation. City Schools will also perform a review across all systems holding PII information and will strategize and identify ways to minimize the amount of PII usage, along with a regular review of information being held to determine whether the PII is still relevant and required for the business function along with procuring and implement an encryption software/tool to encrypt sensitive personally identifiable information. The expected resolution date is July 1, 2019.

Finding 13

Proper account and password controls were not established over the ERP system, ERP database logging did not exist for certain critical privileges and security-related changes, and BCPSS could not substantiate that security monitoring was performed for the its firewalls and the ERP system.

Recommendation 13

We recommend that BCPSS implement appropriate account, and password controls for the ERP system and ensure that the ERP system and BCPSS' firewalls are subject to regular security monitoring. Specifically, we recommend that BCPSS

- a. establish appropriate account and password controls over the ERP application, database, and the server hosting this database; (repeat)
- b. enable logging for actions involving use of critical ERP database privileges and for security-related changes to critical database table; (repeat) and
- c. establish procedures for overseeing the process used by its security contractor for monitoring its critical logged ERP system and firewalls security and audit events, which include the capabilities to view related control settings and confirm that comprehensive security reporting is generated, reviewed and documented.

Response:

- a. City Schools agrees with this recommendation. City Schools, based on the recommendation and finding has now enabled appropriate account and password controls over the Enterprise Resource Planning (ERP) application, database, and the server hosting this database. City Schools has enabled auditing on all the critical system

privileges along with automating the process to have a 90-day password expiration. The expected completion date is December 31, 2019.

- b. City Schools agrees with this recommendation. Based on written contracts, City Schools will also determine the party responsible (City Schools or our security vendor) for generating and reviewing reports of logged ERP database security related information. The expected completion date is December 31, 2019.
- c. City Schools agrees with this recommendation. City Schools will ensure that the responsible party (City Schools or our security vendor) generates and reviews reports of critical logged security and audit events on a periodic basis (e.g. weekly) with these reviews and any subsequent investigations documented and retained for future reference. A review of the current contract will be performed and based on the contract provision City Schools will identify a review frequency for the alert logs along with the responsible party (our security vendor or City Schools) and all investigation related documentation will be stored and archived for future reference. The expected completion date is December 31, 2019.

Finding 14

Intrusion detection prevention system coverage for the BCPSS network had substantial gaps, and malware protection controls were not sufficient to provide BCPSS with adequate assurance that its computers were properly protected.

Recommendation 14

We recommend that BCPSS

- a. **perform a documented review and assessment of network security risks and identify how IDPS coverage (which may include HIPS) should be best applied to the network and, based on this review and assessment, implement the necessary coverage;**
- b. **ensure that all computers are running current versions of the malware protection software used by BCPSS;**
- c. **promptly install all critical security-related software updates for commonly vulnerable applications on all computers; and**
- d. **ensure that administrative rights on workstations are restricted to system and network administrators.**

Response:

- a. City Schools agrees with this recommendation. City Schools has updated the firewall rules based on the finding to resolve trusted and untrusted traffic as noted above. City Schools will continue to review, assess and document our network security risks and identify how IDPS coverage should be best applied in our network environment. IDPS protection will be applied for untrusted traffic. The expected completion date is July 1, 2019.

- b. City Schools agrees with this recommendation. City Schools will ensure that all computers are running current versions of the malware protection software. The expected completion date is July 1, 2019.
- c. City Schools agrees with this recommendation. City Schools will distribute critical security-related software updates for commonly vulnerable applications on all computers. The expected completion date is July 1, 2019.
- d. City Schools agrees with this recommendation. City Schools also plans on implementing the recommendation to only allow administrative access on workstations which are restricted to system and network administrators and document any exceptions. The expected completion date is July 1, 2019.

Finding 15

BCPSS lacked assurance that adequate information technology security and operational controls existed over its student information system that was hosted, operated, and maintained by a service provider.

Recommendation 15

We recommend that BCPSS

- a. **ensure that its existing service provider agreement requires annual SOC 2 Type 2 reviews, which cover appropriate trust criteria including, at a minimum, system security and data availability and all related controls; and**
- b. **annually obtain and review copies of these SOC 2 Type 2 reports to ensure that the related independent reviews adequately address all necessary critical security and operational concerns and that the service provider implements all critical report recommendations.**

Response:

- a. City Schools agrees with this recommendation. City Schools implemented a new cloud-based Student Information System (SIS) for the school year SY16-17. As part of continuous process improvement and in an effort to stabilize and secure our newly implemented Student Information System, City schools will work with our Student Information System vendor per the contract provisions to obtain SOC 2 Type 2 report in mutually agreed timeline. The expected resolution date is July 1, 2019.
- b. City Schools agrees with this recommendation. As part of the annual review, City Schools will advise the vendor to include the above recommendations along with City Schools review and document the findings of the SOC2 Type 2 report for future reference. The expected resolution date is July 1, 2019.

Finding 16

Contract and payment processing issues specific to the prior arrangement with private bus contractors contributed to transportation costs being higher than necessary.

Recommendation 16

We recommend that BCPSS

- a. establish a process to periodically assess the operational costs and efficiency of its bus contractor services under the new contract structure;**
- b. verify the propriety of contractor billings, including the rates charged; and**
- c. recover the aforementioned overpayments related to contractor billing errors.**

Response:

- a. City Schools agrees with this recommendation. The Office of the Chief Operating Officer (COO) and the Office of Pupil Transportation (OPT) will assess the operational costs and the efficiency of contractor services under the new contract. Procedures will be put in place to monitor the accuracy of operational costs compared to the contract requirements and agreements.

A strategy was initiated where City Schools establishes mileage limits as a criteria to evaluate contractor billings. The COO and OPT have put in place three initiatives: 1) two new positions - a Manager of Processes, Projects and Systems, and a Data Analyst, 2) installation of GPS on City Schools' and contractor buses and 3) restructuring of the yellow bus contract to align costs to route plan and GPS data.

The work of the new staff will be to develop workflows and implement procedures to manage billing processes in OPT. Their first project is to develop monthly mileage limits to issue to contractors by which invoices for bus services will be evaluated. Route plan and GPS data will be used to develop and calibrate mileage limits. The new yellow bus Invitation For Bid and the subsequent contract were structured so that both mileage thresholds and the monthly mileage limits can be used to evaluate invoices and control waste. This initiative is currently in process with a targeted completion date of January 15, 2019.

- b. City Schools agrees with this recommendation. OPT has completed the following corrective actions: hired accounting staff to validate and process contractor billings, put in place procedures to ensure the propriety of contractor billings, implemented a GPS system on City School and contractor buses, configured the routing application to include distance data, and restructured the yellow bus contract. These corrective actions are currently in process with a targeted completion date of January 15, 2019.
- c. City Schools agrees with this recommendation. OPT has identified overpayments to yellow bus contractors. City Schools Operations, Procurement and Legal staff have developed an agreement and a related promissory note to be used for repayments. OPT will meet

with contractors to begin discussions on repayments. Recovery dates of payments are not yet determined.

Finding 17

BCPSS did not maintain documentation, including executed contracts, to support certain financial relationships with bus contractors.

Recommendation 17

We recommend that BCPSS

- a. ensure that written contracts are executed that clearly define all terms and conditions and the duties and responsibilities of the parties; and**
- b. maintain formal written documentation justifying changes to critical contract terms, including contract billing rates, and reductions in liquidated damage assessments.**

Response:

- a. City Schools agrees with the recommendation. OPT will work with Procurement to assure all contracts are executed and clearly define the duties and responsibilities of the parties. OPT will also work to visit contractors to clarify roles as stated in the contract and to receive related job descriptions from the contractors. The revised process was implemented July 1, 2018.**
- b. City Schools agrees with this recommendation. OPT will document justifications in changes to contract terms, billing rates and reductions in liquidated damages. This process was implemented October 8, 2018.**

Finding 18

BCPSS' process for reviewing taxi company invoices did not adequately ensure the billings were proper and that payments were consistent with contractual terms, resulting in overpayments totaling \$1.2 million.

Recommendation 18

We recommend that BCPSS

- a. ensure that payments made to taxi companies are in accordance with the terms of the contracts;**
- b. investigate and recover the aforementioned overpayments of administrative fees and mileage rates from the taxi companies;**
- c. ensure that taxi company billings are supported by the required signed ride tickets; and**
- d. review past taxi company billings for properly completed ride tickets and recover any improper payments, including the aforementioned amounts.**

Response:

- a. City Schools agrees with this recommendation. The wait time and mileage rate calculations have been corrected in the application used to process taxi cab rates. This correction was completed as of July 1, 2018.
- b. City Schools agrees with this recommendation. City Schools Operations, Procurement and Legal staff negotiated with Yellow Taxi Cab for repayment of \$1.1 million. The Agreement and a Promissory Note has been signed for the repayment; and repayments have been processed in accordance with the agreement. Similar negotiation discussions will be pursued with the other taxi cab companies. The targeted implementation dates have not been determined.
- c. City Schools agrees with this recommendation. City Schools will ensure that taxi company billings are supported by the required signed ride tickets. Procedures include an appointed staff member to count tickets and validate signatures of the driver and the student. The targeted implementation date is November 1, 2018.
- d. City Schools agrees with the recommendation. Additional staff were hired who reviewed past Taxi Company billings to determine possible recovery amounts. The review was completed as of July 1, 2018. The targeted implementation date of possible remedies has not been determined.

Finding 19

BCPSS did not require charter school management personnel and board members to periodically renew conflict of interest disclosures and did not ensure the disclosures were completed as required.

Recommendation 19

We recommend that BCPSS

- a. **require all charter school management personnel and board members to periodically (such as annually) file conflict of interest disclosures;**
- b. **ensure the disclosures are completed by all required individuals; and**
- c. **review all disclosures for, and resolve any, apparent conflicts.**

Response:

- a. City Schools partially agrees with this recommendation. Charter operators are required by contract to follow City Schools' procurement policy and to certify on an annual basis that they are compliant with this policy, including ensuring there are no conflicts of interest. Operators who have received Board approval to waive City Schools' procurement policy are required to have their own policies that ensure no conflicts of interests which, again, are certified annually. In addition, operators are required by contract to submit annual audit reports by independent auditors that verify their financial controls. However, specific

conflict of interest disclosure statements had not been required until the implementation of the recent mandatory annual requirement.

- b. City Schools agrees with this recommendation. To ensure that all operators are complying with conflict of interest requirements, as of August 2018 submission of conflict of interest forms from operator management personnel and board members has become a mandatory annual requirement.
- c. City Schools agrees with this recommendation. Office of New Initiatives (ONI) will review all annual disclosures and will resolve non-compliance in accordance with the City Schools Ethics Policy or the Operator Policy which would be applied in accordance with their agreement.

Finding 20

BCPSS did not properly track and monitor required documents to be submitted by each charter school nor did BCPSS perform follow-up actions to obtain required documents from the schools.

Recommendation 20

We recommend that BCPSS

- a. properly track and monitor the submission of required documents by charter schools, and
- b. perform follow-up actions (such as written notifications) to obtain required documents from the schools when it is not submitted.

Response:

- a. City Schools partially agrees with the recommendation. City Schools has historically tracked and monitored the annual submission of critical documents from operators. Over time, City Schools has continued to refine the process for collecting and monitoring documents to ensure greater compliance and better document tracking. In order to improve practices, City Schools has recently revised the submission log to include specific dates when documents were submitted and also created a log to document specific outreach actions. These changes have been implemented during the fall of the 2018-19 school year. As operators may operate multiple schools, City Schools will also ensure that document submission information is noted for each school requirement.
- b. City Schools partially agrees with the recommendation. While City Schools had monitored compliance with required documentation from the operators, the records of such outreach action have been incomplete at times. A log of specific outreach actions has been implemented in the fall of the 2018-19 school year. City Schools will document when emails, other written correspondence, or phone calls regarding late or missing documents has occurred. If required documents are not subsequently submitted, City Schools will issue appropriate Accountability Notices for areas of non-compliance.

AUDIT TEAM

Stephen C. Pease, CPA
Matthew L. Streett, CPA, CFE
Audit Managers

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

Robert W. Lembach, CPA
Lisa M. Beers, CFE
Senior Auditors

Edward O. Kendall
Matthew D. Walbert
Information Systems Senior Auditors

Anthony V. Calcagno
Walter L. Horan IV
James J. Podhorniak, CPA, CFE
Staff Auditors