

# Financial Management Practices Audit Report

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## Caroline County Public Schools

November 2016

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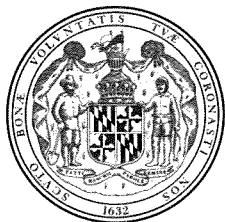
OFFICE OF LEGISLATIVE AUDITS  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
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MARYLAND GENERAL ASSEMBLY

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Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Caroline County Public Schools (CCPS) 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 CCPS' 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 CCPS needs to improve internal controls and accountability in a number of areas including procurement and disbursements, payroll processing, and equipment inventory, and in two areas, transportation services and information systems, numerous deficiencies were found contributing to inefficiencies, excessive costs, and significant control risks.

For example, payments to contractors for the cost of buses provided an investment rate of return that was considerably higher than the recommended prime interest rate and such payments often continued for several years after the cost of the bus was fully paid by CCPS, practices which in certain cases we estimated resulted in excessive payments of \$475,000 and \$262,000, respectively. Furthermore, these payment arrangements and practices were not approved by CCPS' board.

In addition, payments to bus contractors for bus maintenance costs were negotiated without any evidence CCPS had determined their reasonableness, and the value of federal excise taxes (\$142,000 over a five-year period) were not excluded from payments to contractors for fuel usage. CCPS also did not verify the accuracy of bus manifest mileage reported by contractors, which

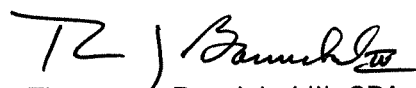
resulted in estimated overpayments for certain routes of \$144,000. Finally, CCPS did not perform a system-wide route analysis and we found through testing that ridership on certain routes was lower than bus capacities, with some bus routes operating at less than 50 percent of the desired capacity.

We also found that significant risks existed within the CCPS computer network. For example, firewall rules allowed unnecessary Internet access to several internal servers and workstations, and three critical servers (including one that held personally identifiable information for students and employees in plain text) were not protected by a firewall or an intrusion detection prevention system. Further, CCPS locations with wireless connections were not secured to prevent anyone in the vicinity of these locations from gaining access to CCPS' entire network. Finally, workstations and servers were not sufficiently protected against malware and CCPS did not have a complete information technology Disaster Recovery Plan.

CCPS did not always make use of a competitive procurement process or submit certain procurement and human resource transactions to the Board for approval. In addition, CCPS had not established processes to monitor critical system capabilities assigned to employees to ensure that they were necessary, appropriate, or properly restricted, and we found certain users could perform incompatible functions. Due to the lack of proper procedures and controls in these areas, there was an increased risk of unauthorized procurement and payroll transactions. Also, CCPS entered into a power purchasing agreement with a solar energy provider, without using a competitive procurement process or determining whether it had received the most favorable terms. We noted that other local government entities had obtained more favorable terms for similar agreements. Finally, CCPS also needs to ensure the accuracy of payments for employee and retiree healthcare. For example, CCPS did not ensure the accuracy of payments for healthcare claims that totaled \$6.6 million in fiscal year 2015.

The CCPS 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 CCPS.

Respectfully submitted,

  
Thomas J. Barnickel III, CPA  
Legislative Auditor

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## **Background Information**

### **Statistical Overview**

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Caroline County Public Schools (CCPS) ranks 19<sup>th</sup> in student enrollment among the 24 public school systems in Maryland. Fiscal year 2015 full-time student enrollment was 5,592 students. CCPS has 10 schools, consisting of 5 elementary, 2 middle schools, 2 high schools and 1 career and technology center.

According to CCPS' audited financial statements, fiscal year 2015 revenues were \$84 million and expenditures were \$85 million. The largest expenditure category was salaries and wages, including benefits, which accounted for 70 percent of total expenditures during fiscal year 2015. According to MSDE records, during the 2014-2015 school year, CCPS had 814 full-time equivalent positions, which consisted of 560 instructional and 254 non-instructional employees.

### **Oversight**

CCPS is governed by a local school board, consisting of three elected and two appointed voting members and two non-voting student members. The State and the Caroline County government provide the vast majority of CCPS funding. In addition, MSDE exercises considerable oversight through the establishment and monitoring of various financial and academic policies and regulations, in accordance with certain provisions of the Annotated Code of Maryland. MSDE also works with CCPS to comply with the requirements and mandates of federal law. Caroline County government exercises authority over the CCPS primarily through the review and approval of CCPS' annual operating and capital budgets.

### **External Audits**

CCPS 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 CCPS federal grant programs (as required by federal regulations). We reviewed the resulting financial statement audit and Single Audit reports for fiscal years 2014 and 2015, and examined the related work papers for fiscal year 2014, 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 the CCPS' 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, federal grant activity, and food service inventory.

### **Status of Findings From Preceding Audit Report**

Based on our current audit assessment of significance and risk, our audit included a review to determine the status of 12 of the 18 findings contained in our preceding audit report dated April 27, 2010. We determined that CCPS did not satisfactorily address 7 of these 12 findings, and therefore, these findings are repeated in this report. We did not address the status of the remaining 6 preceding audit report findings.

## **Findings and Recommendations**

### **Revenue and Billing Cycle**

#### **Background**

CCPS revenues consist primarily of funds received from Caroline County, the State, and the federal government. According to the CCPS audited financial statements, revenues from all sources totaled \$84 million during fiscal year 2015. 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, CCPS has a fiduciary duty to safeguard these funds. For fiscal year 2015 school activity fund collections totaled \$993,000 and the June 30, 2015 balance was \$418,000.

#### **External Audits**

There were similarities between the work of the independent certified public accounting firm that audited the CCPS 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. Consequently, OLA limited the scope of its work, related to the revenue and billing cycle, to CCPS Central Office collections and our review and testing did not disclose any reportable conditions.

#### **Internal Reviews of School Activity Funds**

The CCPS fiscal office staff conducts reviews of individual schools' activity funds annually. The fiscal office staff's review of internal controls and tests of compliance with CCPS policies, procedures, and guidelines for school activity funds at CCPS schools identified some control weaknesses at certain schools. The fiscal office staff reports we reviewed disclosed that internal control weaknesses identified were not prevalent, and tests were conducted without exception.

## **Federal Funds**

### **Background**

CCPS receives funds pertaining to federal government programs that are generally restricted in 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 2015 expenditures totaled \$6.9 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 CCPS' 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 CCPS' 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 2014 and 2015. The related reports stated that CCPS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with, and the operation of, major federal programs, the auditors did not identify any material weaknesses or significant deficiencies.

### **Medicaid Funds Were Requested for Eligible Services**

CCPS has established a procedure to identify children eligible for Medicaid-subsidized services. Medicaid is an entitlement program for which certain service costs can be reimbursed to CCPS. Medicaid activity is not covered by the Single Audit of federal grants. We concluded from our tests that reimbursements were generally obtained for Medicaid-subsidized services. According to agency records, fiscal year 2015 reimbursement for Medicaid-subsidized services totaled approximately \$1.1 million.

## **Procurement and Disbursement Cycle**

### **Background**

According to the audited financial statements and CCPS records, non-payroll disbursements totaled approximately \$25 million during fiscal year 2015. Requisitions for goods and services are computer generated by the requesting department and must first be approved by department supervisory personnel and then by one of the Assistant Superintendents, before issuing the related

purchase orders. The CCPS procurement policy generally provides that procurements valued at \$25,000 or higher be both approved by the Board and competitively bid. The policies also require solicitation of written or oral quotes for purchases of \$5,000 or greater. Payments are processed by the finance department through an automated system that prints vendor checks and posts the payments to the financial records.

#### **Finding 1**

**CCPS did not monitor and restrict users' capabilities on its automated procurement and accounts payable system and no compensating electronic or manual controls were established over employees with incompatible capabilities.**

#### **Analysis**

CCPS did not adequately monitor and restrict users' capabilities on its automated procurement and accounts payable system. Additionally, there were no independent approvals of changes to users' capabilities on the automated system, and adequate compensating electronic or manual controls were not established over employees with capabilities that placed them in a position to perpetuate misuse or misappropriation of resources without detection. Specifically, seven employees were assigned system capabilities that allowed them to perform incompatible functions, some of which were not required by the applicable individuals to perform their job duties.

- Three finance office administrative employees could perform the incompatible functions of adding vendors, initiating and approving invoices, and printing and obtaining checks. None of these capabilities were required to perform their job duties.
- Similarly, two information technology employees could add vendors, and initiate and approve requisitions, purchase orders and invoices, although these capabilities were not required for their job duties. Additionally, these employees were responsible for printing vendor checks. These two employees also had system administrator access allowing them to add or change employee accesses and capabilities, including their own, in the automated system without supervisory review and approval.
- Two accounts payable employees who were responsible for processing invoices could also perform the incompatible functions of adding vendors, and printing and obtaining vendor checks.

- CCPS had not established independent electronic approval requirements for purchase orders and invoices, although they had been established for requisitions. In addition, although manual disbursement review procedures were performed, they did not adequately compensate for existing incompatible capabilities. These manual reviews did not include a review of appropriate supporting documents, and were not independent, as one of the seven employees with incompatible capabilities performed the reviews.

As a result, unauthorized purchases and disbursements could be processed without detection, although our review did not disclose any inappropriate transactions that were processed by the employees that had unnecessary or incompatible access. In our preceding audit report, we commented on the failure to segregate incompatible functions and restrict system access to critical system functions for the same seven employees, as well as the failure to establish independent approvals.

#### **Recommendation 1**

**We recommend that CCPS strengthen its controls over the automated procurement and accounts payable system and processes. Specifically, we recommend that CCPS take appropriate action to**

- a. restrict users' capabilities to eliminate the ability of users to perform incompatible duties (repeat);**
- b. restrict access to the automated procurement and accounts payable system to individuals whose job duties require such access (repeat);**
- c. establish independent electronic approval requirements for critical purchasing and accounts payable transactions, and changes to user capabilities; and**
- d. establish independent approvals for all critical documents that include a review of applicable supporting documents (repeat).**

#### **Finding 2**

**CCPS' procurement policy did not require certain non-competitive procurements to be submitted to or approved by the Board.**

#### **Analysis**

CCPS' policies did not require Board approval for certain high-value purchases. While CCPS had developed formal procurement policies to address the acquisition and approval of certain procurements over \$25,000, it did not require Board approval for all purchases above this level. Specifically, Board approval was not required for certain contracts procured without a competitive bidding process, such as those procured using

intergovernmental cooperative purchasing agreements (ICPA)<sup>1</sup> or sole source awards.

Consequently, significant procurement activity was not subject to specific Board oversight. Our test of 24 procurements with fiscal year 2015 disbursements totaling \$13.1 million disclosed 8 contracts, each over \$25,000, (with fiscal year 2015 disbursements of approximately \$2.4 million) procured through ICPAs, or were sole source or other non-competitive awards that were not submitted to the Board for approval. We commented on the need for Board approval for these types of procurements in our preceding audit report.

#### **Recommendation 2**

**We recommend that CCPS amend its existing procurement policies to require that contract awards resulting from the use of intergovernmental purchasing agreements, sole source, and other non-competitive awards be reported to and approved by the Board when the awards exceed \$25,000 (repeat).**

#### **Finding 3**

**CCPS did not always award contracts through competitive procurements or publish notifications of contract bids and awards in eMaryland Marketplace, as required.**

#### **Analysis**

Our test of 24 procurements for goods and services with fiscal year 2015 disbursements totaling \$13.1 million disclosed that contracts were not always awarded through a competitive process or supported by sole source justifications as required by CCPS policies, and contract bid solicitations and awards were not always published in eMaryland Marketplace, as required by State law.

- Four contractors, each paid over \$25,000, with collective fiscal year 2015 payments totaling \$325,700, were not competitively bid or supported, when applicable, by sole source justifications, as required by CCPS policy. For example, one of these contracts was for auditing services for which

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<sup>1</sup> Section 13-110 of the State Finance and Procurement Article, 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.

CCPS has a specific policy requiring competitive procurements. However, our review disclosed that CCPS had not competitively bid these services since 2006. Another contract for architectural services was awarded without the benefit of competitive procurement, even though CCPS has a specific policy that requires those services to be procured through a competitive process for costs exceeding \$15,000.

- CCPS did not use eMaryland Marketplace to publish bids and awards for 6 of the 9 items tested where CCPS conducted a competitive procurement process. The payments to these vendors in fiscal year 2015 totaled \$1.7 million. State law requires a local school system to publish a procurement solicitation or notice of award greater than \$25,000 on eMaryland Marketplace.

### **Recommendation 3**

#### **We recommend CCPS**

- a. **comply with Board policies when procuring goods and services, including using a competitive procurement process or documenting the justification of any sole source procurements, and submit all contracts to the Board for approval; and**
- b. **publish contract procurement solicitations or awards in eMaryland Marketplace, as required by State law.**

## **Human Resources and Payroll**

### **Background**

Payroll expense represents the largest single cost component in the CCPS budget. According to CCPS records, fiscal year 2015 salary, wage, and benefit costs totaled approximately \$60 million, or 70 percent of total operating expenditures. According to Maryland State Department of Education reports, during the 2014 – 2015 school year CCPS had 814 full-time positions, which consisted of 560 instructional positions and 254 non-instructional positions.

CCPS uses an automated system to maintain human resources information, record employee time, track leave usage, and to process and record payroll transactions. Attendance reports are submitted by employees semi-monthly and leave is recorded and adjustments processed on the system by central payroll personnel. The system also generates payroll checks and direct deposit advices. Payroll processing involves both automated processes (such as compiling leave and running edit reports) and manual processes (such as data entry of new employee information).

**Finding 4**

**Human resources (HR) and payroll system user capabilities were not adequately monitored and restricted. In addition, independent documented reviews of personnel and payroll transactions were not performed.**

**Analysis**

Capabilities assigned to users that allowed them to perform critical HR and payroll system functions were not adequately monitored and restricted, as certain employees were assigned system capabilities that allowed them to perform incompatible functions. In addition, independent documented reviews of critical personnel and payroll transactions were not performed.

- CCPS did not generate periodic system reports of employee access capabilities for supervisory review to ensure an adequate separation of duties and to confirm the need for the assigned capabilities. Consequently, we noted that certain individuals were assigned incompatible HR and payroll capabilities, such as changing employee salary and direct deposit information, or were assigned capabilities that were not needed to perform their duties. For example, of the six CCPS users we deemed having critical access capabilities, four users could perform incompatible functions or had unnecessary access, including two information technology (IT) employees with unlimited system administrator access that allowed them to perform all HR and payroll functions. A third employee could change salary and direct deposit information as well as process payroll.
- There was no process in place to verify that critical HR and payroll transactions were properly authorized and correct. Specifically, HR and payroll transactions were not subject to independent review. Further, available reports of HR transactions processed that could be used for the review and verification to source documents were not generated. IT personnel reviewed certain HR and payroll transactions (such as new hires, salary increases, terminations, and payroll adjustments) recorded on the system. However, these IT personnel had unlimited system access and capabilities and used documents prepared by the aforementioned individuals with incompatible capabilities who originally entered the transactions on the system; consequently, the review process was not independent or effective.

As a result, there was a lack of assurance that all HR and payroll transactions were authorized and appropriate. Our test of HR and payroll transactions and adjustments did not disclose any inappropriate transactions.



Similar conditions regarding inappropriate access to critical system functions and the lack of an independent review of HR and payroll transactions were commented upon in our preceding audit report.

#### **Recommendation 4**

**We recommend that CCPS**

- a. periodically generate reports of assigned employee access capabilities and perform documented independent review of user capabilities to ensure access is properly granted,**
- b. limit access of critical functions to those employees who require such capabilities to perform their assigned job duties (repeat),**
- c. eliminate the capability of individuals to perform incompatible system functions (repeat), and**
- d. perform a periodic documented independent review of critical personnel and payroll transactions processed using appropriate system reports (repeat).**

#### **Finding 5**

**CCPS did not require Board approval of certain fiscal year 2013 pay increases totaling \$122,000.**

#### **Analysis**

CCPS did not require Board approval for promotions or pay increases of certain non-instructional positions. Specifically, 20 employees who received a promotion or an increase in salary for fiscal year 2013 totaling approximately \$122,000 were not approved by the Board. Agency personnel indicated that the promotions were approved by the Superintendent at the time and that since these employees did not hold positions requiring a State teacher certification, it did not seek Board approval. Section 4-103 of the Education Article of the Annotated Code of Maryland requires school boards to set all employees' salaries.

#### **Recommendation 5**

**We recommend that CCPS ensure promotions and increases in pay are approved by the Board, as required.**

## Inventory Control and Accountability

### Background

According to CCPS audited financial statements, the undepreciated value of its capital equipment inventory totaled \$5.6 million as of June 30, 2015. CCPS uses a spreadsheet maintained by its central office to record capitalized inventory with a cost of \$5,000 or more for financial statement purposes. Sensitive equipment, defined as equipment items subject to theft (such as computers), is recorded separately on a database system.

### Finding 6

**CCPS had not established adequate recordkeeping practices and controls over its capital and sensitive equipment.**

### Analysis

CCPS had not established adequate recordkeeping practices and controls over its capital and sensitive equipment.

- Since at least 2010, CCPS has not performed a complete physical inventory of capital equipment even though its written procedures require annual inventory counts.
- Controls over its sensitive equipment inventory records, which as of September 2015 listed 8,377 active items, were inadequate. Specifically, one employee was primarily responsible for recording additions, disposals, and adjustments for sensitive inventory on a database system without the entries being independently verified to supporting documents by supervisory personnel. Additionally, upon our inquiry, CCPS advised that nine employees have access to modify sensitive inventory records.
- At the time of our review, the sensitive inventory listed approximately 2,400 sensitive items as disposed of, for which there was no documentation of the disposals being approved.

As a result of these deficiencies, there is a greater risk that equipment could be misappropriated without detection. A similar condition regarding the failure to properly maintain detail equipment records, was commented upon in our preceding audit report.

### Recommendation 6

**We recommend that CCPS establish adequate recordkeeping practices and controls. Specifically, CCPS should**

- a. conduct annual physical inventories of all capital equipment; and
- b. maintain complete and accurate inventory records for sensitive equipment items by ensuring that additions, disposals, and adjustments are independently verified to approved supporting documents (repeat).

## Information Technology

### Background

The CCPS Department of Technology maintains and administers the CCPS computer network, computer operations and instructional information systems. CCPS operates a wide area network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at the CCPS headquarters and the CCPS central office. The CCPS network included two critical network firewalls to protect the CCPS network and CCPS operates several significant administrative and academic related applications including the finance application and the student information application. The finance application includes modules for payroll, human resources, and accounts payable.

### Finding 7

**The CCPS computer network was not sufficiently secured to assist in the detection/prevention of potential security breaches and attacks, and restrict access to critical servers.**

### Analysis

The CCPS computer network was not sufficiently secured.

- CCPS did not use centralized network based authentication for faculty and staff computers. We were advised by CCPS network personnel that CCPS' computers and servers did not use any form of centralized network based authentication and that directory services software, which assists in such network based authentication, was not employed. Synchronizing local users so client computers and servers can effectively access shared resources is very difficult. In addition, when security updates are necessary, this condition requires computers to be updated individually, rather than centrally; increasing the risk that all machines don't have the appropriate security software.
- Firewall rules allowed unsecured and unnecessary connections to numerous network devices. For example, firewall rules allowed unnecessary Internet access to several internal servers and workstations.

Best practices prescribed by the University System of Maryland's *IT Security Standards* states that firewalls should be configured to block all services not required and disable unused ports, hide and prevent direct accessing of trusted network addresses from untrusted networks, and maintain comprehensive audit trails.

- Three critical servers (including one server that held numerous names and social security numbers of students and employees in plain text) were not protected by a firewall or an intrusion detection prevention system (IDPS). We determined that these three servers were placed in front of the CCPS firewall and IDPS, and therefore were not subject to the protections afforded by these devices.
- The CCPS IDPS was not configured to block malicious traffic identified by the system, but rather reported such traffic for review by CCPS' IT personnel. We were advised that the system generated reports of such malicious activity; however, CCPS personnel did not review these reports. Therefore, although CCPS had an operational IDPS it was not used to help secure the CCPS network. Best practices contained in the State of Maryland *Information Security Policy* specify that intrusion detection prevention tools and techniques must be employed to monitor system events, detect attacks, and identify unauthorized use of information systems and/or confidential information.
- All 13 CCPS locations providing wireless connections were configured to operate without any form of user authentication and connected users were placed on the CCPS internal network. In addition, network traffic from these wireless connections was not subject to any firewall or router filtering to block unauthorized access. As a result, anyone in the vicinity of these 13 locations could gain network level access to the entire CCPS wired area network, including CCPS critical systems.

#### **Recommendation 7**

**We recommend that CCPS**

- a. update its network architecture by utilizing a network based directory service with centralized authentication for all computers,**
- b. configure its firewalls to achieve a "least privilege" security strategy giving individuals and devices only those privileges needed to perform assigned tasks,**
- c. relocate the three aforementioned servers behind the firewall and IDPS and configure the firewall and IDPS to properly protect these critical servers,**

- d. set its IDPS to block identified malicious traffic from entering the CCPS network, and
- e. secure its internal network by only allowing properly authorized users to access the internal network through its wireless connection network.

#### **Finding 8**

**Workstations and servers were not sufficiently protected against malware.**

#### **Analysis**

CCPS workstations and servers were not sufficiently protected against malware.

- Workstations were configured with users having administrator rights. Administrator rights should be provided only to network administrators and select others since these rights are the highest permission level that can be granted to users and it allows users to install software and change configuration settings. Our test of workstations assigned to faculty and staff disclosed that the users of all 10 workstations tested had administrative rights on their workstation and we were advised by CCPS personnel that all faculty and staff are given administrative rights on their workstations. As a result, if these workstations were infected with malware, the malware would run with administrative rights and expose these workstations to a greater risk of compromise than if the workstations' user accounts operated with only user rights. In addition, users with administrative rights could disable the malware protection software on their workstations.
- CCPS did not have an enterprise-wide management tool to administer the antimalware software on its workstations and servers. As a result of this condition, CCPS could not connect to and manage the antimalware software on its 4,400 workstations and servers. Our review disclosed that three of ten workstations tested did not have malware protection software installed. Five of the remaining seven workstations tested (with malware protection software) were running malware protection software that had not been updated in over four years. Finally, all three servers tested had antimalware signatures that had not been updated for over 300 days.

Best practices as prescribed by the State of Maryland *Information Security Policy* state that agencies, at a minimum, must “protect against malicious code (viruses, worms, Trojan horses) by implementing (antivirus, antimalware) solutions that, to the extent possible, include a capability for automatic updates.”

#### **Recommendation 8**

**We recommend that CCPS**

- a. ensure that administrative rights on workstations are restricted to network administrators and other select users requiring such rights; and
- b. obtain an enterprise-wide management tool to ensure that malware protection software is installed on all computers and use this tool to ensure that all workstations and servers are configured with malware protection software that is operating properly, up-to-date, and has current signature files.

#### **Finding 9**

**Controls over the student information system database were not sufficient as security activity was not logged.**

#### **Analysis**

The student information database was not configured to log any database security activity including privileged operations. Best practices identified in the State of Maryland *Information Security Policy* require that information systems must generate audit records for all security-relevant events, including all security and system administrator accesses and 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 9**

**We recommend that CCPS set the student information database to log all critical security related events, regularly review these logs, document these reviews and retain this documentation for future reference.**

#### **Finding 10**

**CCPS did not have a complete information technology Disaster Recovery Plan for recovering computer operations.**

#### **Analysis**

CCPS did not have a complete information technology Disaster Recovery Plan (DRP) for recovering computer operations from disaster scenarios (for example a fire). The State of Maryland *IT Disaster Recovery Guidelines* provide best practices on the minimum required elements needed for a DRP. CCPS' DRP did not address several of these minimum requirements. For example, the DRP did not contain the current alternate processing site,

complete listings of hardware and software, or the restoration of network connectivity. In addition, the DRP had not been updated since September 30, 2011 and had not been tested. Without a complete and tested DRP, a disaster could cause significant delays (for an undetermined period of time) in restoring information systems operations above and beyond the expected delays that would exist in a planned recovery scenario.

#### **Recommendation 10**

**We recommend that CCPS**

- a. develop and implement a comprehensive DRP that is in accordance with the aforementioned *IT Disaster Recovery Guidelines*; and
- b. periodically test the DRP, document the testing, and retain the documentation for future reference.

### **Facilities Construction, Renovation, and Maintenance**

#### **Background**

CCPS employs a staff of 52 employees to maintain its 10 schools and 3 other administrative and support facilities. According to the fiscal year 2015 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to CCPS facilities over the next six years were estimated to cost \$34.7 million.

#### **Steps Have Been Taken to Reduce Energy Use**

CCPS has taken steps to reduce energy use. For example, CCPS uses an energy management system to monitor energy usage and employs an Energy Management Program Manager to monitor energy practices.

Furthermore, CCPS entered into a 15-year energy performance contract with an engineering firm, beginning in April 2012, for facility improvements to its lighting, heating and ventilation, and air conditioning systems that guarantees energy cost avoidance of \$4.2 million at a total project cost of \$3.1 million. According to documents provided by CCPS (which we did not audit), during the first two years of its Energy Reduction Program, the firm reported cost avoidance, as of March 2014 (most current data available) of over \$485,000.

Additionally, CCPS Energy Management personnel reported to the Board in March 2014 that from October 2008 to January 2014 its Energy Reduction Program had resulted in overall energy cost avoidance of \$1.9 million from reduced usage of electricity and heating oil. CCPS' calculation of the reduction in energy usage (which we did not audit) was done by comparing billed energy usage (wattage and gallons) during the period.

**Finding 11**

**CCPS executed a 20-year power purchasing agreement with a solar provider without a competitive process or a formal analysis to help ensure it received the most favorable terms.**

**Analysis**

CCPS executed a power purchasing agreement with a solar provider that included a 20-year escalating rate schedule with an estimated cost of \$6.1 million without using a competitive procurement process or formal analysis to ensure it received the most favorable terms. Further, CCPS could not provide documentation that any of its agreements with the contractor had been approved by the Board. Finally, with the concurrence of the Interagency Committee on School Construction (IAC), State capital project funds totaling \$406,000 were used to prepay certain of the related solar electricity usage charges, which was inconsistent with State law regarding the use of these funds for capital improvements.

In 2012, CCPS executed a solar power purchasing agreement (PPA) with a contractor that allowed the contractor to install fields of solar panels at three locations on CCPS property that would provide approximately 80 percent of the electricity requirements for five CCPS schools in exchange for a 20-year guarantee that CCPS would purchase the electricity generated by those systems from the contractor at pre-established rates at an estimated cost of \$6.1 million. The solar provider retains all environmental credits and financial incentives and tax benefits associated with the systems. In 2013, CCPS and the contractor amended the agreement to use a State grant to make an advance payment of \$406,000 on CCPS' future electricity usage. This new agreement provides for somewhat lower rates over the 20-year PPA to offset the advance payment, although, when considering the advance payment dollar amount, the overall 20-year cost was virtually unchanged.

- CCPS did not conduct a competitive solicitation and did not maintain documentation to support that it assessed whether the most favorable terms under the PPA were obtained. While the PPA provided lower electricity rates, our limited analysis indicated that the terms and conditions may not have been the most favorable when compared to PPAs entered into by one county government (using the same contractor) and another local school system.

CCPS management advised us that they had used an intergovernmental agreement with a county government on the State's Eastern Shore in lieu of a competitive procurement process. However, there was no evidence of the use of an intergovernmental agreement as it was not mentioned in the



PPA, and CCPS could not explain why they were paying a higher base rate (\$.090 per kilowatt hour) than that county government (\$.080 per kilowatt hour). Although the annual escalation rate increase (2.5 percent rate) was the same, the lower base rate for the county government provided greater cost benefits. Based on CCPS' estimated electricity use and the differences in rates, additional costs to CCPS would equate to approximately \$28,000 for the first year of the contract and \$640,800 over the entire 20-year agreement.<sup>2</sup>

Furthermore, there are indications that more favorable terms are possible for the annual escalation rate. Although the annual escalation rate increase for CCPS and the county government were the same (2.5 percent), we noted another Maryland school system had more recently (May 2015) negotiated a lower annual escalation rate (1 percent) over its 20-year contract with a different contractor. The base rate was also lower for this school system.

Finally, CCPS had not prepared a written determination of the benefits of using the other local government's contract, as required by State law. This law, which specifically states it is applicable to local education agencies, allows the use of other local government contracts only after the using entity has determined the use of such arrangements will promote efficiency or cost savings.

- Although approved by the IAC, CCPS submitted an application that misstated the agreed-upon intended use of the funds, a use that was inconsistent with State law. The source of the aforementioned advance payment for power usage was the Energy Efficiency Initiative (EEI) of the fiscal year 2013 Public School Construction Capital Improvement Program (CIP) provided by the IAC. We were advised by CCPS that although their energy saving projects were completed before the EEI funds became available, they had consulted with the IAC regarding how they might make use of the EEI funding. After discussing the details of CCPS' existing PPA with the IAC, it was agreed that CCPS could use of the funds for the purchase of electricity even though the Solar Initiative Application submitted to the IAC for the use of EEI funds stated that the incentive must go towards capital costs of a solar energy system and the legislation that authorized the creation of the State debt funding the CIP stipulated

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<sup>2</sup> Although the CCPS rate was subsequently bought down through prepayment using State grant funds beginning in 2013 (.084), the reduced rate was still significantly higher than the county government's rate. The prepayment resulted in reducing the annual difference, but the overall 20-year cost differential would be virtually unchanged.

that the proceeds were to be used for public school construction and capital improvements. Finally, CCPS did not perform a cost benefit analysis prior to making the advance payment, although our calculations using investment rates from the State Treasurer indicate that the resulting prepayment decision was generally cost neutral.

#### **Recommendation 11**

**We recommend that CCPS**

- a. ensure that the procurement method (competitive procurement or intergovernmental agreement) chosen for energy contracts, and any prepayments decisions, provides the most favorable financial outcome for CCPS;**
- b. submit all PPAs to the Board for its approval;**
- c. comply with all requirements of State law when using intergovernmental agreements; and**
- d. ensure that State CIP funding is only used for the purposes provided for under the law.**

#### **Finding 12**

**CCPS did not maintain documentation of preventive maintenance work performed.**

#### **Analysis**

CCPS could not provide us with documentation that all required preventive maintenance and school inspections had been performed. For example, our test of 10 of the 24 scheduled preventive maintenance tasks (such as weekly emergency generator checks) to be routinely performed at each school disclosed that for all 10 tested CCPS could not provide documentation to support that the preventive maintenance tasks were performed at its schools, as required.

CCPS had developed a comprehensive maintenance plan that included, among other details, preventive maintenance and custodial task schedules and requirements. Agency personnel informed us that they could not perform all scheduled preventive maintenance tasks identified in the plan on a consistent basis due to staffing issues. In addition, although CCPS has a web-based system in place capable of handling work assignments, the system was not currently being used for preventive maintenance tasks.

A similar condition regarding the lack of documentation supporting that preventive maintenance was performed was commented upon in our

preceding audit report. Per the fiscal year 2014 audited financial statements maintenance expenditures totaled \$890,000. Per the fiscal year 2015 CCPS budget, the Maintenance Department has 6 maintenance personnel who maintain 835,000 square feet of school buildings residing on over 241 acres.

#### **Recommendation 12**

**We recommend that CCPS**

- a. evaluate its preventive maintenance schedule to determine whether changes, such as the tasks performed and frequency, should be made that considers staffing and risk; and
- b. use its existing web-based system for preventive maintenance tasks and document preventive maintenance performed and maintain such documentation (repeat).

### **Transportation Services**

#### **Background**

CCPS has approximately 4,500 students eligible to receive student transportation services. These students were transported on 59 buses of which 13 were owned and operated by contractors, 28 were owned and operated by CCPS employee drivers (with CCPS effectively leasing the buses), and the remaining 18 were owned by CCPS. According to CCPS audited financial statements, fiscal year 2015 transportation costs totaled \$4 million, with \$2 million (50 percent) representing payments for contracted bus services. CCPS reported that 1.1 million route miles were traveled to transport students for the 2014-2015 school year (with approximately 71 percent driven by contractor and employee drivers).

CCPS' bus contracts are for an initial five years with annual renewals generally granted over the 12 to 15-year useful life of the bus. Payments to bus contractors consist of amounts for the purchase of a bus (known as a per vehicle allotment or PVA, consisting of a reimbursement for the cost of a bus and a flat rate for return on investment or ROI), hourly reimbursements for drivers and attendants, a per mile maintenance fee, fuel costs, and a garage fee (which is the difference between the PVA based on a useful life of twelve and ten years). Contractual payments to employee owner/operators include similar cost components, except they exclude the salaries and related benefits for drivers and attendants which CCPS pays separately under its payroll system.

**Finding 13**

**CCPS did not establish comprehensive bus routing procedures and did not periodically perform a system-wide analysis of bus routes and related bus capacities to maximize the efficiency and address bus routes operating below ridership capacity goals.**

**Analysis**

CCPS bus routing procedures were not comprehensive, as they did not address the planning, reviewing, and changing of existing routes, and they did not include formal individual bus capacities, ridership goals, and student ride times. In addition, CCPS did not periodically perform a system-wide analysis of its bus routes and related bus capacities to maximize efficiency and to address bus routes operating below ridership capacity goals. Finally, CCPS did not fully use its automated bus routing software capabilities to develop routes to enhance the efficiency of its bus operations.

Our analysis of student ridership disclosed that ridership was significantly less than bus capacity limits. Specifically, our review of 88 regular routes (46 buses and all regular routes) for the 2013-2014 school year disclosed that 27 routes (31 percent) were below 75 percent of computed ridership goals based on bus sizes<sup>3</sup>. Of the 88 routes, 5 (6 percent) had student ridership of less than 50 percent. Further, 4 buses (9 percent) had no routes that were above the 75 percent ridership goal.

CCPS transportation management advised that bus routes were revised in conjunction with the installation of the routing software in 2010, resulting in a mileage reduction for several routes. Subsequently, however, the routing software, primarily has been used to map out the bus routes and bus stop locations, and although CCPS used informal targets of student ridership percentages and ride times in planning individual routes, they were not recorded in the automated routing system. Also, available system reports, such as number of students per route and ridership percentages for individual buses were not generated and used to assess the efficiency of bus routes.

Using routing software is a recognized best practice that can be used to reduce the time it takes to design efficient routes, reduce student ride time, and help ensure that routes minimize the number of buses needed to transport students. Similar conditions regarding the lack of comprehensive bus routing procedures and not fully using its automated routing software to

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<sup>3</sup> School bus capacities are lower than manufacturer stated capacities and differ depending on the school level. For example, the capacity for middle/high school and elementary school routes is 51 and 61 students, respectively based on 72-passenger buses (manufacturer stated capacity).

help plan more efficient services, were commented upon in our preceding audit report.

### **Recommendation 13**

**We recommend that CCPS take steps to determine if buses can be used more efficiently. Specifically, we recommend that CCPS**

- a. develop formal, comprehensive written procedures that include specific target bus ridership percentages and student ride times (repeat); and**
- b. fully utilize the capabilities of its automated routing software to maximize the ridership on its bus routes (repeat).**

### **Finding 14**

**CCPS payments to bus contractors included elements that did not consider market conditions, actual costs, or available discounts, and the bases for payments were not always adequately documented.**

### **Analysis**

The majority of the elements used to determine payment amounts to bus contractors, including employee owner/operators, did not reflect market conditions, actual costs, or available discounts, and certain elements were not adequately documented. Consequently, CCPS unnecessarily made excessive payments for its contracted bus services.

- CCPS pays contractors an annual PVA for each bus, but the formula used by CCPS results in larger payment amounts in comparison to how other local school systems usually compute the PVA payments. The CCPS formula to calculate the PVA includes an amount for the purchase and financing of the bus, but unlike other school systems, it also includes a vehicle replacement factor of 66 percent of the purchase cost of the bus,<sup>4</sup> to arrive at the amount to be reimbursed over the useful life of the bus.

Also, in the past, CCPS had calculated the PVA payments over 10 years while paying them over 12 years. But beginning in fiscal year 2013 CCPS began both calculating and paying the PVA over a 12-year period. However, CCPS transportation officials advised us that since this 2013 change in the calculation produced less than the desired payment amount, a new payment component was created to make up the

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<sup>4</sup> The use of a “replacement factor” in the CCPS’ PVA calculation is unusual when compared to other LEAs’ methodologies. CCPS’ use of the replacement factor appears to be a method to increase the payments to the contractor, as the customary bus financing practiced by the LEAs already includes full reimbursement for the cost to purchase the present bus (making a replacement component for a future bus purchase unnecessary).

difference called a garage fee. This component, which CCPS could not substantiate, effectively resulted in increasing the PVA total each year, offsetting any savings from the increase in the number of years over which PVA payments were calculated.

Furthermore, CCPS' PVA formula includes a borrowing rate (established by obtaining rates from a local bank), which ranged between 6 percent and 3.99 percent during fiscal years 2011 to 2015. The combined effect of this rate and the aforementioned replacement factor and garage fee resulted in a total ROI that ranged from 9 percent to 9.6 percent during the same period. These effective ROIs were considerably higher than the prime interest rate, which is recommended for use in other studies.<sup>5</sup>

To estimate the financial impact of CCPS using their effective ROI rates (including the replacement component) over the life of a bus, we calculated the PVA for each of the 13 new buses placed into service from February 2012 through September 2014 using the prime interest rate and CCPS' 12-year estimated useful life in the PVA formula. We then compared our PVA results to CCPS' PVA payments. This comparison showed that the CCPS annual PVA payments per bus were \$2,719 to \$6,030 higher than the payments would have been had the prevailing prime rate been used in the calculation. The effect is that, over the 12-year life of these 13 new buses, CCPS will pay out approximately \$475,000 more than if the prime rate was used for ROI to determine the PVA payments. This analysis does not include the effect of any new bus purchases made after September 2014 and the lost interest income that CCPS could have potentially earned on the aforementioned \$475,000. A similar condition regarding the appropriateness of the PVA calculation was commented upon in our preceding audit report.

- PVA payments were not discontinued once the service life of the bus on which the PVA was based was reached, resulting in excess reimbursement to the contractor for the bus' purchase cost. For example, while PVA payments were to be based on a 10-year life for buses placed in service prior to fiscal year 2013, CCPS' policy was to pay this annual amount for up to 15 years (if the bus is kept that long). CCPS paid an additional \$261,696 for fiscal years 2014 and 2015 for 11 and 14 buses,

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<sup>5</sup> The use of the prime interest rate was recommended in a November 1999 study commissioned by another Maryland school system. Also, in 1975 an MSDE study recommended the prime rate as a reasonable ROI interest rate. The prime rate is actually a lending rate that nearly always exceeds the available market investment rate: therefore, it is deemed to be reasonable for the ROI calculation.

respectively, that had been purchased and placed in service at least 10 years prior.

- Payments to bus contractors for maintenance costs were negotiated with the contractors and were not supported by documentation of actual maintenance and other repair costs. Furthermore, although maintenance payments to contractors were higher than in-house bus maintenance costs, CCPS had not performed a documented assessment of why they were higher and documented the actual contractor costs. For example, according to CCPS records, maintenance costs for fiscal year 2015 for CCPS owned buses was \$0.23 per mile, while bus contractors were paid \$0.81 per mile. CCPS questioned the validity of such a comparison and claimed that, unlike the contractors, CCPS benefits from volume discounts and lower labor rates than what is charged by commercial vehicle repair facilities. As previously noted, this contention could not be supported.
- CCPS did not exclude federal excise taxes when paying bus contractors for fuel. CCPS pays contractors for fuel usage based on the published American Automobile Association's average diesel fuel prices, including taxes, divided by a miles per gallon rate established by CCPS. However, according to federal law, CCPS contractors are exempt from the \$0.244 per gallon excise tax on diesel fuel and are able to receive a credit for federal fuel taxes paid when they file their income tax returns. As a result, we estimated CCPS' total fuel payments to bus contractors were \$142,000 higher than necessary for fiscal years 2011 through 2015.<sup>6</sup>

Similar conditions regarding the appropriateness of PVA and maintenance amounts paid were commented upon in our preceding audit report.

#### **Recommendation 14**

**We recommend that CCPS**

- a. use market investment rates as a basis for establishing contractor rates for the annual PVA (repeat),**
- b. pay PVA rates based on the periods of service used in the PVA's calculation,**
- c. develop supportable cost estimates as the basis for establishing reasonable per mile maintenance costs (repeat), and**

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<sup>6</sup> Subsequent to the completion of our audit fieldwork, Chapter 397, Laws of Maryland 2016, effective July 1, 2016, exempted a county board of education or a school bus operator under contract with a county board of education, from State motor fuel taxes. In addition, the law authorized county boards of education and a school bus operator to claim refund of State motor fuel taxes paid. Consequently, this exemption should be factored into future payments.

- d. exclude fuel excise taxes from contractor payments.

#### **Finding 15**

**CCPS did not adequately ensure the accuracy of contractor reported manifest mileage, which was used to compute certain payments to bus contractors.**

#### **Analysis**

CCPS did not ensure the accuracy of mileage payments to bus contractors (including employee owner/operators). Specifically, the mileage reported on the monthly manifests submitted by each bus driver, used to calculate the fuel and maintenance components of the contractor's monthly pay, was not compared to available bus routing system reports. The routing system has the capability to generate reports of the turn-by-turn directions along with the correct mileage for each bus stop.

Our test of 39 manifests from March 2015 for regular bus routes disclosed that for 36 manifests (and buses), the 3,965 total miles reported by the contractors, exceeded the actual 3,331 total route miles by a total of 634 miles per day. We calculated the actual route miles using routing system reports, which we verified with mapping software on a test basis. We also determined that since the reported mileage remained constant throughout the year, CCPS potentially overpaid for mileage for these 36 routes by a total of \$144,000 in fiscal year 2015.

Payments for mileage reimbursements totaled \$903,000 in fiscal year 2015.

#### **Recommendation 15**

**We recommend that CCPS**

- a. independently verify bus contractor's manifests to ensure that the payments to the contractors accurately reflect the actual bus services provided;
- b. document the verification process; and
- c. review past payments and pursue discrepancies, including those we identified.



**Finding 16**

**Certain bus payment components were not supported or approved by the Board.**

**Analysis**

Certain bus payment components were not supported or approved by the Board, as contractors were sometimes paid for mileage in excess of that driven or for PVA amounts that were not included in bus contracts or other approved documents.

- CCPS knowingly paid certain bus contractors for more mileage than actually driven. For example, our review disclosed five contractors received payments for guaranteed minimum mileage that exceeded actual mileage by a combined 125 miles per day (ranging individually from 13 to 35 miles per day). As a result, these contractors received payments for excess mileage totaling approximately \$28,400 in fiscal year 2015. We were advised that this practice dated from 2010, when the mileage for several routes were reduced, but CCPS transportation management chose to continue to pay the affected contractors based on the routes' previous mileage. This arrangement was not formally approved by CCPS or the Board, and was not incorporated in the existing written agreements for these bus contractors.
- Bus payments were made for PVA amounts that were not supported or formally approved. CCPS PVA payment amounts for buses are not included in the bus contracts or budget documents. Consequently, there has been no Board review or approval of the PVA amounts paid to bus contractors. The only record of PVA payment rates was on a list maintained by the Transportation Division based on its calculation sheets. Furthermore, our review disclosed that PVA rates paid in fiscal year 2015 for 7 of the 41 buses reviewed did not agree to the list of rates and CCPS did not have any calculation sheets supporting the amounts paid. These PVA amounts ranged from \$9,028 to \$11,169 and were for buses placed in service in fiscal years 2001 through 2003. Due to a lack of available records, we were not able to determine whether the proper PVA was being paid for the seven buses. CCPS paid approximately \$70,000 in PVA payments for these buses in fiscal year 2015 and these buses could remain in service for up to three more years.

#### **Recommendation 16**

**We recommend that CCPS**

- a. incorporate all applicable payment arrangements in the written bus contractor agreements and obtain Board approval for all agreements,
- b. pay bus contractors for the actual mileage driven and for the PVA rates included in formal agreements, and
- c. maintain proper documentation supporting the calculation of PVA amounts.

#### **Finding 17**

**Internal controls over payments to employee owner/operators were not adequate, as there was no independent review and approval of payment calculations performed by one individual.**

#### **Analysis**

Payments to employee owner/operators were not reviewed to ensure propriety. Specifically, a transportation management official was responsible for entering data, including route miles, time, PVA, and fuel adjustments for each of the 28 employee-owned buses into a system used to calculate the monthly payments. A report of the monthly payments is generated and submitted to the finance department for payment processing. However, neither supporting information nor entries into the system are reviewed by an independent employee to ensure that payment amounts are proper. Further, the payment report is forwarded to the finance department for final processing and payment without detailed information supporting the payments. Therefore, there is a lack of assurance that payments are accurate.

Furthermore, a similar process is performed for payments for field trips to one contractor whereby a summary report is generated of payments calculated, which is not reviewed by an independent employee, even on a test basis, to ensure propriety.

As noted in Finding 16, our test of payments did disclose several inaccuracies related to the PVA amounts used for payment purposes. During fiscal year 2015, payments to employee owner/operators totaled approximately \$889,000. During fiscal year 2015, payments for field trips totaled approximately \$134,000.

#### **Recommendation 17**

**We recommend that CCPS ensure that an employee independent of the payment processing verifies the accuracy and propriety of payments by**

performing a documented comparison of the amounts paid to supporting documentation.

## **Food Services**

### **Background**

CCPS has 9 cooking cafeterias at its 10 schools. Food and related supplies are received and stored at each school. In fiscal year 2015, CCPS had 56 food service positions (consisting of 52 cafeteria positions and 4 administrative positions). According to the audited financial statements, food service revenues (\$3,276,079) exceeded operating expenditures (\$3,237,137) for fiscal year 2015, and for four of the previous five years.

### **Finding 18**

**Cash receipt duties were not properly segregated as transactions could be voided by cashiers without independent supervisory review or approval.**

### **Analysis**

Cashiers in school cafeterias could void transactions on the CCPS point-of-sale system without independent review or approval. Specifically, neither the food service managers at each school nor central office food service staff performed any type of review of voided transactions. In addition, the system was capable of generating output reports of voided transactions for subsequent review; however, these reports were not generated or analyzed for unusual activity such as cashiers with high volumes of voids that may warrant further investigation or corrective actions. According to CCPS records, over 4,700 voids totaling \$55,000 were processed during fiscal year 2015. According to CCPS audited financial statements, food service revenues generated from the sale of meals totaled approximately \$685,000 in fiscal year 2015.

### **Recommendation 18**

**We recommend that independent supervisory personnel review voids and that the reviews be documented. For example, CCPS could generate periodic reports of all void transactions and document the analysis of this information for unusual trends that should be investigated, such as cashiers with abnormally high numbers of voids.**

## **School Board Operations**

### **Background**

The Board of Education of Caroline County (the Board) is composed of three elected, two appointed members, and two non-voting student representatives. In its oversight responsibilities, the Board contracted with a certified public accounting firm for independent audits of the CCPS financial statements and federal programs. The Board has not established any special committees.

### **CCPS Adopted an Ethics Policy that Met the Requirements of State Law**

In June 2012, the Board adopted a revised detailed ethics policy that conforms to State Law and includes provisions for conflicts of interest and financial disclosure and was approved by the State Ethics Commission. Provisions of this policy are applicable to Board members as well as all CCPS employees. CCPS established an Ethics Panel consisting of three members who are nominated by the Superintendent and appointed by the Board to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. According to the ethics policy, annual financial disclosure statements are required to be filed by Board members, candidates for the Board, the Superintendent, and a number of other administrators (such as the Assistant Superintendents, Chief Financial Officer, and school principals) by April 30th of each year. Our review of the 58 employees required to submit financial disclosure forms for calendar year 2014 disclosed that forms were generally submitted as required.

## **Other Financial Controls**

### **Healthcare Background**

CCPS is a member of a consortium for employee and retiree health care. The Consortium members are self-insured for healthcare costs up to the designated stop-loss amount. The Consortium contracts with a third party administrator (TPA) firm for health care claims processing services for employee medical (including vision), dental and prescription costs. The Consortium also contracts with the TPA carrier for the stop-loss coverage to protect against the risk of large claims each year. CCPS subsequently reimburses the TPA for the paid claims and pays the TPA an administrative fee for these services. CCPS health care expenditures totaled approximately \$7.5 million during fiscal year 2015 including \$400,000 for administrative fees and \$491,000 for stop-loss insurance coverage. We were advised by CCPS management that the Consortium last bid out its health care services for plan year 2012.

### **CCPS Contracted for an Audit to Verify Propriety of Dependents**

In 2010, CCPS hired a consultant to verify the propriety of individuals that were covered as dependents under the systems' health care plans. The consultant required all employees and under age 65 retirees with dependents to submit documentation to prove that each individual covered as a dependent was eligible under the criteria defined in CCPS' health care plan. As a result of this review of 864 dependents, the consultant identified 50 ineligible dependents to be removed at an estimated savings of \$151,480. We were advised that CCPS removed the ineligible dependents from the plans as recommended. During the course of our field work, in June 2015, CCPS put in place a verification process in its enrollment procedures whereby employees must submit adequate documentation (such as, birth certificates) for any individuals the employee wants added as a dependent to their health plan. We reviewed the financial impact of the delay since 2010 in implementing this enrollment eligibility verification process and determined it to be minimal.

#### **Finding 19**

**CCPS did not ensure the propriety of payments for employee and retiree healthcare costs.**

#### **Analysis**

CCPS lacked procedures and controls to ensure that healthcare amounts paid to the TPA were proper. Our review of CCPS' procedures and controls over the contract and related payments for medical claims and administrative fees disclosed the following conditions:

- CCPS paid for claim reimbursements invoiced by the TPA without any verification that the amounts invoiced were proper. CCPS did not receive detailed claims data and therefore could not verify that the billed amounts agreed to the amounts of reported claims. Furthermore, CCPS did not audit the propriety of the claims paid on its behalf by the TPA to ensure that the services were actually provided, were covered by the health plans, and were appropriately priced. The State Office of Personnel Services and Benefits administers self-insured health plans for state employees, and contracts for comprehensive reviews of claims paid by plan administrators. According to the Office, improper payments identified from these reviews have consistently exceeded the cost of the reviews.
- CCPS did not verify the amount of claims that exceeded the stop-loss limit were proper. CCPS relies on the administrator to notify it of any payments above the stop-loss limit. According to the annual settlement, the paid claims amount reported includes the offset to claims due to individual

claims hitting the stop loss. Since CCPS did not receive detailed documentation of all claims paid and stop-loss reductions are not provided for in detail, CCPS lacks assurance that it did not pay claims that should have been covered by the stop-loss insurance. We verified that the claims in excess of the stop loss amount we identified per detail claims information we obtained from the TPA were offset with the total claims included in the annual settlement amount for plan years 2013 and 2014.

**Recommendation 19**

**We recommend that CCPS establish procedures to verify the amounts paid for healthcare insurance. Specifically, we recommend that CCPS**

- a. obtain documentation to support actual claim payments and ensure that all amounts billed for claims are proper, and**
- b. use detailed claims payment data to ensure that claims paid above the stop-loss limit are reimbursed by the insurer (in this case the TPA).**

## **Audit Scope, Objectives, and Methodology**

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

In planning and conducting our audit of CCPS, we focused on 11 major financial-related areas of operations as approved on September 14, 2004 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of findings included in our preceding audit report on CCPS dated April 27, 2010, was limited to those findings that were applicable to the current audit scope for each of the 11 areas.

The audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. Also, we did not evaluate the CCPS 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 CCPS. We also interviewed personnel at CCPS 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 CCPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2010 through June 30, 2014. 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 CCPS' 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 CCPS 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.

CCPS' management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate. In addition to the conditions included in this report, other less significant findings were communicated to CCPS that did not warrant inclusion in this report.

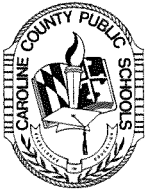
We conducted our fieldwork from February 2015 to October 2015. The CCPS response to our findings and recommendations is included as an Appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise CCPS regarding the results of our review of its response.



## APPENDIX

### Caroline County Public Schools

204 Franklin Street  
Denton, Maryland 21629



JOHN D. EWALD  
SUPERINTENDENT OF SCHOOLS



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September 29, 2016

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

Dear Mr. Barnickel:

This letter is in response to your draft performance audit report of Caroline County Public Schools.

Specific responses follow each of your recommendations:

#### Procurement and Disbursement Cycle

1. Recommendation: CCPS should strengthen its controls over the automated procurement and accounts payable system and processes.

Response: Completed: A full review of users and their capabilities has been performed and security is now locked down. Only those individuals whose job duties require such access are able to perform these functions. Purchase requisitions with electronic approvals are already required for critical purchases. New procedures have been established that require electronic approval for accounts payable transactions as well as an independent supervisory review of supporting documents. 1 a. Security Access list to be run and verified by the designated "Reviewer" - Periodic and as often as determined; 1 b. Security Access List (8a) reviewed to limit and ensure employee has necessary resources to perform each critical function as that employee's primary responsibility. Also need to insure that the backup employee also has the necessary access in the unforeseen event that the primary employee is unable to fulfill those duties. Two system administrators are necessary to insure the same backup capability. Logs and History of all transactions are available for review for any/all function and date range; 1 c. Requisition Approval Workflow (electronic) and manual payment request and signatures are in place currently; 1 d. Purchasing and A/P Reports are run and verified by the designated "Reviewer". This is reviewed during PO Conversion, posting and payment processes. An independent review of the logs and history reports of individuals with incompatible access will be reviewed.

2. Recommendation: CCPS should amend its existing procurement policies to require that contract awards resulting from the use of intergovernmental purchasing agreements, sole source, and other non-competitive awards be reported to and approved by the Board when the awards exceeds \$25,000.

Response: Even though these purchases are not taken to the Board on an individual basis, the purchase amount is included as part of our operating budget which gets approved by the Board. It is important to note that we piggyback on a lot of State and National bids, which have already been legally approved and authorized. It is

also important to note that we are in compliance with our purchasing policy, which states that these purchases must be approved by the Administrative Services division. Beginning with the November, 2016 Board meeting, these items will be added to the Board's consent agenda and the Board's purchasing policy will be amended to reflect this change.

3. Recommendation: CCPS should comply with Board policies when procuring goods and services, including using a competitive procurement process or documenting the justification of any sole source procurements, and submit all contracts to the Board for approval and publish contract procurement solicitations or awards in eMaryland Marketplace, as required by State law.

Response: Due to our small size we do not have a purchasing department. Since our purchases are decentralized we have been training our Administrators and Supervisors to use the competitive bidding process and document the justification of any sole source procurements. Going forward we will use eMaryland Marketplace for contract procurement solicitations as required by State Law. This was an unintentional oversight as we had been using eMaryland Marketplace for school construction bids, but not for other bids. Effective immediately, all bids will be approved by the Board, either as an individual action item or as a component of the consent agenda. All sole source purchases that exceed the bid threshold will also be placed on the Board's consent agenda to include documented justification.

#### Human Resources and Payroll

4. Recommendation: CCPS should periodically generate reports of assigned employee access capabilities and perform documented independent review of user capabilities to ensure access is properly granted; limit access of critical functions to those employees who require such capabilities to perform their assigned job duties; eliminate the capability of individuals to perform incompatible system functions; and perform a periodic documented independent review of critical personnel and payroll transactions processed using appropriate system reports.

Response: The HR applications are hosted solutions that require the additional system administrator user for database troubleshooting, critical case management, etc. At least seven other MSDE's LEAs use this same product. Onsite, CCPS has two system administrators, one HR coordinator, one payroll coordinator, and one comptroller with access to HR and Payroll, which is necessary for day-to-day operations and critical functions as well as backup for these same critical functions. After every payroll cycle's final calculation and before paycheck printing, a manual checking and review of payroll activity changes is completed between the Payroll Coordinator (entry) and the system administrator – who serves as the Payroll Processor. Beginning in September 2016, this review is being conducted by a third and independent staff member. We are now periodically conducting and documenting a review of user capabilities to ensure access is properly granted. Security Access List is reviewed to limit and insure employee has necessary resources to perform each critical function as that employee's primary responsibility. The review insures that the backup employee also has the necessary access in the unforeseen event that the primary employee is unable to fulfill those duties. Two system administrators are necessary to insure the same backup capability. Logs and History of all transactions are available for review for any/all function and date range. Security Access List reviewed to insure employee has compatible and necessary resources to perform each critical function as that employee's primary responsibility. These logs and history are also being independently reviewed.

5. Recommendation: CCPS should ensure that the Board, as required, approves promotions and increases in pay.

Response: These promotions and increases were reviewed with and approved by the Board during closed session but the minutes did not reflect the discussion and vote. Going forward we will ensure that these items are voted on during the public session so that the minutes are accurate.

#### Inventory Control and Accountability

6. Recommendation: CCPS should conduct annual physical inventories of all capital equipment and maintain complete and accurate inventory records for sensitive equipment items by ensuring that additions, disposals, and adjustments are independently verified to approved supporting documents.

Response: The physical inventory is completed annually by each building administration and independently done every few years by the central office. We will ensure that the annual inventory process is documented better in future years to prove that this process is being completed. Although we do not record the purchase price of sensitive items in the database system, this value can be traced to the source documents (purchase order and invoice) and therefore we do not see the need to add this field to our database. Original source documents are maintained at least seven years, which is longer than the anticipated life of nearly every sensitive item. Any adjustments made, to include additions and disposals, will be independently verified to supporting documents.

#### Information Technology

7. Recommendation: CCPS should update its network architecture by utilizing a network based directory service with centralized authentication for all computers, configure firewalls to achieve a “least privilege” security strategy giving individuals and devices only those privileges needed to performed assigned tasks, relocate the aforementioned servers behind the firewall and IDPS and configure the firewall and IDPS to properly protect these critical servers, set the IDPS to block identified malicious traffic from entering the CCPS network, and secure its internal network by only allowing properly authorized users to access the internal network through its wireless connection network.

Response: For improved security, servers supporting the Student Information System (SIS) have been relocated within the school system’s firewall. SSL will be activated by the spring of 2017. Beginning in the summer of 2016, the firewall is being evaluated for “least privilege” security. This will be an ongoing process as the network(s) evolve. We agree to further research, investigate and consider the implementation of directory services. We would appreciate receiving any of the research mentioned in the auditor’s comments as we proceed to investigate.

8. Recommendation: CCPS should ensure that administrative rights on workstations are restricted to network administrators and other select users requiring such rights and obtain an enterprise-wide management tool to ensure that malware protection software is installed on all computers and use this tool to ensure that all workstations and servers are configured with malware protection software that is operating properly, up-to-date, and has current signature files.

Response: The restriction of administrator rights is not aligned with the philosophy of use for staff in Caroline County Public Schools and would unnecessarily hinder the capability of staff members’ technology. We are in

the process of testing an enterprise-wide management tool for malware protection and will have an appropriate tool in place by Summer 2017.

9. Recommendation: CCPS should set the student information database to log all critical security related events, regularly review these logs, document these reviews and retain this documentation for future reference.

Response: We currently do not have control over the security activity log in the Student Information System (SIS) application database. We will continue to investigate and work with the SIS to implement.

10. Recommendation: CCPS should develop and implement a comprehensive DRP that is in accordance with the aforementioned IT Disaster Recovery Guidelines and periodically test the DRP, document the testing, and retain the documentation for future reference.

Response: CCPS will review for completeness our current DRP (Disaster Recovery Plan) in accordance with the IT Disaster Recovery Guidelines by the summer of 2017. A schedule of testing will be developed and implemented by the fall of 2017 for the aforementioned DRP.

#### Facilities Construction, Renovation, and Maintenance

11. Recommendation: CCPS should ensure that the procurement method chosen for energy contracts, and any prepayment decisions, provides the most favorable financial outcome; submit all PPA's to the Board for its approval; comply with all requirements of State law when using intergovernmental agreements and ensure that State CIP funding is only used for the purposes provided for under the law.

Response: Although not documented, we did consult with neighboring school systems relative to the rates that they pay prior to making the recommendation to the Board. In this specific case, the rate provided to CCPS was slightly higher than the rate provided to the other jurisdiction; that system was much larger than ours, which was a significant driving factor associated with the pricing along with the fact that our system was located on three separate sites compared to just one in the other jurisdiction. The PPA was submitted to the Board for approval and the Board properly approved it. This action was done during a Board work session and unfortunately no minutes were taken. The use of State CIP funds for this energy contract was approved by the State. Any future PPA will be competitively bid and Board approval will be properly documented.

12. Recommendation: CCPS should evaluate its preventative maintenance schedule to determine whether changes should be made that considers staffing and risk and use its web-based system for preventative maintenance tasks and document preventative maintenance performed and maintain such documentation.

Response: We have recently automated our maintenance work order system to include iPads for each maintenance worker. This will enable us to track additional time and material data. The next step is to expand this platform to include preventative maintenance tasks. We anticipate that this work will be completed by June 30, 2017.

#### Transportation Services

13. Recommendation: CCPS should take steps to determine if buses can be used more efficiently. Specifically, we recommend that CCPS develop formal, comprehensive written procedures that include specific target bus ridership percentages and student ride times and fully utilize the capabilities of its automated routing software to maximize ridership on its bus routes.

Response: All Caroline County regular route buses are 72 passenger; Bus routes are calculated by time & capacity. Due to the time it takes to reach some pickup locations, many buses do not operate at capacity. Many parents transport their child and many high school students drive their personal vehicles and transport other students with them. Our automated routing software does not take in to account our rural setting; it does not consider door side pickup and delivery on major roadways. At the end of each school year the supervisor and dispatcher review each route to see if any adjustments are necessary. During the summer of 2017 we will develop formal, comprehensive written procedures that include specific target bus ridership percentages and student ride times and review our routing software to ensure that routes are operating as efficiently as possible given our safety parameters.

14. Recommendation: CCPS should use market investment rates as a basis for establishing contractor rates for the annual PVA and pay PVA rates based on the periods of service used in the PVA's calculation, develop supportable cost estimates as a basis for establishing reasonable per mile maintenance costs, and exclude fuel excise taxes from contractor payments.

Response: The 2016-2017 school year is the last year of the current five-year contract. These items will be negotiated as part of the contract negotiations to include eliminating the federal and state fuel taxes. We will also negotiate the reimbursements based on supportable cost estimates to include market investment rates and anticipated period of service.

15. Recommendation: CCPS should independently verify bus contractor's manifests to ensure that the payments to the contractors accurately reflect the actual bus services provided; document the verification process and review past payments and pursue discrepancies, including those we identified.

Response: For the past several years the transportation department has been short handed due to a lack of qualified bus drivers. On many days we do not have any substitute bus drivers, which requires the Supervisor of Transportation to drive. This results in the departments' inability to perform many of these recommendations. The bus driver pay scale was increased significantly for this fiscal year with the hope to attract additional drivers to fill vacant positions. Despite these efforts we still have two full time driver vacancies, which limits our ability to allow driver trainers the time to complete many of the recommendations. We will investigate using the routing software to verify the mileage for each bus route. This mileage verification will be documented and used to eliminate discrepancies.

16. Recommendation: CCPS should incorporate all applicable payment arrangements in the written bus contractor agreements and obtain Board approval for all agreements; pay bus contractors for the actual mileage driven and for the PVA rates included in the formal agreements, and maintain proper documentation supporting the calculation of PVA amounts.

Response: All contractors' current PVA's will be reviewed and corrections made if necessary. Going forward, all PVA's will be listed and kept with current contracts. In addition, going forward all applicable payment arrangements will be incorporated into the written bus contractor's agreements and they will be paid for the actual mileage driven.

17. Recommendation: We recommend that CCPS ensure that an employee independent of the payment processing verifies the accuracy and propriety of payments by performing a documented comparison of the amounts paid to supporting documentation.

Response: The Field trip coordinator or dispatcher is now reviewing all monthly calculations before they are submitted by the supervisor for payment. The field trip payment process is also being independently reviewed prior to submitting for payment.

#### Food Service Operations

18. Recommendation: CCPS should independently review voids and that the reviews be documented.

Response: A new point of sale system was installed for school year 2014-2015. The system was brand new to all the cashiers and the procedures for ringing in students differed. This was a difficult adjustment for the cashiers. The old system would allow the cashier to ring the entrée first and see if the student had enough money for ala Carte sales. The new system is opposite, you have to ring in all ala Carte first and then the reimbursable meal key is the close out for the transaction. The staff has gotten much better at deducing if the student has enough money for ala carte prior to hitting the close out key.

Managers run a void report daily and comment on any voided transactions larger than \$3.00. The cashiers make note at the time of the transaction. We are also working with the new POS vendor to change the way a transaction is completed. On the district level, beginning in March 2015 we are running a month end void report and follow up with managers if there are any suspicious voids or a large number. We handle such little cash and usually do not have to give students change and therefore feel the opportunity for theft is minimal.

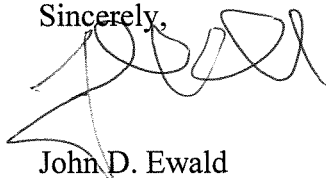
#### School Board Operations

19. Recommendation: CCPS should establish procedures to verify the amounts paid for healthcare insurance. Specifically, we recommend that CCPS obtain documentation to support actual claim payments and ensure that all amounts billed for claims are proper, and use detailed claims payment data to ensure that claims paid about the stop-loss limit are reimbursed by the insurer.

Response: We are one of six eastern shore school systems and one county government that collectively purchase health insurance (ESMEC Health Insurance Alliance). We will present this recommendation to ESMEC at their next meeting and strongly support the need for a claims audit. In addition, we will annually verify the administrative fee and stop loss amounts being charged by the insurance carrier by independently calculating the administrative fee and obtaining claims data from the insurance carrier in order to calculate the stop loss amount. This will then be compared to the calculations performed by the carrier and any overpayment recovered from the carrier.

Thank you again for the opportunity to respond to your recommendations. Should you have any questions, please feel free to contact Mr. Milton Nagel or me.

Sincerely,



John D. Ewald  
Superintendent of Schools

Cc: Board of Education  
Milton Nagel, Assistant Superintendent

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