

Financial Management Practices Audit Report

Dorchester County Public Schools

November 2017



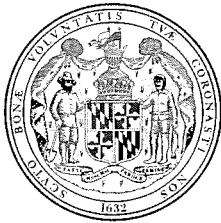
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MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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November 15, 2017

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Dorchester County Public Schools (DCPS) 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 DCPS' 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 DCPS needs to improve internal controls and accountability in a number of areas including procurement and disbursements, payroll processing, equipment inventory, information systems, transportation services, and employee and retiree health care benefits. For example, DCPS had not established processes to limit or monitor critical system capabilities assigned to employees, including users of DCPS' automated procurement and accounts payable system and the human resources and payroll system, to ensure they were necessary, appropriate or properly restricted, and we found certain users could perform incompatible functions. Also in the transportation services area, we identified deficiencies contributing to inefficiencies and excessive costs.

We found that DCPS needs to ensure its methodology for determining payments to bus contractors results in the best value. For example, we estimated that payments to bus contractors for the purchase price and investment return on buses placed into service since 2001 was \$3.7 million greater than if a reasonable rate for the return on investment had been used. In addition, the reasonableness of payments to bus contractors for bus maintenance costs could not be determined, and the value of federal excise taxes (\$199,000 over a six-year period) was not excluded from payments to contractors for fuel usage. Finally, DCPS did not perform a system-wide route analysis or use an automated bus routing software to maximize the ridership on its bus routes.

Significant security risks existed within the DCPS computer network. For example, DCPS lacked assurance that adequate information technology security and operational controls existed over its financial system that is hosted, operated, and maintained by a service provider. Further, monitoring controls over the student information system database were not sufficient. In addition, DCPS did not have a complete information technology Disaster Recovery Plan for recovering computer operations from disaster scenarios (for example a fire). Finally, DCPS' computer network was not adequately secured and procedures for maintaining and securing its numerous computers against malware were not sufficient.

DCPS did not always make use of a competitive procurement process and for certain procurements, no contract agreements were on file to verify the propriety of billings. Also, DCPS entered into a power purchasing agreement with a solar energy provider without determining whether it had received the most favorable terms, as we noted that other local government entities had obtained more favorable terms for similar agreements. Further, DCPS also needs to ensure the accuracy of payments for employee and retiree healthcare. For example, DCPS did not ensure the accuracy of payments for healthcare claims that totaled \$7.5 million for the plan year ended August 31, 2016.

The DCPS 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 DCPS.

Subsequent to this audit, DCPS requested and was granted an exemption from the State law requiring the Office of Legislative Audits conduct a financial management practices audit of each local school system once every six years. In this regard, legislation enacted during the 2016 Session of the General Assembly (Chapter 261, 2016 Laws of Maryland) allowed a local school system meeting certain conditions to obtain an exemption for one six-year audit cycle.

Consequently, it is anticipated that the next financial management practices audit of DCPS will occur during the cycle covering fiscal years 2023 to 2028.

Respectfully submitted,

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

Thomas J. Barnickel III, CPA
Legislative Auditor

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

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Background Information

Statistical Overview

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Dorchester County Public Schools (DCPS) ranks 20th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2016 full-time student enrollment was 4,739 students. DCPS has 13 schools, consisting of 6 elementary, 1 primary, 2 middle schools, 2 high schools, and 2 other types of schools (including vocational and special).

According to DCPS' audited financial statements, fiscal year 2016 revenues were \$73.1 million and expenditures were \$73 million. The largest expenditure category was salaries and wages, including benefits, which accounted for 74 percent of total expenditures during fiscal year 2016. According to MSDE records, during the 2015-2016 school year, DCPS had 738 full-time equivalent positions, which consisted of 510 instructional and 228 non-instructional employees.

Oversight

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

External Audits

DCPS 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 DCPS' federal grant programs (as required by federal regulations). We reviewed the resulting financial statement audit and Single Audit reports for fiscal years 2011 through 2015, and examined the

related work papers for fiscal year 2015, 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 DCPS' financial statements and conducted the Single Audit, and the risks and scope of our audit in certain areas. As a result, we reduced the scope of our audit work related to State and local government revenues received via wire transfer, accounts receivable, and federal grant activity.

Status of Findings From Preceding Audit Report

Based on our current audit assessment of significance and risk to our audit objectives, our audit included a review to determine the status of 14 of the 22 findings contained in our preceding audit report dated January 10, 2011. We determined that DCPS satisfactorily addressed 4 of these findings. The remaining 10 findings are repeated in this report.

Findings and Recommendations

Revenue and Billing Cycle

Background

Dorchester County Public Schools (DCPS) revenues consist primarily of funds received from Dorchester County, the State, and the Federal government. According to the DCPS audited financial statements, revenues from all sources totaled \$73.1 million during fiscal year 2016. In addition, schools collect funds for other purposes such as student activities, clubs, and school publications. Because they are not considered school revenue, these school activity funds are accounted for separately by each school and reported in summary in the audited financial statements. Although this revenue is raised through student related activities, DCPS has a fiduciary duty to safeguard these funds. For fiscal year 2016, school activity fund collections totaled \$1.2 million and the June 30, 2016 balance was \$364,000.

External Audits

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

Reviews of School Activity Funds

The independent certified public accounting firm contracted by DCPS to perform its annual financial audit also conducts a limited review of the school activity funds (SAF). These reviews consist primarily of tests of SAF bank reconciliations, and receipt and disbursement transactions at selected schools (although all schools' SAF were reviewed and tested in fiscal year 2015). The firm's testing for fiscal year 2015 and 2016 did not identify any improprieties or prevalent violations of DCPS policy.

Also, a Finance Department supervisory employee conducts SAF reviews to determine whether proper controls have been established over collections and disbursements, and funds have been properly accounted for. These internal SAF reviews are performed at all schools annually and the related findings are discussed with school principals and central administrative staff. These reviews identified some control weaknesses at certain schools that

were addressed by school management. The resultant reports we reviewed disclosed that internal control weaknesses identified were not prevalent.

Finding 1

Adequate accountability and control over cash receipts had not been established. For example, collections were not recorded upon receipt and there was no independent verification that certain collections were deposited.

Analysis

DCPS had not established adequate accountability and control over cash receipts which according to its records, totaled \$3.5 million in fiscal year 2016. These receipts consisted primarily of checks received through the mail from various government sources (such as the Dorchester County government for construction-related funds and the Maryland State Department of Education), and the majority of these receipts were initially received in the Finance Department. As a result, assurance was lacking that all collections were deposited.

- Employees who initially received collections in the Finance Department, and the employees of several other departments (primarily Special Education and Human Resources) who transferred collections to the Finance Department, did not record nor restrictively endorse checks immediately upon receipt to establish initial accountability and control. Specifically, no initial listing of checks received in the mail was prepared, but rather the recordation and restrictive endorsement of checks was not performed until the Finance Department prepared the bank deposit, which could be the following business day or later.
- There was no independent verification to ensure all collections received were properly deposited. We were advised by Finance Department personnel that a verification was performed; however, the individual performing the verification only included selected deposit items, and the items selected were not documented. Furthermore, this individual was not independent, as they had access to receipts prior to deposit, and as previously commented upon, no record of initial accountability existed, which is necessary to properly perform a deposit verification.
- The same Finance Department employee who recorded the collections in the financial records, prepared and made the deposit, and was responsible for any related billing and recording payments in the accounts receivable records. Further, no independent verifications were performed

to ensure credit postings to the accounts receivable records were supported by the bank deposits credited to DCPS. According to DCPS records, this employee prepared approximately 570 billings totaling \$2.2 million in fiscal year 2016. For example, billings were prepared for reimbursement of certain capital project expenditures, bus services, and health insurance premiums.

Immediate recording and endorsing of checks is necessary to protect assets during processing and that recordation should be independently verified to validated bank deposits to ensure all amounts received have been credited by the bank to DCPS. Finally, adequate segregation of duties should exist between the collection, deposit, and various accounts receivable functions.

Recommendation 1

We recommend that DCPS

- a. immediately record and restrictively endorse all checks;**
- b. independently verify, through the comparison of initial receipt and validated deposit documents, that all collections were subsequently deposited; and**
- c. ensure that accounts receivable records are maintained by individuals independent of the cash function; and that critical transactions are subject to supervisory review and approval, at least on a test basis.**

Federal Funds

Background

DCPS receives funds pertaining to federal government programs that are generally restricted for use for a specific program (such as the School Lunch Program or Special Education). According to the audited Schedule of Expenditures of Federal Awards, fiscal year 2016 expenditures totaled \$7.2 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 Audits of DCPS' federal grants for fiscal years 2012 to 2016 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 DCPS' compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the fiscal years 2012 to 2016 required Schedules of Federal Awards

(which includes claimed and reported grant expenditures). The related reports stated that DCPS 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

DCPS had established a procedure to identify children eligible for Medicaid-subsidized services and the services rendered. Medicaid is an entitlement program for which certain service costs can be reimbursed to DCPS. Medicaid activity is not covered by the Single Audit of federal grants. For 10 students tested, we concluded that reimbursements were generally requested and received for all eligible Medicaid-subsidized services. According to agency records, DCPS received approximately \$1.1 million in Medicaid funding during fiscal year 2016.

Procurement and Disbursement Cycle

Background

According to the audited financial statements and DCPS records, non-payroll disbursements totaled \$17.9 million during fiscal year 2016. Requisitions for goods and services are computer generated by the requesting department and must be approved electronically first by department supervisory personnel and then by one of the Assistant Superintendents, before the related purchase orders are printed and signed by the Comptroller. DCPS written procurement policies require that certain procurements over \$15,000 (such as school building, building improvements, supplies, and equipment) be competitively bid and approved by the Board, with the exception of textbook purchases and other materials of instruction and emergency items. Although not included in its written policies, it is DCPS practice to also require the solicitation of written quotes for all purchases of \$1,000 or greater. Payments are processed by the finance department through an automated system that prints vendor checks and posts the payment to the financial records.

Finding 2

DCPS 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

DCPS did not adequately 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 incompatible capabilities.

DCPS did not periodically reevaluate the system capabilities needed by employees to perform their duties, assess the compatibility of employees' duties, and make appropriate changes to restrict inappropriate or unneeded capabilities. As a result, DCPS was unaware that six employees were assigned system capabilities that allowed them to perform unnecessary and incompatible functions.

- Three finance department employees had incompatible system access capabilities that would allow them to add a vendor, enter invoices for payment, and print and obtain disbursement checks. In addition, these employees had access to the check stock. Further, the review of the system-generated accounts payable batch listing (which includes invoices entered for payment processing) performed prior to payment was not independent, as the employee who reviewed it had unlimited procurement and accounts payable system capabilities. Finally, there was no subsequent review of the listing of printed checks to supporting documentation.
- Two information technology employees had unnecessary system administrator access that allowed them to add or change employee accesses, including their own, and perform all procurement and accounts payable system functions.
- The five employees mentioned above, along with another finance department employee, had system access capabilities that would allow them to both generate and approve accounts payable batches without independent supervisory approval.

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. We commented on the failure to segregate incompatible functions and restrict system access to critical system functions in our preceding audit report where we cited three of these same employees.

Recommendation 2

We recommend that DCPS strengthen its control over the automated procurement and accounts payable system and related processes.

Specifically, we recommend that DCPS 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. restrict access to check stock to individuals who are independent of the check processing function (repeat), and**
- d. establish a process to ensure that a proper and independent review of disbursement checks is performed (repeat).**

Finding 3

DCPS' procurement policies were not sufficiently comprehensive, as they did not address the competitive solicitation of services, justifications for sole source procurements, or intergovernmental cooperative purchasing agreement (ICPA) contract documentation standards.

Analysis

DCPS' formal procurement policies were not sufficiently comprehensive, as they did not include requirements for the competitive solicitation of services, justifications for sole source procurements, or ICPA contract documentation standards. While the DCPS policies did address the competitive procurement of certain purchases over \$15,000 (such as school building, building improvements, supplies, or equipment) they did not require the competitive procurement of services over \$15,000. In addition, the policies do not require the preparation of a documented analysis of the benefits of utilizing an ICPA, as required by State law, or the maintenance of related ICPA contract documents on file. Finally, the policies do not require a documented justification when using the sole source procurement method, which we commonly find required by other school systems and the State government.

The need for more comprehensive procurement policies is demonstrated by the results of our test of contract procurements, which are described in detail

in the following report finding. To summarize, our test of 19 procurements, each over \$15,000, for goods and services during fiscal years 2014 to 2016, with contract awards totaling \$48.1 million, disclosed that 7 of the contracts totaling \$1.4 million were procured through ICPAs that lacked a written ICPA benefit analysis, as required by State law, and 2 contracts totaling \$616,000 that were not competitively bid and lacked a written justification for the use of the sole source procurement method. Finally, no contract agreement was on file for 5 of the 7 aforementioned ICPA contracts.

Comprehensive procurement policies should ensure purchases are obtained at the best value and, at a minimum, should specify the acceptable procurement methods for all types of procurements and establish required contract documentation, which is necessary for the verification of the propriety of related contract billings. We commented on the lack of comprehensive policies in our preceding audit report.

Recommendation 3

We recommend DCPS enhance its existing procurement policy to

- a. address all categories of goods and services purchased, including the procurement methods to be used (repeat);**
- b. require documented justifications be prepared for all sole-source awards (repeat); and**
- c. establish standards for the use of ICPAs that mandate the preparation of a benefit analysis, as required by law, and the maintenance of ICPA agreements on file.**

Finding 4

DCPS did not always comply with certain State procurement laws, justify the use of the sole source procurement method, or verify amounts billed with the related contract terms.

Analysis

Our test of 19 procurements for goods and services for fiscal years 2014 to 2016 with contract awards totaling \$48.1 million and fiscal year 2016 disbursements totaling \$4.4 million, disclosed that certain State procurement laws were not complied with, including publishing contract bid solicitations and awards on *eMaryland Marketplace*. Furthermore, we found cases where services were not competitively bid or supported by sole source justification documentation, and vendor billings were not verified with the related contract terms prior to payment.

- DCPS did not use *eMaryland Marketplace* to publish bids or awards for seven procurements tested where a competitive procurement process resulted in Board approved contract awards of greater than \$25,000. These awards totaled a collective \$46 million with fiscal year 2016 vendor payments of \$2 million. State law requires a local school system to publish a procurement solicitation or notice of award of greater than \$25,000 on *eMaryland Marketplace*.
- For seven contracts totaling \$1.4 million that were awarded based on ICPAs, DCPS had not prepared written documentation of the benefits of utilizing an ICPA, as required by State law. Additionally, for four of the ICPAs totaling \$436,000, DCPS had not obtained copies of related price lists to verify the propriety of vendor billings. For example, we selected for testing invoices totaling \$263,600 for roofing materials and gym equipment related to two facility renovation contracts totaling \$278,000. However, we were unable to determine if DCPS was charged the appropriate amount of discount or mark-up because DCPS was unable to provide us with related price lists or subcontractor costs.
- For two vendors, each paid over \$25,000, with collective contract awards totaling \$616,000, the services were either not competitively bid or supported by sole source justification documentation. Additionally, for one of these vendors (the County government), who was paid \$559,500 in fiscal year 2016 for providing school nursing staff to each school, the description of the terms of the related contract were insufficient. Specifically, the number of nurses, their professional licensing status, specific services to be provided, required hours of service, billing rates and maximum contract cost were not specified.¹ Rather, DCPS was billed quarterly based on an annual amount determined by the County. Consequently, DCPS did not have a basis to assess whether all services due were provided or the appropriateness of the amounts billed.

¹ DCPS had executed a Memorandum of Understanding with the County that the Board approved in 2012, but it did not include an expiration date and lacked the aforementioned essential contract terms.

Recommendation 4

We recommend DCPS

- a. comply with State procurement law by using *eMaryland Marketplace* for contract procurement solicitations or awards and before deciding to participate in an ICPA, prepare written documentation of the benefits of utilizing the ICPA for Board review;
- b. maintain contract pricing information on file, including the applicable contracts, and verify the accuracy of prices on vendor billings;
- c. procure contracts/purchases of over \$25,000 through a competitive bidding process, or document the justification of any sole source procurements; and
- d. execute written contracts for services procured and expected to exceed \$25,000 that include sufficient specificity, such as agreed-upon services and related financial terms and conditions, to enable the subsequent verification of related billings.

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the DCPS budget. According to DCPS records, fiscal year 2016 salary, wage, and benefit costs totaled \$55.1 million, or 74 percent of the \$73 million total operating expenditures. According to Maryland State Department of Education reports, during the 2015 – 2016 school year DCPS had 738 full-time positions, which consisted of 510 instructional positions and 228 non-instructional positions.

DCPS uses an automated system to maintain human resources (HR) 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 5

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

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

- DCPS had not established a formal process for granting or modifying HR and payroll system user access capabilities that required documented supervisory approval. Presently, the level of access was based upon either electronic mail messages or verbal requests made by supervisors. Furthermore, DCPS did not generate periodic system reports of employee capabilities for supervisory review to ensure adequate separation of duties and to confirm the continued need for assigned capabilities.
- Certain individuals were assigned incompatible HR and payroll system access capabilities, such as changing employee salary and direct deposit information, or were assigned capabilities that were not needed to perform their job duties. For example, our review of the 14 DCPS employees we deemed to have critical user access capabilities disclosed that as of December 6, 2016, 13 could perform incompatible functions or had unnecessary access, including 2 information technology (IT) employees with unlimited system administrator access that allowed them to perform all HR and payroll functions. Nine of the employees also had access that allowed them to add employees, change salary and direct deposit information, and process payroll payments.
- Critical HR and payroll transactions were not subject to an independent review or comparison to supporting documentation. Specifically, we were advised by DCPS management that HR and payroll personnel who process transactions generally reviewed each other's transactions prior to input, but such reviews did not usually include a review of source documents and were often not documented. Certain transactions, such as the recording of leave and overtime were not subject to any review. A report of all payroll changes (new hires, salary changes, payroll adjustments) processed is generated after each payroll run, but is subject to only a

cursory review to ensure that no users changed their own payroll information. Furthermore, the three supervisors who reviewed the payroll change reports had HR and payroll transaction processing capabilities and were therefore not independent, and did not review any source documents to verify the validity of the report transactions.

For example, two employees were responsible for calculating and entering payment amounts into the system for other earnings (such as teacher workshops, extra duty, per diems, overtime, vacation and sick day payouts) that totaled \$980,000 in fiscal year 2016. However, these transactions were not subject to a documented independent supervisory review of supporting documentation. Our test of 10 other earnings transactions totaling \$163,000 disclosed one transaction in September 2012 where an employee was over paid by \$8,025. The employee should have been paid \$1,287 for attending various summer program retreats and meetings over several days, based on a daily per diem rate of \$282.18, but instead received \$9,312, when the per diem was incorrectly mistaken for an hourly rate and applied to the 33 hours of attendance.

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 5

We recommend that DCPS

- a. perform a periodic documented independent review of user capabilities to ensure access is properly granted,
- b. limit access to critical functions to only those employees who require such capabilities to perform their assigned job duties (repeat),
- c. eliminate access to and segregate incompatible system functions (repeat),
- d. perform a periodic documented independent review of personnel and payroll transactions processed using supporting documentation (repeat), and
- e. take appropriate actions to recover the \$8,025 overpayment.

Inventory Control and Accountability

Background

According to DCPS audited financial statements, the undepreciated value of its capital equipment inventory totaled \$4 million as of June 30, 2016. DCPS uses an automated system maintained by its Finance Department to capitalize inventory with a cost of \$5,000 or more for financial statement

purposes. Additionally, all equipment items costing over \$500 and computers (desktops, laptops, tablets), which are deemed non-capital items, are recorded in the same system for tracking and control purposes.

Finding 6

Certain supervisory reviews of recordkeeping transactions were not performed or documented, equipment additions were not always properly recorded, and deletions to the records were not always properly authorized.

Analysis

Supervisory review and approval of inventory transactions, including posting of activity to the inventory records and equipment deletions, was not required or infrequently performed. In addition, our tests indicated that equipment inventory records were not complete or comprehensive.

- Certain supervisory reviews of inventory transactions were not performed or documented. Specifically, three employees were primarily responsible for recording additions, disposals, and adjustments to the inventory records maintained on an automated system at the finance department; however, the entries were not independently verified to supporting documentation by supervisory personnel, even on a test basis. Also, the disposal form to remove equipment from the records, which required supervisory approval, was not always used. Our test of 10 technology items removed from the inventory records during fiscal year 2016 disclosed that for 9 items, totaling \$14,800, a disposal form with proper supervisory approvals was not submitted, in violation of DCPS' policies.
- DCPS did not always accurately maintain its equipment inventory records. Our test of 20 technology items totaling \$22,160 purchased in March 2016 disclosed that 12 items totaling \$13,296 were not recorded in the records, as of January 2017. In addition, our review of the complete inventory listing, disclosed that as of that date there were 4,443 items listed as technology items (laptops, desktop, scanners) in the inventory records totaling \$1.4 million, of which 2,932 had missing cost information and 2,911 did not have a purchase date, even though the inventory data base provides for the recordation of such information.

According to DCPS inventory records, as of January 2017, there were 4,632 equipment items totaling \$3.6 million, which included capital and non-capital items. However, as a result of the deficiencies cited above, equipment could be misappropriated without detection and the accuracy of the records is questionable.

Recommendation 6

We recommend that DCPS ensure

- a. postings to the inventory records (such as, disposals and adjustments) are properly supported and approved by independent supervisory personnel, at least on a test basis;**
- b. equipment deletions are accompanied by a properly approved disposal form; and**
- c. inventory records are properly maintained by recording all applicable equipment purchases, including their cost and purchase date, as required.**

Information Technology

Background

The DCPS Information Technology Department (ITD) provides information systems services to all DCPS technology users. Specifically, the ITD maintains and administers the DCPS student information application and computer operations. The ITD also operates the DCPS network that links the individual schools' local networks to the Internet and to the computer resources located at the DCPS Central Office in the DCPS Board of Education building. A contractor hosts the DCPS' financial information application on its servers and supports the application.

Finding 7

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

Analysis

DCPS lacked assurance that adequate information technology security and operational controls existed over its financial system that was hosted, operated, and maintained by a service provider. DCPS' contract with the service provider dated August 6, 2007 did not adequately protect DCPS against certain significant information technology security and operational risks. For example, this contract:

- contained a disclaimer of liability, on behalf of the service provider, relating to service quality and availability;
- did not contain any provision requiring the service provider to submit to a third party independent review. The American Institute of Certified Public Accountants has issued guidance concerning examinations of service organizations. Based on this guidance, service organizations (like the

aforementioned service provider) may contract for an independent review of controls and the resultant independent auditor's report is referred to as a Service Organization Controls (SOC) report. There are several types of SOC reports, with varying scope, levels of review, and auditor testing. One type of report, referred to as a SOC 2 Type 2 report, includes the results of the auditor's review of controls placed in operation and tests of operating effectiveness for the period under review and could include an evaluation of system security, availability, processing integrity, confidentiality, and privacy;² and

- did not require the service provider to protect against data contamination between customers.

As a result of these conditions, DCPS lacked assurance that adequate security controls existed over its data and had limited remedies against inadequate service quality and system downtime. Best practices established by the Cloud Security Alliance, a not-for-profit organization with a mission to promote the use of best practices for providing security assurance relating to service providers, include detailing the specific responsibilities mentioned above in clear and concise contractual language to limit operational and security risks. Similar conditions were commented upon in our preceding audit report.

Recommendation 7

We recommend that DCPS

- a. ensure that the service provider contract excludes blanket disclaimers of liability on behalf of the service provider (repeat);**
- b. ensure that the service provider contract includes provisions that address the noted security and operational risks, including requiring the service provider to regularly obtain SOC 2 Type 2 reviews pertaining to the service provider's information technology security and operational controls (repeat); and**
- c. obtain and review copies of these SOC 2 Type 2 reports from service providers and ensure that the related independent reviews adequately address all critical security and operational concerns and that the service provider implements all critical report recommendations.**

² When performing our audit work in September 2016, we determined that the most-recent audit report that DCPS had obtained from the service provider hosting the DCPS financial application was a SOC 1 report, which does not address key security controls, that covered the period from July 1 through December 31, 2012. In addition, we determined that as of September 14, 2016, the aforementioned service provider had not undergone a third party independent review (for example a SOC review) since the aforementioned review covering the period ended December 31, 2012.

Finding 8

The student information system database was generally not configured to log security activity. In addition, password controls over that database and the student information and finance applications were not adequate.

Analysis

Monitoring controls over the student information system database were not sufficient, and password controls over this database and the student information and finance applications were not adequate.

- The student information database was not configured to log any database security activity except for certain privileged operations. In addition, DCPS was not reviewing any logs of the use of those privileged operations. Consequently, there was no effective monitoring of security activities for this database. Best practices identified in the State of Maryland *Information Security Policy* require that information systems 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. A similar condition was commented upon in our preceding audit report.
- Password controls were not sufficient, as the passwords controls over the DCPS' student information database and the student information and finance applications did not meet the minimum recommended settings in the State of Maryland *Information Security Policy*. For example, password aging, length, and complexity were not enforced for DCPS' student information application. Similar conditions were commented upon in our preceding audit report.

Recommendation 8

We recommend that DCPS implement best practices prescribed by the State of Maryland *Information Security Policy* by

- a. setting 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 (repeat); and
- b. establishing controls related to password aging, length, and complexity, over the DCPS' student information database and the student information and finance applications (repeat).

Finding 9

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

Analysis

DCPS 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 *Information Technology Disaster Recovery Guidelines* provide best practices on the minimum required elements needed for a DRP. DCPS' DRP did not address several of these minimum requirements. For example, the DRP did not contain an alternate processing site, complete listings of hardware and software, or the restoration of network connectivity. In addition, the DRP had not been tested and a copy was not stored at an off-site location. 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. A similar condition was commented upon in our preceding audit report.

Recommendation 9

We recommend that DCPS

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

Finding 10

The DCPS computer network was not adequately secured to assist in the detection/prevention of potential security breaches and attacks, and restrict access to the entire network.

Analysis

The DCPS computer network was not adequately secured.

- Intrusion Detection Prevention System (IDPS) coverage for the DCPS network did not exist. Although a host-based intrusion protection system (HIPS) was available for use on all DCPS computers, we were advised that DCPS did not install the HIPS on any of its computers. A properly configured network based IDPS, supplemented by HIPS, can aid significantly in the detection/prevention of, and response to, potential

network security breaches and attacks. Also, best practices identified in the State of Maryland *Information Security Policy* require protection against malicious code and attacks by using IDPS to monitor system events, detect attacks, and identify unauthorized use of information systems and/or confidential information.

- All DCPS students had unrestricted wireless network level access to the entire DCPS network. In addition, because of the weak wireless authentication method used and the lack of adequate network level access controls, former faculty, staff, and students (including terminated and expelled individuals) had network level access to the entire DCPS network over all ports. Best practices prescribed by the University System of Maryland's *IT Security Standards* state that wireless networks should authenticate the identity of all users, where necessary, and maintain restricted access to critical resources.

Recommendation 10

We recommend that DCPS

- a. perform a documented review and assessment of its network security risks and identify how network based IDPS and HIPS coverage should be best applied to its network. Based on this review and assessment, we recommend that DCPS implement IDPS coverage as necessary;**
- b. use network based, individual authentication for wireless connections made by its faculty, staff, and students; and**
- c. utilize access control lists on its network devices to limit authenticated wireless users' access to critical network devices based on each user's needs.**

Finding 11

DCPS' numerous active computers were at risk, as DCPS did not verify that malware protection software was installed and operational and that administrative rights were properly limited.

Analysis

Procedures for maintaining and securing DCPS' 3,945 active computers were not sufficient.

- DCPS did not periodically verify that malware protection software was installed and operational on all of its 3,945 active computers. Our testing as of December 20, 2016 noted that the console that DPSC used to manage its malware protection software on the aforementioned computers only identified 598 computers with operational malware

protection software. Therefore, DCPS lacked assurance that 3,347 of its computers had malware protection software that was operational and current.

- Local administrative rights were not properly restricted. Our test of 45 users noted that 9 users were inappropriately assigned local administrative rights to their workstations. If these 9 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, the administrative rights would permit these 9 users to disable the malware protection software on their workstations.

Best practices 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 anti-malware solutions that, to the extent possible, include a capability for automatic updates.” Also, Microsoft TechNet recommends that workstation accounts for regular employees (non-administrators) run with standard user rights to lessen the risk of compromise from malware.

Recommendation 11

We recommend that DCPS

- a. ensure that all managed computers are running current, operational versions of the malware protection software used by DCPS; and
- b. limit the assignment of local administrative rights on DCPS workstations to information technology network and system administrators and individuals authorized in writing to have such rights, with documentation supporting these authorizations retained for future reference.

Facilities Construction, Renovation, and Maintenance

Background

DCPS employs a staff of 64 employees to maintain its 13 schools and 2 administrative and support facilities. According to the fiscal year 2016 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to DCPS facilities over the next ten years were estimated to cost \$91.5 million.

DCPS Construction-related Contracts Were Properly Approved by the Board

Our review of eight construction-related procurements during fiscal years 2014 through 2017 totaling \$46.1 million, disclosed that they were generally properly procured and approved by the Board.

Processes are in Place to Minimize Energy Costs

DCPS employs an energy program manager and has processes in place to minimize energy costs. For example, DCPS utilizes an energy management system to monitor heating and air conditioning systems from a central location to control temperature settings and lighting timers and photocells to control outdoor lighting and occupancy sensors to control indoor lighting. Furthermore, DCPS has written policies that encourage both students and employees to be aware of and limit their energy use. Finally, DCPS participates in a consortium with other Eastern Shore entities to purchase energy at the best possible terms for members of the consortium. According to documents provided by the consortium (which we did not audit), DCPS saved over \$817,000 through energy cost avoidance from fiscal years 2001 to 2015.

Finding 12

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

Analysis

DCPS executed a power purchasing agreement (PPA) with a solar provider that included a 20-year escalating rate schedule with an estimated cost of \$2.4 million without using a competitive procurement process or formal analysis to ensure it received the most favorable financial terms.

In an effort to reduce electricity supply costs, DCPS executed a solar PPA in June 2012 that, according to the provider, could save DCPS approximately \$800,000 in reduced electricity bills over the 20-year life of the PPA. Subsequently, the contractor installed a field of solar panels on DCPS property at one location that would provide approximately 86 percent of the electricity requirements for one DCPS school in exchange for a 20-year guarantee that DCPS would purchase the electricity generated by that system from the contractor at pre-established rates at an estimated cost of \$2.4 million. The solar provider retained ownership of all equipment, environmental credits, financial incentives, and tax benefits associated with the systems. Under the terms of the PPA, DCPS was simply making a commitment to purchase electricity for a set period for defined rates, with an option to purchase the

equipment at the end of the 20-year period. This was the first PPA entered into by DCPS.

DCPS did not conduct a competitive solicitation, claiming that it had instead used an intergovernmental agreement, by piggybacking on an existing agreement between the solar provider and another Maryland Eastern Shore county government. However, the PPA made no mention of the use of an intergovernmental agreement. Further, if DCPS had made use of such an agreement, it 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.

Also, if an intergovernmental agreement was the basis for the PPA's terms and conditions, DCPS could not explain why they were paying a higher base rate (\$.0875 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 would have provided greater cost benefits. Based on the school's estimated electricity use and the differences in rates, additional costs to DCPS would equate to approximately \$8,300 for the first year of the contract and \$191,000 over the entire 20-year agreement.

In addition to the difference in rates between the source contract and DCPS' PPA, we noted a variability in rates between DCPS' PPA and the rates paid by other Maryland school systems for solar generated electricity, indicating a potential for rate flexibility that might have resulted in still lower rates if a competitive process had been used instead of an intergovernmental agreement. We have found that other Maryland school systems on the Eastern Shore have negotiated PPAs during the same time-period with similar arrangements regarding credits, tax benefits, and equipment ownership; however, those systems had certain financial terms that were more favorable than DCPS'. For example, one school system executed a PPA in March 2013 that had a fiscal year 2013 rate (\$.08 per kilowatt) that was 8.6 percent lower than the DCPS rate, and other Maryland school systems had recently obtained even more favorable terms. For example, a second school system had negotiated a rate (\$.0490 per kilowatt) in a January 2015 PPA that was 48 percent lower than the fiscal year 2016 DCPS rate. More significantly, this latter PPA did not have a yearly rate increase. In comparison, the two and a half percent escalation factor in the DCPS PPA accounted for \$500,000 of its total estimated cost of \$2.4 million for its 20-year life. Finally, we were

advised by legal counsel to the Maryland General Assembly that a public school solar project funded under a PPA likely would be subject to the Board of Public Works' school construction regulations and that those regulations establish a preference for competitive sealed bidding.

Recommendation 12

We recommend that DCPS

- a. ensure that the procurement method (competitive procurement or intergovernmental agreement) chosen for energy contracts provides the most favorable financial outcome for DCPS, and**
- b. appropriately document the use of intergovernmental agreements and comply with all related requirements in State law.**

Transportation Services

Background

DCPS has approximately 4,300 students eligible to receive student transportation services. These students were transported on 58 buses of which 48 were owned and operated by contractors and the remaining 10 were owned by DCPS. According to DCPS audited financial statements, fiscal year 2016 transportation costs totaled \$3.6 million, with \$2.6 million (72 percent) representing payments for contracted bus services. DCPS reported that 995,000 route miles were traveled to transport students for the 2015-2016 school year.

Monthly payments to bus contractors include a per vehicle allotment (PVA), which is intended as repayment of the full acquisition cost of a bus and an additional payment as a rate for return on investment (ROI). In addition, the monthly payments include funds for operational costs, such as hourly reimbursements for drivers and attendants, a per-mile maintenance fee, fuel costs, and an annual administrative fee. DCPS bus contracts are for a one-year term and renew automatically over the 15-year useful life of the bus unless terminated by either party by giving written notice not less than 30 days prior to the July 1st anniversary date.

Finding 13

DCPS 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 of its bus routes.

Analysis

DCPS bus routing procedures were not comprehensive, as they did not address the planning, reviewing, and changing of existing routes, and they did not specify ridership goals and student ride time limits. In addition, DCPS did not periodically perform a system-wide analysis of bus routes and related bus ridership to maximize efficiency. Although DCPS had purchased routing software in December 2010, as of our audit, DCPS had experienced technical difficulties with the software and it was still not fully operational. Consequently, DCPS was not yet able to use it to significantly enhance the efficiency of its bus operations.

Our analysis of student ridership disclosed that there might be opportunities to increase ridership on individual bus routes. Our review of 77 regular routes (48 buses) for the 2015-2016 school year disclosed that ridership on 42 routes (55 percent) was below 75 percent of computed capacity based on bus sizes³. Of the 77 routes, 18 (23 percent) had a ridership of less than 50 percent capacity. We recognize that Dorchester County includes large rural areas, which can make it difficult to achieve high bus capacity utilization in all cases. However, as our analysis included all regular routes, the buses cited were not isolated to only rural regions of the county.

Currently, DCPS uses existing routes and manually makes modifications as needed to accommodate students' school assignments. DCPS uses an informal student ride time limit of 90 minutes in manually adjusting routes, but does not have any ridership goals. DCPS purchased routing software in December 2010 and used global positioning system devices provided by the software vendor (on a temporary basis) to record its bus routes in the routing software for the 2010-2011 school year. However, in July 2013 the routing software system crashed with no available backups. Since this time, DCPS has been working on re-entering the routes manually. Therefore, DCPS was not yet able to use it to plan routes or generate system reports, such as number of students per route and bus capacity, to assess the efficiency of bus routes.

³ School bus capacities are lower than manufacturer stated capacities and differ depending on the school level. For example, the capacity for high school and elementary school routes is 48 and 61 students, respectively based on 72-passenger buses (manufacturer stated capacity).

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. A similar condition regarding the lack of comprehensive bus routing procedures to help plan more efficient services, was commented upon in our preceding audit report.

Recommendation 13

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

- a. develop formal, comprehensive written procedures that include specific bus ridership goals and student ride times (repeat);**
- b. take appropriate action to timely complete the recording of bus route data in its existing routing software; and**
- c. use its automated bus routing software and periodically perform a system-wide analysis of its bus routes, to maximize the ridership on its bus routes.**

Finding 14

DCPS had not established a formal methodology to calculate its PVA rate, and payments to bus contractors did not reflect market conditions, use actual costs, or consider available fuel credits, resulting in higher payments than necessary for student transportation services.

Analysis

DCPS had not established a formal methodology to calculate its PVA and payments to bus contractors did not reflect market conditions, actual costs, or available fuel credits, resulting in higher payments than necessary for student transportation services. Our review of the contract payments disclosed the following conditions:

- DCPS pays contractors an annual PVA for each bus. In accordance with past studies, the PVA is intended to reimburse the bus contractor for the cost of the bus with depreciation payments spread over the useful life of the bus, and provide an annual return on investment (ROI) for using the bus contractor's funds to buy the bus. However, DCPS did not use the methodology developed in the studies or any other formal methodology to calculate its PVA. That methodology would have considered or included various specific cost elements, such as the cost of the bus, an allowed depreciation percentage, and ROI.

Instead, during each fiscal year from 2011 to 2016, DCPS either used the previous year's PVA (for which DCPS had no documented basis) or

increased the PVA. The determination of the annual PVA was purportedly based on DCPS' conversations with three local bus dealers to obtain sales prices, after which DCPS calculated a collective percentage increase in the PVA, if any. The proposed annual rate was discussed with the local bus contractor association and then submitted to and approved by the Board. For previous years, the PVA was based solely on negotiations with the local bus contractor association after considering the PVA rates of neighboring school systems. The annual PVA for each bus placed in service increased from \$16,850 (fiscal year 2011) to \$18,700 (fiscal year 2016).

- Since there was no stated ROI in the PVA rates submitted to the Board, or any explanation or calculation of the ROI being paid, we calculated, using the actual purchase prices of the buses, the imputed ROI rate paid for years 2011 to 2016. We determined the ROI for those years ranged from 10.02 percent to 11.49 percent.

To estimate the financial impact of DCPS using PVA rates that were not based on actual costs or investment rates over the life of a bus, we calculated the PVA for the 48 primary buses being used to transport students during fiscal year 2016, which included buses placed into service dating back to 2001. Using the prime interest rate⁴ (which ranged from 3.25 percent to 9.24 percent) for the ROI and DCPS' 15-year estimated useful life of a bus in the standard PVA formula, we compared our PVA results to the DCPS PVA payments. This comparison showed that DCPS' annual PVA payments per bus were \$98 to \$8,406 higher than the payments would have been had the prevailing prime rate been used in the calculation. The effect is that, over the 15-year life of these 48 buses that were in service during fiscal year 2016, DCPS would pay out approximately \$3.7 million more than if a reasonable ROI had been used (\$1.7 million having already been paid and \$2.0 million to be paid over the remaining useful life). This analysis does not include the effect of any new bus purchases that were made after the beginning of the fiscal year 2017 school year (September 2016) and the lost interest income that could have been earned by DCPS on the excess amounts paid.

⁴ 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. In addition, a May 2010 MSDE PVA Workgroup commented that the profit (or ROI) to be included in the PVA should reflect what a reasonable investor or business person would expect on a long-term investment. As of January 2017, current 10 and 30-year US Treasury Note rates, which could be reflective of a reasonable long-term investment option, were 2.4 and 3 percent, respectively.

- DCPS could not show that the \$0.81 per-mile fee paid to reimburse bus contractors for maintenance costs was reasonable. We were advised that bus maintenance fees paid to contractors were based on DCPS owned bus maintenance costs, which we calculated to be \$0.49 per-mile in fiscal year 2016. However, DCPS could not explain the rationale of the difference in costs we calculated. In fiscal year 2016, DCPS paid \$647,000 to reimburse contractors for bus maintenance costs, which was \$255,000 more than if our calculated rate of \$0.49 per-mile was used.
- DCPS did not exclude federal fuel excise taxes from payments to bus contractors for fuel.⁵ DCPS pays contractors for fuel usage using a monthly average of diesel fuel prices, including taxes, and dividing by a miles-per-gallon (mpg) rate established by DCPS. However, according to federal law, DCPS 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. If DCPS had considered the \$0.244 exemption amount in its calculation, payments to the contractors would have been \$199,000 lower for fiscal years 2011 through 2016.

Additionally, the mpg rate used by DCPS to pay bus contractors for fuel usage (6 mpg) was less than the national average per the American School Bus Council. DCPS advised that longstanding 6 mpg rate was a compromise, since the school system's own smaller buses achieve 7 to 8 mpg, but that the contractors contended their buses achieve 5 mpg. However, the 5 mpg had not been validated and we estimated that DCPS payments to bus contractors would have been \$182,000 less during fiscal years 2014 through 2016, if the national average rate of 7 mpg had been in effect.

Similar conditions regarding the appropriateness of the PVA, maintenance, and fuel reimbursements were commented upon during our preceding audit.

Recommendation 14

We recommend that DCPS

- a. use documented actual costs and reasonable market investment rates as a basis for establishing contractor rates for the annual PVA (repeat),**

⁵ 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 a refund of State motor fuel taxes paid. Consequently, this exemption should be factored into future payments.

- b. use actual bus operating costs or develop supportable cost estimates as the basis for establishing reasonable contractor rates for per mile maintenance costs (repeat),
- c. exclude fuel excise taxes from contractor payments, and
- d. document the basis for the mpg used in reimbursing bus contractors for fuel usage and consider adopting the industry standard (repeat).

Finding 15

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

Analysis

DCPS did not adequately verify the accuracy of contractor reported mileage. Specifically, the mileage reported on the monthly manifests submitted by each bus driver and used by DCPS to calculate the fuel and maintenance components of the contractor's monthly pay was not compared to available mileage from mapping software applications. Currently, at the beginning of each school year, contractor manifests are compared to the previous year's manifest for reasonableness. If a manifest reflects significant time and mileage differences, a transportation employee will ride on the bus to verify the accuracy of the manifest. Payments for mileage-based fuel and maintenance reimbursements totaled approximately \$950,000 in fiscal year 2016.

Our test of January 2016 manifests for 10 bus routes disclosed that for 2 manifests, the amount of contractor reported miles exceeded the actual routes' mileage by a total of 13 miles per day, which represented approximately 30 and 15 percent of individual reported route mileage. We calculated the actual route miles using a mapping application available on the internet and determined that since reported mileage remained constant throughout the year, DCPS potentially overpaid for mileage for these 2 routes by a total of \$2,700 in fiscal year 2016. We noted similar issues for field trips for which payments in fiscal year 2016 totaled \$147,000.

Recommendation 15

We recommend that DCPS

- a. independently verify bus contractor's manifests to ensure that the payments to be made 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

Internal controls over payments to bus contractors were not adequate, as there was no independent review and approval of payment calculations performed by one individual.

Analysis

Payments for transportation services were not independently verified for propriety. Specifically, one transportation employee was responsible for entering data, including route miles, time, PVA, and fuel adjustments for each of the 48 contractor-owned buses into a spreadsheet used to prepare a summary report of the monthly bus contractor payments, which is submitted to the finance department for payment processing. However, the spreadsheet entries and payment amounts were not verified to supporting documentation by independent supervisory personnel, either prior to or after the payments were made by DCPS. Although the summary report was approved by a supervisory employee within the transportation department, supporting documentation was not reviewed as part of the approval process. Further, the summary report was forwarded to the finance department for final processing and payment without detailed information supporting the payments, precluding a post-payment verification. Therefore, there is a lack of assurance that payments are accurate.

Recommendation 16

We recommend that DCPS ensure that an employee independent of the payment processing verifies the accuracy and propriety of bus contractor payments, by performing a documented comparison of the amounts paid to supporting documentation.

Food Services**Background**

DCPS has 11 cooking cafeterias at its 13 schools. Food and related supplies are received and stored at each school. In fiscal year 2016, DCPS had 45 food service positions (consisting of 43 cafeteria positions and 2 administrative positions). According to the audited financial statements, food service operating revenue (\$2,808,682) exceeded expenditures (\$2,739,526) for fiscal year 2016, and in four of the last five years. We noted that the DCPS' meal per labor hour was routinely calculated and tracked, and the cost per meal was the lower than several similar-sized local school systems. We also noted that controls over the cash sales process and the related deposit practices were generally adequate.

School Board Operations

Background

The Board of Education of Dorchester County (the Board) is composed of five elected 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 DCPS financial statements and federal programs. The Board has not established any special committees.

DCPS Adopted an Ethics Policy that Met the Requirements of State Law

In March 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 DCPS employees. DCPS established an Ethics Panel consisting of five members who are 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 (Superintendents, Directors, Supervisors, Chief Financial Officer, Human Resource Officer, Principals, and Vice-Principals) by April 30th of each year.

Finding 17

Required financial disclosure statements were not always filed.

Analysis

DCPS did not ensure that financial disclosure statements were filed by Board members and certain employees by April 30th of each year and within 60 days after leaving office, as required by its ethics policy. Our test of 63 Board members and employees required to file ethics forms for calendar year 2015 disclosed that 38 individuals did not file the form as required, including 3 Board members. Specifically, one Board member last filed for calendar year 2011, while the other 2 last filed for calendar year 2013. During our testing, we found that DCPS was not tracking employees required to file ethics statements and was not properly following up on those that had not filed. We commented on the failure to ensure that individuals subject to the aforementioned policy comply with the requirements in our preceding audit report.

Recommendation 17

We recommend that DCPS actively enforce its ethics policy to ensure that all required disclosure statements are filed as required (repeat).

Other Financial Controls

Healthcare Background

DCPS is a member of a consortium of Eastern Shore governments and school systems for employee and retiree health care. The Consortium members are self-insured for healthcare costs up to the designated stop-loss amount of \$150,000 per participant per plan year. The Consortium contracts with a third party administrator (TPA) for health care claims processing services for employee medical (including vision), dental, and prescription costs and for the stop-loss insurance coverage. The Consortium last bid out its health care services for plan year 2013.

The TPA bills DCPS monthly subscription charges based on the number of participants and their medical coverage and medical providers submit claims to the TPA who pays them on behalf of DCPS. DCPS pays its TPA an administrative fee for these services. In a year-end settlement process, which segregates the participating agencies for the plan year ending August 31, the TPA nets the amount of medical claims they paid against the monthly subscription charges billed to and paid by DCPS to determine any excess amount due from DCPS or to be reimbursed by the TPA to DCPS. According to the TPA's records for the plan year ended August 31, 2016, DCPS actual health care expenditures totaled \$7.5 million, including \$399,000 for administrative fees and \$485,000 for stop-loss insurance coverage. As of November 2016, DCPS provided health insurance benefits to 995 enrolled employees and retirees.

Finding 18

Dependent eligibility documentation was not always obtained as required by DCPS policy.

Analysis

Although DCPS requires all employees to provide appropriate documentation, such as birth and marriage certificates, during the dependent enrollment process and had established procedures to verify the receipt of this documentation prior to the processing of related insurance coverage changes, this was not always done. Our test of nine employees hired in fiscal year 2017 with dependent insurance coverage disclosed that four of the

employees had not provided the required supporting documentation for their claimed dependents. According to the 2016 contract rates, the average cost for each dependent added to DCPS' plan was approximately \$4,100 per year.

Recommended practices published by the Government Finance Officers Association, state that health care cost containment is an important component of long-term financial planning and budgeting. We commented on the lack of verifying the authenticity of health care program participants and their listed dependents in our preceding audit report.⁶

Recommendation 18

We recommend that DCPS ensure the eligibility of enrolled health care program participants and their listed dependents by obtaining all required supporting documentation (repeat).

Finding 19

DCPS did not ensure the propriety of employee and retiree health care claims paid, and did not verify that stop-loss insurance was correctly applied and plan administrative fees were properly charged.

Analysis

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

- DCPS did not audit the propriety of the medical claims paid on its behalf by the TPA to ensure that the services were actually provided, covered by the health plans, appropriately priced, and accurately reported on the year-end settlement. Furthermore, DCPS did not receive detailed claims data from the TPA to verify the propriety of the aforementioned items and the correctness of the year-end settlement.
- DCPS did not verify that claims exceeding the stop-loss limit were reimbursed by the TPA under the stop-loss coverage. DCPS relies on the administrator who notifies DCPS of any payments made above the stop-loss limit as a line item in the annual settlement. The amount computed

⁶ In 2011, DCPS hired a consultant to verify the propriety of dependents covered by its health care plans. Generally, all participants with dependents were required to submit documentation to prove that each dependent was eligible under the criteria defined in DCPS' health care plan. During this review of 592 dependents, the consultant identified 27 ineligible dependents to be removed at an estimated savings of \$110,388, and DCPS advised us that it removed those ineligible dependents from the plans.

by the administrator to be in excess of the stop-loss amount reduces the expenditure amount for which DCPS is responsible. Since DCPS did not receive detailed documentation of all claims paid and stop-loss reductions are not provided for in detail, DCPS 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, which DCPS obtained from the TPA at our request, were offset with the total claims included in the annual settlement amount for plan year 2015.

- DCPS did not compare the number of plan participants billed against its own payroll records to ensure that fees and premiums paid by DCPS were for enrolled plan participants. We were advised that the only verification performed was to ensure changes in coverage reported by the DCPS HR Office were reflected on the monthly invoice, but this verification was not documented. In addition, the monthly rates charged for the various coverage categories (medical, vision, dental, and prescription drug) and stop-loss insurance were not verified for agreement with the related available contracts maintained on file. Our recalculation the administrative fees and stop-loss insurance charges for plan year 2015 based on the listed participant counts on certain monthly invoices reviewed and the related contract rates did not disclose significant variances.

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.

Recommendation 19

We recommend that DCPS establish procedures to verify the amounts paid for health insurance and TPA service fees. Specifically, we recommend that DCPS

- a. obtain documentation to support actual claim payments, and ensure audits of the claims paid by the TPA are conducted;**
- 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); and**
- c. compare its records of enrolled employees, retirees, and dependents to TPA invoices and contract rates to determine the propriety of all fees and premiums billed.**

Audit Scope, Objectives, and Methodology

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

In planning and conducting our audit of DCPS, 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 DCPS dated January 10, 2011, 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 DCPS 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 DCPS. We also interviewed personnel at DCPS and the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as

appropriate).⁷ Our audit procedures included inspections of documents and records, and observations of DCPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from January 1, 2015 through June 30, 2016. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits DCPS' 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 DCPS 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.

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

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

We conducted our fieldwork from June 2016 to January 2017. The DCPS response to our findings and recommendations is included as an Appendix to

⁷ During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise DCPS regarding the results of our review of its response.



Every Child a Success

Diana L. Mitchell, Ed.D.
Superintendent of Schools

APPENDIX
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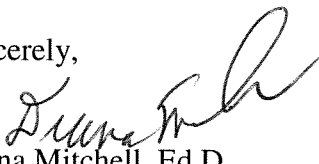
Thomas J. Barnickel III, CPA
Legislative Auditor
Department of Legislative Services
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

Per your letter of October 13, 2017, attached are our responses to the draft audit report on the Financial Management Practices of the Dorchester County Public Schools. We understand that our responses will be attached to the final report as an appendix.

Please contact us if there are any further questions.

Sincerely,


Diana Mitchell, Ed.D.
Superintendent

Dorchester County Public Schools
Response to report comments and recommendations.
Draft report dated October 2017

Revenue/Billing Cycle

Recommendation 1

- a. immediately record and restrictively endorse all checks,
- b. independently verify that all collections were subsequently deposited, and
- c. ensure that accounts receivable records are maintained by individuals independent of the cash function.

Responses:

- a. The Finance Department will restrictively endorse and record all checks immediately upon receipt on a standard cash receipt log. Other Departments will be given endorsement stamps and will be instructed to restrictively endorse and record all checks on an excel standard cash receipts log immediately upon receipt. The cash receipts log from other departments will be sent to Finance monthly for verification to deposit. This process will be in place by 12/31/17.
- b. Monthly, the A/P or Payroll specialist will compare the excel standard cash receipt log to the deposit documentation on a sample basis. The reviewer will sign off on all documents reviewed and the documents will be maintained in Finance. This process will be in place by 12/31/17.
- c. The Finance Department has five employees. Due to limited staffing it is not possible to completely segregate the A/R and cash functions. However, mitigating controls have been put in place to limit the risk associated with segregation of duties issues. For example, deposit documentation is reviewed by the Assistant Comptroller. The Office Manager enters the deposit data into the system – account codes and amounts. The Assistant Comptroller reviews the system entries and compares it to the checks being deposited. The Comptroller and Assistant Comptroller review the A/R reconciliations completed by the Office Manager each month. System reports for the A/R accounts are compared to the A/R excel reconciliations. Only the Comptroller can approve write-offs to the A/R accounts.

Procurement and Disbursement Cycle

Recommendation 2

We recommend that DCPS strengthen its control over the automated procurement and accounts payable systems and processes. Specifically, we recommend that DCPS 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. restrict access to check stock to individuals who are independent of the check processing function; and
- d. establish a process to ensure that a proper and independent review of disbursement checks is performed (repeat).

Responses: DCPS does not have a Purchasing Department. The Finance Office performs the purchasing and a/p functions and is limited to five employees. Due to limited staffing it is not possible to completely segregate all duties within the procurement and disbursement (a/p) cycle.

- a. However, DCPS will review system users and their access rights to ensure access is granted on a need basis only. This review will be complete by 12/31/17 and will be done annually by the end of each fiscal year. Documents reviewed will be signed by the reviewer(s) and will be maintained in the Finance Office.
- b. However, DCPS will review system users and their access rights to ensure access is granted on a need basis only. This review will be complete by 12/31/17 and will be done annually by the end of the fiscal year. Documents reviewed will be signed by the reviewer(s) and will be maintained in the Finance Office.
- c. The Finance Office does not maintain check stock. Checks are printed on blank paper. The check signer records bank account data and the Superintendent's signature when the checks are printed. The check signer is locked in a file cabinet in the Finance Office. The Comptroller, Assistant Comptroller and Office Manager are the only staff who have a key to this file cabinet.
- d. The Payroll Specialist will review disbursement checks monthly and compare checks to supporting documentation. This will be done on a sample basis. This process will be in place by 12/31/17. Documents reviewed will be signed by the reviewer and will be maintained in the Finance Office.

Recommendation 3

We recommend DCPS amend its existing procurement policies to

- a. address all categories of goods and services purchased, including the procurement methods to be used (repeat);
- b. require documented justifications be prepared for all sole-source awards (repeat); and
- c. establish standards for the use of ICPAs that mandate the preparation of a benefit analysis, as required by law, and the maintenance of ICPA agreements on file.

Responses a. through c.:

DCPS does not have a Purchasing Department. However, Finance is currently working on a Purchasing Manual that will address the entire purchasing process including procurement methods to be used, when to report sole source awards to the Board, how to document sole source awards, ICPA standards, contract documentation and invoice verification standards. DCPS will revise its Procurement policy to include procurement methods, services, ICPA standards, sole source documentation and requirements to report sole source awards to the Board. The Purchasing Manual and revised policies will be complete by 6/30/18.

Recommendation 4

- a. comply with State procurement law by using eMaryland Marketplace for contract procurement solicitations or awards and before deciding to participate in an ICPA, prepare written documentation of the benefits of utilizing the ICPA for Board review;
- b. maintain contract pricing information on file, including the applicable contracts, and verify the accuracy of prices on vendor billings (repeat);
- c. procure contracts/purchases of over \$25,000 through a competitive bidding process, or document the justification of any sole source procurements (repeat); and
- d. execute written contracts for services procured expected to exceed \$25,000 that includes sufficient specificity, such as agreed upon services and related financial terms and conditions, to enable the subsequent verification of related billings.

Responses:

- a. DCPS is now posting contract procurement solicitations to eMaryland Marketplace as required by State law. DCPS is now preparing written documentation of the benefits of using an ICPA and that documentation is being presented to the Board.
- b. DCPS does not have a purchasing department. DCPS is training supervisors on the necessity to maintain contract pricing information on file, including the applicable contracts, and perform a documented verification to ensure the accuracy of prices on vendor billings. Training will begin in the Spring of 2018 and will be on-going.
- c. DCPS does not have a Purchasing Department. However, DCPS is training supervisors on the competitive bidding process and proper sole source documentation. Training will begin in the Spring of 2018 and will be on-going.
- d. DCPS will execute written contracts for services procured that are expected to exceed \$25,000 that includes sufficient terms to evaluate the quality of services and appropriateness of the rates billed.

Human Resources and Payroll

Recommendation 5

- a. perform a periodic 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 access to and segregate incompatible system functions (repeat),
- d. perform a periodic documented independent review of critical personnel and payroll transactions processed using supporting documentation (repeat), and
- e. take appropriate actions to recover the \$8,025 overpayment.

Responses:

- a.-c. Due to limited staffing within the Finance and Human Resources Departments it is not possible to completely segregate all duties within the human resource and payroll processes. However, DCPS will review system users and their access rights to ensure access is granted on a need basis only. This review will be complete by 12/31/17 and will be completed annually going forward.
- d. Monthly, a review of HR and payroll changes as well as payroll transactions will be performed by the Comptroller and Human Resources Manager. The review will include reviewing supporting documentation of the change or transaction and will be done on a sample basis. The change report will be generated electronically in excel. Transactions will be filtered and sorted by specific attributes and dollar value to improve the accuracy of the sampling process. This process will be in place by 12/31/17.
- e. The Executive Team in place when this finding was brought to their attention reviewed all information. They made the decision to not collect the overpayment. They based their decision on the fact that more than 4 years had passed since the error was made and discovered. This issue will be presented to the Board by 6/30/18. Board staff will follow the Board's decision regarding collection of this overpayment.

Inventory Control and Accountability

Recommendation 6

We recommend that DCPS ensure

- a. postings to the inventory records (such as, disposals and adjustments) are properly supported and approved by independent supervisory personnel, at least on a test basis;
- b. equipment deletions are accompanied by a properly approved disposal form; and
- c. inventory records are properly maintained by recording all applicable equipment purchases, including their cost and purchase date, as required.

Responses:

- a. Postings to inventory records require that invoices and disposal reports are scanned into the database to support the addition or disposal. Mass updates to the system do not allow for scanned items. Documentation to support mass additions or disposals will be maintained in IT in paper format.
- b. DCPS policy requires that disposal forms be completed for all disposals. The forms are scanned into the inventory database when the disposal is done. If the form cannot be scanned in it will be maintained in paper form in the IT or Finance Office. By 12/31 of each fiscal year a disposal report will be printed out of the inventory database and will be reviewed by the Comptroller and IT Supervisor. The document will be signed by each and maintained in Finance.
- c. The majority of the items in the inventory database are IT related. As of 1/1/17 an employee in the IT department is responsible for updating the inventory database for IT related items. This employee has better access to the purchase and invoice documentation necessary to ensure all fields are populated in the database accurately.

Information Technology

Recommendation 7

- a. ensure that the service provider contract excludes blanket disclaimers of liability on behalf of the service provider (repeat);
- b. ensure that the service provider contract includes provisions that address the noted security and operational risks, including requiring the service provider to regularly obtain SOC 2 Type 2 reviews pertaining to the service provider's information technology security and operational controls (repeat); and
- c. obtain and review copies of these SOC 2 Type 2 reports from service providers and ensure that the related independent reviews adequately address all critical security and operational concerns and that the service provider implements all critical report recommendations.

Responses:

- a. DCPS will negotiate with the service provider during the next contract renewal to ensure that the service provider contract excludes blanket disclaimers of liability on behalf of the service provider
- b. DCPS will negotiate with the service provider during the next contract renewal to include language requiring the service provider to submit regular SOC Type 2 reports and to include language indicating the service provider will protect against data contamination between customers

- c. DCPS will review SOC 2 Type 2 reports received from the service provider to ensure that the related independent reviews adequately address all critical security and operational concerns and that the service provider implements all critical report recommendations

Recommendation 8

We recommend that DCPS implement best practices prescribed by the State of Maryland *Information Security Policy* by

- a. setting 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 (repeat); and
- b. establishing controls related to password aging, length, and complexity, over the DCPS' student information database and the student information and finance applications (repeat).

Responses:

- a. The student information database does not have the auditing feature enabled in the database due to the performance cost and space required.
- b. The Password controls for the student information system have been set as follows:
 - Administrator and teacher passwords must contain 1 uppercase, 1 lowercase, 1 number and 1 special character and must be at least 8 characters in length
 - Administrator and teacher passwords are set to expire every 120 days
 - Parent passwords must be reset at the beginning of each school year
 - The last 10 passwords cannot be reused and accounts are locked after 4 unsuccessful attempts and can only be unlocked by a PS system administrator (currently 2 IT staff members)

Password aging, length and complexity for the Financial applications is set as follows:

- All account passwords must contain 1 uppercase, 1 lowercase, 1 number and 1 special character and must be at least 8 characters in length
- Passwords are set to expire every 120 days
- The last 10 passwords cannot be reused and accounts are locked after 4 unsuccessful attempts
- Accounts can only be unlocked by the System Administrator (currently 1 IT staff member)

Recommendation 9

We recommend that DCPS

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

Responses:

- a. and b.:

Our DRP has been updated some and will continue to be updated. A location has been listed as the preferred alternate site. The DRP has been uploaded to SharePoint online so that the IT staff can access it at any time from any place. A test will not be performed until summer break when we do not have classes going on.

Recommendation 10

- a. perform a documented review and assessment of its network security risks and identify how network based IDPS and HIPS coverage should be best applied to its network. Based on this review and assessment, we recommend that DCPS implement IDPS coverage as necessary;
- b. use network based, individual authentication for wireless connections made by its faculty, staff, and students; and
- c. utilize access control lists on its network devices to limit authenticated wireless users' access to critical network devices based on each user's needs.

Responses:

- a., b. and c.:

We have purchased new next-gen firewalls (2) to run in a HA scenario. These new firewalls do have IDPS and HIPS has been installed on our external facing servers. We currently have plans to utilize the coming e-Rate window to purchase more wireless access points to have all buildings on the same platform. Once that has been implemented, changes to the wireless authentication and network access control will be implemented.

Recommendation 11

- a. ensure that all managed computers are running current, operational versions of the malware protection software used by DCPS; and
- b. limit the assignment of local administrative rights on DCPS workstations to information technology network and system administrators and individuals authorized in writing to have such rights, with documentation supporting these authorizations retained for future reference.

Responses:

- a. Malware protection software has been addressed, group policy is pushing the client install, rouge detection sensors are on all DCHP servers, and weekly system reports have been set up.
- b. Local admin rights that were found that were no longer needed have been removed, a spread sheet has been created for IT staff to use to log the granting of admin rights.

Facilities Construction, Renovation and Maintenance

Recommendation 12

- a. ensure that the procurement method (competitive procurement or intergovernmental agreement) chosen for energy contracts provides the most favorable financial outcome for DCPS; and
- b. appropriately document the use of intergovernmental agreements and comply with all related requirements in State law.

Responses:

- a. A cost analysis will be documented for all energy contracts entered into in the future to ensure the procurement method used provides DCPS with the most favorable outcome.
- b. DCPS will document all intergovernmental agreements and consult with legal counsel as needed to ensure it complies with State law regarding intergovernmental agreements.

Transportation Services

Recommendation 13

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

- a. develop formal, comprehensive written procedures that include specific bus ridership ridership goals and student ride times (repeat);
- b. take appropriate action to timely complete the recording of bus route data in its existing routing software; and
- c. use its automated routing software and periodically perform a system-wide analysis of its bus routes to maximize the ridership on its bus routes.

Responses:

- a. DCPS will develop written procedures that include specific target bus capacities and student ride times by 6/30/18.
- b. The Transportation Office is limited to three employees. Staff are working towards inputting all routes and related information into the routing system.

- c. Annually, the Transportation Office will review its bus routes to ensure ridership is maximized. The review will be documented, signed off on by the Transportation Manager and review documentation will be maintained in the Transportation Office.

Recommendation 14

- a. use documented actual costs and reasonable market investment rates as a basis for establishing contractor rates for the annual PVA (repeat);
- b. use actual bus operating costs or develop supportable cost estimates as the basis for establishing reasonable contractor rates for per mile maintenance costs (repeat) and route supplements;
- c. exclude fuel excise taxes from contractor payments; and
- d. document the basis for the mpg used in reimbursing bus contractors for the fuel usage and consider adopting the industry standard (repeat).

Responses:

- a. DCPS reviews and approves bus contractor rates as part of the annual budget process. Documentation including proposed rates, approved rates and comparison of contractor rates in other LEAs is shared with the Board of Education as part of the rate approval process. DCPS will consider using market rates and actual costs in determining PVA rates. It should be noted that the MSDE report "Per Vehicle Allowance Workgroup Report, 2010" concluded that how to "fairly and equitably determine compensation to school bus contractors... is the choice of the local jurisdiction as each best knows its own unique transportation needs."
- b. DCPS reviews and approves bus contractor rates as part of the annual budget process. Documentation including proposed rates, approved rates and comparison of contractor rates in other LEAs is shared with the Board of Education as part of the rate approval process. DCPS will consider using market rates and actual costs in determining per mile maintenance rates and administrative fees.
- c. DCPS will consider excluding the fuel excise tax from contractor payments during the next budget cycle.
- d. DCPS reviews and approves bus contractor rates as part of the annual budget process. Documentation including proposed rates, approved rates and comparison of contractor rates in other LEAs is shared with the Board of Education as part of the rate approval process. DCPS will consider using market rates and actual costs in determining per mile maintenance rates and administrative fees.

Recommendation 15

- 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.

Responses:

- a. DCPS does currently verify routes by observation and limited use of routing software. Once fully implemented the routing software will be utilized to verify manifests. This process will occur by 6/30/18.
- b. The DCPS Transportation Office will develop written procedures that will include outlining the verification process and will document the verifications performed. Written procedures will be complete by 6/30/18.
- c. DCPS will continue to review past payments and research discrepancies identified during this audit. Reviews will be complete by 6/30/18.

Recommendation 16

We recommend that DCPS ensure that an employee independent of the payment processing verifies the accuracy and propriety of bus contractor payments, by performing a documented comparison of the amounts paid to supporting documentation.

Response: The Transportation Office will reassign duties so that an independent review can be completed on a sample basis monthly. This process will be in place by 6/30/18.

School Board Operations

Recommendation 17

We recommend that DCPS actively enforce its ethics policy to ensure that all required disclosure statements are filed as required (repeat).

Response: The Assistant to the Superintendent now tracks all ethics forms in excel and follows up on any forms not returned in a timely manner. All returned forms are maintained by fiscal year in the Assistant's office. This is done annually.

Other Financial Controls

Recommendation 18

We recommend that DCPS ensure the eligibility of enrolled health care program participants and their listed dependents by obtaining the required supporting documentation (repeat).

Response: Due to the small staff in HR, follow up on lacking documentation is sometimes driven by other priorities. DCPS will implement an independent review of supporting documentation by another HR staff member. This review will be done on a sample basis and the process will be in place by 12/31/17.

Recommendation 19

We recommend that DCPS establish procedures to verify the amounts paid for health insurance and TPA service fees. Specifically, we recommend that DCPS

- a. obtain documentation to support actual claim payments, and ensure audits of the claims paid by the TPA are conducted;
- 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 PVA); and
- c. compare its records of enrolled employees, retirees, and dependents to invoices from the TPA and determine the propriety of all fees and premiums billed.

Responses to a. through c.:

DCPS is one of six Eastern Shore school systems and one County government that collectively purchase health insurance through the ESMEC Health Insurance Alliance. We will present this recommendation to ESMEC and will strongly support a claims audit. In addition, through the use of the ESMEC HIA consultant, 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.

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