

# Financial Management Practices Audit Report

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## Garrett County Public Schools

November 2016

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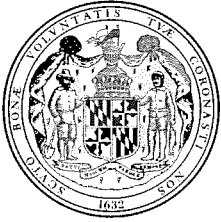
**OFFICE OF LEGISLATIVE AUDITS**  
**DEPARTMENT OF LEGISLATIVE SERVICES**  
**MARYLAND GENERAL ASSEMBLY**

**For further information concerning this report contact:**

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

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux  
Executive Director

Thomas J. Barnickel III, CPA  
Legislative Auditor

November 18, 2016

Senator Guy J. Guzzone, 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 Garrett County Public Schools (GCPS) 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 GCPS 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 GCPS needs to improve internal controls and accountability for a number of its financial operations including cash receipts, payroll processing, and information system security. For example, incompatible functions were assigned to certain employees that increased the risk of improper processing of personnel and payroll transactions. Also, GCPS did not sufficiently protect its computer network by restricting user wireless access and more effectively using its intrusion detection prevention system. Numerous computers either did not have malware protection software installed, or the installed software was not operational or out-of-date.

Although GCPS had taken some action to improve efficiency through the closure of several underutilized schools, additional steps should be implemented for student transportation and food services. For example, GCPS did not ensure its methodology for determining payments to bus contractors results in the best value. For certain payment components GCPS could not substantiate their reasonableness. We estimated that for 35 new buses placed into service since fiscal year 2010, GCPS would pay out approximately \$1.3 million more over the 12-year life of the buses because the rate established for a particular component was not based on market rates. GCPS also paid bus contractors for fuel, but did not exclude federal

excise taxes, which the contractors are exempt from paying and may claim as a credit on their income tax returns. For fiscal year 2015, GCPS' fuel payments were \$36,100 higher than necessary.

Finally, GCPS also needs to ensure the accuracy of payments for employee healthcare. GCPS had not conducted reviews to verify the propriety of health care claim payments, which totaled \$10.4 million in fiscal year 2015. Such reviews have been found to be cost-effective by the State resulting in identification of improper claims consistently exceeding the related cost of the reviews.

The GCPS 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 GCPS.

Respectfully submitted,

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

Thomas J. Barnickel III, CPA  
Legislative Auditor

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## **Background Information**

### **Statistical Overview**

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Garrett County Public Schools (GCPS) is the third smallest school system based on student enrollment among the 24 public school systems in Maryland. Fiscal year 2015 enrollment was 3,858 students. GCPS has 12 schools, consisting of 8 elementary, 2 middle, and 2 high schools.

According to GCPS' audited financial statements, operating and capital expenditures totaled \$60.1 million in fiscal year 2015. The largest expenditure category was salaries and wages, including benefits, which accounted for 64 percent of total expenditures during fiscal year 2015. According to MSDE records, during the 2014-2015 school year, GCPS had 556 full-time equivalent positions, which consisted of 371 instructional and 185 non-instructional employees.

### **Oversight**

GCPS is governed by a local school board, consisting of five elected members and one nonvoting student member. The vast majority of GCPS funding is provided by the State and the Garrett County government. 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 GCPS to comply with the requirements and mandates of federal law. Garrett County government exercises authority over GCPS, primarily through review and approval of GCPS' annual operating and capital budgets.

### **External Audits**

GCPS engages a certified public accounting firm to independently audit its fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of GCPS federal grant programs (as required by federal regulations). We reviewed the resulting financial statement and Single Audit reports for fiscal years 2014 and 2015, and examined the related work papers for the fiscal year 2014 audits, which were the latest work papers available when we began our field work.



Due to similarities between the work of the independent certified public accounting firm that audited GCPS' financial statements and conducted the Single Audit, and the risks and scope of our audit in certain areas, we relied on the results of the independent audits to reduce the scope of our audit work for revenues, payroll, food service, and federal grant activity. In addition, we relied on the results of the work performed by the firm related to school activity funds.

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

Based on our assessment of significance and risk to our audit objectives, our audit included a review to determine the status of 18 of the 28 findings contained in our preceding audit report dated September 17, 2010. We determined that GCPS satisfactorily addressed 11 of these findings. The remaining 7 findings are repeated as 5 findings in this report.

## **Findings and Recommendations**

### **Revenue and Billing Cycle**

#### **Background**

GCPS revenues consist primarily of funds received from Garrett County, the State, and the federal government. According to the GCPS audited financial statements, revenues from all sources totaled \$59.1 million during fiscal year 2015. In addition to these revenue sources, schools also collect funds for various purposes, such as for student activities, clubs, and school publications. Because they are not considered school revenue, these student activity funds are accounted for separately by each school and are reported in summary in the audited financial statements. Although this revenue is raised through student-related activities, GCPS has a fiduciary duty to safeguard these funds. For fiscal year 2015, school activity fund collections totaled \$1 million and the June 30, 2015 balance was \$503,796.

#### **External Audit Disclosed No Reportable Conditions Regarding Revenue Activities**

Due to the similarities between the work of the independent certified public accounting firm that audited the GCPS financial statements and the objectives of our audit in this area, we placed significant reliance on the results of that audit for certain revenues and accounts receivable (for example, amounts due from other governments). The auditor's procedural review and testing disclosed no material weaknesses or deficiencies regarding material revenue types or accounts receivable.

#### **Student Activity Funds Were Subject to Auditor Review**

GCPS' independent certified public accounting firm reviews the student activity funds at select schools each year. This review consisted of evaluating and testing end of the year reconciliations and verifying revenue collections and ensuring that disbursements were supported by the documentation on file. Our review of the firm's work papers and procedures did not identify any improprieties or prevalent control weaknesses.

**Finding 1**

Checks received at GCPS headquarters were not recorded or restrictively endorsed immediately upon receipt, and independent verifications that recorded collections were deposited were not performed.

**Analysis**

Proper controls over miscellaneous collections received at GCPS' central administrative office were not established. Collections were not recorded or restrictively endorsed when they were initially received. Specifically, the receipts were handled by at least one other employee before they were recorded, and were not restrictively endorsed until the deposit was prepared. Furthermore, the employee responsible for verifying that recorded collections were deposited was not independent of the cash receipts process.

As a result of these conditions, collections could be misappropriated without detection. According to GCPS records, cash receipts processed by the central administrative office in fiscal year 2015, excluding electronic fund transfers, totaled approximately \$29.3 million, including \$27.1 million in receipts from the county.

**Recommendation 1**

We recommend that GCPS

- a. ensure that all collections are immediately recorded and restrictively endorsed upon receipt,
- b. ensure that an independent employee performs a documented verification that all recorded collections were deposited, and
- c. investigate with the Garrett County government the possibility of receiving funds by electronic transfer rather than by check.

We advised GCPS on accomplishing the necessary separation of duties using existing personnel.

**Federal Funds****Background**

GCPS receives funds pertaining to federal government programs that are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2015 expenditures of federal award funds totaled \$4.7 million.

### **Single Audit Report Disclosed No Reportable Conditions Regarding Federal Grant Management**

Due to the work performed by the independent certified public accounting firm that conducted the Single Audit of the GCPS federal grants and the objectives of our audit in this area, we relied on the auditor's work and results to reduce the scope of our audit for federal grants. Besides expressing an opinion on GCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the Fiscal Year 2015 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). The related report stated that GCPS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with major federal programs, the auditor did not identify any material weaknesses.

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

GCPS 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 GCPS. Medicaid activity is not covered by the Single Audit of federal grants. Our review disclosed that for eligible services, reimbursements were requested and verified against actual monies received. According to agency records, fiscal year 2015 federal reimbursement for Medicaid-subsidized services totaled approximately \$350,000.

## **Procurement and Disbursement Cycle**

### **Background**

According to GCPS records, non-payroll disbursements totaled \$21.7 million during fiscal year 2015. GCPS relies on a number of manual processes and controls for purchasing and related disbursement transactions. Requisitions created by departments are subject to departmental and purchasing office approval. Purchase orders, solicitations, bids, and contracts are generally handled by a central purchasing office. Approved requisitions are then converted to purchase orders. GCPS procurement regulations require that purchases over \$25,000 be formally bid. The receipt of goods and services are verified by the receiving school or department and payments are then processed by the central administrative office.

**Finding 2**

**GCPS did not adequately advertise certain contract procurements, use a competitive procurement process when appropriate, or present contracts to the Board for its consideration.**

**Analysis**

GCPS did not adequately advertise certain procurements as required by State law, did not solicit competitive bids for services that could have been provided by multiple vendors, or present certain contract awards to the Board. Our review of 10 procurements in which payments totaled approximately \$1.2 million during fiscal year 2015, disclosed the following conditions:

- Three of these procurements, each exceeding \$25,000 and collectively totaling approximately \$416,000, were not publicly advertised. The State Finance and Procurement Article of the Annotated Code of Maryland requires that procurements greater than \$25,000 be advertised at least two weeks before bids are due on eMaryland Marketplace.
- For two of the three aforementioned procurements, totaling approximately \$264,000, GCPS directly solicited only one bid; however, these services (insurance, therapy) were available from multiple vendors and GCPS did not prepare a written justification for the use of sole source procurements. For the remaining procurement, GCPS received two bids as a result of directly contacting potential vendors. A similar condition was commented upon in our prior audit report.
- For 3 of the 10 procurements tested totaling approximately \$341,000, we were unable to locate any evidence that these procurements were presented to the Board for its consideration. Although GCPS Board policy does delegate final approval of all expenditures to the superintendent, the Board reserved the right to approve, defer, or deny the award of a contract; absent presenting all applicable procurements to the Board, there is no way to ensure that the Board has exercised its right.

**Recommendation 2**

**We recommend that for procurements exceeding \$25,000 in value, GCPS**

- a. publicly advertise the procurements in compliance with State Law,**
- b. competitively bid the procurements unless sole source justification is appropriately documented (repeat), and**
- c. present contract procurements to the Board for its consideration.**

## Human Resources and Payroll

### Background

Payroll costs represent the largest single cost component in the GCPS budget. According to GCPS records for fiscal year 2015, salary, wage, and benefit costs totaled \$38.4 million. According to the Maryland State Department of Education Fact Book, during the 2014 – 2015 school year (most current data available), GCPS had 556 full time equivalent positions, which consisted of 371 instructional and 185 non-instructional positions.

GCPS uses an automated integrated human resources and payroll system to maintain human resources information, record employee time and attendance, and to track leave usage and earned balances. Manual time records, including leave taken, are entered into the system every two weeks by GCPS payroll clerks, and the system automatically calculates the employee's available balance. The system is also used to process and record all payroll transactions.

### Finding 3

**Access to critical functions in the automated human resources and payroll system were not properly restricted and certain duties were not properly segregated.**

### Analysis

Eight employees had been assigned certain incompatible human resources and payroll system capabilities. Furthermore, three of these employees' job duties did not involve processing human resources or payroll transactions; accordingly, their system access capabilities were unnecessary. All eight employees had the capability to create and delete employees, change employee salaries, enter time and attendance information, and prepare checks and the electronic file that resulted in direct deposits. In addition, although there was a review of payroll changes performed, it was conducted by two of the eight aforementioned employees, and consequently was not independent. As a result of the incompatible and unnecessary access capabilities, these employees had virtually complete control over the system and improper or erroneous transactions could be processed without detection. A similar condition was commented upon in our preceding audit report.

### **Recommendation 3**

**We recommend that GCPS**

- a. segregate incompatible functions and assign critical system functions to only those employees who need the capabilities to perform their job duties (repeat), and
- b. ensure that human resources and payroll transaction processing and review responsibilities are properly segregated.

## **Inventory Control and Accountability**

### **Background**

According to the GCPS audited financial statements, as of June 30, 2015, the undepreciated value of its capital equipment totaled approximately \$3.3 million. GCPS central staff uses a separate spreadsheet for each facility to track equipment inventory with a cost of \$500 or more (including items capitalized for financial statement purposes).

### **Finding 4**

**GCPS lacked a written policy to control equipment items, and did not periodically conduct equipment inventories.**

### **Analysis**

GCPS lacked sufficient procedures to control of its equipment, including non-capitalized sensitive equipment items prone to theft. Specifically, GCPS lacked a written policy with requirements for tagging equipment, reporting lost or stolen items, approving disposals, and separating the duties of equipment custody, performing physical inventories, and recordkeeping. Furthermore, there was no evidence of periodic physical inventories having been taken for at least the last three years, and accordingly, no reconciliation of equipment on hand to the GCPS inventory records.

Consequently, GCPS lacked assurance that acquired equipment was recorded and accounted for, any disposals were properly handled, and missing or stolen items were thoroughly investigated.

### **Recommendation 4**

**We recommend that GCPS establish formal comprehensive policies and procedures to ensure that accountability and control is maintained over its equipment, including a requirement for periodic physical inventories.**

## Information Technology

### Background

The GCPS Department of Information Technology maintains and administers the GCPS' computer network, computer operations, and instructional information systems. GCPS uses the Garrett County Government's backbone network for Internet connectivity and to connect the individual schools' local networks to the GCPS' centralized computer resources at its headquarter location. A total of 14 GCPS locations (including schools and other facilities) are supported by the Department.

Several significant administrative and academic related information system applications exist. GCPS operates a financial application and a student information application. For example, the student information application includes functions for enrollment, scheduling, and grades.

### Finding 5

**Numerous employees were improperly defined as local administrators on many GCPS workstations.**

### Analysis

Numerous employees were improperly defined as local administrators on many GCPS workstations. We noted that 33 of 35 active workstations tested were configured with numerous GCPS employees improperly defined as local administrators on these workstations. For example, at one location all 9 workstations tested had over 90 individuals improperly defined as local administrators on these workstations. Similar situations existed for 18 workstations tested at 5 other locations. We determined that GCPS had over 1,900 workstations in use for faculty, staff, and students.

Administrative rights are the highest permission level that can be granted and should be restricted to network administrators and select others because these rights allow users to install software and change configuration settings. As a result, if these workstations were infected with malware, the malware would run with administrative rights and expose these workstations to a greater risk of compromise than if the workstations' user accounts operated with only user rights. In this regard, as a best practice the State of Maryland *Information Security Policy* states that agencies must enforce the most restrictive access capabilities required for specific tasks.



### Recommendation 5

We recommend that GCPS limit administrative privileges on its workstations only to those individuals required to have such capabilities.

### Finding 6

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

### Analysis

The GCPS network was not properly secured.

- The GCPS network was not secured against improper access from untrusted parties using its wireless connections. All students and approved guests could establish wireless connections and gain unnecessary network level access to numerous critical administrative servers and workstations.
- All high school computer lab and media center computers had unnecessary network level access to faculty and staff workstations and to critical administrative servers.
- GCPS' Intrusion Detection Prevention System (IDPS) device provided very limited protection to the GCPS' network. It was not configured to scan and block suspicious network traffic from untrusted sources or to decrypt encrypted traffic and then scan the decrypted traffic.

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. In addition, best practices prescribed by the State of Maryland *Information Security Policy* state that only authorized individuals should have access to confidential information and that such access be strictly controlled, audited, and that it supports the concepts of "least possible privilege" and "need to know." Finally, this *Policy* states that IDPS should be used to monitor system events, detect attacks, and identify unauthorized use of information systems and/or confidential information.

### Recommendation 6

We recommend that GCPS properly secure its network. Specifically, we recommend that GCPS

- a. limit wireless user and high school computer lab and media center workstation access to only those GCPS network devices that these users and workstations require access to; and
- b. use the IDPS to decrypt encrypted traffic, scan all traffic from untrusted sources, and configure the IDPS device to block all identified suspicious traffic.

#### **Finding 7**

**Certain computers were not sufficiently protected against malware, as malware protection software was not installed on numerous computers and computers were running outdated or unsupported system software.**

#### **Analysis**

Computers were not sufficiently protected against malware.

- GCPS lacked assurance that malware protection software was installed and operational on all of its active computers. Our review identified 663 out of 1,956 active GCPS computers that either did not have malware protection software installed or the installed software was not operational. This included all 465 active computers, as of January 2016, running a specific operating system that did not have any malware protection software installed.
- Certain computers tested had not been updated with the latest releases for software products that are known to have significant security related vulnerabilities. Although the vendors for these software products frequently provide software patches to address these vulnerabilities, GCPS had not updated its computers for these patches. For example, of the 12 computers tested for one of these software products, we noted that 9 computers were running older versions of this software.
- All 12 of the aforementioned computers tested were running an outdated version of the malware protection software used by GCPS. These computers were running the version released on October 2013 and at the time of our audit testing the current version was released on April 30, 2015.

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.”

#### Recommendation 7

We recommend that GCPS

- a. ensure that all managed computers are running current versions of the malware protection software used by GCPS, and
- b. promptly install all critical security related software updates for commonly vulnerable applications on all managed computers.

#### Finding 8

GCPS' Disaster Recovery Plan for recovering computer operations from disaster scenarios was incomplete and had not been tested.

#### Analysis

GCPS' information technology Disaster Recovery Plan (DRP) for recovering computer operations from disaster scenarios (for example, a fire or flood) was incomplete. GCPS' DRP did not address several minimum requirements needed for a DRP. For example, the DRP did not contain complete listings of hardware and software or the restoration of network connectivity. In addition, the DRP had not been tested. Without a complete and tested DRP, a disaster could cause significant delays (for an undetermined period of time) in restoring information systems operations above and beyond the expected delays that would exist in a planned recovery scenario. The State of Maryland's Information Technology (*IT Disaster Recovery Guidelines*) provide best practices on the minimum required elements needed for a DRP.

#### Recommendation 8

We recommend that GCPS

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

#### Finding 9

Network, application, database, and server password controls were not sufficient and security activity on a critical database and server was not logged.

#### Analysis

Password controls were not sufficient to properly protect critical GCPS resources and certain critical security activity was not logged.

- Passwords controls over the GCPS network, the student information application and database, and the server hosting the financial application did not meet the minimum recommended settings in the State of Maryland *Information Security Policy*. For example, password aging and complexity were not enforced for GCPS' network level passwords.
- The student information database and the server that hosts the financial application were not configured to log security activity including privileged operations. Best practices identified in the aforementioned *Information Security Policy* require that information systems must generate audit records for all security-relevant events, including all security and system administrator accesses and that procedures must be developed to routinely (for example, daily or weekly) review audit records for indications of unusual activities, suspicious activities or suspected violations, and report findings to appropriate officials for prompt resolution.

Similar conditions were commented upon in our preceding audit report.

#### **Recommendation 9**

**We recommend that GCPS**

- a. establish passwords over the GCPS network, the student information application and database, and the server hosting the financial application that comply with the recommended password settings prescribed by the State of Maryland State *Information Security Policy* (repeat); and**
- b. set the student information database and server that hosts the financial application to log all critical security related events, regularly review these logs, document these reviews and retain this documentation for future reference (repeat).**

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

#### **Background**

GCPS maintains 12 schools and a number of other facilities with a staff of 48 custodial and maintenance personnel. According to the Capital Improvement Plan (CIP) prepared in fiscal year 2015, planned construction, major renovations, and systemic improvements to GCPS facilities over fiscal years 2015 through 2022 are estimated to cost \$50 million.

#### **GCPS Reorganized its Schools to Address Student Capacity and Improve Efficiency**

In our preceding audit report we commented that as of September 30, 2009, GCPS had four schools that were being used at less than 70 percent of State-

rated capacity, including three elementary schools that were being operated at 31 percent, 45 percent, and 56 percent of rated capacity. Subsequently, GCPS completed an evaluation of facility usage and due to declining enrollment, the Board of Education approved the closing of one elementary school in fiscal year 2011 and two additional elementary schools in fiscal year 2012.

#### **Finding 10**

**GCPS had not developed a process to independently verify the reported savings from its two energy performance contracts.**

#### **Analysis**

GCPS had not implemented a process to independently verify that the cost savings from its two energy performance contracts had been achieved and met the guaranteed savings requirements under the contracts. Since the accuracy and propriety of the calculations used by the energy contractor to determine the reported dollar savings had not been independently verified, GCPS lacked assurance that the related guaranteed cost savings were actually realized.

GCPS entered into two contracts with an energy service company to provide a number of services including installation of energy efficient devices (lighting for example) and new heating and cooling equipment at certain schools as well as a system to monitor, measure, and achieve project benefits as a result of such improvements. The first contract, beginning in 2011, included GCPS costs of \$4.4 million for system improvements, monitoring, maintenance, and reporting over the first three years of the contract. The second contract, which began in 2014, included GCPS costs of \$500,000 for installation of energy efficient lighting.

The two contracts guaranteed annual costs savings to GCPS and total savings of \$6.7 million over 15 years, after taking into account the aforementioned \$4.9 million upfront costs paid by GCPS. If the guaranteed savings for any given year is not met, the energy service company is required to pay the difference to GCPS. Cost savings are reported annually to GCPS by the contractor in a measurement and verification (M&V) report that details energy usage and cost savings by school. The M&V report is to be prepared using the methodology stated in the contract. However, GCPS performed no verifications that the reported cost savings was accurate and determined in accordance with the methodology specified in the contracts.

The M&V report for contract year 2014 (the first year of M&V reporting) indicated that actual cost savings for the first year totaled \$419,496, which exceeded the guaranteed savings by \$34,686.

#### **Recommendation 10**

**We recommend that GCPS**

- a. independently verify the contractor reported data, at least on a test basis, to ensure the propriety of critical calculations (such as guaranteed cost savings) included in the related contract and subsequent M&V reports; and
- b. retain documentation of all such verifications performed.

### **Transportation Services**

#### **Background**

GCPS has approximately 3,900 students eligible to receive student transportation services. These students were transported approximately 963,000 route miles during the 2014-2015 school year on one of the 61 contractor-owned buses. According to MSDE records, fiscal year 2015 transportation expenditures totaled \$3.96 million, with \$3.70 million (93 percent) representing payments for contracted services. Bus contractors are paid a per vehicle allotment (PVA) that includes repayment to the contractors the full acquisition cost of the bus over its life (12 years). The PVA also provides an additional annual payment as a return on investment (ROI) to the contractors, which is established when a bus is purchased and remains fixed over the bus' life. Finally, bus contractors are paid for other operating costs, such as driver salaries, fuel use, maintenance costs, liability insurance, and certain administrative costs.

#### **Finding 11**

**GCPS did not have formal targets and goals for establishing and revising bus routes, use automated routing software to improve route efficiency, or verify the propriety of contractor payments to reimburse for time and mileage of bus routes.**

#### **Analysis**

GCPS did not have formal targets and goals to guide the decisions made during the process of reviewing and revising bus routes nor did it use automated bus routing software to promote efficiency. In addition, GCPS did not verify the time and mileage of bus routes, which are the basis for a significant portion of contractor payments.

- GCPS had not developed formalized and comprehensive policies that defined the relevant factors for GCPS to consider when determining the most appropriate bus routes, such as desired bus utilization (ridership) guidelines and maximum student ride times. In addition, GCPS did not use automated bus routing software or its student address system to develop more efficient routes. Rather, GCPS used existing bus routes and made manual modifications to accommodate students' school assignment without periodically reviewing all routes for efficiency on a system-wide basis.

The lack of a system-wide route analysis could have a potentially negative impact on route efficiency. As noted below, our review identified a significant number of miles driven with no students on the buses (deadhead miles for which the contractors were reimbursed). The use of routing software is a recognized best practice that can reduce the time it takes to design efficient routes, reduce student ride times, help ensure that routes utilize existing bus capacity, and minimize the number of buses needed to transport students.

- GCPS did not consider the contractors' proximity to the route when assigning bus routes in order to reduce the number of miles driven with no students on the bus (deadhead miles). Our review of 63 GCPS contractor-owned buses (using fiscal year 2016 bus manifests) disclosed that 40 buses (63 percent) traveled more than 30 deadhead miles per day, including 7 buses that traveled 50 or more deadhead miles per day. For example, 1 of these buses traveled 147.5 miles per day, of which 86 miles (58 percent) were for deadhead miles.

Although we recognize that Garrett County includes large rural areas, which can make it difficult to avoid high amounts of deadhead miles, a GCPS policy to limit the number of deadhead miles could result in cost savings. For example, based on our review of the five buses with the highest number of deadhead miles during fiscal year 2016, we estimated that GCPS could have saved \$4,967 of the \$29,696 paid for the 20,340 annual deadhead miles scheduled, by reassigning two contractors' routes that would eliminate 3,400 deadhead miles. We estimated that GCPS' expenditures to reimburse bus contractors for deadhead miles traveled during fiscal year 2016 will total approximately \$570,000 and will account for approximately 390,000 of the 1.04 million (37 percent) bus miles to be traveled and paid for.

- GCPS did not ensure that the route times and mileages reported by bus contractors were accurate. Bus contractors' drivers complete a manifest,

which includes the total time and miles driven on each route. GCPS uses the data recorded on these manifests to calculate the bus driver wages, in addition to the maintenance and fuel cost components to determine the monthly payments to the contractors. Our review disclosed that GCPS lacked a process to ensure that the route times and mileages were accurate. Ensuring this data is accurate is critical because a portion of the payments GCPS makes to bus contractors is comprised of reimbursements for bus driver wages and distance traveled. Although our test of 10 bus routes did not disclose any significant discrepancies, overpayments to bus contractors could occur and go undetected.

Similar conditions were commented upon in our preceding audit report.

#### **Recommendation 11**

**We recommend that GCPS**

- a. develop formal, comprehensive policies and procedures for its bus routes that include guidance regarding bus utilization, student ride times, and any other factors (such as deadhead miles) in order to assist in developing efficient bus routes (repeat);**
- b. use automated routing software to help ensure the efficient utilization of buses (repeat); and**
- c. ensure the propriety of bus route time and mileage data used to calculate payments to bus contractors (repeat).**

#### **Finding 12**

**GCPS could not substantiate the basis of certain amounts paid to bus contractors and those payments were higher than necessary.**

#### **Analysis**

Certain elements used to determine payment amounts to bus contractors did not reflect market conditions or actual operating costs. Our review of the contract terms disclosed the following conditions:

- GCPS lacked a documented policy for establishing the PVA amount. GCPS management advised us that the bus PVA rates were generally increased each year by a percentage over the prior year's rates without any specific analysis of the cost elements included in a traditional PVA calculation. The PVA formula includes an annual ROI component (for the operator investing money in the bus instead of another investment option), which varied based on the year the bus was placed into service. As a result of GCPS' method for raising the PVA rate each year, the ROI component of the PVA



was considerably higher than the prime interest rate,<sup>1</sup> which is recommended for use in the calculation of the PVA by other studies.

To estimate the financial impact of GCPS not considering the effect of its method on the ROI rate, we calculated the PVA for each of the 35 new buses placed into service from fiscal years 2010 to 2016 using the prime interest rate. These calculations show that GCPS annual PVA payments per bus were \$2,822 to \$3,294 higher than the payments would have been had the prime rate that existed at the time of purchase had been used in the calculation. Specifically, during fiscal years 2010 to 2016 the prime rate was 3.25 percent each year, but the effective ROI rate used by GCPS during this period ranged from 6.42 to 6.92 percent. As a result, over the 12-year life of the 35 new buses put into service by contractors since 2010, GCPS will pay out approximately \$1.3 million more than if the prime rate at the time of purchase was used for the ROI. This analysis does not include the effects of the lost interest income that could have been earned.

- GCPS payments to contractors for bus maintenance costs were negotiated with the bus contractors and were not supported by documented maintenance and other repair costs. Bus contractors were reimbursed for maintenance at a rate of \$1 per mile during fiscal year 2015, which resulted in GCPS paying \$962,559 for maintenance costs for the 61 contractor-owned buses, for an average of \$15,780 per bus.
- GCPS did not exclude the federal fuel excise tax from payments to bus contractors.<sup>2</sup> In this regard, GCPS pays contractors for fuel usage using a monthly average of diesel fuel prices and dividing by an established miles

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<sup>1</sup> The use of the prime interest rate was recommended in a November 1999 study commissioned by another Maryland school system. Also, in 1975 an MSDE study recommended the prime rate as a reasonable ROI interest rate. The prime rate is actually a lending rate that nearly always exceeds the available market investment rate; therefore, it is deemed to be reasonable for the ROI calculation. 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 October 2016, current 10 and 30 year US Treasury Note rates, which could be reflective of a reasonable long-term investment option were 1.8 and 2.5 percent, respectively.

<sup>2</sup> Subsequent to the completion of our audit fieldwork, Chapter 397, Laws of Maryland 2016, effective July 1, 2016, exempted a county board of education or a school bus operator under contract with a county board of education from State motor fuel taxes. In addition, the law authorized county boards of education and a school bus operator to claim refund of the State motor fuel taxes paid. Consequently, this exemption should be factored into future payments.

per gallon (mpg) rate of 6.5 mpg.<sup>3</sup> However, according to federal law, GCPS contractors are exempt from the federal \$0.244 per gallon excise tax for diesel fuel and are able to receive a credit for federal fuel taxes paid when they file their income tax returns. As a result, if GCPS had considered the full \$0.244 exemption amount in its calculation, payments to the contractors would have been lower (for example, a total of \$36,133 less during fiscal year 2015).

#### **Recommendation 12**

**We recommend that GCPS ensure all contractor payments have a documented and justified basis. Specifically, GCPS should**

- a. use market investment rates as the basis for establishing contractor rates for the annual PVA,**
- b. use actual bus operating costs as a basis for establishing contractor rates for per mile maintenance costs, and**
- c. exclude the federal fuel excise taxes from contractor payments.**

### **Food Services**

#### **Background**

GCPS has 5 food preparation kitchens that prepare all meals for its 12 schools. GCPS food service has a total of 21 full-time and 40 part-time cafeteria workers, and 4 administrative employees. For fiscal year 2015, GCPS' food service operations had revenues of \$2,315,488 and expenditures of \$2,675,154, resulting in a deficit of \$359,666.

#### **Finding 13**

**GCPS has experienced persistent deficits in its food service operations, but has not developed certain benchmarks to gauge performance and identify areas for improvement.**

#### **Analysis**

GCPS food service operation expenditures have consistently exceeded revenues. From fiscal year 2011 through 2015, total expenditures have exceeded related revenues by \$1.5 million, see Table 1.

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<sup>3</sup> The American School Bus Council reported that the national average usage for a large school bus with a diesel engine, such as those used by GCPS contractors, is 7 miles per gallon.

**Table 1**  
**Food Service Annual Operating Revenue and Expenditures**  
**Fiscal Years 2011 to 2015**

Fiscal Year	Revenue	Expenditures	Deficit
2011	\$2,377,685	\$2,612,057	(\$234,372)
2012	2,427,669	2,684,537	(\$256,868)
2013	2,420,368	2,716,834	(\$296,466)
2014	2,369,294	2,757,790	(\$388,496)
2015	2,315,488	2,675,154	(\$359,666)
Total	\$11,910,504	\$13,446,372	(\$1,535,868)

**Source:** GCPS Audited Financial Statements

Although GCPS has developed a goal for meals per labor hour (MPLH), it has not developed similar goals or benchmark for meal costs. Based on our analysis of GCPS food service costs, it appears that contributing factors to these deficits were personnel costs and productivity issues (MPLH). Specifically, GCPS fiscal year 2013 overall cost per meal (\$3.69) and cost per meal related to salaries and wages (\$1.52) significantly exceed the averages of four comparable-sized Maryland school districts, which were \$2.87 and \$0.91, respectively. Furthermore, our review found that for April 2015, 4 of the 5 food preparation kitchens did not meet the 12 MPLH goal established by GCPS.

### **Recommendation 13**

**We recommend that GCPS**

- a. develop performance measures for meal costs, using industry standards or other accepted practices; and
- b. monitor actual performance against these benchmarks and take appropriate actions to improve operating results, as appropriate.

## **School Board Operations**

### **Background**

The Board of Education of Garrett County (the Board) is composed of five elected members and one non-voting student representative. In its oversight responsibilities, the Board contracted with a certified public accounting firm for independent audits of the GCPS financial statements and federal programs. The Board has not established any special committees.

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

In April 2015 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 GCPS employees. GCPS established an Ethics Panel consisting of five members who are nominated by the Superintendent and appointed by the Board to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. According to the ethics policy, annual financial disclosure statements are required to be filed by Board members, candidates for the Board, the Superintendent, and a number of other administrators (such as the Director of Finance and Human Resources and school principals) by April 30th of each year.

#### **Finding 14**

**GCPS annual financial disclosure statements were not always filed as required.**

#### **Analysis**

GCPS did not adequately ensure that an annual financial disclosure statement was filed by all employees required to do so. Specifically, we were advised that GCPS did not verify that employees required to file these statements each year had done so. As a result, GCPS was unaware that certain employees had not submitted a financial disclosure for the most recent calendar year.

Our review of the records for the 36 GCPS employees required to submit financial disclosure forms for calendar year 2014 by April 30, 2015, in accordance with the aforementioned policy, disclosed that as of the date of our test in November 2015, 8 employees did not file a disclosure statement for calendar year 2014, and based on GCPS records, no disclosure statements were on file for any previous years for 4 of these 8 employees.

#### **Recommendation 14**

**We recommend that GCPS actively enforce its ethics policy and ensure that all required disclosure statements are filed and reviewed by the ethics panel.**

## Other Financial Controls

### Healthcare Background

GCPS participates in a three-member coalition to provide healthcare coverage to its employees. The three coalition members are self-insured for healthcare costs up to a designated stop-loss limit and use a third-party administrator to pay claims on behalf of plan participants and authorized dependents.

Providers submit claims to the administrator who pays them on behalf of GCPS and then obtains reimbursement from GCPS for actual costs of claims paid. GCPS pays an administrative fee for these services. According to GCPS records, GCPS' healthcare expenditures, including claims expense, stop-loss insurance premiums, and plan administrative fees, totaled approximately \$11.4 million during fiscal year 2015.

#### **Finding 15**

**GCPS did not ensure the propriety of certain payments for employee and retiree healthcare costs and did not always verify the authenticity of employees' listed dependents.**

### Analysis

GCPS lacked procedures and controls to ensure that certain amounts paid to the third-party administrator were proper. Specifically, GCPS did not audit the propriety of claims paid on its behalf by the program administrator to ensure that the services were actually provided, were covered by the health plans, and were appropriately priced. Furthermore, GCPS was not provided with detailed claims information with the monthly billing from the third-party administrator. During fiscal year 2015, claims paid totaled \$10.4 million. 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. Furthermore, GCPS did not verify that all claims exceeding the stop-loss limit were reimbursed by the administrator under the stop-loss coverage. GCPS relies on the administrator to notify it of any payments above the stop-loss limit. According to the administrator, GCPS paid approximately \$765,000 for stop-loss coverage and received \$11,034 in plan year 2015 related to claims exceeding the stop-loss limit.

Finally, GCPS did not always verify new dependent eligibility prior to enrollment in its healthcare plan. GCPS procedures require employees to submit certain documentation when adding a dependent to their insurance coverage (for example, a copy of a marriage certificate to enroll a spouse).

Our review of 10 employees who enrolled 16 new dependents during fiscal year 2015 disclosed GCPS could not provide us with the required supporting documentation for 6 of the employees tested who enrolled 11 dependents. A similar condition was commented upon in our preceding audit report.

**Recommendation 15**

**We recommend that GCPS**

- a. obtain documentation to support actual claim payments and ensure audits of the claims paid by the administrator are conducted,**
- b. use detailed claims payment data to ensure that all claims paid above the stop-loss limit are reimbursed by the insurer, and**
- c. ensure all required documentation to establish dependent eligibility is received prior to enrolling new dependents in its healthcare plan (repeat).**

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

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

We had two broad audit objectives:

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

In planning and conducting our audit of GCPS, 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 GCPS dated September 17, 2010, was limited to those findings that were applicable to the current audit scope for each of the 11 areas.

The audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. Also, we did not evaluate the GCPS 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 GCPS. We also interviewed personnel at GCPS, the Maryland State Department of Education

(MSDE), and staff at other local school systems in Maryland (as appropriate).<sup>4</sup> Our audit procedures included inspections of documents and records, and observations of GCPS 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, 2014 through June 30, 2015. 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 GCPS' 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 GCPS' automated finance management system for the purpose of testing expenditure, inventory, 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.

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

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

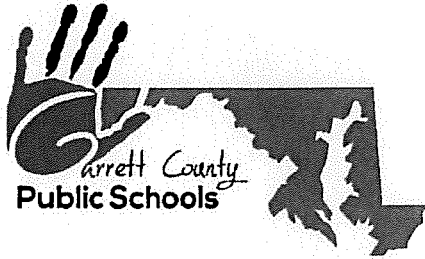
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<sup>4</sup>During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.



We conducted our fieldwork from August 2015 to January 2016. The GCPS response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise GCPS regarding the results of our review of its response.

## APPENDIX



40 South Second Street • Oakland, Maryland 21550  
Telephone: 301-334-8900 • <http://www.garrettcountryschools.org>

### **Members of the Board of Education**

Mrs. Charlotte A. Sebold, President  
Mrs. Monica L. Rinker, Vice-President  
Mr. Thomas A. Carr, Associate Member  
Mrs. Cynthia M. Downton, Associate Member  
Mr. Matthew A. Paugh, Associate Member  
Sheyenne A. Tichnell, Student Board Member

*Interim Superintendent of Schools*  
Ms. Barbara L. Baker

November 18, 2016

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

Dear Mr. Barnickel:

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

#### *Revenue/Billing Cycle*

Recommendation 1: GCPS should (a) ensure that all collections are immediately recorded and restrictively endorsed upon receipt, (b) ensure that an independent employee performs a documented verification that all recorded collections were deposited, and (c) investigate with the Garrett County government the possibility of receiving funds by electronic transfer rather than by check.

Response: A written procedure will be developed. Appropriate separation of duties will be included within the procedure as well as timeliness of logging and endorsement. At present, the findings have been corrected through a change in process and duty assignments.

#### *Procurement and Disbursement Cycle*

Recommendation 2: For procurement exceeding \$25,000 in value, GCPS should (a) publicly advertise the procurements in compliance with State Law, (b) competitively bid the procurements unless sole source justification is appropriately documented, and (c) present contract procurements to the Board for its consideration.

Response: GCPS will follow the State Finance & Procurement Article of the Annotated Code of Maryland 17-502. Currently, a committee is in the process of revising the Procurement Policy and Procedures. It is important to note that even though purchases may not be taken to the Board on an individual basis, the purchase amount is included as part of the operating budget, which is approved by the Board. Furthermore, due to its small size, GCPS does not have a purchasing department; therefore, it is necessary to piggyback on State and National bids, which have already been legally approved and authorized.

#### *Human Resources and Payroll*

Recommendation 3: GCPS should segregate incompatible functions and assign critical system functions to only those employees who need the capabilities to perform their job duties and ensure that human resources and payroll transaction processing and review responsibilities are properly segregated.

Response: Due to GCPS's small staff size, it is necessary for users to have access that may appear to conflict to ensure proper back up of critical functions. However, proper manual steps are in place to identify errors or manipulations outside of the automated system. While access may be available to users, proper segregation of duties is also in effect outside of the CIMS system by rotating job duties and manual approvals. Since the audit team was onsite, several employees are now inactive and user access has been updated. GCPS will further develop a procedure to account for situations in which employees change roles within the system.

#### *Inventory Control and Accountability*

Recommendation 4: GCPS should establish formal comprehensive policies and procedures that accountability and control is maintained over its equipment, including a requirement for periodic physical inventories.

Response: During fiscal year 2017, GCPS is converting to a new enterprise resource planning (ERP) software system, which includes a Fixed Asset module designed to also track textbooks. Upon execution of the new software system, there will be an updated policy and procedure written which will be subject to Board approval and will correspond with the electronic workflow.

#### *Information Technology*

Recommendation 5: GCPS should limit administrative privileges on its workstations only to those individuals required to have such capabilities.

Response: GCPS is developing a solution for ensuring appropriate user privileges and will be complete by the start of the 2017-18 school year.

Recommendation 6: GCPS should properly secure its network. Specifically, we recommend that GCPS (a) limit wireless user and high school computer lab and media center workstation access to only those GCPS network devices that these users and workstations require access to; and (b) use the IDPS to decrypt encrypted traffic, scan all traffic from untrusted sources, and configure the IDPS device to block all identified suspicious traffic.

Response: GCPS IT department is in the process of limiting wireless usage with an estimated completion date of end of fiscal year 2017. Decryption has been attempted on multiple occasions, with little success. Management continues to explore options.

Recommendation 7: GCPS should ensure that all managed computers are running current versions of the malware protection software used by GCPS, and promptly install all critical security related software updates for commonly vulnerable applications on all managed computers.

Response: Solution is in progress and, to the extent possible, will be automated.

Recommendation 8: GCPS should develop and implement a comprehensive DRP that is in accordance with the State of Maryland's Information Technology *Disaster Recovery Guidelines* and periodically test the DRP, document the testing, and retain the documentation for future reference.

Response: GCPS will review and revise. Testing has been established on a quarterly basis.

Recommendation 9: GCPS should establish passwords over its network, the student information application and database, and the server hosting the financial application that comply with the recommended password settings prescribed by the State of Maryland *State Information Security Policy*; and set the student information database and server that hosts the financial application to log all critical security related events, regularly review these logs, document these reviews and retain this documentation for future reference.

Response: Completed.

#### *Facilities Construction / Renovation & Maintenance*

Recommendation 10: GCPS should independently verify the contractor reported data, at least on a test basis, to ensure the propriety of critical calculations (such as guaranteed cost savings) included in the related contract and subsequent M&V reports and retain documentation of all such verifications performed.

Response: Currently, GCPS management relies on a standardized Measurement & Verification Report that is audited by International Performance for Measurement & Verification protocol. Management will explore other verification options through networking with other school system leaders.

#### *Transportation Services*

Recommendation 11: GCPS should develop formal, comprehensive policies and procedures for its bus routes that include guidance regarding bus utilization, student ride times, and any other factors (such as deadhead miles) in order to assist in developing efficient bus routes; use automated routing software to help ensure the efficient utilization of buses and ensure the propriety of bus route time and mileage data used to calculate payments to bus contractors.

Response: Completed. GCPS purchased and implemented routing software to improve current bus routes. GCPS recognizes the value in developing and implementing formal and comprehensive policies and procedures that include guidance regarding bus capacity, student ride time, and any other factors in order to assist in improving the efficiency of its current and new routes.

Recommendation 12: GCPS should ensure all contractor payments have a documented and justified basis. Specifically, GCPS

should use market investment rates as the basis for establishing contractor rates for the annual PVA, use actual bus operating costs as a basis for establishing contractor rates for per mile maintenance costs, and exclude the federal fuel excise taxes from contractor payments.

Response: GCPS will develop and implement a fair and reasonable PVA formula to reimburse bus contractors for the purchase of their school bus. Three quotes will be obtained from the Maryland bus vendors and a formula applied to the average price. GCPS will consider using the prime rate as the basis for ROI. Management has adopted a new table of rates for the 2017 fiscal year identifying the items in the supplemental fee paid to the contractors. Time and mileage data determined by the new routing software along with the data provided by the bus contractor is being utilized as the basis for calculating the bus driver wages, maintenance, and fuel reimbursements. The federal excise fuel tax has been eliminated, effective for fiscal year 2017.

#### *Food Service*

Recommendation 13: It is recommended that GCPS develop performance measures for meal costs, using industry standards or other accepted practices, and monitor actual performance against these benchmarks and take appropriate actions to improve operating results, as appropriate.

Response: Food and Nutrition Services will develop a performance measure designed for GCPS using agreed upon standards and to utilize when staffing. Schools with small enrollment prohibit FNS from meeting state averages for staffing levels. Additionally, weather-caused delays and school closures directly result in loss of sales for FNS. GCPS will continue to monitor this enterprise fund.

#### *School Board Operations*

Recommendation 14: It is recommended that GCPS actively enforce its ethics policy and ensure that all required disclosure statements are filed and reviewed by the ethics panel.

Response: Completed. GCPS will enforce the ethics policy and validate that the required disclosure statements are filed.

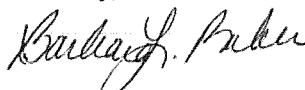
#### *Other Financial Controls*

Recommendation 15: GCPS should obtain documentation to support actual claim payments and ensure audits of the claims paid by the administrator are conducted, use detailed claims payment data to ensure that all claims paid above the stop-loss limit are reimbursed by the insurer, and ensure all required documentation to establish dependent eligibility is received prior to enrolling new dependents in its healthcare plan.

Response: GCPS is one of three members that collectively purchase health insurance through the Garrett County Health Care Plan. We will present this recommendation to the group. In addition, GCPS will annually verify the administrative fee and stop loss amounts being charged by the insurance carrier by independently calculating the administrative fee and verifying with support documentation and stop-loss limit data. GCPS has revised the process of on-boarding employees to ensure all required documentation is received.

Thank you for the opportunity to respond to your recommendations. Should you have any questions, please feel free to contact Mrs. Alison Sweitzer or me.

Sincerely,



Barbara L. Baker  
Interim Superintendent

CC: Charlotte Sebold, Board President  
Alison R. Sweitzer, Director of Finance

AUDIT TEAM

**Stephen C. Pease, CPA**  
Audit Manager

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

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**Edward A. Rubenstein, CPA**  
Senior Auditors

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

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