

Financial Management Practices Audit Report

Harford County Public Schools

March 2021



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Victoria L. Gruber
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA
Legislative Auditor

March 24, 2021

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Harford County Public Schools (HCPS) 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 HCPS' 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 HCPS needs to improve internal controls and accountability in certain areas, including payroll processing, information systems, procurement and disbursements, equipment, student transportation, and health care claims and fee processing. For example, HCPS did not ensure that employee access to its automated financial management system applications, such as procurement, accounts payable, human resources, and payroll, was properly restricted resulting in numerous employees with unnecessary or incompatible access capabilities. Additionally, HCPS did not ensure critical human resources and payroll transactions were independently reviewed for propriety. Specifically, the processing of new hires, other earnings transactions (including leave payouts), and rate increases were not subject to independent review and comparison to supporting documentation.

We also identified significant security and control risks that existed within HCPS' computer network. For example, HCPS had not adequately safeguarded sensitive

information in one of its applications which held approximately 102,500 records containing sensitive electronic personally identifiable information. Additionally, HCPS lacked assurance that proper security existed for an online data backup service, used to hold production data that was hosted, operated, and maintained by a third-party service provider. Furthermore, certain servers were not adequately protected and an intrusion detection prevention system was not properly configured to protect the HCPS network.

In addition, we identified certain practices which, if implemented, could provide opportunities for achieving cost savings in student transportation. Specifically, we found that certain components of the payments to bus contractors could not be supported and included costs that should not have been reimbursed, resulting in higher payments than necessary for student transportation services.

Finally, based on our current audit assessment of significance and risk to our audit objectives, our audit included a review to determine the status of the 15 findings contained in our preceding audit report. We determined that HCPS satisfactorily addressed 7 of these findings. The remaining 8 findings are repeated in this report.

We conducted our audit fieldwork from September 5, 2019 to June 30, 2020. A portion of our fieldwork included time in which the local education agencies were impacted by the COVID-19 pandemic health crisis. Specifically, beginning on March 16, 2020, the State Superintendent of Schools decided to close school and administrative buildings to employees and the public for a two-week period. This was eventually extended for the remainder of the 2019-2020 school year with limited access by certain employees. Although all HCPS buildings were closed for a portion of our fieldwork, the objectives and scope of our audit were not significantly impacted. To the extent that the COVID-19 crisis continues to impact WCPS operations, certain recommendations in this report may need to be adjusted to ensure proper controls under the modified operations.

HCPS' response to this audit is included as an appendix to this report. We reviewed the response and noted agreement to our findings and related recommendations, and while there are other aspects of HCPS' response which will require further clarification, we do not anticipate that these will require the Joint Audit and Evaluation Committee's attention to resolve. Finally, we have edited HCPS' response to remove certain vendor names or products, as allowed by our policy.

We wish to acknowledge the cooperation extended to us during the audit by HCPS and its willingness to address the audit issues and to implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large, stylized 'G' and 'H'.

Gregory A. Hook, CPA
Legislative Auditor

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

Background Information

Statistical Overview

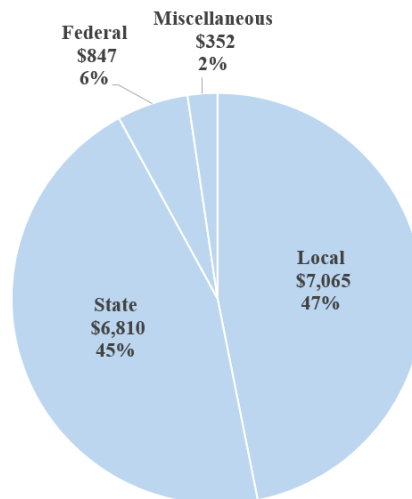
Enrollment

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Harford County Public Schools (HCPS) ranks 8th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2019 full-time student enrollment was 37,826 students. HCPS had 53 schools, consisting of 33 elementary schools, 8 middle schools, 8 high schools, 1 middle/high school, and 3 other types of schools (including alternative, vocational, and special education).

Funding

HCPS revenues consist primarily of funds received from Harford County, the State, and the federal government. According to the HCPS audited financial statements, revenues from all sources totaled approximately \$570.2 million in fiscal year 2019; including approximately \$257.6 million from the State. See Figure 1 below for HCPS' revenue sources per enrolled student in fiscal year 2019 according to its audited financial statements.

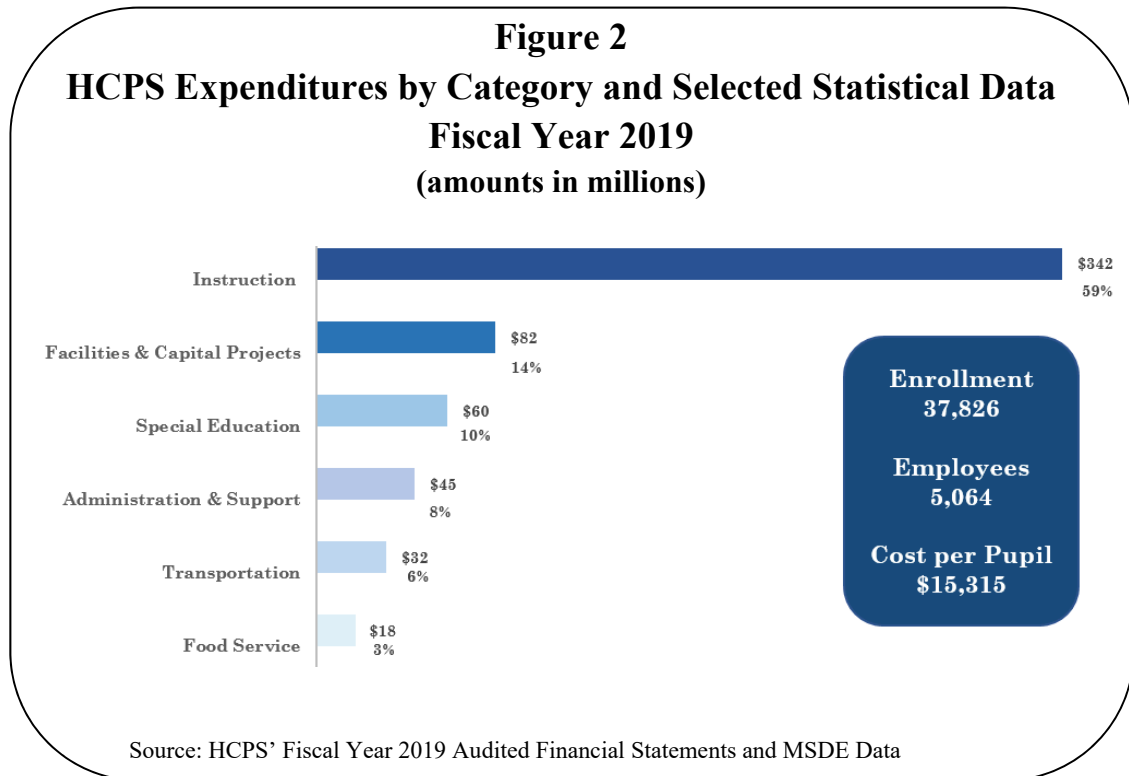
Figure 1
HCPS Revenue Sources Per Enrolled Student
Fiscal Year 2019



Source: HCPS' Fiscal Year 2019 Audited Financial Statements and MSDE Data

Expenditures

According to HCPS' audited financial statements, fiscal year 2019 expenditures were approximately \$579.3 million. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 81 percent of total expenditures during fiscal year 2019. According to MSDE records, during the 2018-2019 school year, HCPS had 5,064 full-time equivalent positions, which consisted of 3,603 instructional and 1,461 non-instructional positions (see Figure 2).



Oversight

HCPS is governed by a local school board, consisting of six elected voting members, three appointed voting members, the county superintendent of schools, who is an ex officio nonvoting member, and one voting student member. The student member has the same rights and privileges as a member appointed or elected, and can vote on and participate in all matters except those specifically prohibited by law, such as acquisition and disposition of real property, collective bargaining and the appointment of the superintendent. In accordance with State law, MSDE provides considerable oversight of HCPS through the establishment and monitoring of various financial and academic policies and regulations.

MSDE also works with HCPS to comply with the requirements and mandates of federal law. The Harford County government exercises authority over HCPS primarily through the review and approval of HCPS' annual operating and capital budgets.

External Audits

HCPS engages a certified public accounting firm to independently audit its annual financial statements. The firm performs procedures to verify the amounts and disclosures in the financial statements. The firm also evaluates the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. In the related audit reports, the firm stated that the financial statements presented fairly, in all material respects, the financial position of HCPS as of June 30, 2015, 2016, 2017, 2018, and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Additionally, in accordance with *Government Auditing Standards*, as part of the audited financial statements the accounting firm also issued separate reports on HCPS' control over financial reporting and its tests of HCPS' compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. This report is an integral part of the annual independent audited financial statements. Furthermore, the accounting firm also conducts the Single Audit of HCPS' federal grant programs. The Single Audit is intended to provide assurance to the federal government that adequate internal controls are in place, and the entity is generally in compliance with program requirements.

We reviewed the aforementioned financial statement audits and Single Audit reports for fiscal years 2015 through 2019, and examined the related work papers for the fiscal year 2018 audits, which were the latest available during our audit fieldwork.

Certain work of the independent certified public accounting firm, which we determined was reliable, covered areas included in the scope of our audit. As a result, we did not conduct any audit work related to the following areas:

- State and local government revenues received via wire transfer
- Accounts receivables
- Federal grant activity
- Employee salary levels

The independent accounting firm did not disclose any material deficiencies in these areas.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the 15 findings contained in our preceding audit report dated January 29, 2015. As disclosed in Figure 3, we determined that HCPS satisfactorily addressed 7 of these findings. The remaining 8 findings are repeated in this report.

Figure 3
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	Finance Office collections were not recorded or deposited timely.	Not repeated
Finding 2	HCPS did not adequately restrict users' capabilities on its automated procurement and accounts payable system.	Repeated (Current Finding 5)
Finding 3	HCPS did not adequately monitor payments made for special education services.	Repeated (Current Finding 2)
Finding 4	Independent reviews of payroll and personnel transactions were lacking and access to the automated payroll system was not properly restricted.	Repeated (Current Finding 3 and 5)
Finding 5	HCPS certified sick leave to the Maryland State Retirement and Pension System as unused for the portion that was previously paid to employees upon separation, resulting in increased pension benefits.	Not repeated
Finding 6	HCPS equipment policies were not comprehensive.	Repeated (Current Finding 4)
Finding 7	HCPS' information technology controls over disaster recovery planning and backup of critical data were not sufficient.	Not repeated
Finding 8	HCPS lacked assurance that adequate controls existed over its production data backups stored with a cloud service provider.	Repeated (Current Finding 7)
Finding 9	The HCPS intrusion detection prevention system was not properly protecting the network.	Repeated (Current Finding 8)
Finding 10	HCPS' energy management program was not sufficiently comprehensive.	Not repeated
Finding 11	HCPS did not have formal targets and goals for revising bus routes or use automated routing software to improve route efficiency.	Not repeated
Finding 12	Certain payments to bus contractors were not based on market conditions or actual costs.	Repeated (Current Finding 10)
Finding 13	Food service collections were not properly recorded nor adequately safeguarded until deposit.	Not repeated
Finding 14	HCPS did not ensure the propriety of payments for employee and retiree healthcare costs.	Repeated (Current Finding 12)
Finding 15	Competitive bids were not obtained for a stop-loss contract and the contract was not approved by the Board.	Not repeated

Findings and Recommendations

Revenue and Billing Cycle

Background

Harford County Public Schools (HCPS) revenues consist primarily of funds received from Harford County, the State, and the federal government. According to HCPS' audited financial statements, revenues from all sources totaled approximately \$570.2 million in fiscal year 2019; including approximately \$257.6 million from the State.

External Audits

There were similarities between the work of the independent certified public accounting firm that audited HCPS' financial statements and the objectives of our audit for certain revenue activities. As a result, we relied on this work to provide audit coverage for 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.

School Activity Funds

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. During fiscal year 2019, school activity collections totaled \$6 million and the June 30, 2019 fund balance was \$2.4 million.

HCPS' Board of Education (the Board) has a fiduciary responsibility to ensure that school activity funds were used only for intended purposes. HCPS' internal auditor conducts audits of the school activity funds at each of its schools. The reviews consisted of evaluating and testing compliance with the *HCPS Procedures Manual for School Activity Funds*. The *Manual* establishes standard procedures for all schools to follow to ensure school activity funds are adequately safeguarded and accounted for in a uniform manner. The results of the reviews were provided to the respective school's principal and HCPS management to be addressed. Our review of the internal auditor's findings during fiscal years 2017, 2018 and 2019 generally found the management of these funds to be adequate and that any control weaknesses identified were not prevalent. The internal audit reports reviewed did not identify any improprieties regarding the misuse of funds.

Conclusion

Based on our current assessment of significance and risk relative to our audit objectives, we did not conduct any work in this area other than a limited review to determine that HCPS satisfactorily addressed the prior report finding. We relied on the work performed by the independent certified public accounting firm and HCPS' internal auditor for all other audit coverage in this area including procedures and controls related to the accounting for and safeguarding of cash receipts with respect to revenue and billing.

Federal Funds

Background

HCPS 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 HCPS' Single Audit, fiscal year 2019 expenditures totaled \$26.6 million, not including federally funded fee-for-service programs such as Medicaid reimbursement for special education services.

Single Audit Reports Disclosed No Reportable Conditions Regarding Federal Grant Management

There were similarities in the work performed by the independent certified public accounting firm that conducted the Single Audit of HCPS' federal grants and the objectives of our audit in this area. In addition to expressing an opinion on HCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the required Schedule of Expenditures of Federal Awards (which includes claimed and reported grant expenditures) for fiscal years 2016 to 2019.

The related reports stated that HCPS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with, and the operation of, major federal programs, the auditors did not identify any material weaknesses or significant deficiencies.

Medicaid Funds for Eligible Services

HCPS has 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 HCPS. Medicaid activity is not covered by the Single Audit of federal grants.

The Maryland State Department of Education's Interagency Medicaid Monitoring Team issued a report in June 2019 of the results of its review of 40 student case

files for 74 criteria (including the correct billing of Medicaid for eligible services). The report found that HCPS was 100 percent compliant with 69 criteria and between 93 and 99 percent compliant with the remaining 5 criteria. According to HCPS records, fiscal year 2019 state and federal reimbursements for Medicaid-subsidized services totaled approximately \$5.3 million.

Conclusion

Based on our current assessment of significance and risk relative to our audit objectives, our audit did not include a review of Medicaid-subsidized services. We relied on the work of the independent certified public accounting firm that conducted the Single Audits for all other work in this area, including policies, procedures, and controls with respect to federal grants and expenditures.

Procurement and Disbursement Cycle

Background

According to the audited financial statements and HCPS' records, non-payroll disbursements totaled \$108.5 million during fiscal year 2019. HCPS uses a combination of manual and automated methods to process purchases and disbursements. Requisitions are manually created and approved by a supervisor in the requesting department. Approved requisitions are then entered into the financial management system and converted to purchase orders by the purchasing department, which also generally handles the solicitation, bid evaluation, and establishment of contracts.

HCPS written procurement policies require that procurements exceeding \$25,000 be competitively bid in accordance with Section 5-112 of the Education Article of the Annotated Code of Maryland. Contracts and agreements exceeding \$100,000 that HCPS procures are to be approved by the Board.

Invoices are submitted by vendors directly to the accounts payable department for entry into the financial management system. The system matches invoices to appropriate purchasing documents and the verification of receipt entered by the receiving school or department. Invoices received without an associated purchase order must be accompanied by a disbursement voucher approved by department supervisory personnel. The system then prints vendor checks or processes an electronic payment and posts the payment to the financial records.

Finding 1

HCPS procurement policies did not incorporate certain recognized best practices or requirements of State law when evaluating the merits of participation in intergovernmental cooperative purchasing agreements (ICPA).

Analysis

HCPS procurement policies did not incorporate certain recognized best practices or requirements of State law when evaluating the merits of participating in an ICPA. Specifically, the following statutory requirement and critical best practices were not included in HCPS' policies and were not consistently used when obtaining goods and services under an ICPA.

- Prepare a written assessment of the benefits of using an ICPA as required by State law
- Analyze all costs of conducting competitive solicitations
- Research, compare, and evaluate available ICPAs
- Verify ICPA has a clause allowing utilization by other parties
- Verify the ICPA solicitation was competitively bid and publicly advertised. Obtain originating agency's competitive procurement documentation (including public advertisements and proposal evaluations)
- Verify terms, scope of services, specifications, and price meet HCPS needs
- Execute an addendum of participation with lead agency and remove or incorporate necessary local terms and conditions

We tested HCPS' participation in four ICPAs during fiscal years 2017 through 2020 with contract awards totaling approximately \$4.7 million. Our review disclosed that HCPS did not comply with the statutory requirement that it prepare a written assessment of the benefits of using the ICPA for any of the ICPAs tested. In addition, four of the six best practices (analyze all the costs of conducting competitive solicitations; research, compare, and evaluate other available ICPAs; obtain the originating agency's competitive procurement documentation; and verify the terms and specifications meet its needs) were not performed for any of the ICPAs tested and the remaining two best practices were not performed for at least two of the ICPAs tested.

Incorporating the aforementioned statutory requirement and best practices into HCPS policies could help ensure they are consistently used. We did find that an additional best practice to obtain a copy of the ICPA price list for invoice verification was included by HCPS in an ICPA checklist that it used and was adhered to for all four ICPAs we reviewed.

State law, which legal counsel to the Maryland General Assembly advised us is applicable to local education agencies, allows the use of cooperative purchasing arrangements or ICPAs only after the using entity has determined (or assessed) in writing that the use of such arrangements will provide cost benefits, promote administrative efficiencies, or promote intergovernmental cooperation¹. Furthermore, the Institute for Public Procurement, formerly known as the “National Institute of Government Purchasing”, as well as other public and educational organizations have published ICPA best practices that include comprehensive multi-step checklists that require, among other things (as per the list above), that prospective ICPA users verify that the contract allows other entities to participate, the contract was awarded through a competitive procurement process, and requires that addendums be executed documenting their participation and incorporating local required terms and conditions.

Recommendation 1

We recommend that HCPS establish and adhere to the aforementioned statutory requirement and other identified and acknowledged best practices when using ICPAs.

Finding 2

Certain transactions processed on its automated system were not subject to independent review and approval and verified to appropriate supporting documentation after being entered into the system.

Analysis

Certain transactions processed on its automated system were not subject to independent review and approval and verified to appropriate supporting documentation after being entered into the system.

- HCPS did not periodically generate a report of new vendors added, or changes to existing vendor information, for review by independent personnel to ensure that the vendor information added or changed was proper and accurately

¹Section 13-110 of the State Finance and Procurement Article, of the Annotated Code of Maryland in part, defines an intergovernmental cooperative purchasing agreement (ICPA). As defined, an ICPA is a contract that is entered into by at least one governmental entity in a certain manner, that is available for use by the governmental entity entering the contract and at least one additional governmental entity, and that is intended to promote efficiency and savings that can result from intergovernmental cooperative purchasing. The aforementioned law applies to all ICPAs regardless of the services, goods, or commodities purchased. In addition, Section 5-112(a)(3) of the Education Article of the Code provides that local education agencies do not need to conduct competitive procurements for goods and commodities if they use a contract awarded by public agencies or intergovernmental purchasing organizations and the originating procuring agency followed public bidding procedures.

recorded. During the period of January 2018 to November 2019, there were 20,319 vendor information changes (such as vendor name, bank account number) made by 9 different HCPS employees without any supervisory oversight. Our review of 10 of these vendor changes did not identify any improprieties.

- The employee responsible for approving the disbursements batch generated by the automated system prior to payment, including those that did not have an associated purchase order, only assessed the reasonableness of the transaction and did not perform a documented comparison of the transactions to the related supporting documentation (such as an invoice and disbursement voucher form). During fiscal year 2019, HCPS processed over 8,000 payments totaling approximately \$218.1 million for invoices without an associated purchase order (including 300 payments totaling \$136.8 million for health care, retirement, and workers compensation).
- Invoices processed for special education service providers were not verified against independent documentation. HCPS special education program personnel compared the invoices to time records, which were produced and maintained by the providers' employees. Although the time records were signed by HCPS school-based personnel after services were rendered, these original signed time records were not sent directly to HCPS contract monitors but, rather, were first returned to the providers' employees, who then submitted them to contract monitors. This practice could allow the opportunity for unauthorized changes to be made to the time records that could go undetected. According to HCPS records, payments to six special education service providers totaled \$1.4 million during fiscal years 2017 - 2019. A similar condition related to verifying special education services billed was commented upon in our preceding audit report.

Recommendation 2

We recommend that HCPS

- a. ensure that changes to the vendor information recorded in the automated accounts payable system are periodically verified to appropriate source documentation by an independent employee;**
- b. ensure that an independent employee conducts a documented comparison of disbursement transactions to the related supporting documentation, at least on a test basis; and**
- c. obtain independent supporting documentation for special education services invoices (repeat).**

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the HCPS budget. According to HCPS' records, fiscal year 2019 salary, wage, and benefit costs totaled approximately \$470.8 million, representing 81 percent of the total expenditures. According to Maryland State Department of Education reports, during the 2018-2019 school year HCPS had 5,064 full-time positions, which consisted of 3,603 instructional and 1,461 non-instructional positions.

HCPS uses automated systems to maintain human resources information, record employee time, track employee leave usage, and process and record payroll transactions. Most employees use direct deposit, which is processed by HCPS' payroll system.

Finding 3

HCPS did not ensure critical human resources and payroll transactions were independently reviewed for propriety.

Analysis

HCPS did not ensure critical human resources and payroll transactions entered in the system were independently reviewed for propriety. Specifically, the processing of new hires, other earnings transactions (including leave payouts), and rate increases were not subject to independent review and comparison to supporting documentation. Although we were advised that system reports were produced for certain transactions, the employees that reviewed them were not independent, and the reports were not retained for future reference. In calendar year 2019, HCPS processed over 7,600 critical human resources and payroll transactions, including adding and terminating employees and processing salary increases. Our test of 10 employee additions or terminations and 10 salary increases totaling approximately \$230,000 did not disclose any inappropriate or erroneous transactions.

A similar condition regarding the lack of supervisory review and approval of critical transactions was commented upon in our preceding audit report.

Recommendation 3

We recommend that HCPS

- a. perform a documented independent supervisory review of human resources and payroll transactions entered in the system to appropriate supporting documentation, at least on a test basis (repeat); and**
- b. retain system reports of transactions entered used to verify transactions.**

Equipment Control and Accountability

Background

According to HCPS' audited financial statements, the undepreciated value of its capital equipment inventory totaled \$48.8 million as of June 30, 2019. HCPS maintains centralized automated records for equipment with a cost of \$5,000 or more (including assets capitalized for financial statement purposes). Control and recordkeeping of non-capitalized assets having a value of less than \$5,000 was delegated to individual departments or schools. Thus, certain information technology items (desktops, laptops, tablets) are recorded on separate inventory records maintained by each school where the items are located.

Finding 4

HCPS' equipment policies were not comprehensive, detail records were incomplete, and physical inventories were not conducted.

Analysis

HCPS' equipment policies did not establish system-wide standards for controlling capital and sensitive equipment. For example, there were no requirements for tagging equipment, performing physical inventories, and investigating lost and stolen items. Additionally, HCPS policy did not define or require recording of non-capitalized sensitive equipment items that would be prone to theft, such as technology equipment (for example, cameras and laptops). The Government Finance Officers Association recommends that an entity establish controls over non-capitalized equipment that is marketable and susceptible to theft.

Absent established system-wide standards, HCPS maintained informal, incomplete records of sensitive non-capitalized assets, which included certain types of sensitive items (such as desktops, laptops, and tablets) while excluding others (such as digital cameras or projectors). Furthermore, since it was not required, these records did not include the cost of the sensitive items or the purchase date. As of February 2020, HCPS' records listed approximately 37,000 non-capitalized devices with product names, model, serial numbers, and location information.

HCPS also did not perform periodic physical inventories of either capital or sensitive non-capitalized equipment to account for items recorded, and identify and investigate missing items. During our test of 26 equipment items recorded in HCPS records, we could not locate 8 of those items. We were advised by HCPS that these items were either lost, stolen, or damaged. However, HCPS could not provide any documentation supporting this assertion.

A similar condition regarding the failure to establish policies and procedures to ensure uniform accountability and control over its equipment inventory was commented upon in our two preceding audit reports.

Recommendation 4

We recommend that HCPS

- a. establish policies and procedures to ensure that uniform accountability and control is maintained over its equipment inventory (recording and conducting periodic inventories), including certain sensitive non-capitalized items (repeat);**
- b. ensure that all sensitive equipment items, deemed subject to theft, are recorded in the detail records (including recording the purchase date and cost); and**
- c. conduct periodic physical inventories of equipment items, compare the results to the detail records, and investigate missing items, including those noted above.**

Information Technology

The HCPS Office of Information Technology (OIT) maintains and administers the HCPS' computer network, computer operations, and information system applications. HCPS operates a wide area network, with internet connectivity, which connects the individual schools' local networks to the computer resources located at HCPS' headquarters. OIT maintains a computer room at the headquarters location in which numerous computer servers and network devices operate to support HCPS information system applications including its student information and financial management systems. Also, OIT utilized a cloud service provider for storage of critical production systems' data backups, which included sensitive personal information for both students and employees.

Finding 5

HCPS did not ensure employee access to its automated financial management system applications was properly restricted resulting in numerous employees with improper and unnecessary access.

Analysis

HCPS did not ensure that employee access to its automated financial system applications, such as procurement, accounts payable, human resources and payroll, was properly restricted resulting in numerous employees with unnecessary or incompatible access capabilities. User access was granted by OIT based upon electronic mail messages sent by an employee's respective supervisor.

Our review disclosed that HCPS did not retain these messages to support the access assigned and did not perform periodic reviews to ensure all user access was proper and necessary to complete the users' job duties.

Our review disclosed that 322 of the 326 users (including external auditors and cafeteria workers) with access to perform both critical accounts payable (such as adding a vendor, entering invoices, and processing payments) and human resources and payroll functions (such as, adding new employees and processing payroll transactions) did not require such broad access for their specific jobs. The remaining four users were information technology employees who HCPS advised needed unrestricted access to the system. HCPS was unaware that the 322 users had the unnecessary access until we brought it to their attention in November 2019. After we brought the situation to its attention, HCPS changed a user access profile setting that reduced the number of users with critical access to 54.

We reviewed the access of the remaining 54 users and concluded that 19 still had access that was not required to perform their job duties and 26 had incompatible or unnecessary access. For example, three users could perform incompatible accounts payable system functions, such as adding vendors, entering invoices and processing payments without the need for online independent approval. These users also had access to the blank check stock and two could print checks with authorized facsimile signatures. Another 13 of the 54 users still had incompatible human resources and payroll access (such as adding employees and processing payroll) without online independent approval.

Finally, HCPS did not create transaction reports to monitor the four information technology employees with unrestricted access to ensure no unauthorized transactions were processed. Similar conditions regarding the need to restrict critical automated financial system capabilities and eliminate incompatible functions were commented upon in our preceding audit report.

Recommendation 5

We recommend that HCPS ensure that employee access to its automated financial system applications, such as procurement, accounts payable, human resources and payroll is appropriate. Specifically, we recommend that HCPS

- a. retain documentation to support supervisory approval of user access;**
- b. perform periodic independent reviews of financial system applications access;**
- c. restrict critical system functions to employees who need those capabilities to perform their job duties and separate employee duties to eliminate incompatible financial system application functions, including those noted above (repeat); and**

- d. **generate and review transaction reports to monitor employees with unrestricted access capabilities to ensure all transactions processed were proper.**

Finding 6

HCPS maintained sensitive electronic personally identifiable information (PII) in a manner that did not provide adequate safeguards.

Analysis

HCPS maintained sensitive electronic PII in a manner that did not provide adequate safeguards. Specifically, as of October 2019, we identified one critical system's database which contained sensitive PII involving approximately 102,500 records which was maintained in a manner that made the information vulnerable to improper disclosure. Additionally, HCPS personnel advised us that other substantial mitigating controls did not exist to otherwise protect this sensitive PII. Furthermore, HCPS had not performed an inventory of its systems to identify all stored sensitive PII, determined if it was necessary to retain the PII, and deleted PII identified as unnecessary. Detailed aspects of this finding were omitted from this report; however, the related information was previously shared with HCPS for the purposes of implementing the following recommendations.

The State of Maryland *Information Technology Security Manual* requires that agencies protect confidential data using adequate safeguards and/or other substantial mitigating controls.

Recommendation 6

We recommend that HCPS

- a. **implement appropriate information security safeguards for sensitive electronic PII it maintains; and**
- b. **perform an annual inventory of its application systems, identify all sensitive electronic PII, and delete all unnecessary PII.**

Finding 7

HCPS lacked assurance that an online data backup service managed by a third-party provider was properly secured against operational and security risks.

Analysis

HCPS lacked assurance that all necessary information technology security and operational controls existed over its production systems online data backup

service which was hosted, operated, and maintained by a third-party service provider. HCPS used the backup service, which included storage of PII, under a service order dated July 1, 2008, which was updated on June 25, 2015. Our examination disclosed the associated contract did not contain certain key security control provisions in regard to protecting HCPS backup data within the service provider's network. For example, provisions did not exist for defining security incidents and necessary actions, requiring software vulnerability testing and patch management, and for requiring regular reviews of audit logs. Industry best practices recommend detailing the specific responsibilities mentioned above in clear and concise contractual language to limit operational and security risks. A similar condition was commented upon in our prior audit report.

The service provider obtained a System and Organization Controls (SOC) 2 Type 2 report, issued on December 19, 2018, for the period October 1, 2017 to September 30, 2018, covering the security, availability, processing integrity, and confidentiality trust service principles. The report did not cite any control weaknesses, and was obtained and reviewed by HCPS. Our November 2019 review disclosed that the SOC report did not address certain key security controls necessary for the data backup service and the associated network that are typically included in a SOC 2 review covering the security and availability principles. For example, the SOC review did not test controls related to retention and review of audit logs recording privileged or unauthorized access or information security events and the use of vulnerability scanning, network intrusion detection and malware prevention. A similar condition was commented upon in our prior audit report.

The American Institute of Certified Public Accountants has issued guidance concerning examinations of service providers and issuance of System and Organization Controls reports, including SOC 2 Type 2 reports for service organizations. The SOC 2 Type 2 report contain the service organization's description of its system and the results of the auditor's examination of the suitability of the system design and operating effectiveness for the period under review, and can include an evaluation of system security, data availability, processing integrity, confidentiality, and privacy trust services criteria. Service provider customers are responsible for obtaining and reviewing SOC reports in order to assess risk over their usage of service provider systems. The State of Maryland *Information Technology Security Manual*, within its risk assessment policy section, enumerates customer responsibilities relative to SOC reports which include reviewing such reports to ensure they contain complete implementation of all needed security controls.

Recommendation 7

We recommend that HCPS

- a. take appropriate actions to include in its service provider contract provisions that address the aforementioned security and operational risks (repeat), and**
- b. request that the independent security reviews for its online data backup service and related SOC reports address all necessary security controls (repeat).**

Finding 8

Certain servers were improperly located within the internal network, and intrusion detection prevention system coverage did not exist for untrusted encrypted traffic.

Analysis

HCPS' computer network was not adequately secured. We noted two conditions affecting network security.

- Certain servers were located in the HCPS internal network rather than being isolated in a separate protected network zone to minimize security risks. These servers, by their nature and location, created improper security risk for the internal network. Best practices in the State of Maryland *Information Technology Security Manual* include placing such servers in an external protected zone to protect those servers as well as the entity's internal network. Detailed aspects of this finding were omitted from this report; however, the related information was previously shared with HCPS for the purposes of implementing appropriate corrective actions.
- Intrusion detection prevention system (IDPS) coverage did not exist for untrusted encrypted traffic entering the HCPS network. HCPS operated a network appliance having integrated IDPS. Although the network-based IDPS used by HCPS had the capability to decrypt and analyze encrypted network traffic received, this feature was not enabled for a portion of such traffic. Additionally, server host-based intrusion prevention system coverage was not used for this untrusted encrypted traffic. We identified 2 firewall rules that allowed encrypted traffic from any source to 26 unique network destinations within HCPS' internal network without IDPS coverage.

The aforementioned absence of IDPS coverage creates network security risk as the untrusted encrypted traffic could contain undetected malicious data. Best practices in the State of Maryland *Information Technology Security*

Manual 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. A similar condition was commented upon in our preceding audit report.

Recommendation 8

We recommend that HCPS

- a. relocate servers, as appropriate, to a separate protected network zone to limit security exposures to the internal network segment; and**
- b. perform a documented review and assessment of its network security risks and identify how IDPS coverage should be applied to its network for all untrusted traffic, including encrypted traffic, and implement this coverage (repeat).**

Facilities Construction, Renovation, and Maintenance

Background

HCPS employs a staff of 504 employees to maintain its 53 schools (including alternative, vocational, and special education) and a number of other facilities (such as administrative and support offices). According to its fiscal year 2020 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to HCPS' facilities over the next six years are estimated to cost \$344.3 million.

HCPS Capital Projects Were Properly Procured and Approved and Related Expenditures Were Properly Supported

Our review of 9 construction-related procurements awarded during fiscal years 2015 to 2018 totaling \$62.6 million, disclosed that all 9 contracts were competitively procured and approved by the Board. In addition, our test of 20 invoices totaling \$12.7 million for these contracts disclosed that the invoices were properly supported and the amounts invoiced were in accordance with contract terms. Finally, our test of 16 change orders totaling \$980,000 for these contracts disclosed that the change orders were properly supported and approved.

Processes are in Place to Minimize Energy Costs

HCPS has processes in place to minimize energy costs. Specifically, HCPS utilizes vendor energy metering systems to monitor heating and air conditioning usage and related costs. HCPS also has written policies that encourage both students and employees to be aware of and limit their energy use. HCPS also makes use of solar alternative energy sources. Finally, HCPS participates in a Baltimore regional cooperative and an Eastern Shore consortium to purchase

energy at the best possible terms. According to documents provided by HCPS from its energy management vendor (which we did not audit), HCPS saved over \$5.5 million through energy cost avoidance from calendar years 2015 to 2018.

Finding 9

HCPS did not perform preventive maintenance in accordance with its Comprehensive Maintenance Plan.

Analysis

HCPS did not perform preventive maintenance (PM) in accordance with its Comprehensive Maintenance Plan (CMP). Although, HCPS developed a CMP which required inspections and PM at certain intervals, our review of 61 PM work orders at 15 schools disclosed that 29 work orders were performed between 15 and 432 days late, including 18 that were overdue by 120 days or more.

Required PM is performed on critical building components (such as air conditioning and ventilation systems, boilers and plumbing, electrical systems, and roofs) and parking lots. Failing to perform the required PM in a timely manner could cause system failures and additional maintenance expenditures.

Recommendation 9

We recommend that HCPS complete all preventive maintenance required by its comprehensive maintenance plan in a timely manner.

Transportation Services

Background

According to statistics compiled by the Maryland State Department of Education (MSDE), HCPS has approximately 32,500 students eligible to receive student transportation services. HCPS reported that 7.6 million route miles were traveled to transport students for the 2018-2019 school year. These students were transported using 334 contractor-owned buses and 97 school system-owned buses. According to HCPS' financial records, fiscal year 2019 transportation costs totaled \$45.2 million with \$25.0 million (55 percent) representing payments for the contracted bus services.

HCPS's bus contracts are for a 6-year term and payments are negotiated each year. Specifically, HCPS and the bus contractors meet in August and September of each school year to reach an agreement on the rates to be paid the following school year. If no agreement is reached by January 1st, then the contract terminates as of June 30th of the fiscal year in question. As noted in Figure 4,

payments to bus contractors consist of several components including hourly reimbursements for drivers, a per-mile maintenance fee, fuel costs, a per-vehicle allotment (or PVA) intended as reimbursement for the cost of purchasing a bus (less sales tax which is reimbursed upfront) and a flat rate for return on investment, reimbursement of certain administrative costs (such as bus driver training, physicals, and drug testing), and an operations payment.

Figure 4
Cost Components for Bus Contractor Payments
Fiscal Year 2019
(dollar amounts in millions)

Cost Component	Amount	
Reimbursements for Drivers Hourly Rates	\$7.8	31%
Maintenance Fee and Fuel Costs	\$5.9	24%
Per-vehicle Allotment (PVA)	\$4.8	19%
Field Trips, Athletics, Alternative, and Special Education	\$3.1	13%
Other Administrative Costs, Spare Bus, Extended Buses, Sales Tax, and Insurance	\$2.3	9%
Operations Payment (formula per-bus profit margin)	\$1.1	4%
Total	\$25.0	

Source: HCPS Records

Finding 10

Certain components of the payments to bus contractors could not be supported and included costs that should not have been reimbursed, resulting in higher payments than necessary for student transportation services.

Analysis

Certain components of the payments to bus contractors could not be supported and included costs that should not have been reimbursed, resulting in higher payments than necessary for student transportation services. During the 2017-2018 school year, the HCPS cost per mile for transporting students (\$4.33) was higher than the average cost per mile for three of four other similarly sized school systems (\$3.66).

- HCPS did not have a documented basis for the formula used to calculate the monthly operations payments to bus contractors. Specifically, although a formula² for calculating the operations element was included in the bus

² The formula is generally equal to 13 percent of the average total payments for time and route mileage associated with each bus (excluding spare buses) plus certain administrative costs.

contracts annual table of payment rates, it was not supported by any cost studies and the basis for the payment was not explained in the contracts. HCPS modified its PVA payment formula, effective fiscal year 2017, to include the annual operations component, which it advised is intended to provide profit to the bus contractors. We estimate the operations payments collectively totaled \$3.8 million during fiscal 2017 to 2020 for the 213 buses placed into service during that period. According to HCPS records, the operations payment per bus year class increased each year and ranged from \$5,793 in fiscal year 2017 to \$6,698 in fiscal year 2020. The operations payments are projected to be an additional \$15.6 million over the remaining 15-year life of the buses, resulting in payments totaling \$19.4 million (approximately \$91,000 during the life of each bus in addition to the PVA).

- HCPS could not support the appropriateness of the \$4.1 million it paid to bus contractors for bus maintenance costs during fiscal year 2019. The contract includes language that provides for the annual adjustment of the previous year's per-mile maintenance reimbursement rate based on the Transportation Consumer Price Index for the Baltimore Washington metro area, contingent upon available funding. However, the annual per-mile maintenance base rate used was not supported by actual documented maintenance costs, cost studies or independently derived estimates, and the rate paid (\$0.83 per-mile for fiscal year 2020) was not stipulated in the contracts.
- HCPS did not obtain Board approval of the individual bus contracts, which are for a six-year term, or the bus payment rate exhibits referenced in the contracts, which are annually negotiated, as required by its procurement policies for contracts exceeding \$100,000. Of the 32 bus contractors, 29 received fiscal year 2019 payments of over \$100,000 per year, including 8 who received over \$1 million per year.
- The standard contract language used by HCPS for its bus contracts did not include a right to audit provision. Such a provision would allow HCPS to verify the contractor's actual costs of purchasing and maintaining the buses when negotiating the PVA and the operations payment noted above, plus hourly reimbursements for drivers, the per-mile maintenance fee, fuel costs, and other administrative costs. The State of Maryland has established a preference in regulation that all contracts require contractors to make their records available for audit by authorized representatives of the State at all reasonable times.

Similar conditions regarding inadequate support for bus maintenance payments, and not submitting bus payment components to the Board for approval, were commented upon in our preceding audit report.

Recommendation 10

We recommend that HCPS

- a. document the basis for the bus contractor operations payment;**
- b. use actual documented maintenance costs, cost studies, or independently derived estimates for establishing contractor rates for per-mile maintenance costs (repeat);**
- c. present the bus contracts and annual updated bus component payment rates to the Board for approval (repeat); and**
- d. include provisions to audit the bus contractors in future contracts and use it to determine the actual cost of operating contractor buses to use in future contract negotiations.**

Finding 11

HCPS did not independently verify manifest data entered into the transportation payments system and did not maintain support for payments made prior to fiscal year 2020.

Analysis

HCPS did not independently verify the accuracy of manifest data entered into the transportation payments system and did not maintain support for payments made prior to fiscal year 2020.

- Manifest information manually entered into the automated system by HCPS employees was not independently reviewed for propriety. The manifest information, such as route times and miles, is used to calculate certain payments, such as the drivers' hourly reimbursement that is made to the contractors.
- The automated system used by HCPS prior to fiscal year 2020 did not maintain historical data supporting the calculation of payments for the PVA, administrative costs, fuel, and bus driver hourly wages. Specifically, the data were overwritten each year and no record of the prior year's payments were maintained. As a result, we are unable to determine if payments made to bus contractors prior to 2020 were proper. HCPS converted to a new transportation payments system beginning in fiscal year 2020, and we were informed that the new system will maintain historical data. The contractor payments we were able to test for fiscal year 2020 did not disclose any

material payment inaccuracies (driver hours and mileage was supported, negotiated rates were properly applied, and payment amounts were mathematically accurate).

Recommendation 11

We recommend that HCPS

- a. independently verify manifest data entered into transportation payments system for accuracy, and**
- b. ensure system payment documentation and support is maintained for future reference.**

Food Services

Background

According to the audited financial statements, food service operating expenditures totaled \$17.9 million in fiscal year 2019, which were primarily funded from federal sources totaling \$9.6 million and food sales totaling \$7.9 million.

According to MSDE records, HCPS had 263.5 food service positions in fiscal year 2019 for its 53 schools, consisting of 230 cafeteria positions and 33.5 administrative positions.

According to MSDE records, 30 percent of HCPS students qualified for free and reduced-price meals as of October 31, 2018.

Conclusion

Based on our current assessment of significance and risk relative to our audit objectives, we did not conduct any work in this area other than a limited review to determine that HCPS satisfactorily addressed the prior report finding in this area.

School Board Oversight

Background

The Harford County Board of Education (the Board) is composed of six elected members, three appointed members, and the county superintendent of schools, who is an ex officio nonvoting member. There is also one student member who has the same rights and privileges as the other voting members, with the exception of certain matters (such as acquisition and disposition of real property, collective bargaining, and employee promotions and discipline). As noted in the Background Information section, the Board contracted with a certified public accounting firm for independent audits of the HCPS financial statements and

federal programs. To assist in its oversight of various areas of HCPS operations and governance, the Board established several committees, such as Audit, Board Policy, Budget, Legislative, and Student Government. Additionally, the Board has established a number of citizen advisory committees (such as Career and Technology Education, Family Life, Gifted and Talented, Safety and Security, and Special Education), which meet with the Board periodically and serve as channels for public concerns and information.

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

The HCPS Board has adopted a detailed ethics policy that conforms to State law and was approved by the State Ethics Commission. The policy is applicable to all Board members and employees and includes provisions for conflicts of interest and financial disclosures by Board members and certain employees. Specifically, annual financial disclosures are required to be filed by Board members, candidates for the Board, the Superintendent, and other administrators (such as school principals and agency buyers) by April 30th of each year.

In accordance with the policy, HCPS established an Ethics Panel consisting of five members 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. Our review of the records for certain Board members and HCPS employees required to submit financial disclosure forms for calendar year 2018 disclosed that forms were submitted as required.

Conclusion

Our audit did not disclose any reportable conditions related to school board oversight.

Management of Other Risks

Healthcare Background

HCPS is a member of the Harford County Public Entities Health Care Consortium (hereafter referred to as the Consortium) for employee and retiree health care. The Consortium negotiates contracts with a third-party administrator (TPA) firm for health care claims processing services for employee and retiree medical, vision, dental, and pharmacy costs and for stop-loss coverage. HCPS is the largest member of the Consortium as its claims represented 70 percent of the Consortium's total claims for plan year 2019.

HCPS is self-insured and ultimately covers the cost of the medical services received by its employees. HCPS pays the TPA monthly that includes a

subscription charge based on the number of participants and their medical coverage, and an administration fee. The monthly payment also includes the stop-loss insurance, which indemnifies HCPS against health insurance claim amounts that exceed \$300,000 per participant per plan year.

Medical providers submit claims to the TPA who pays them on behalf of HCPS. In a year-end settlement process, which segregates the participating agencies for the plan year ending June 30, 2019, the TPA nets the amount of medical claims it paid, and related fees, excess stop loss amounts and rebates, against the monthly subscription charges billed to and paid by HCPS to determine any excess amount due from or to be reimbursed to either party.

The Consortium contracts with a consultant to help manage the health plans. The consultant performs data analysis of the health services utilization and costs, provides recommendations on potential rate changes, and evaluates the merits of the health plan proposals.

As of February 19, 2020, HCPS provided health insurance benefits to approximately 15,500 enrolled employees, dependents, and retirees. According to TPA records, during the 2018-2019 contract year health care payments totaled \$97.2 million, including \$2.9 million in administrative fees and \$3.3 million in stop-loss insurance.

Finding 12

HCPS did not audit or adequately verify the propriety of health care claims, insurance premiums and administrative fees paid to the TPA, and the eligibility of enrolled dependents.

Analysis

HCPS did not audit or adequately verify the propriety of health care claims, insurance premiums and administrative fees paid to the TPA, and the eligibility of enrolled dependents.

- HCPS 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, HCPS did not receive detailed claims data from the TPA to verify the propriety of the aforementioned items and accuracy of the year-end settlement. The State of Maryland's 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. A similar condition was commented upon in our preceding audit report.

- HCPS did not always document its verification of health insurance premiums billed monthly by the TPA. HCPS had developed a computerized report that compared amounts due according to its enrollment records to the amounts billed by the TPA, which was to be reviewed monthly by staff. Our test of 12 fiscal year 2019 monthly billings totaling \$97.2 million disclosed that HCPS could not document the comparison for 5 monthly billings totaling \$39.4 million.
- HCPS did not verify the propriety of administrative fees assessed by the TPA, which totaled \$2.9 million in fiscal year 2019. The fees were included in the annual settlement with the TPA based on a fixed amount per enrollee. However, HCPS did not verify the accuracy of the annual settlement amount by multiplying the number of participants according to its human resources enrollment records by the applicable contract rate. Our recalculation of the administrative fees for the 2019 contract year did not disclose significant variances. A similar condition was commented upon in our preceding audit report.
- HCPS did not ensure that it received all prescription drug rebates from the TPA's pharmacy benefits manager as reported on the annual settlement with the TPA. In fiscal year 2019, the TPA reported that HCPS received prescription drug rebates totaling \$6.2 million.
- HCPS did not ensure all enrolled dependents were eligible to participate in the HCPS health plan. Although HCPS had established new dependent eligibility verification procedures and enrollment documentation criteria, such documentation was not always obtained to verify new dependents met health insurance enrollment criteria. Furthermore, HCPS had not performed a dependent eligibility audit to identify previously enrolled ineligible dependents. Our test of 18 employees with dependent insurance coverage disclosed that 17 of the employees had not provided documentation required to support dependent eligibility, such as social security cards, and birth and marriage certificates.

Recommendation 12

We recommend that HCPS

- a. ensure audits are conducted of the propriety of health care claims paid, and documentation is obtained supporting amounts reported on the year-end settlement by the TPA (repeat);**

- b. document the comparisons of its records of enrolled employees to TPA invoices and contract rates to determine the propriety of premiums billed;**
- c. perform documented comparisons of its records of enrolled employees and contract rates to determine the propriety of administrative fees assessed on the year-end settlement (repeat);**
- d. obtain documentation from the TPA's pharmacy benefit manager supporting the amount of drug rebates reported by the TPA on the year-end settlement; and**
- e. conduct audits of enrolled dependents and ensure employees in the health care plan submit the documentation required to verify the eligibility of their dependents before they are enrolled in the plans.**

Audit Scope, Objectives, and Methodology

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

In planning and conducting our audit of HCPS, we focused on 11 major financial-related areas of operations as approved on December 6, 2016 by the Joint Audit and Evaluation 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 HCPS dated January 27, 2015, included those findings that were applicable to the current audit scope for each of the 11 areas.

The audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. Also, we did not evaluate the HCPS 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 HCPS. We also interviewed personnel at HCPS and the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate). Our audit procedures

included inspections of documents and records, and observations of HCPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2016 to September 4, 2019. 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 HCPS' financial statements and conducts the federal Single Audit, as well as the HCPS internal auditor.

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 HCPS 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.

HCPS' 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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to HCPS, were considered by us during the course of this audit.

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 HCPS that were not deemed significant and, consequently, did not warrant inclusion in this report.

We conducted our audit fieldwork from September 5, 2019 to June 30, 2020. A portion of our fieldwork included time in which the local education agencies were impacted by the COVID-19 pandemic health crisis. Specifically, beginning on March 16, 2020, the State Superintendent of Schools decided to close school and administrative buildings to employees and the public for a two-week period. This was eventually extended for the remainder of the 2019-2020 school year with limited access by certain employees. Although all HCPS buildings were closed for a portion of our fieldwork, the objectives and scope of our audit were not significantly impacted. To the extent that the COVID-19 crisis continues to impact HCPS operations, certain recommendations in this report may need to be adjusted to ensure proper controls under the modified operations.

The HCPS 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 HCPS regarding the results of our review of its response.

APPENDIX



Sean W. Bulson, Ed.D., Superintendent of Schools
102 S. Hickory Avenue, Bel Air, Maryland 21014
Office: 410-838-7300 • www.hcps.org • fax: 410-893-2478

Business Services

Deborah L. Judd, CPA
Assistant Superintendent for Business Services

March 19, 2021

Mr. Gregory A. Hook, CPA,
Legislative Auditor

Dear Mr. Hook:

Please accept the attached Agency Response Form as the result of the Legislative Audit of Harford County Public Schools. We appreciate the collaboration during the audit and the opportunity to provide responses to your findings.

Please contact us with any questions

Sincerely,

Deborah L. Judd, CPA
Assistant Superintendent for Business Services

Harford County Public Schools

Agency Response Form

Procurement and Disbursement Cycle

Finding 1

HCPS procurement policies did not incorporate certain recognized best practices or requirements of State law when evaluating the merits of participation in intergovernmental cooperative purchasing agreements (ICPA).

We recommend that HCPS establish and adhere to the aforementioned statutory requirement and other identified and acknowledged best practices when using ICPAs.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 1	Agree	Estimated Completion Date:	6/30/2021
Please provide details of corrective action or explain disagreement.	The purchasing practices as it relates to ICPA agreements currently incorporate many of the requirements of State Law by using a "Piggyback" check list to evaluate the merits of participating in an ICPA. Going forward HCPS will incorporate other best practices.		

Harford County Public Schools

Agency Response Form

Finding 2

Certain transactions processed on its automated system were not subject to independent review and approval and verified to appropriate supporting documentation after being entered into the system.

We recommend that HCPS

- a. ensure that changes to the vendor information recorded in the automated accounts payable system are periodically verified to appropriate source documentation by an independent employee;
- b. ensure that an independent employee conducts a documented comparison of disbursement transactions to the related supporting documentation, at least on a test basis; and
- c. obtain independent supporting documentation for special education services invoices (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	Estimated Completion Date:	Jan 2021
Please provide details of corrective action or explain disagreement.	AP135 picks up vendor changes and other things. The Assistant Superintendent for Business Services will review the report quarterly and randomly select documentation to confirm appropriate changes.		
Recommendation 2b	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	<p>Independent review occurs by any number of managers within the organization as described in the processes and compensating controls below.</p> <p>Budget Managers monitor their budget accounts very closely and are provided daily reports that are updated each night for that day's transactions. Any inappropriate charges to their accounts are questioned and investigated. . Budget Managers routinely contact Business Services if a transaction is posted to one of their accounts that they did not approve or if something is not charged to their account that should have been. In addition, the Assistant Superintendent of Business Services prepares the quarterly financial reports and investigates variances, often looking at documentation to understand the specific transactions that have posted.</p>		

Harford County Public Schools

Agency Response Form

	<p>The budget office monitors Health, Life, Dental and Retirement accounts very closely. Any unexpected variances are questioned and investigated. Quarterly meetings are held with the budget office and the Assistant Superintendent of Business Services to discuss budgets by state categories and by line item for any areas that appear high.</p> <p>When Health, Life and Dental are paid each month, the Benefits Office sends the approved Disbursement Vouchers and invoices to Finance. Approximately \$10 million each month. The accounting specialist coordinates with the Director of Finance in order to process the payments, ensuring funds are available. The Director of Finance will transfer money from our MLGIP account to our checking account to cover this large amount, as needed. The accounting specialist then processes the ACH payments. There is management involvement and approval in processing these payments each month.</p> <p>Retirement payments made quarterly and annually are initiated by the Director of Finance. For the quarterly Local Share of Teachers' retirement and the quarterly Admin Fee for Teachers and Employees plans, the Director of Finance prepares and submits the Disbursement Vouchers to Accounts Payable who process payment.</p> <p>The annual employer contribution to Employees' Retirement is paid via Wire Transfer in December each year. The Director of Finance provides instruction to Accounts Payable to make this payment via Wire Transfer. Management involvement throughout the process as The Director then faxes payment acknowledgement to MSRA.</p>		
Recommendation 2c	Agree	Estimated Completion Date:	Jan 2021
Please provide details of corrective action or explain disagreement.	HCPS will develop a process that requires the timesheet to come to the special education office from the school, rather than the contractor.		

Human Resources and Payroll

Finding 3

Harford County Public Schools

Agency Response Form

HCPS did not ensure critical human resources and payroll transactions were independently reviewed for propriety.

We recommend that HCPS

- a. perform a documented independent supervisory review of human resources and payroll transactions entered in the system to appropriate supporting documentation, at least on a test basis (repeat); and**
- b. retain system reports of transactions entered used to verify transactions.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	HCPS does ensure accuracy of payroll transactions through monitoring exception reports and ensuring supervisor approval exists, as necessary. The independent auditor, on a test basis, also reviews transactions.		
Recommendation 3a	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	HCPS will perform a periodic documented review of personnel and payroll transactions, on a test basis by the Assistant Superintendent for Human Resources.		
Recommendation 3b	Agree	Estimated Completion Date:	March 2020
Please provide details of corrective action or explain disagreement.	Human resources will run reports quarterly and the Assistant Superintendent for Human Resources will review and verify transactions and will retain the documentation.		

Harford County Public Schools

Agency Response Form

Equipment Control and Accountability

Finding 4

HCPS' equipment policies were not comprehensive, detail records were incomplete, and physical inventories were not conducted.

We recommend that HCPS

- a. establish policies and procedures to ensure that uniform accountability and control is maintained over its equipment inventory (recording and conducting periodic inventories), including certain sensitive non-capitalized items (repeat);
- b. ensure that all sensitive equipment items, deemed subject to theft, are recorded in the detail records (including recording the purchase date and cost); and
- c. conduct periodic physical inventories of equipment items, compare the results to the detail records, and investigate missing items, including those noted above.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	Estimated Completion Date:	June 2021
Please provide details of corrective action or explain disagreement.	HCPS will establish inventory policies/procedures to address the accountability and controls over certain sensitive items.		
Recommendation 4b	Agree	Estimated Completion Date:	complete
Please provide details of corrective action or explain disagreement.	HCPS automated asset management systems does inventory (continuously) through the asset reporting agent. HCPS will address any unaccounted for items. The several systems utilized for tracking do not have the capability to track purchase date and cost. Those items would be found in HCPS' ERP system.		
Recommendation 4c	Agree	Estimated Completion Date:	annually
Please provide details of corrective action or explain disagreement.	The 20/21 school year was the first-year students all had devices. Devices will be accounted for at year-end and unaccounted for devices will be investigated. Each school has an asset tag system which identifies the device assigned to each student.		

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Information Technology

Finding 5

HCPS did not ensure employee access to its automated financial management system applications was properly restricted resulting in numerous employees with improper and unnecessary access.

We recommend that HCPS ensure that employee access to its automated financial system applications, such as procurement, accounts payable, human resources and payroll is appropriate. Specifically, we recommend that HCPS

- a. retain documentation to support supervisory approval of user access;
- b. perform periodic independent reviews of financial system applications access;
- c. restrict critical system functions to employees who need those capabilities to perform their job duties and separate employee duties to eliminate incompatible financial system application functions, including those noted above (repeat); and
- d. generate and review transaction reports to monitor employees with unrestricted access capabilities to ensure all transactions processed were proper.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 5a	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	Technology has developed a form for this purpose. Approval is tracked, verified, and retained.		
Recommendation 5b	Agree	Estimated Completion Date:	April 2021
Please provide details of corrective action or explain disagreement.	Management will review appropriate financial system access quarterly.		
Recommendation 5c	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	HCPS restricts access to critical systems through security software which is implemented by the Technology Department. Security Roles are established within the security module and users are assigned to roles based on their job duties. Through the quarterly review of user security access (see 5b response), HCPS will be able to identify employees who		

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	may be included in a role in error and their access will be removed, if deemed necessary.		
Recommendation 5d	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	Upon completion of the quarterly review of system access, HCPS will review any transactions that may have occurred by employees with incompatible job functions.		

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Finding 6

HCPS maintained sensitive electronic personally identifiable information (PII) in a manner that did not provide adequate safeguards.

We recommend that HCPS

- a. implement appropriate information security safeguards for sensitive electronic PII it maintains; and
- b. perform an annual inventory of its application systems, identify all sensitive electronic PII, and delete all unnecessary electronic PII.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 6a	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	HCPS IT staff meet weekly to identify ANY potential security vulnerabilities, craft a scope and sequence for deployment, or corrective measure(s).		
Recommendation 6b	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	HCPS IT staff will continually identify and perform deletion of electronic PII as appropriate and does not impact operation of the district's mission. Details of deletion of non-electronic PII falls outside the Office of Technology.		

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Finding 7

HCPS lacked assurance that an online data backup service managed by a third-party provider was properly secured against operational and security risks.

We recommend that HCPS

- a. take appropriate actions to include in its service provider contract includes provisions that address the aforementioned security and operational risks (repeat), and
- b. request that the independent security reviews for its online data backup service and related SOC reports address all necessary security controls (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 7a	Agree	Estimated Completion Date:	12 months
Please provide details of corrective action or explain disagreement.	Agree in part, as HCPS can only request the suggested modifications. This was done after the 2015 audit to no avail. As an alternative, HCPS is exploring moving our data backup strategy to a more local controlled data center.		
Recommendation 7b	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	HCPS is actively reworking the existing contract to include additional security controls covered under the vendor's independent SOC review.		

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Finding 8

Certain servers were improperly located within the internal network, and intrusion detection prevention system coverage did not exist for untrusted encrypted traffic.

We recommend that HCPS

- a. relocate servers, as appropriate, to a separate protected network zone to limit security exposures to the internal network segment; and
- b. perform a documented review and assessment of its network security risks and identify how IDPS coverage should be applied to its network for all untrusted traffic, including encrypted traffic, and implement this coverage (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 8a	Agree	Estimated Completion Date:	12 months
Please provide details of corrective action or explain disagreement.	HCPS will research and, where appropriate, will relocate servers.		
Recommendation 8b	Agree	Estimated Completion Date:	12 months
Please provide details of corrective action or explain disagreement.	HCPS is actively working to strengthen security protection measures to all publicly facing web servers.		

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Facilities Construction, Renovation, and Maintenance

Finding 9

HCPS did not perform preventive maintenance in accordance with its Comprehensive Maintenance Plan.

We recommend that HCPS complete all preventive maintenance required by its comprehensive maintenance plan in a timely manner.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 9	Agree	Estimated Completion Date:	Spring 2021
Please provide details of corrective action or explain disagreement.	HCPS is evaluating the structure of the preventative maintenance program to align the needs of the system to the staffing resources. The next comprehensive maintenance plan will incorporate these changes.		

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Transportation Services

Finding 10

Certain components of the payments to bus contractors could not be supported and included costs that should not have been reimbursed, resulting in higher payments than necessary for student transportation services.

We recommend that HCPS

- a. document the basis for the bus contractor operations payment;
- b. use actual documented maintenance costs, cost studies, or independently derived estimates for establishing contractor rates for per-mile maintenance costs (repeat);
- c. present the bus contracts and annual updated bus component payment rates to the Board for approval (repeat); and
- d. include provisions to audit the bus contractors in future contracts and use it to determine the actual cost of operating contractor buses to use in future contract negotiations.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 10a	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	The agreements with the bus contractors document the agreed-upon payments. HCPS will retain documentation supporting the bus contractor operations payment from future negotiation meetings with the bus contractors or during the bid process.		
Recommendation 10b	Agree	Estimated Completion Date:	complete
Please provide details of corrective action or explain disagreement.	The agreements with the bus contractors document agreed-upon payments. HCPS will retain documentation supporting the bus contractor per-mile maintenance cost from future negotiation meetings with the bus contractors or during the bid process.		
Recommendation 10c	Agree	Estimated Completion Date:	ongoing
Please provide details of corrective action or explain disagreement.	Each year the board approves the increase in all annual costs related to the bus contractors through the annual budget approval process. Renegotiated contracts will continue to be presented to the board for approval in the future (2023 when this contract expires).		
Recommendation 10d	Agree	Estimated Completion Date:	2023

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Please provide details of corrective action or explain disagreement.	HCPS will attempt to include an audit or financial review provision in the next bus contract negotiations.
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Finding 11

HCPS did not independently verify manifest data entered into the transportation payments system and did not maintain support for payments made prior to fiscal year 2020.

We recommend that HCPS

- a. independently verify manifest data entered into transportation payments system for accuracy, and
- b. ensure system payment documentation and support is maintained for future reference.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 11a	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	HCPS began implementing the recommendation in the 19/20 school year.		
Recommendation 11b	Agree	Estimated Completion Date:	Complete
Please provide details of corrective action or explain disagreement.	HCPS will maintain this information for audit purposes.		

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Management of Other Risks

Finding 12

HCPS did not audit or adequately verify the propriety of health care claims, insurance premiums and administrative fees paid to the TPA, and the eligibility of enrolled dependents.

We recommend that HCPS

- a. ensure audits are conducted of the propriety of health care claims paid, and documentation is obtained supporting amounts reported on the year-end settlement by the TPA (repeat);
- b. document the comparisons of its records of enrolled employees to TPA invoices and contract rates to determine the propriety of premiums billed;
- c. perform documented comparisons of its records of enrolled employees and contract rates to determine the propriety of administrative fees assessed on the year-end settlement (repeat);
- d. obtain documentation from the TPA's pharmacy benefit manager supporting the amount of drug rebates reported by the TPA on the year-end settlement; and
- e. conduct audits of enrolled dependents and ensure employees in the health care plan submit the documentation required to verify the eligibility of their dependents before they are enrolled in the plans.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 12a	Agree	Estimated Completion Date:	Spring 2021
Please provide details of corrective action or explain disagreement.	HCPS is currently engaged in an audit with a third party to review the propriety of healthcare claims. HCPS will also corroborate the year-end settlement produced by the TPA.		
Recommendation 12b	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	The HR/IS Analyst will compare invoices to employee elections to verify monthly medical billings.		
Recommendation 12c	Agree	Estimated Completion Date:	7/1/2021

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Please provide details of corrective action or explain disagreement.	1)HCPS will engage a benefit consultant , benefit enrollment provider, and health benefits insurer in conversation by March 31, 2021 to develop a process to validate monthly administrative fees, and fees assessed on year-end settlement. 2)Solution to be tested for plan year ending 6/30/2021 and implemented for use beginning with plan year 7/1/2021 – 6/30/2022.			
Recommendation 12d	<table style="width: 100%; border: none;"> <tr> <td style="border: none; width: 40%;">Agree</td> <td style="border: none; width: 20%;">Estimated Completion Date:</td> <td style="border: none; width: 40%;">2021</td> </tr> </table>	Agree	Estimated Completion Date:	2021
Agree	Estimated Completion Date:	2021		
Please provide details of corrective action or explain disagreement.	HCPS will engage benefit consultant, pharmacy benefits manager, and health benefits insurer as needed, in conversation by March 31, 2021 to determine how HCPS may be able to verify drug rebates reported on the year-end settlement.			
Recommendation 12e	<table style="width: 100%; border: none;"> <tr> <td style="border: none; width: 40%;">Agree</td> <td style="border: none; width: 20%;">Estimated Completion Date:</td> <td style="border: none; width: 40%;">2021/2022</td> </tr> </table>	Agree	Estimated Completion Date:	2021/2022
Agree	Estimated Completion Date:	2021/2022		
Please provide details of corrective action or explain disagreement.	HCPS will consider a dependent audit. For new enrollees, verification is currently required to ensure valid dependent status.			

AUDIT TEAM

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