

Financial Management Practices Performance Audit Report

Worcester County Public Schools

November 2010



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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November 1, 2010

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Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Worcester County Public Schools (WCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. WCPS is the seventh smallest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 14 schools, with fiscal year 2009 expenditures of \$129 million. The objectives of this audit were to evaluate whether WCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

Our audit disclosed that, in many cases, WCPS had procedures and controls in place to ensure the safeguarding of assets and the efficient use of financial resources. Nevertheless, our report contains 20 recommendations to WCPS to enhance controls and to implement best practices used to improve operations in such areas as procurement, transportation, food services, facilities, and equipment inventory. For example, WCPS had not developed comprehensive policies to govern the procurement of goods and services, including construction-related activities. We noted that WCPS used the same construction management firm for three consecutive major school building projects, but had only bid these services for the first project. The failure to bid certain contracts violates State law governing procurements by local boards of education. Also, WCPS did not have a written policy establishing the criteria for calculating the bus contractor payment rates, which included payments for the cost of the vehicle, bus driver wage rates, and maintenance cost reimbursements. Furthermore, certain components of the formula used to establish bus contractor payment rates should be reevaluated, as the rates appear to result in unnecessarily high payments, and could cost WCPS approximately \$3.9 million over the life of the new buses put into service since 1996. Also, WCPS should establish better controls over critical information technology systems. In addition, WCPS should establish a comprehensive performance measurement system to evaluate key operations.

An executive summary of our findings can be found on page i, immediately following this cover letter, and our audit scope, objectives, and methodology are explained on page 63. WCPS' response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by WCPS.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Executive Summary

The Office of Legislative Audits has conducted an audit to evaluate the effectiveness and efficiency of the financial management practices of the Worcester County Public Schools (WCPS) in accordance with the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. State law requires the Office to conduct such an audit of each of the 24 public school systems in Maryland and provides that the related audit process be approved by the Joint Audit Committee. Since the Committee approved the audit process in September 2004, we have issued audit reports related to 22 school systems; WCPS represents the 23rd to date. The approved process included 11 functional areas to be audited at each system. The following are summaries of the findings in these areas at WCPS.

Revenue and Billing Cycle (see pages 9 through 12)

According to WCPS' audited June 30, 2009 financial statements, \$132.7 million in revenue was received from all sources during fiscal year 2009, the majority of which was received via electronic fund transfers from other governmental entities. Procedures and controls for significant revenue sources and for accounts receivable were generally found to be adequate. However, based on our audit, cash receipts received at the central business office were not adequately controlled. For example, checks were not restrictively endorsed upon receipt, and collections were not independently verified to deposit documentation.

Federal Funds (see pages 13 through 15)

Annually, WCPS is subject to an audit of its federally funded programs (often referred to as the Single Audit, a requirement of Circular A-133, which is issued by the U.S. Office of Management and Budget). Due to parallels between that work and the scope of our audit, we placed significant reliance on the results of the independent audit of the fiscal year 2009 grant activity, for which reported expenditures totaled \$7 million. The related report stated

that WCPS complied, in all material respects, with the requirements applicable to its major federal programs. In addition, with respect to internal controls over compliance with, and the operation of, major federal programs, the auditors reported no matters considered to be material weaknesses and no significant deficiencies.

WCPS had established a procedure to identify children eligible for Medicaid-subsidized¹ services and recover related costs. WCPS also fully participated in the federal E-Rate program, which provides funding for telecommunications expenses.

Procurement and Disbursement Cycle (see pages 17 through 20)

According to WCPS records, non-payroll disbursements totaled approximately \$54 million during fiscal year 2009. WCPS used existing governmental contracts as a way to obtain discounts and reduce procurement costs. However, WCPS had not developed any Board approved policies governing procurements. Also, WCPS procedures did not require Board approval of any contracts, although generally construction related contracts were approved by the Board. In addition, WCPS should improve controls over its automated system used for invoice payment. Finally, our tests disclosed that WCPS did not always competitively bid procurements or provide justification for sole source procurements.

Human Resources and Payroll (see pages 21 through 23)

WCPS employed 1,156 full-time equivalent employees as of October 2008, and associated payroll costs during fiscal year 2009 totaled \$75 million. WCPS uses a centralized hiring and approval process to help control payroll costs. WCPS should improve controls over its payroll processing and develop a comprehensive workforce plan by addressing key non-instructional personnel.

¹ The Federal Medical Assistance Program, or Medicaid, is not a grant program under Circular A-133 and is not included in the Single Audit.

Inventory Control and Accountability (see pages 25 through 27)

WCPS should improve its policies and procedures to ensure that accountability and control is effectively maintained for its equipment inventory. According to the WCPS audited financial statements, as of June 30, 2009, the capital equipment inventory had an undepreciated cost of \$3.2 million.

Information Technology Services (see pages 29 through 31)

WCPS maintains and administers a computer network, computer operations, and a number of significant administrative and academic-related information system applications. A master technology plan, which is periodically updated to address current and future school needs, has been developed. WCPS, however, needs to improve certain computer system security policies and develop a comprehensive disaster recovery plan to adequately safeguard applications and data systems.

Facilities Construction, Renovation, and Maintenance (see pages 33 through 37)

WCPS maintains 14 schools and several other facilities (such as administration and support offices) with a staff of 84 custodial and maintenance personnel. WCPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Plans are long-term, updated annually, and reflect input from the Board. WCPS should develop formal policies over critical construction procedures to help ensure compliance with State law and establish a performance measurement system to better manage its maintenance operations.

Transportation Services (see pages 39 through 46)

WCPS is responsible for the safe transportation of approximately 6,300 eligible students, of which one percent is disabled. WCPS uses several best practices to increase the efficiency of transporting students, such as staggering school start and stop times so buses can provide multiple trips on the same day. However, WCPS should establish comprehensive bus routing procedures and should consider using automated routing software to help efficiently plan bus routes. WCPS should develop a written policy establishing the criteria for determining bus contractor rates and reevaluate the formula used to determine certain payments to bus contractors. The current payment methodology may result in WCPS paying \$3.9 million more than necessary over the life of new buses put into service since 1996. Also, WCPS should perform an analysis to determine if it is cost beneficial to continue outsourcing its transportation services and develop performance measures to evaluate its transportation operations.

Food Services Operations (see pages 47 through 51)

WCPS currently uses a number of best practices in its food services operations. For example, it uses available USDA commodities and has procedures in place designed to maximize participation in the National School Meals Programs. However, WCPS should improve controls over the procurement of food supplies and reflect all costs (including indirect costs) when evaluating its food service operational performance. WCPS should also evaluate the meals per labor hour performance of its food services operations and consider practices to improve production.

School Board Operations and Oversight (see pages 53 through 59)

The seven-member Board has adopted policies governing certain operations of the Board and WCPS and exercised oversight of financial activities through independent audits. WCPS should obtain the required approval from the State Ethics Commission for its ethics policy and take measures to ensure full compliance with the policy. To enhance oversight, the Board should adopt comprehensive performance measures in key operational areas, such as transportation, food service, and facilities management.

The Board should also consider establishing an internal audit function and a confidential reporting process to receive reports of possible fraud, waste, or mismanagement.

Other Financial Controls (see pages 61 through 62)

WCPS has appropriate practices in place to govern its cash and risk management.

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Background Information

Oversight

Worcester County Public Schools (WCPS) is governed by a local school board, consisting of seven elected members and three non-voting student members. The vast majority of WCPS funding is provided by the State and the Worcester County government. In addition, the Maryland State Department of Education (MSDE) exercises considerable oversight through the establishment and monitoring of various financial and academic policies and regulations, in accordance with certain provisions of the Annotated Code of Maryland. MSDE also works with WCPS to comply with the requirements and mandates of the federal No Child Left Behind Act of 2001. Oversight by the Worcester County government is principally exercised through the County approvals of the WCPS annual operational and capital budgets.

Statistical Overview

According to MSDE student enrollment records, WCPS is the seventh smallest school system based on student enrollment among the 24 public school systems in Maryland. From fiscal year 1998 through 2008, the total kindergarten through grade 12 regular and special education pupil population has increased 3.2 percent from 6,462 to 6,671 with projected decreases to 6,320 by 2017.² For the 2009-2010 school year, WCPS had 14 schools, consisting of 5 elementary, 1 intermediate, 3 middle, 3 high schools, and 2 other schools. According to the fiscal year 2009 audited financial statements, operating expenditures were \$102.4 million and capital expenditures were \$26.9 million. The largest expenditure category is salaries and wages, including benefits, which accounted for approximately 74 percent of the operating expenditures during fiscal year 2009. WCPS budgeted full-time positions in fiscal year 2009 totaled 1,189, which consisted of 893 instructional and 296 non-instructional employees.

² Source: Maryland Department of Planning, Planning Data Services.

Certain statistical information contained in this report was taken from unaudited reports distributed by MSDE and represents the most current comparable information available at the time of our audit. These reports are based on self-reported data from the 24 Maryland public school systems, and MSDE does not warrant the comparability or completeness of the data.

External Audit of Fiscal Year 2009 Activity

Annually, WCPS engages a certified public accounting firm to independently audit its fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of WCPS federal grant programs (as required by federal regulations). The two resulting audit reports for the 2009 fiscal year were issued in October 2009. Neither report disclosed any material weaknesses or significant deficiencies on WCPS record keeping, processes, and controls.

Chapter 1

Revenue and Billing Cycle

According to the WCPS audited financial statements for the fiscal year ended June 30, 2009, \$132.7 million of revenue was received by WCPS during fiscal year 2009. Due to similarities between the work of the independent certified public accounting firm that audited the WCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the audit of the fiscal year 2009 financial statements for revenue transactions, including State, local, and federal sources and other sources of revenue (such as student activity fund³ cash receipts of \$2.1 million) and for accounts receivable (for example, amounts due from other governments). The firm's procedural review and testing disclosed no material weaknesses⁴ and no significant deficiencies.⁵ Such testing included the most significant revenue

³ The Board has a fiduciary responsibility to ensure that the school activity fund is used only for intended purposes by those to whom the assets belong. Receipts for the school activity fund are not included in the \$132.7 million revenue total because the Board cannot use these assets to finance its operations.

⁴ A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements (or, with respect to Single Audit, material noncompliance with a type of compliance requirement of a federal program) will not be prevented or detected by the entity's internal control.

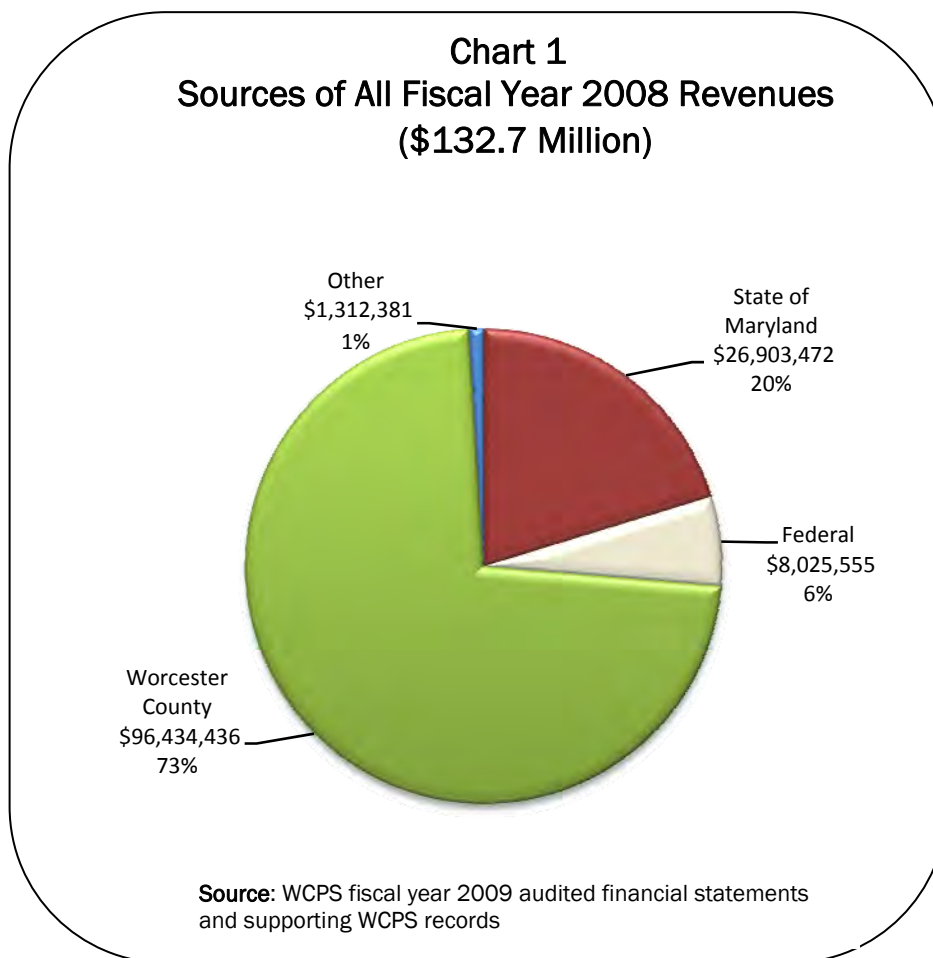
⁵ A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles (or, with respect to Single Audit, to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program) that is more than inconsequential will not be prevented or detected by the entity's internal control.

types—the majority of which related to electronic fund transfers from other government entities—as well as school activity funds and food service cash receipts.

Our audit of cash receipts received at the central business office, which totaled \$21 million during fiscal year 2009, disclosed that controls over these collections need to be improved.

Background

WCPS revenues consist primarily of funds received from the State, Worcester County, and the federal government. Other sources include receipts from the sale of food, facility rentals, and interest income. Chart 1 (see below) shows the breakdown of WCPS fiscal year 2009 revenues of \$132.7 million by major source.



In addition to the revenues in Chart 1, schools also collected funds for various purposes, such as student activity groups including yearbook and student activity funds. These school activity funds are accounted for separately by each school and are reported in summary in the audited financial statements. According to the audited financial statements, fiscal year 2009 school activity fund receipts totaled \$2,128,969 and the June 30, 2009 balance was \$894,543.

Controls Over Revenue and Billing Cycle Activity Were Generally Adequate for Significant Revenue Types

Due to similarities between the work of the independent certified public accounting firm that audited the WCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the independent audit of the fiscal year 2009 financial statements. The auditor's procedural review and testing disclosed no material weaknesses or significant deficiencies regarding the collection of any accounts receivable or revenues from local, State, federal and other sources (such as food service operations), including electronic fund transfer transactions. Student activity funds and cafeteria cash operations were also audited by the firm, including a review of internal controls and bank account reconciliations. The independent auditors identified some bookkeeping errors involving student activity funds at certain schools, which were addressed by school management.

Controls Over Cash Receipts Received at the Central Business Office Need to Be Improved

Receipts received by the central business office (primarily consisting of checks) were not properly controlled; such collections totaled \$21 million during fiscal year 2009. Specifically, collections were not recorded and checks were not restrictively endorsed upon receipt. In addition, certain collections initially received by the business office were transferred to other departments that were responsible for maintaining the related accounts receivable records without first being logged in the business office. Finally, verifications that recorded collections were subsequently deposited were not performed.

Recommendation

1. WCPS should ensure that all receipts are immediately recorded and that checks are restrictively endorsed upon receipt. In addition, an employee independent of the cash receipts process should verify that all recorded receipts were deposited.

Chapter 2

Federal Funds

Annually, WCPS is subject to an audit of its federally-funded grant programs (often referred to as the Single Audit, and required by Circular A-133, which is issued by the U.S. Office of Management and Budget). The report on the audit of fiscal year 2009 federal grant activity was issued by an independent certified public accounting firm on October 5, 2009.

In that report, the auditor stated that WCPS complied, in all material respects, with the requirements applicable to its major federal grant programs. In addition, with respect to internal controls over compliance with, and the operation of, major federal programs, the auditors noted no matters considered to be material weaknesses and no significant deficiencies.

WCPS had established a procedure to identify children eligible for Medicaid-subsidized⁶ services that also assured proper billing and reimbursement. WCPS also participated in the federal E-Rate program, which provides funding for telecommunications expenses.

⁶ The Federal Medical Assistance Program, or Medicaid, is not a grant program under Circular A-133 and is not included in the Single Audit.

Background

WCPS receives funds primarily from the State, Worcester County, and the federal government. Most funds received from Worcester County and from the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2009 expenditures of federal award funds totaled \$7 million.

WCPS Established Adequate Internal Controls Over Federal Grants and Complied with Federal Grant Requirements

Because of the accounting firm's work on WCPS federal fund expenditures, we relied on the auditor's results. Besides expressing an opinion on WCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the fiscal year 2009 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). In its report, the firm stated that WCPS complied, in all material respects, with the requirements applicable to its major federal grant programs. In addition, with respect to internal controls over compliance with, and the operation of, major federal programs, the auditors noted no matters considered to be material weaknesses and no significant deficiencies.

WCPS Properly Managed Medicaid-Subsidized Services for Eligible Students

WCPS had established a procedure to identify children eligible for Medicaid-subsidized⁷ services and used a process that assured proper billings and complete reimbursement for eligible services rendered.

⁷ The Federal Medical Assistance Program, or Medicaid, is not a grant program under Circular A-133 and is not included in the Single Audit.

WCPS Participated in the Federal E-Rate Program

WCPS had a process in place to request and receive reimbursement for technology expenditures from the federal School and Libraries Universal Service Program (E-Rate). WCPS received \$222,276 in federal E-Rate funding for fiscal year 2009. The E-Rate program provides funding to schools for telecommunications expenses (such as Internet access). The funding is based on the level of poverty and the rural status of the school district.

Recommendation

None

Chapter 3

Procurement and Disbursement Cycle

WCPS often used existing contracts procured by other governmental entities (referred to as “piggybacking”) as a way to obtain discounts and reduce procurement costs. However, WCPS needs to establish a comprehensive procurement policy and improve its procurement procedures. For example, WCPS did not have any Board approved policies governing procurements and did not require Board approval of any contracts, although generally construction-related contracts were approved by the Board. In addition, WCPS needs to improve internal controls over its automated accounts payable system. A number of employees were assigned incompatible system capabilities, including the ability to add, delete, and adjust vendor information, process vendor invoices, and print checks. In addition, based on our tests, WCPS did not always competitively bid procurements or provide justification for sole source procurements.

Background

WCPS uses a manual system for purchasing goods and services and an automated system for paying the related invoices. Requisitions are manually prepared by departments and are subject to supervisory approval within the requesting departments. Ordering departments or schools generally select vendors and prepare purchase orders. Construction and other facility related acquisitions are administered by the Facilities and Maintenance and Operations Departments, and the Department of Technology administers information technology purchases. Generally, purchases of goods

over \$25,000 are required by State Law to be formally bid and, in accordance with WCPS procedures, are required to be approved by the area supervisor and the Chief Financial Officer.

The ordering department documents the receipt of goods and services by signing a copy of the related purchase order or packing slip, which is forwarded to the accounting department where an accounting associate ensures that the purchase order, packing slip, and invoice are in agreement. Payments are then processed on the automated system by the finance office accounts payable unit. According to WCPS records, non-payroll disbursements (including capital expenditures) totaled \$54 million during fiscal year 2009.

WCPS Used Several Best Practices to Address Its Procurement and Disbursement Needs

WCPS had instituted certain best practices that should enhance the cost effectiveness of its procurements. These include “piggybacking” onto contracts already procured by the State and other local governments, and participating in cooperative purchasing organizations. These practices saved WCPS certain costs associated with the procurement of the contracts and may provide larger discounts as a result of the combined purchasing power of multiple entities.

WCPS Should Develop Comprehensive Policies and Procedures to Control Procurements

WCPS did not have a written procurement policy. As commented upon later in this chapter, our tests disclosed a number of WCPS purchases were not handled in a manner that would help ensure WCPS received the best value. Furthermore, Board approval was not required for any contracts, such as those valued over \$25,000, although our tests disclosed that some construction related contracts were submitted to and approved by the Board.

WCPS Had Not Established Adequate Internal Control Over Invoice Processing and Disbursements

WCPS had not separated duties adequately to establish effective internal controls over its automated invoice processing application. Specifically, we noted that seven employees had been assigned system capabilities that allowed them to perform critical incompatible functions (such as entering and posting payment transactions, adding vendors, and printing vendor checks). One of these employees also reconciled the bank account and another employee was responsible for entering vendors, entering invoices, and printing vendor checks on the automated system. Furthermore, three employees with access to the signature plate and check stock also had access to enter invoices, add vendors, and print checks.

WCPS Should Strengthen Internal Controls Over Procurements and Contracts

WCPS did not always competitively bid or provide sole source justification for purchases. Specifically, our test of 19 disbursements totaling \$1.2 million disclosed 5 purchases totaling \$115,000 that were not competitively bid or supported by sole-source justifications. These purchases included three separate consulting contracts individually ranging in value from \$28,900 to \$45,000.

In addition, we noted 4 procurements totaling \$529,600 for which WCPS did not ensure that vendors charged the agreed upon rates. For example, WCPS purchased from a vendor certain computer items totaling approximately \$221,800 under a University System of Maryland (USM) contract. However, WCPS did not document that it received the specified discounts from the list price. USM's contract allows for Maryland school systems to purchase computer equipment and associated peripherals from selected vendors for an agreed upon percentage discount from the manufacturer's suggested retail price.

WCPS could not provide documentation that it performed an analysis to determine whether extending contracts was more beneficial than re-bidding contracts. One contract (for waste management) has been renewed annually for at least ten years; the

amount paid to this vendor in fiscal year 2009 totaled \$80,040. WCPS used the same law firm for 19 years without obtaining quotes from other firms. The firm was paid \$85,500 during fiscal year 2009. In general, contracts should include the option for extensions only for specific limited periods, and when the period of the original contract expires, the terms should be reevaluated to ascertain whether extending the contract represents the best value.

Recommendations

2. WCPS should develop procurement policies that address all categories of goods and services purchases. The policies should specify the procurement methods to be used, when contracts should be in writing, the mandatory contract provisions and the approval requirements, including when Board approval is required (for example, procurements over a specified amount). These policies should be approved by the Board.
3. WCPS should improve controls over its invoice processing system by segregating incompatible functions and assigning critical system functions to only those employees who need the capabilities to perform their job duties. Furthermore, WCPS should restrict access to the signature plate to employees who are independent of the invoice processing functions.
4. WCPS should obtain goods and services through a properly documented competitive procurement process. If a competitive procurement process is not deemed appropriate (such as when only one vendor can provide the required services), then documentation justifying the decision should be maintained. Furthermore, WCPS should ensure vendors charge the agreed upon rates, should limit the number of contract extensions, and should prepare analyses to determine whether exercising contract extensions is more beneficial than re-bidding contracts.

Chapter 4

Human Resources and Payroll

WCPS uses automated systems to maintain human resources information, to record employee time and track leave, and to process and record payroll transactions. In addition, WCPS uses a centralized hiring and approval process to help control payroll costs. However, WCPS should address certain procedural deficiencies with respect to payroll processing. These deficiencies included the assignment of incompatible payroll system capabilities and the lack of supervisory review of certain payroll transactions. Additionally, although WCPS had implemented workforce planning, it did not address the needs and processes for employees other than teachers and related instructional positions.

Background

Payroll costs represent the largest single cost component in the WCPS budget. According to WCPS records for fiscal year 2009, salary, wage, and benefit costs totaled \$75 million. According to MSDE reports, as of October 2008, WCPS had 1,156 full-time equivalent employees, of which 285 (25 percent) were non-instructional. The 5.8 to 1 ratio of WCPS students to full-time equivalent employees (both instructional and non-instructional) is lower than other similarly sized school systems (see Table 1 on the next page).

Table 1
Comparison of Student to Employee Ratios – Fall 2008 (Unaudited)

School System	Number of Students (as of September 30, 2008)	Number of Full-Time Equivalent Employees (as of October 1, 2008)	Student to Employee Ratio
Worcester Co.	6,671	1,156	5.8 to 1
Allegany Co.	9,232	1,385	6.7 to 1
Caroline Co.	5,513	787	7.0 to 1
Dorchester Co.	4,560	656	7.0 to 1
Queen Anne's Co.	7,859	970	8.1 to 1

Source: MSDE Student /Staff Publications

Note: School systems selected for comparison are those with student enrollments closest in number to WCPS.

Human Resources and Payroll Internal Controls Need to Be Strengthened

WCPS did not adequately separate duties to establish effective internal control over its automated payroll systems and related processes, and certain verification processes could be improved.

- One employee had been assigned certain incompatible payroll system functions. These critical functions included creating manual checks and deleting employees, changing employee addresses, changing employee pay rates and direct deposit account information, entering time and attendance information, and preparing checks. In addition, this employee also had access to the check printer and signature plate. In addition, two other employees were assigned capabilities that allowed them to process payroll adjustments and deductions without supervisory approval.
- WCPS generated reports of payroll transactions and adjustments recorded and processed each pay period for independent review and approval. However, the employee responsible for approving these reports did not use supporting documentation to verify the propriety of the adjustments.

- WCPS did not ensure that final payouts were subject to independent review and approval. Specifically, we noted that one employee was responsible for processing final payouts for unused annual and sick leave for terminated employees. However, these payouts, which totaled \$138,000 during fiscal year 2009, were not subject to independent review and approval.

Workforce Planning Should Be Expanded to Include Non-Instructional Positions

Although WCPS had implemented workforce planning for instructional positions, WCPS should expand its formal workforce planning efforts to include non-instructional positions which, as of October 2008, represent 25 percent of its workforce (285 non-instructional professional and support staff, out of 1,156 full-time equivalent positions). The WCPS Master Plan sets the strategic direction and provides coordination and focus for initiatives to address challenges faced by WCPS. The Plan includes a number of objectives and strategies to address human resource needs—which is evidence of workforce planning. However, it addresses only the recruitment and retention of highly-qualified instructional staff (that is, teachers and certain instructional aides).

Non-instructional positions play a key role in the ultimate success of WCPS in providing quality education and, therefore, should be included in workforce planning. WCPS indicated that it had contemplated workforce planning for non-instructional positions but agreed that there was no formal or documented planning for non-instructional staff.

Recommendations

5. WCPS should improve controls over the payroll system by segregating incompatible functions and by ensuring that payroll transactions are reviewed by independent supervisory personnel using supporting documentation.
6. WCPS should expand its workforce planning to include key non-instructional positions in critical operational units.

Chapter 5

Inventory Control and Accountability

Our audit disclosed that although WCPS has developed written procedures and policies governing the acquisition and disposal of assets, those procedures need to be enhanced to improve accountability and control over its equipment inventory.

Background

According to the WCPS audited financial statements, as of June 30, 2009, the undepreciated cost of capital equipment was \$3.2 million. Equipment items include computers, audio and video items, and various other items. All furniture and equipment items with a cost of \$1,000 or greater are to be included in the centralized inventory system. Generally, WCPS orders materials and supplies on an as-needed basis and does not maintain a central inventory location.

Existing Controls and Procedures Over Equipment Should Be Improved

While WCPS had written policies regarding the acquisition and disposal of assets, we noted several areas where controls and procedures over equipment were in need of improvement.

- WCPS policies and procedures did not address segregation of recordkeeping, inventorying, and custodial duties, uniform reporting of lost and stolen items, or tracking of sensitive items (such as computers and other electronic equipment) costing less than \$1,000 and susceptible to theft.
- There was an inadequate separation of duties between custody and physical inventory responsibilities. Specifically, employees designated as custodians were responsible for ensuring the completion of the related physical inventories. Furthermore, WCPS had not established a policy to verify the accuracy of the inventory counts reported by the custodians.
- WCPS detail records frequently lacked information to specifically identify individual items. For example, 138 of 1,593 items in the computer category lacked serial numbers to identify the items. In addition, equipment items were not always tagged when received. Our test of 10 items valued at \$41,505 disclosed that 2 items totaling \$6,294 were not properly tagged.
- Deletions of certain non-IT items from the inventory were not approved. Specifically, when physical inventories were performed, certain items were marked for deletion and were subsequently deleted from the inventory records by central administration staff without documented explanation or supervisory approval. For fiscal year 2009, we noted 44 non-IT items with a cost of approximately \$122,000 which were deleted from the inventory without approval. In addition, there was no independent review or approval of adjustments made to the inventory detail records.
- WCPS did not adequately restrict access to the automated inventory records. Six employees were assigned critical capabilities, such as adding and deleting assets, which were not required as part of the employees' routine job responsibilities.

Recommendation

7. WCPS should improve the accountability for its equipment by developing and enforcing comprehensive written policies and procedures to govern the accounting and safeguarding of equipment that includes the segregation of duties, tagging fixed assets, uniform reporting of lost or stolen items, and tracking sensitive items prone to theft. In addition, WCPS should ensure that items are properly tagged and adjustments made to the inventory detail records are reviewed and approved by supervisory personnel. Finally, WCPS should assign critical inventory system capabilities only to employees who require such capabilities to perform their job duties.

Chapter 6

Information Technology Services

WCPS maintains and administers a computer network, with Internet connectivity, which connects the individual school local networks to the computer resources located at the WCPS central offices. WCPS has established a written technology plan, which includes a comprehensive assessment of the technical needs of the schools. The plan provides a vision and mission for technology in WCPS and includes measurable goals and objectives.

However, we identified several areas in need of improvement. For example, WCPS needs to strengthen its password policies, enable the logging and reporting of security events, properly document the sanitation of disposed computer equipment, periodically review the capabilities assigned to active system users, and improve its disaster recovery plan.

Background

WCPS operates a wide area network connecting the various schools within Worcester County. The WCPS Department of Technology maintains and administers the WCPS network, academic and financial information applications, and other general computer operations.

Technology Plans Were Developed to Address Current and Future Needs of WCPS

WCPS has developed a written technology plan, which includes a comprehensive assessment of the technology needs of the schools. The plan identifies each school's information technology (IT) needs and the actions to be taken to address those needs. The plan also includes measurable goals and objectives, and addresses professional development and IT related budgets. The plan is periodically updated and monitored for implementation status of identified actions.

Steps Should Be Taken to Ensure Adequate Security Over IT Applications

Enhancements should be made to existing procedures to improve system security – Our review disclosed several deficiencies in computer application security which increased the vulnerability of certain WCPS automated systems, programs, and data:

- WCPS policies for controlling passwords did not require automatic password expirations nor establish a minimum password length (to make the passwords more difficult to hack).
- Logging and reporting of security events for a critical database was not enabled.
- An unnecessary service was enabled on a database that would allow users to run certain commands, which could compromise security.
- The sanitation of disposed computer equipment was not properly documented.
- WCPS did not establish procedures to periodically review, for appropriateness, the capabilities assigned to active users on its financial and payroll applications.

Physical controls over data processing functions should be

improved – We identified seven individuals, who did not need access to the computer server room, were provided a key to the room. In addition, nine individuals who did not need access to the room used to store computer media awaiting disposal were provided a key to the room. Access to these rooms should be restricted to help prevent the unauthorized disclosure of sensitive data, the corruption of critical systems, and the theft and/or destruction of critical IT equipment.

WCPS Should Develop a Comprehensive Disaster Recovery Plan

WCPS did not have a comprehensive disaster recovery plan (DRP) for its computer systems. Specifically, WCPS had made no provision for the following critical elements of a DRP:

- Alternate site processing arrangements
- Contact information
- Restoring network connectivity
- Testing of the DRP
- Storage of a copy of the DRP at an offsite location

Recommendations

8. WCPS should implement appropriate security measures to safeguard its applications and data systems by improving password protection policies, enabling logging and reporting of all critical security events, and eliminating unnecessary service accounts. WCPS should also maintain documentation that substantiates the proper sanitation of disposed computer equipment and should establish procedures to periodically review the capabilities assigned to active users on its financial and payroll applications. Finally, WCPS should establish adequate physical controls and safeguards for its computer and storage rooms.
9. WCPS should develop and implement a comprehensive disaster recovery plan.

Chapter 7

Facilities Construction, Renovation, and Maintenance

WCPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Six-year plans are prepared and updated annually, and reflect input from the Board. WCPS has followed a number of best practices that should enhance project results and cost effectiveness in its Facilities and Maintenance Department.

Nevertheless, WCPS did not have policies in place over critical construction procedures, and for its maintenance and custodial operations, WCPS had not established formal performance measures and related benchmarks.

Background

WCPS maintains 14 schools and other administrative and support offices with a staff of 70 custodial and 14 maintenance personnel.

WCPS uses a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. In the fiscal year 2010 CIP, necessary major renovations, repairs, and systemic improvements to existing schools over the next six years were estimated to cost \$161 million.

Table 2 below compares WCPS fiscal year 2008 plant costs (that is, maintenance and operational costs) with other similarly sized school systems in Maryland. The table presents two measures used to assess plant costs: cost per student and cost per square foot. These statistics show that WCPS plant costs are generally higher than its peer group. WCPS advised that the higher costs are due to the age of many of its schools and the fact that all of its schools are air conditioned.

Table 2 Plant Cost Comparison Per Student and Per Square Foot Fiscal Year 2008 (Unaudited)					
School System	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student ❶	Per Square Foot		
Worcester Co.	\$7,666,568	\$1,141.66	\$7.22	158.12	1,061,804
Allegany Co.	9,977,926	1,062.84	5.62	189.08	1,775,082
Caroline Co.	4,244,012	757.60	5.10	148.57	832,272
Dorchester Co.	4,548,546	987.35	5.48	180.26	830,410
Queen Anne's Co.	7,544,340	967.86	6.93	139.57	1,087,959
Average of Comparable Schools	\$6,578,706	\$943.91	\$5.78	164.37	1,131,431

Sources: MSDE Financial Data, MSDE Fact Book, Maryland Public School Construction Square Footage Data (most recent data available)

❶ - Based on Average Daily Enrollment 2007-2008

A Number of Best Practices Were in Place to Enhance the Efficiency and Effectiveness of the WCPS Facilities and Maintenance Department

WCPS has instituted several best practices to enhance project results and cost effectiveness in its Facilities and Maintenance Department.

- A six-year Capital Improvement Plan has been developed that reflects a comprehensive process involving the Board, public, and county officials.

- Value engineering is used in school construction and major renovations to ensure that costs are minimized without sacrificing project requirements.
- Various processes have been implemented in order to reduce the need for additional construction, including the use of portable classrooms and the periodic evaluation of school district boundaries.
- WCPS performed an analysis to identify, quantify, and prioritize projects to include a deferred maintenance program and has a formal plan to address deferred maintenance needs.
- WCPS has recently implemented an in-house energy conservation program directed toward reducing energy costs.
- WCPS participates in a consortium with other Eastern Shore entities to purchase energy at reduced costs due to the pooled buying power of the consortium members.

WCPS Should Develop Formal Policies Over Critical Construction Procedures

WCPS had not developed formal policies to establish internal control over critical construction procedures:

- There was no written policy to govern the bidding and awarding of construction contracts. We reviewed the procurement of construction management services for two construction projects and noted that competitive bid proposals were not obtained for either project. The two construction management contracts were awarded in 2006 and 2007. WCPS used the same construction manager for the projects we reviewed as for a prior project. WCPS stated that it based its selection solely on the satisfaction with the performance of the construction manager for the prior project during which a competitive procurement process was used to select the construction manager. The contract amounts for these projects were valued at \$1,691,500 and \$2,213,384. To ensure the best value is obtained, State law requires that bids be solicited for school construction contracts, including construction management services,

exceeding \$25,000. In addition, we noted that although construction contracts were submitted to the Board for review, there was no documentation that the two construction management contracts were approved by the Board.

- There was no written policy that specified what approvals were required based on the dollar thresholds for change orders, and there was no requirement for Board review and approval. Nevertheless, we noted that the Facilities Department did have informal procedures for the processing of change orders, and our testing disclosed that change orders were approved by the Superintendent and routinely reported to the Board.

Certain Processes Should Be Implemented to Increase the Effectiveness of Maintenance and Custodial Operations

WCPS should develop a performance measurement system that establishes standards and expectations for maintenance and custodial operations – WCPS had not implemented a performance system to measure and assess the efficiency of its maintenance and custodial operations, both for internal self-evaluation purposes and for comparisons with other systems. Furthermore, we were informed that WCPS had not compared the costs of maintenance and custodial operations to similarly sized districts in Maryland or other states. Comparability with other systems in Maryland could not necessarily be done unilaterally since there would need to be a consensus on the measures and methodology; however, other states (for example, Michigan, Florida, and Minnesota) have established measures and benchmarks (such as maintenance expenditures per square foot) to assist their school systems in the evaluation of costs and practices.

Recommendations

10. WCPS should develop formal policies governing construction contract procurements and establish internal control procedures to ensure that WCPS complies with State law and is receiving the best value for its procurements. The policies should address the requirements for bidding, awarding and

approving construction contracts, and approving change orders.

11. WCPS should develop a performance measurement system that establishes standards and expectations for maintenance and custodial operations, and report the measurement results to the Board.

Chapter 8

Transportation Services

WCPS used a number of recognized best practices to increase student transportation efficiency, such as staggering school arrival and dismissal times to enable certain buses to perform multiple runs, combining middle school and high school bus runs to take advantage of their close proximity and using central collection points for certain buses.

In several areas, improvements should be made in an effort to reduce WCPS transportation costs. For example, WCPS did not establish comprehensive bus routing procedures nor use automated routing software to help efficiently plan bus routes. Also, WCPS did not have a written policy establishing the criteria for determining bus contractor payment rates. The methodology used to reimburse the bus contractors for the purchase cost of buses may result in paying \$3.9 million more than necessary for buses purchased over a 15-year period. In addition, WCPS had not conducted any recent documented cost benefit analysis of its decision to outsource student transportation services nor developed formal performance measures to monitor and evaluate the efficiency and effectiveness of transportation services. Finally, WCPS should ensure its criteria for selecting bus contractors complies with applicable laws.

Background

WCPS is the seventh smallest school system in Maryland based on student enrollment. Approximately 6,280 students are eligible for student transportation. WCPS students were transported on a fleet of 73 buses owned by 73 contractors hired by the school system. Fiscal year 2009 transportation costs totaled \$5.3 million. Of the 1,516,605 reported route miles for the 2008-2009 school year, 14 percent were for transporting disabled students.

Table 3 below shows that the fiscal year 2008 WCPS cost per rider was reasonable when compared with similar-sized school systems. WCPS cost per mile was lower than one of the four comparable school systems.

Table 3							
Comparison of Transportation Costs per Rider and per Mile							
Fiscal Year 2009 (Unaudited)							
School System	Number of Eligible Riders		Miles (in thousands)		Expenditures (in thousands)	Average Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
Worcester Co.	6,213	67	1,306	211	\$5,498	\$875	\$3.62
Allegany Co.	5,947	199	1,296	310	6,371	1,037	3.97
Caroline Co.	4,626	70	981	167	4,005	853	3.49
Dorchester Co.	4,241	86	814	120	3,196	739	3.42
Queen Anne's Co.	7,737	77	1,728	544	6,138	785	2.70
Average of Comparable Schools	5,638	108	1,205	285	\$4,927	\$853	\$3.39

Sources: MSDE 2008-2009 Fact Book

Several Best Practices Were In Place to Enhance Student Transportation Services

The WCPS transportation department used several practices to enhance bus operations:

- Staggering school arrival and dismissal times so buses can make multiple runs on the same day
- Using central collection points for transportation to reduce the need for additional buses to transport the affected students

- Combining middle school and high school students on the same bus to take advantage of the close proximity of the schools and to avoid sending multiple buses
- Assigning bus routes to drivers based on their proximity to the routes to reduce the number of miles driven with no students on the bus (deadhead miles)
- Providing transportation services only to students residing outside the limits specified for walking to school or when the conditions for walking are not considered safe
- Combining regular and disabled students, when appropriate, to reduce the number of buses

Routing Procedures Should Be Enhanced

Bus routing procedures should be more comprehensive –

WCPS needs to better document the bus routing procedures to include all appropriate factors that should be considered. Specifically, WCPS does not have adequate documented procedures that instruct routers on how to plan, review, and revise bus routes. The existing procedures provide only a general guideline for routing and do not establish documented policies for related areas such as bus loads (capacity) and maximum student ride times.

WCPS should consider using automated routing software –

WCPS does not use routing software to assist in developing efficient bus routes. Using routing software is a recognized best practice that can be used to reduce the time it takes to design efficient routes, reduce student ride time, and help ensure that routes minimize the number of buses needed to transport students. In addition, the use of routing software can automate current manual processes, such as electronically mapping student addresses and developing routes.

It is current WCPS practice to use existing bus routes and then manually make changes on an as-needed basis versus periodically reviewing routes for efficiency. The WCPS transportation department relies on school administrators and bus drivers to notify it of problems with existing bus routes (for example, the number of students exceeds the bus capacity). Consequently, this policy forces personnel from the transportation department to correct problems reactively without necessarily ensuring the most efficient solution is found. This practice could also have a potentially

negative impact on route efficiency. Our analysis of the WCPS 2008-2009 bus stop forms prepared by bus drivers, which listed the number of students at each stop on given days, disclosed that the buses were operated on average at 76 percent of WCPS capacity but that in March of 2009, 13 of 83 runs were below 50 percent capacity.⁸ Implementation of the electronic routing system could help in the development of more efficient bus routes and assist in the periodic evaluation of routes. We were advised by another school system that a concerted effort to maximize the use of routing software (along with manual processes) for the 2008-2009 school year allowed it to eliminate 13 percent of existing bus stops, eliminate 6 buses due to route consolidation, and avoid the purchase of 10 new buses.

Bus Contractor Rates Paid Were Not Based on Documented Criteria

WCPS does not have a written policy establishing the criteria for calculating the bus contractor payment rates, which included an annual per vehicle allotment (PVA), bus driver wage rates, maintenance and fuel costs per mile, and auxiliary fixed costs per bus. In addition, WCPS personnel informed us that the bus rates are adjusted each year to be competitive with similarly sized local education agencies (LEAs) by comparing its rates to other schools' rates and then selecting rates that are close to the other LEAs. (For example, WCPS' PVA is largely based on that used by Wicomico County Public Schools.) However, WCPS had not reviewed the basis for the rates paid by other LEAs and had not established criteria for determining its rates.

WCPS assumes nearly all of the risks for bus operations while essentially guaranteeing a profit to the contractors each year for the life of each bus. Specifically, contractors are paid a per vehicle allotment each year, which is designed to cover the depreciation cost of the bus and provide a return on investment for the contractor's investment in the bus. In addition, the contractors receive a per-mile rate for operating and maintenance costs (which

⁸ Like other LEAs, WCPS uses a lower capacity rate than the manufacturer's stated bus capacities. For example, WCPS determined the capacity for high, middle, and elementary schools routes at 50, 55, and 60 respectively based on 72 passenger buses (manufacturer stated capacity).

includes fuel costs), a driver per-hour payment to cover the contractor's labor costs, and an annual administrative cost payment. WCPS also pays for the liability insurance, including property damage, and medical coverage, for all contractor buses.

More Can Be Done to Ensure Cost-Effective Operations

Contractor pay should be periodically revised based on current market conditions – WCPS pays contractors an annual PVA for each bus. The PVA formula includes reimbursement for the cost of the bus and a flat rate of return on the investment (ROI). WCPS contractors receive the annual PVA payment for the life of the bus. In this regard, Maryland law allows WCPS to use a 15-year life of the bus, rather than the 12- year life used by most other LEAs. We were advised that WCPS has, for at least the past 5 years, been paying bus contractors an annual PVA based on amounts paid in other school systems (primarily Wicomico County). Specifically, WCPS was using a flat 9.5 percent return on investment (ROI), which was not adjusted to reflect market conditions. In addition, the cost reimbursement component of the PVA was calculated as if the bus would be in operation for only 10 years. Thus, since WCPS uses a 15-year bus life, bus contractors are paid 150 percent of the bus cost over the life of each bus (10 percent of the cost each year for 15 years).

The PVA is one of several elements used to determine payment amounts to bus contractors. Bus contracts usually run for one-year terms and are renewable from year-to-year without either party being required to give notice of renewal and generally are renewed for the lifetime of the bus (15 years).

To estimate the financial impact to WCPS of paying 150 percent of the bus cost and using a 9.5 percent ROI over the life of a bus, we calculated the PVA for each of the past 15 years (1996 to 2010) using a 15-year depreciation rate and the prime interest rate⁹ as the ROI. Compared to our PVA results, WCPS annual PVA payments per bus were from \$1,520 to \$7,874 higher than the payments would

⁹ We used the prime rate since this rate was recommended in a November 1999 study commissioned by another Maryland school system. Also, in 1975 an MSDE study recommended the prime rate as a reasonable prevailing interest rate.

have been had the prime rate that existed at the time of purchase and a 15-year depreciation rate been used in the calculation. The effect is that, over the 15-year life of the 66 new buses put into service by contractors since 1996, we estimate that WCPS will pay out approximately \$3.9 million more than if the prime rate and a 15-year cost reimbursement rate had been used. Of the \$3.9 million, \$1.7 million has already been paid out through fiscal year 2010 and, unless changes are implemented, the remaining \$2.2 million will be paid out during fiscal years 2011 to 2024. This analysis does not include the effects for any new bus purchases that may be made after fiscal year 2010 and the lost interest income that could have been earned by WCPS on the excess amounts paid.

Bus contractor selection criteria should be revised – WCPS, like many other Maryland school systems, uses an application process and selects bus contractors based on certain criteria. However, one of the requirements to be a WCPS bus contractor is residency in Worcester County. WCPS believes this requirement helps to promote business within the County. However, this policy precludes bus contractors outside of the County from providing student transportation services. According to an Assistant Attorney General we contacted, this policy may be in violation of State and federal laws dealing with equal protection and privileges and immunities.

Periodic cost benefit analysis should be performed – WCPS had not formally reevaluated its decision to have a bus fleet owned by contractors. WCPS believes that a contractor-owned fleet is beneficial due to the up-front capital outlay needed to buy buses, the cost to operate maintenance shops, and the personnel-related costs (such as healthcare) associated with an in-house fleet. However, experiences in other states and Maryland school systems have found that an in-house fleet, or even a mixture of an in-house and outsourced fleet, may be more cost beneficial.

Control Over Payments to Bus Contractors Should Be Enhanced

WCPS did not ensure the accuracy of certain payments to the bus contractors. Three times each school year, the contractors' drivers completed a manifest, which included the total time and miles

driven on each route. WCPS uses the data recorded on these manifests to calculate the bus driver wages and maintenance and fuel cost components of the monthly payments to the contractors. WCPS only observed a portion of each route (that is, the total time and miles were not verified), Therefore, WCPS cannot be assured that the amounts from the manifest are accurate. As a result, WCPS could unknowingly overpay bus contractors.

Performance Should Be Measured and Reported Regularly to the Board

WCPS did not have a formal performance measurement system for its transportation services. Performance measures that could be developed and reported regularly to the Board include ridership compared to bus capacity, transportation cost per student, bus operating costs per mile, and number of accidents. This data should also be used to provide ongoing monitoring of performance and ensure overall accountability. The Government Finance Officers Association recommends that program and service performance measures be developed and used as an important component of long-term strategic planning and decision making.

Recommendations

12. WCPS should better document the procedures used to determine bus routes, including all appropriate factors that comprise the route planning process and should determine whether routing software could improve route efficiencies.
13. WCPS should establish a written policy on how components of the bus contractor payment rates are to be determined each year. WCPS should maintain documentation that shows the basis for the rates established each year.
14. WCPS should analyze bus contractors pay (including the PVA) to determine whether the rates are reasonable. In addition, WCPS should ensure that its bus contractor selection requirements comply with all applicable laws and regulations. Furthermore, WCPS should periodically prepare a documented analysis to determine whether continued use of outside

contractors to provide student bus services is, in fact, cost beneficial for the school system.

15. WCPS should perform observations of entire bus routes and use its observations of bus route times and distances to ensure that the applicable payments to contractors accurately reflect the actual bus services provided.
16. WCPS should develop a performance measurement system for transportation services and periodically report the results to the Board.

Chapter 9

Food Services Operations

WCPS has implemented a number of best practices to help reduce food service costs, such as participation in the United States Department of Agriculture commodity program and membership in a multi-county food-purchasing cooperative. WCPS also has adequate procedures in place to identify students eligible for free and reduced-price meals under the federal National School Meals Programs. However, WCPS should improve internal controls over the procurement of food supplies and properly reflect all costs in determining its food service department operating costs. In addition, WCPS should evaluate the meal per labor hour (MPLH) performance of its food services operations and consider practices to improve production.

Background

WCPS has a cooking cafeteria in which food is prepared and served at each of its 12 regular schools. WCPS has 20 full-time and 35 part-time cafeteria employees (as of June 2009). Fiscal year 2009 food service sales totaled \$1 million. WCPS reports for food service operations indicated that food service expenditures exceeded revenues by \$23,481 for fiscal year 2009. See Table 4 on the next page for information regarding food services.

Table 4
Food Service Activity for Fiscal Year 2009

Average cost per meal		\$	2.76
Number of meals served			
Breakfast			
Paid	74,134		
Free	106,981		
Reduced Price	14,993		
			196,108
Lunch			
Paid	228,463		
Free	270,828		
Reduced Price	53,222		
			552,513
Meal Equivalents			
A La Carte Meal	134,018		
Snacks	18,575		
Summer Meals	22,235		
			174,828
Total Meals Served			<u>923,449</u>
Schools			12
Full Kitchens			12
Full-time Employees			20
Part-time Employees			35
Revenues			
Federal			
Cash Payments	\$1,353,189		
USDA Commodities	\$ 60,982		
		\$	1,414,171
Sales and other sources			1,048,856
State aid			64,774
Total Revenue (all sources)			<u>\$ 2,527,801</u>
Total Expenditures			<u>2,551,282</u>
Excess Expenditures over Revenues			<u>\$ (23,481)</u>

Source: WCPS Fiscal Year 2009 Audited Financial Statements, MSDE 2009 data,
and WCPS data

Certain Best Practices Were in Place

WCPS has implemented several practices to improve food service operations – These practices helped to both increase operational efficiency and reduce food supply and material costs.

- WCPS participated in the United States Department of Agriculture (USDA) commodities program, which is a free food program. According to WCPS records, \$60,982 in USDA commodities was received in fiscal year 2009.
- WCPS participated in a food purchasing cooperative in order to maximize its buying power and reduce food costs.
- WCPS maximized the use of convenience foods (heat and serve items) to reduce the labor needed to prepare foods.
- WCPS monitored food consumption, adjusted food production, and repackaged uncooked leftover food to reduce waste.

WCPS used several best practices to encourage participation in the free and reduced-price meal programs

– The best practices used by WCPS included establishing a family application process (instead of individual student applications) to simultaneously qualify more students for the free or reduced-priced meal programs. WCPS also used an automated point-of-sale system in cafeterias which helps to prevent easy identification of participating students thereby reducing any stigma associated with participating in the program. For fiscal year 2008, 72 percent of WCPS students eligible to receive free lunches and 65 percent of the students eligible to receive reduced-price lunches actually participated in the programs.

Internal Controls Over Purchasing of Food Supplies Need to Be Improved

Our test of 19 fiscal year 2009 invoices totaling \$194,206, related to 10 purchase orders from seven vendors, disclosed the following deficiencies:

- Supervisory personnel did not approve purchases before orders were placed with the vendor for 9 of the 10 purchase orders tested.

- Formal contracts did not exist for purchases made from 2 of the 7 vendors included in our test. Purchases from these 2 vendors totaled \$93,782 during fiscal year 2009.
- For all payments tested, we noted that the employee responsible for making the purchase also signed documenting the receipt of the items and performed the monthly inventory.

Food Service Operations Should Recognize All Applicable Costs and Performance Measures Should Be Developed to Assess Efficiency

All applicable expenditures for food service operations were not recognized

– Although WCPS management stated that its food service operations were designed to be self-sufficient, we noted that WCPS general funds have been used to cover certain costs for food service operations. For example, the WCPS food service department did not pay for the cafeterias' share of utility and custodial costs at WCPS schools; rather, these costs were funded by general funds. WCPS did not include these and other indirect costs in the annual budget prepared for food service operations. According to documentation prepared by MSDE for WCPS, estimated indirect costs totaled \$340,000 for the food service department for fiscal year 2007 (the most recent year for which such costs were determined). If these indirect costs had been included as a cost of food service operations, the operation would have incurred a \$373,000 deficit for fiscal year 2007 rather than the reported deficit of approximately \$33,000. Assuming those indirect costs are relatively consistent from year to year, a much larger deficit than the \$23,481 shown in Table 4 would have been incurred for fiscal year 2009 as well.

WCPS had not assessed the meals per labor hour efficiency of its food service operations

– Best practice models recommend the use of benchmarks and goals to help school districts identify ways to increase efficiency and reduce food service costs. One of the industry recognized performance indicators, meals per labor hour (MPLH), was not used by WCPS. Our calculation of the MPLH for WCPS food services operations indicated that the food service operations may be overstaffed. For

example, for all schools, from April 2008 to March 2009, WCPS produced 12.2 MPLH versus the industry guideline of 16 MPLH for a school system with WCPS' characteristics.¹⁰ The difference between operating at 12.2 MPLH instead of 16 MPLH is significant. If WCPS had operated at 16 MPLH from April 2008 to March 2009, it could be saved 14,664 labor hours or \$176,454 based on WCPS' average hourly rate for cafeteria workers (excluding fringe benefit costs).

Recommendations

17. WCPS should improve controls over its purchase of food supplies by requiring advance approval by independent supervisory personnel for purchases, and by entering into formal contracts with food suppliers, when applicable. In addition, duties should be properly segregated over the procurement and receipt of food service items.
18. WCPS should identify all food service department costs, including utility and custodial costs, to properly reflect the department's full operating costs. In addition, WCPS should periodically evaluate the meals per labor hour performance of its food service operations and consider instituting efficiency measures.

¹⁰ Industry guidelines for WCPS-sized cafeterias are based on the publication *Cost Control for School Foodservices*, Third Edition, by Dorothy Pannell-Martin, revised July 2000.

Chapter 10

School Board Operations and Oversight

Generally, the Board has adequate policies to govern the operations of the school system. The Board meets periodically with the certified public accounting firm to review the results of the audits of the annual financial statements, the school activity fund, and federal funds. In addition, the Board is actively involved in the development of the WCPS annual budget.

Several opportunities exist for the Board to improve its oversight. The Board should obtain approval from the State Ethics Commission for changes to its ethics policy to ensure that it conforms to requirements established in State law, and take measures to ensure full compliance with the policy. Also, the Board should adopt comprehensive performance measures in key operational areas, such as transportation, food service, and facilities management. In addition, the Board should consider establishing an internal audit function and a confidential reporting process to receive reports of possible fraud, waste, or mismanagement.

Background

WCPS is governed by a seven-member board (excluding three student representatives) elected by the voters of Worcester County. The Board does not have an established committee structure due to its size and generally acts in whole to carry out its oversight duties. To assist in its oversight function, the Board has contracted with an

independent auditor to conduct audits of the WCPS financial statements, federal programs, and student activity funds.

The Board is ultimately accountable for the success of the WCPS in providing the children of Worcester County with a quality education, while wisely spending local, State, and federal funds. Following is the WCPS Board's stated philosophy and mission:

Philosophy and Mission

I. We believe that every student can learn and must have equal access to a public education which promotes optimal individual growth. Education should motivate and enable students to develop physically, intellectually, emotionally and socially. Students must be prepared for a lifetime of learning as responsible and productive participants in a democratic society and a diverse and changing world.

We believe that every child is unique and different from every other child. Each child's pattern of growth is right for that child and can be compared with no other.

We believe that the public school program must be based on the needs, characteristics, interests, and capacities of the children it serves. Educators have an obligation to provide every child with appropriate and challenging opportunities to learn.

We believe that the student, family, educators, and community must be involved in the educational process.

II. The mission of the Worcester County Public Schools is to enable all students to develop physically, intellectually, emotionally, and socially to become responsible citizens and enjoy productive lives.

In fulfilling this mission, the Worcester County Public Schools will....

affirm individual worth and dignity, recognize cultural diversities, and encourage students to make a personal commitment to their own education;

enable students to build character, commit to a healthy lifestyle, learn to assume civic responsibility and participate effectively in our democratic society;

enable students to acquire knowledge, skills, and ability to enter into the world of work and/or postsecondary educational experiences;

prepare students to successfully meet the challenges of an ever-changing and technologically demanding world;

provide a relevant and challenging curriculum that fosters the development of skills in communication, decision making, problem solving and thinking; as well as encourage involvement in creative arts and recreational activities;

maintain a safe and healthy environment that is conducive to effective learning;

maintain a staff of competent, culturally diverse, and highly motivated professionals;

provide the necessary human, fiscal, and material resources to assure a quality education.

Source: http://www.worcester.k12.com/media/Section_1.pdf

Certain Oversight Has Been Put in Place Regarding WCPS Operations

The WCPS Board uses a number of methods to oversee the operations of WCPS.

- The Board hires an independent certified public accounting firm to audit its financial statements, federally funded grant programs and student activity funds, and annually meets with that firm to review the results.
- The Board receives and discusses detailed budget and expenditure information as part of the budget approval process.
- Board members receive and approve a detailed expenditure report each month.

The Board Should Obtain Required Approval for Its Ethics Policy and Ensure Compliance With the Policy

The Board needs to have its ethics policy approved by the State as required – The Board had adopted an ethics policy that was approved by the State Ethics Commission on December 21, 1983. However, the changes made to the policy by the Board in August 1990, February 2003, October 2005, and May 2010 were not approved by the State Ethics Commission. State Law requires local boards of education to submit their ethics policies to ensure the provisions comply with State law requirements.¹¹ Our review of the May 2010 policy (which was effective subsequent to the audit period) disclosed that while certain provisions were added, other provisions included in the October 2005 policy were eliminated.

For example, the composition of the Ethics Panel, which interprets ethics policies and provides advice on policy implementation, has been reconstituted to provide the opportunity for more independence. Under the October 2005 policy, the Panel consisted of three members - two of which, as specified by the policy, were

¹¹ State law requirements for local board of education members were expanded effective October 1, 2010. Chapter 277, Laws of Maryland 2010, requires that conflict of interest and financial disclosure provisions for board members to be equivalent to or exceed the State requirements in Subtitles 5 and 6 of Title 15 of the State Government Article of the Annotated Code of Maryland.

positions under WCPS employment (as a regular employee and a contractor). The May 2010 policy changed the Panel's composition whereby there are now five members, four of which are to be appointed by the Board. (The four members could be individuals not under WCPS employment.) However, the May 2010 policy excluded certain conflict of interest provisions included in its October 2005 policy and suggested by the State ethics regulations for the local boards of education. For example, the October 2005 policy prohibited WCPS officials and employees (whether or not they participated in decision-making) from holding an interest of \$1,000 or 10 percent or greater in a business entity that has a contract of \$5,000 or more with the school system. Under the May 2010 policy, this prohibition only applies to individuals participating in decision-making on a matter in which they have a direct financial impact as a business entity in which they hold an interest of 10 percent or greater. As noted in the following section, the changes could be significant for WCPS.

The Board should ensure its ethics policy is followed – We noted certain arrangements that existed during our audit period that appeared in opposition to the WCPS' October 2005 ethics policy. That policy prohibited Board of Education officials, such as Board members, and employees from participating on behalf of WCPS in any matter in which they maintain a direct financial interest in a business entity under authority or contract to the school system. The policy also prohibited such persons from holding an interest of \$1,000 or 10 percent or greater in a business entity that has a contract of \$5,000 or more with the school system or be employed by a business entity that has a contract of \$50,000 or more with WCPS. Furthermore these arrangements had not been formally addressed by the WCPS Ethics Panel.

- A Board member was a paid bus contractor for several years (for example, fiscal year 2009 payments under the contract exceeded \$50,000). Historically, the Board approved the payments to bus contractors only as part of the overall budget approval process. However, on February 16, 2010, the Board recorded its first specific approval of the table of rates to be paid to bus contractors (for fiscal year 2011). This Board member abstained from the vote because the member was a bus contractor receiving payments from WCPS. Although it appeared to be common knowledge that the Board member was also a school bus contractor, the

Board member had not filed a statement with the Ethics Panel to disclose this business interest as required by the WCPS ethics policy. Such statements are public records available for public inspection and copying. While the Board member, in this one instance, did not participate in the rate approval process, it is unclear how the relationship did not violate other prohibitions regarding officials and employees affiliated with business entities having contracts with the school system.

- A WCPS transportation employee was also a bus contractor for several years. (For example, fiscal year 2009 payments under the contract exceeded \$50,000). Although this employee was not required under the policy to file a disclosure statement reporting this relationship, it is unclear how the relationship did not violate the prohibitions regarding employees affiliated with business entities having contracts with the school system.
- Another Board member was paid in excess of \$5,000 under a contract for certain services at a WCPS facility. This contract was not subject to a competitive procurement process and the Board member had not filed a statement with the Ethics Panel to disclose this business interest as required by the WCPS ethics policy. Furthermore, it is unclear how the relationship did not violate the prohibitions regarding officials affiliated with business entities having contracts with the school system.

The Board Should Take Additional Steps to Improve Its Oversight Functions

The Board should ensure that comprehensive performance measures are adopted and reported for key operations –

WCPS had not adopted any key performance measures for financial operations. Performance information can assist the Board in overseeing and evaluating the progress of its budget and Master Plan. Examples of useful performance measures may include transportation and facility cost per student, cost per school meal served, and meals produced per labor hour. When implemented correctly, financial and efficiency performance measures can be

used to assist in decision-making processes, such as allocating resources and budgeting, and to report on departmental effectiveness and efficiency.

The Board should consider establishing an internal auditor

function – WCPS does not have an internal auditor. The use of an internal auditor, independent of school system management, is a recommended best practice of the Government Finance Officers Association (GFOA). The GFOA notes that internal auditors commonly assist directors in monitoring the design and proper functioning of internal controls and procedures, and can play a valuable role in conducting performance audits, special investigations, and studies. As cited in this report, our audit identified certain deficiencies in the WCPS system of internal control, such as procedures over disbursements. While WCPS may determine it is unable to afford the additional costs for a full-time internal audit position based on its size (as the seventh smallest of all 24 public school systems in Maryland), it should determine if such a position could be shared with other local Boards. Alternatively, the Board could consider expanding the scope of work performed by its independent auditor.

The Board should consider establishing a confidential

hotline – We noted that a confidential hotline had not been implemented to enable employees and others to report suspected fraud, waste, or mismanagement. If such a process was established, the internal audit position could conduct the initial investigations of information received via the hotline or direct the information to appropriate officials, such as law enforcement.

Recommendations

19. The Board should obtain approval from the State Ethics Commission for all changes to its ethics policy to ensure consistency with State law requirements. WCPS should ensure that persons subject to the policy comply with the requirements and that any potential conflicts are formally addressed by the Ethics Panel.
20. The Board should adopt comprehensive performance measures in key operational areas, such as transportation,

food service, and facilities management, to assist in its oversight duties; such data should be periodically reviewed by the Board. In addition, the Board should also enhance its oversight of WCPS operations by considering the establishment of an internal audit function and a hotline for the confidential reporting of operational issues and suspected fraud, waste, and mismanagement.

Chapter 11

Other Financial Controls

This chapter addresses the management of cash, risk, and long-term debt such as lease/purchase agreements. WCPS had procedures in place to govern its cash and risk management, and WCPS is not permitted to issue bonds or other long-term debt instruments to finance capital or operational needs.

Risk and Cash Management Best Practices Were in Place

For risk management, WCPS uses a combination of self-insurance and membership in the Maryland Association of Boards of Education (MABE) Workers Compensation Pool. The school system participates in the MABE Group Insurance Pool and the Workmen's Compensation Group Self-Insurance Fund for its general liability, property, and workmen's compensation insurance coverage. According to the audited financial statements as of June 30, 2009, settlements have not exceeded insurance coverage for the past three years. To control workers' compensation costs, WCPS used a variety of methods such as an informal return to work program.

Furthermore, WCPS invested its cash in either the Maryland Local Government Investment Pool (MLGIP), FDIC insured deposits or deposits that are collateralized with collateral that is held in WCPS' name. These investments are in accordance with the types permitted by the Annotated Code of Maryland. According to the

WCPS audited financial statements, investments totaled \$4.5 million as of June 30, 2009.

Recommendation

None

Audit Scope, Objectives, and Methodology

Scope

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Worcester County Public Schools (WCPS). 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.

Objectives

We had two broad audit objectives:

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

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit approach, including the specific objectives of our local school system audits, was approved on

September 14, 2004 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. As approved, the audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. We also 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. Finally, we did not evaluate the WCPS Comprehensive Education Master Plan or related updates.

Methodology

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 WCPS. We also interviewed personnel at WCPS, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate¹²). Our audit procedures included inspections of documents and records, and observations of WCPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from January 1, 2008 through June 30, 2009. For our audit work on revenue and federal grants, we primarily relied on the results of an independent audit of fiscal year 2009 activity.

In addition, we contacted a number of other state auditors' offices and legislative program evaluation agencies that had a history of conducting audits or reviews of local school systems. We interviewed those officials and inspected their work programs and resultant reports to identify specific audit techniques and operational practices at schools that could be adapted for our school system audits. Finally, we used certain statistical data—including financial and operational—compiled by the 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. For comparison purposes, information provided was generally limited to those Maryland school systems of similar sizes, based on student enrollment and/or system budget. In many cases, this information was self reported by the school systems. The data

¹² During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

were neither audited nor independently verified by us. Finally, information provided in this report was obtained from various reports readily available during our fieldwork.

Other Independent Auditors

When developing the approach for the audits of school system financial management practices, a consideration was the reliance on the work of other independent auditors to the extent practicable to avoid unnecessary duplication of audit effort. With respect to WCPS, the results of other auditors that we considered were reported in three distinct audit reports: one related to the administration of its federal grants; second, the management letter from the audit of its financial statements audit; and third, independent audits of the school activities and cafeteria funds.

During the course of this audit, we relied on these results. We performed certain steps to satisfy ourselves as to the reliability of the reported results of the independent federal grants audits of the WCPS federal financial assistance programs for compliance with federal laws and regulations and the WCPS financial statement and school activity and cafeteria funds audits. Accordingly, we significantly reduced the scope of our work in Chapter 1 “Revenue and Billing Cycle,” and in Chapter 2 “Federal Funds.”

Limitations of Internal Control

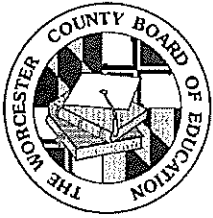
WCPS management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets,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

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

In addition to the conditions included in this report, other less significant findings were communicated to WCPS that did not warrant inclusion in this report.

Fieldwork and WCPS Responses

We conducted our fieldwork from September 2009 to May 2010. The WCPS response to our findings and recommendations is included as an appendix to this report.



DR. JON M. ANDES
Superintendent of Schools

EDWARD BARBER
Assistant Superintendent
For Administration

DR. JOHN B. GADDIS
Assistant Superintendent for
Instruction

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October 22, 2010

APPENDIX

Board Members

ROBERT G. HULBURD
President

ROBERT A. ROTHERMEL, JR.
Vice-President

JONATHAN C. COOK

J. DOUGLAS DRYDEN

GARRY L. MUMFORD

DONNIE L. SHOCKLEY

SARA D. THOMPSON

Mr. Bruce A. Myers, CPA
Legislative Auditor
Office of Legislative Audits
Maryland General Assembly
301 West Preston Street
Room 1202
Baltimore, MD 21201

Dear Mr. Myers:

Enclosed are the responses to the recommendations listed in the Financial Management Practices Performance Audit Report for Worcester County Public Schools issued October, 2010.

If you have any questions regarding this information, please do not hesitate to contact me.

Sincerely,

Jon M. Andes
Superintendent of Schools

pc: Mr. Robert G. Hulburd, President, Worcester County Board of Education
Mr. Vincent E. Tolbert, Chief Financial Officer



Worcester County Public Schools: A Leader in Student Achievement

Worcester County Public Schools has been a leader in student achievement for over a decade. Consistently ranking at the top levels of performance in Maryland – a state which is distinguished as providing the best public education in the nation, the school system has repeatedly been nationally highlighted as a model of success. In 2010, the success continues.

When comparing the percent of students system-wide who are achieving at proficient or advanced levels on the 2010 Maryland School Assessments (MSA), Worcester County Public Schools (at 90.5 percent) ranks third overall in the state, out of 24 school systems. Once again, the school system ranks first in the state in Mathematics (at 91.3 percent), as well as sixth in the state in Reading (at 89.6 percent), when comparing 2010 MSA scores with all 24 school systems.

Worcester County Public Schools also ranks in the top of the state for preparing its students to be career and college ready, a key measure in evaluating the success of a school system. In 2010, the school system's graduation rate of 93.43 percent ranks fourth overall in the state, and its dropout rate of 1.32 percent is the third lowest in the state. Worcester County outperforms the state, both in 2010 standards and in state averages.

As Worcester County Public School students graduated in 2010, 81 percent pursued post-secondary education, enrolling in two year, four year, or specialized institutions of higher education. Twelve percent of 2010 graduates, many of whom were trained at the acclaimed Worcester Technical High School, pursued careers, while seven percent of the graduates entered the military. In addition, 2010 graduates were offered over \$12 million in merit-based scholarships.

Rigor, high academic standards, and high expectations are inherent in the educational programs provided by Worcester County Public Schools. In the nation, Maryland ranks number-one in terms of the graduating seniors who achieve a mastery score (of 3, 4, or 5) on Advanced Placement exams, thus able to earn college credit while in high school. Compared to the state's AP mastery of 28.8 percent in 2010, Worcester County Public Schools' AP mastery is at 49 percent, which includes all AP test takers, not just seniors in the class of 2010. This far exceeds the national average of 15.9 percent. In addition, in the class of 2010, 99.8 percent of Worcester County Public School seniors met the High School Assessment (HSA) requirement.

By rising to the top in a state that is recognized as being number-one in the nation for public education, Worcester County Public Schools has earned many national accolades, such as:

- MGT of America, an independent firm selected by MSDE to evaluate the effectiveness of state aid to local school systems, stated in its final report in December of 2008, that “in the period between 2004 and 2007, the Worcester County Local School System (LSS) achieved the best overall results in the state in closing the proficiency gap of its students, as well as moving students from ‘proficient’ to ‘advanced’ between 2004 and 2007 for grades 3 through 8 in combined reading and math.” In addition, the report stated that “Worcester LSS students are among the best performing in Maryland.”
- Secretary of Education Arne Duncan said of Worcester County Public Schools at the 2010 National Conference for the American Association of School Administrators, “The

district's high-performing schools reflect not only the district's innovative after-school instruction programs that extend the learning day in local churches, but an award-winning arts immersion program, the provision of AP classes, and college and career prep courses in engineering and other STEM subjects."

- Out of 1,455 Maryland public schools in 2007, Ocean City Elementary School was the first school in the state to achieve 100-percent proficiency in Mathematics and Reading, as measured by the 2007 Maryland School Assessment (MSA). The accomplishment led to a school visit in June of 2008 by the Region III Deputy Representative for the former U.S. Secretary of Education, who concluded, "We wanted to know what the formula for success is. The expectations and attitudes of the faculty are contagious, and our hope is that we can bottle it and pass it on."
- In 2010, Snow Hill High School was named a U.S. News & World Report National Silver School, for the second consecutive year, for its success in preparing college-ready students. The school was also recognized as a Naval Honor School, making its MC JROTC program one of the top 20 percent in the nation.
- Pocomoke Elementary School was named a 2010 National Panasonic School Change Winner for moving students from underachieving to top performing. Only six schools in the nation received this recognition. Sixty-four percent of the students at Pocomoke Elementary School come from households of poverty and qualify for Free and Reduced Meals.
- In 2008, Berlin Intermediate School was recognized by the John F. Kennedy Center for the Performing Arts as a National School of Distinction in Arts Education. The school was one of only five schools in the nation to receive this recognition.
- On September 29, 2010, Pocomoke Middle School was featured on NBC's "Today Show" (as part of "Education Nation") as an example of a public middle school that is using innovative strategies to help students succeed. Pocomoke Middle is currently showcased on the U.S. Department of Education's "Doing What Works" website, for the school's outstanding Literacy program. In addition, the school was named a 2008 MetLife-NASSP Breakthrough School, a national recognition for moving students from underachieving to top performing.

On a state level, Worcester County Public Schools has also risen to the top, earning many prestigious accolades, including:

- Eight of the 12 eligible schools are Maryland Blue Ribbon Schools of Excellence, one of the highest concentrations in the state. In addition, four of the schools are National Blue Ribbon Schools.
- All 14 schools are accredited by the Middle State Association of Colleges and Schools, an accomplishment that few Maryland school systems have achieved.
- Ten schools are Positive Behavior Intervention Supports (PBIS) Schools, with six of them receiving Gold designations (the highest honor), and one receiving a Silver designation.

- An impressive 98.1 percent of core-content courses (from Pre-K to 12) are taught by highly-qualified teachers.
- The school system ranks in the top-five for dollars spent in the classroom when compared with all 24 school systems. Eighty-one (81) cents of every dollar are spent on instructional programs.

With poverty exceeding that of the state average (38 percent), Worcester County Public Schools (with 39 percent FARMS) is progressing toward the elimination of achievement gaps. Since 2003, the four subgroups identified as having the largest achievement gaps have made the greatest improvements over the seven year period. Below are some percentage-point increases from 2003 to 2010 on the MSA:

- In the English Language Learners (ELL) subgroup, performance on the Reading MSA has improved by 75.2 percentage-points, starting at 13 percent in 2003 and improving to 88.2 percent in 2010.
- In Special Education, performance on the Math MSA improved by 48.4 percentage-points, starting at 23 percent in 2003 and improving to 71.4 percent in 2010.
- In the Free and Reduced Meals subgroup, performance on the Reading MSA has improved by 35.7 percentage-points, starting at 47.1 percent in 2003 and improving to 82.8 percent in 2010.
- In the African American subgroup, performance on the Math MSA improved by 41.3 percentage-points, starting at 37.2 percent in 2003 and improving to 78.5 percent in 2010.

Worcester County Public Schools' formula for success is very simple. "We recruit and hire excellent staff members," said Superintendent Dr. Jon Andes. "We keep class sizes small; we provide tools for teaching and learning; we monitor student progress; we provide enrichment and remediation during the day or in our after-school and summer school programs to meet student needs; we encourage parents to stay involved in the learning process; we survey our parents to seek constructive feedback; we use the Accreditation for Growth school improvement process to always seek better strategies and programs to help our students; and we acknowledge and attack our challenges."

"The supports that we have in place and which are making a difference for our students have required a vision, coupled with the necessary resources," said Board of Education President Robert Hulburd. "Our results show that we are using resources wisely to have the greatest impact on our students."

Recommendation	Response
<p>1. WCPS should ensure that all receipts are immediately recorded and that checks are restrictively endorsed upon receipt. In addition, an employee independent of the cash receipts process should verify that all recorded receipts were deposited.</p>	<p>Current Status Cash receipts have always been posted daily to both the automated AS400 Financial System and an EXCEL spreadsheet when received. An employee independent of the cash receipts process is currently verifying that all recorded receipts are deposited. WCBOE finance department is currently restrictively endorsing checks when received.</p> <p>Response WCBOE will continue to ensure that all receipts are recorded when received. WCBOE is now restrictively endorsing all checks when received by the finance department. An employee independent of the cash receipts system is now verifying that all receipts were deposited.</p>
<p>2. WCPS should develop procurement policies that address all categories of goods and services purchases. The policies should specify the procurement methods to be used, when contracts should be in writing, the mandatory contract provisions and the approval requirements, including when Board approval is required (for example, procurements over a specified amount). These policies should be approved by the Board.</p>	<p>Current Status The Worcester County Board of Education follows existing state procurement policy as outlined under the Annotated Code of Maryland Education Article 5-112. Items requiring a bid are submitted to the Board for their review and approval as outlined in our Accounting Procedures Manual section 6.4. The Board will continue to review our policies and procedures and verify that we remain in compliance with all State and Federal laws.</p> <p>Response WCBOE will review and evaluate all existing procurement policies and procedures. WCBOE will also review the cost/benefit of developing additional independent procurement policies and revise as appropriate. WCBOE will begin this review during FY10/11.</p>

Recommendation	Response
<p>3. WCPS should improve controls over its invoice processing system by segregating incompatible functions and assigning critical system functions to only those employees who need the capabilities to perform their job duties. Furthermore, WCPS should restrict access to the signature plate to employees who are independent of the invoice processing functions.</p>	<p>Current Status The WCBOE has various controls currently in place over invoice processing. The Chief Financial Officer or Finance Manager's signature is required prior to the payment of invoices. There is a separation of duties between the employee who prints checks and the employee who signs checks. The Chief Financial Officer reviews and approves all voucher check listings. The signature plate is kept in a locked location. The WCBOE has an independent audit performed annually by a public accounting firm and has always received an unqualified opinion.</p> <p>Response WCBOE will conduct a review of all existing internal controls over invoice processing and access to the signature plate. WCBOE will begin this review during FY10/11. It should be noted that achieving further segregation of duties will require hiring additional staff in the finance department. As our school system continues working toward our goal of making sure each of our students is successful, additional staff will also likely be required in our instructional positions.</p>

Recommendation	Response
<p>4. WCPS should obtain goods and services through a properly documented competitive procurement process. If a competitive procurement process is not deemed appropriate (such as when only one vendor can provide the required services), then documentation justifying the decision should be maintained. Furthermore, WCPS should ensure vendors charge the agreed upon rates, should limit the number of contract extensions, and should prepare analyses to determine whether exercising contract extensions is more beneficial than re-bidding contracts.</p>	<p>Current Status WCBOE policy has always been to follow state procurement guidelines as outlined in the Annotated Code of Maryland Education Article 5-112. This policy is now located in section 6.4 of WCBOE Accounting Procedures Manual. Invoices are reviewed for pricing and to confirm delivery of items before payment is processed. The contracts cited in the auditor's report are for contacted services which under Annotated Code of Maryland Education Article 5-112 are not required to be bid. The Board attorney is appointed annually by the Board of Education.</p> <p>Response WCBOE will review and revise procurement practices as appropriate to continue to ensure that procurements are properly documented and contract extensions are more beneficial than re-bidding. WCBOE will begin this review during FY10/11.</p>

Recommendation	Response
<p>5. WCPS should improve controls over the payroll system by segregating incompatible functions and by ensuring that payroll transactions are reviewed by independent supervisory personnel using supporting documentation.</p>	<p>Current Status WCBOE has existing controls over our payroll system. Currently, all pay rates and schedules are initiated by the Human Resources Department. This information is entered into the payroll system and updated employee information is provided to the Supervisor of Human Resources to review. Requests for adjustments are also reviewed and approved by the Chief Financial Officer. WCBOE has always received unqualified opinions on our independent audits and the Legislative audit team found no evidence of unauthorized payments. The WCBOE is constantly reviewing internal controls and will continue to evaluate additional separation of duties to the extent possible with available staff.</p> <p>Response WCBOE will review all existing controls over our payroll system. WCBOE will begin this review during FY 10/11. It should be noted that additional segregation of duties would require additional staff. As our school system continues working toward our goal of making sure each of our students is successful, additional staff will also likely be required in instructional positions.</p>

Recommendation	Response
<p>6. WCPS should expand its workforce planning to include key non-instructional positions in critical operational units.</p>	<p>Current Status WCBOE currently works to identify and to provide training to prepare future non-instructional leaders. WCBOE offers extensive staff development opportunities and also offers tuition reimbursements.</p> <p>Response WCBOE will work to formalize and document our existing informal workforce planning for non-instructional positions. WCBOE will begin this process during FY10/11.</p>
<p>7. WCPS should improve the accountability for its equipment by developing and enforcing comprehensive written policies and procedures to govern the accounting and safeguarding of equipment that includes the segregation of duties, tagging fixed assets, uniform reporting of lost or stolen items, and tracking sensitive items prone to theft. In addition, WCPS should ensure that items are properly tagged and adjustments made to the inventory detail records are reviewed and approved by supervisory personnel. Finally, WCPS should assign critical inventory system capabilities only to employees who require such capabilities to perform their job duties.</p>	<p>Current Status WCBOE follows procedures regarding equipment as outlined in our Accounting Procedures Manual section 6.4. Those procedures include adding items with a cost of \$1,000 or more to our inventory listing. These items are also tagged. The inventory list is reviewed and updated regularly. An auction is held annually to sell obsolete inventory. The inventory listing is then updated to reflect those items sold.</p> <p>Response WCBOE will review all existing policies and procedures over equipment and make additions as appropriate. WCBOE will review all staff capabilities related to inventory and make changes as appropriate. WCBOE will begin this review in FY 10/11.</p>

Recommendation	Response
<p>8. WCPS should implement appropriate security measures to safeguard its applications and data systems by improving password protection policies, enabling logging and reporting of all critical security events, and eliminating unnecessary service accounts. WCPS should also maintain documentation that substantiates the proper sanitation of disposed computer equipment and should establish procedures to periodically review the capabilities assigned to active users on its financial and payroll applications. Finally, WCPS should establish adequate physical controls and safeguards for its computer and storage rooms.</p>	<p>Current Status WCBOE currently utilizes password security for our systems. Safeguards for our computer rooms are routinely reviewed. WCBOE is also working with software vendors to enable logging and reporting of critical systems and security events. WCBOE has also migrated to an on-site AS400 system for our finance and payroll applications and updated user capabilities as part of this process.</p> <p>Response WCBOE will review and work to improve policies and procedures in all of our information and data systems areas. WCBOE has initiated this review and will continue in FY 10/11.</p>
<p>9. WCPS should develop and implement a comprehensive disaster recovery plan.</p>	<p>Current Status WCBOE currently has a disaster recovery plan and stores backup data offsite. A disaster recovery review of our student information system was conducted in the summer of 2010 and identified additional items that would strengthen our disaster recovery plan.</p> <p>Response WCBOE will review and expand our existing disaster recovery plan as necessary to ensure the protection of all data and software. WCBOE performed a test this summer and is currently revising our plan as a result of observations from this test. The revised plan should be completed in FY 10/11.</p>

Recommendation	Response
<p>10. WCPS should develop formal policies governing construction contract procurements and establish internal control procedures to ensure that WCPS complies with State law and is receiving the best value for its procurements. The policies should address the requirements for bidding, awarding and approving construction contracts, and approving change orders.</p>	<p>Current Status The WCBOE policy has always followed State law, Maryland Interagency Committee for Public School Construction (IAC) guidelines, and AIA contract requirements in all aspects of school construction. In response to the contract for construction management, as noted by the auditors, this service went through a competitive bid process for the Ocean City Elementary Project. As a result of their strong performance, the same firm was selected for the Worcester Technical High School.</p> <p>Response WCBOE will review and revise as appropriate local policies and procedures related to bidding, awarding, and approving change orders. WCBOE will begin this review in FY 10/11.</p>

Recommendation	Response
<p>11. WCPS should develop a performance measurement system that establishes standards and expectations for maintenance and custodial operations, and report the measurement results to the Board.</p>	<p>Current Status WCBOE currently has performance measures in place for evaluating maintenance operations. All of our school buildings are inspected annually by our Supervisor of Maintenance and rated on their condition. Custodians at buildings which receive a superior rating are recognized annually at a Board of Education meeting. Each year, parent surveys are sent home with each of our students. Questions including the condition of our school buildings are included in this annual survey. The maintenance section of the parent survey consistently receives favorability ratings of over 90%. Results of these surveys are shared with the Board at our annual public input meeting to begin our budget process for the new year. Each year, our Board receives a copy of the cost per pupil information published by the Maryland State Department of Education. The latest ranking indicates that our school system ranks 23 out of 24 in the category of maintenance based on spending per pupil.</p> <p>Response WCBOE will review all existing performance measures currently reported to the Board and develop additional performance measures as appropriate to maintain custodial operations and facilities. WCBOE will begin this review during FY 10/11.</p>

Recommendation	Response
<p>12. WCPS should better document the procedures used to determine bus routes, including all appropriate factors that comprise the route planning process and should determine whether routing software could improve route efficiencies.</p>	<p>Current Status The WCBOE develops bus routes as outlined under our Policies and Procedures Manual. The Worcester County Board of Education’s main goal in developing bus routes is the safety of our students. The number of students on each bus and travel time is also considered when developing and evaluating bus routes. Our school system is located in a coastal community and many homes are located on peninsulas at the end of dead end streets. WCBOE has researched electronic routing software and currently believes the benefits of this software would not justify the cost. It should be noted that the legislative audit team confirmed our transportation costs are reasonable when compared to other similar sized school systems in the state.</p> <p>Response WCBOE will review existing documented policies and procedures related to developing our bus routes and revise as appropriate. WCBOE will begin this review in FY 10/11. WCBOE has researched bus routing software in the past but found it to be cost prohibitive. WCBOE will continue to routinely review the potential benefits/drawbacks of purchasing routing software.</p>

Recommendation	Response
<p>13. WCPS should establish a written policy on how components of the bus contractor payment rates are to be determined each year. WCPS should maintain documentation that shows the basis for the rates established each year.</p>	<p>Current Status Contractor rates are established by the Board of Education as outlined in our Policies and Procedures Manual. Documentation including proposed rates, approved rates, and comparison of contractor rates in other LEA's is maintained by our Supervisor of Transportation and reviewed annually by the Board. WCBOE approves contractor rates each year based upon available funding.</p> <p>Response WCBOE will review existing policies and procedures governing bus contractor rates and make revisions as deemed necessary. WCBOE will begin this review in FY 10/11. Documentation for the establishment of annual rates is maintained.</p>
<p>14. WCPS should analyze bus contractors pay (including the PVA) to determine whether the rates are reasonable. In addition, WCPS should ensure that its bus contractor selection requirements comply with all applicable laws and regulations. Furthermore, WCPS should periodically prepare a documented analysis to determine whether continued use of outside contractors to provide student bus services is, in fact, cost beneficial for the school system</p>	<p>Current Status The WCBOE PVA is in line with other Maryland school systems as demonstrated by a review recently performed by a committee from MSDE. The requirements for bus contractors are clearly stated in our Policy and Procedures Manual and have been reviewed by our Board attorney. WCBOE believes the decision to use contractors to provide student bus transportation is a local decision. The legislative audit team concluded that WCBOE transportation costs were "reasonable" when compared with other similar-sized school systems.</p> <p>Response WCBOE will continue to annually review our contractor rates. WCOBE will review existing selection procedures to ensure continued compliance with applicable laws and regulations. WCBOE will begin this review in FY 10/11.</p>

Recommendation	Response
<p>15. WCPS should perform observations of entire bus routes and use its observations of bus route times and distances to ensure that the applicable payments to contractors accurately reflect the actual bus services provided.</p>	<p>Current Status WCBOE currently meets observation requirements as outlined in COMAR and MSDE regulations. Staff also randomly verifies information (hours, miles) listed in the contractor's manifest. Verification methods include riding with or following the contractor. Online travel resources are also utilized to verify mileage and time. WCBOE will continue to utilize all appropriate methods to ensure that payments reflect actual bus services provided.</p> <p>Response WCBOE will review existing policies and procedures related to driver observations and adjust as appropriate to continue to ensure payments to contractors accurately reflect services provided. WCBOE will begin this review in FY 10/11.</p>
<p>16. WCPS should develop a performance measurement system for transportation services and periodically report the results to the Board.</p>	<p>Current Status WCBOE does receive and evaluate performance measures. These include transportation costs per student as provided by MSDE and comparison of contractor rates to other lower shore school systems. WCBOE is very proud of our impeccable safety record in transporting our students to and from school.</p> <p>Response WCBOE will review existing transportation performance measures reported to the Board and revise as deemed appropriate. WCBOE will begin this review in FY 10/11.</p>

Recommendation	Response
<p>17. WCPS should improve controls over its purchase of food supplies by requiring advance approval by independent supervisory personnel for purchases, and by entering into formal contracts with food suppliers, when applicable. In addition, duties should be properly segregated over the procurement and receipt of food service items.</p>	<p>Current Status WCBOE has existing internal controls over the purchase of food supplies including the Supervisor of Food Services reviewing and authorizing payment of invoices. As noted in the audit report, WCBOE does participate in a multi-county purchasing cooperative for the purchase of food to increase purchasing power and keep costs lower.</p> <p>Response WCBOE will review food service internal controls and make revisions as appropriate. WCOBE will continue to review food service contracts to ensure the purchase of the best product at the most reasonable cost. WCBOE will begin this review in FY 10/11.</p>

Recommendation	Response
<p>18. WCPS should identify all food service department costs, including utility and custodial costs, to properly reflect the department's full operating costs. In addition, WCPS should periodically evaluate the meals per labor hour performance of its food service operations and consider instituting efficiency measures.</p>	<p>Current Status</p> <p>As a practice, WCBOE has never applied indirect costs to our food service operations. The purpose of our food service program is to provide healthy meals to our students at an affordable price. Forty percent of Worcester County students are eligible for free or reduced meals. WCBOE staff meets regularly to monitor and evaluate our food service operation. Performance measures reviewed include meals served per day, student participation, labor cost as a percentage of sales, food cost as a percentage of sales, and profit/loss statements by school. WCBOE has also had two independent consultants review our food service operations over the past 10 years. Meals per labor hour were included in the FY09 study and WCBOE is in the process of implementing recommendations from that report to increase operational results. The food service operation did show a profit for the year ended June 30, 2010.</p> <p>Response</p> <p>WCBOE will review the indirect costs of our food service operations and adjust as appropriate. WCBOE will begin to review the indirect costs of our food service operations in FY 10/11. WCBOE will continue to monitor food service operations and work to identify and implement opportunities for increased quality and operational efficiencies.</p>

Recommendation	Response
<p>19. The Board should obtain approval from the State Ethics Commission for all changes to its ethics policy to ensure consistency with State law requirements. WCPS should ensure that persons subject to the policy comply with the requirements and that any potential conflicts are formally addressed by the Ethics Panel.</p>	<p>Current Status The Ethics Policy of the WCBOE was originally adopted in 1984 and revised in 1990, 2003, 2005, and in 2010. The policy has been reviewed by our Board attorney to ensure consistency with state laws. Since 1996, only one complaint has been filed.</p> <p>Response Based upon the recommendation of the legislative audit team, our policy was revised in May, 2010. The revised policy has been submitted to the State Ethics Committee for their review and approval.</p>
<p>20. The Board should adopt comprehensive performance measures in key operational areas, such as transportation, food service, and facilities management, to assist in its oversight duties; such data should be periodically reviewed by the Board. In addition, the Board should also enhance its oversight of WCPS operations by considering the establishment of an internal audit function and a hotline for the confidential reporting of operational issues and suspected fraud, waste, and mismanagement.</p>	<p>Current Status The WCBOE agrees that performance measures are useful in evaluating operations. Each year, the WCBOE prepares a comprehensive Master Plan, Maintenance Plan, Facilities Plan, and a Capital Improvement Plan. Performance measures include student performance, staff retention rates, and budget to actual rates. Other performance measures include cost per student by category, energy usage by school, number of custodians per square foot, and salary comparisons. Food service performance measures already in place include participation rates, labor and food costs as a percentage of sales, and cost per labor hour.</p> <p>Response The WCBOE will review all existing performance measures currently shared with our Board and make revisions as deemed appropriate. WCBOE will begin this review in FY 10/11. An internal auditor position was included in prior budget requests but was not approved. A request for this position will be included in future years as the economy improves. WCBOE believes current methods for confidential reporting exists. These include voice mail, email, and anonymous note. WCBOE will consider implementing a hotline when economic conditions improve.</p>

Summary

Our goal is to make sure that each graduate is college or career ready. To accomplish this goal, we have undertaken a decade of continuous systemic improvement through the Accreditation for Growth model. As a result of our work, Worcester County Public Schools ranks third in the state in student achievement. To create a high performing school system, we use a simple formula: hire the best people; maintain low class sizes; provide teachers and students with the needed tools for learning and teaching; monitor student progress and intervene with remediation and enrichment as needed; provide academic after-school and summer-school programs for all students; and acknowledge and aggressively address our challenges. Our challenges include closing the achievement gap and infusing more and new rigorous academic programs in challenging fiscal times.

Essential to the success of our students is a sound financial management system that directs the vast majority of funds to our classrooms. As a school system, we rank first in the state in expenditures on instructional programs; third in the area of expenditures on textbooks and instructional supplies; and fourth in the area of special education; expenditures on administration rank twenty first in the state; and maintenance expenditures rank twenty-third in the state. As a school system in Maryland, during the last three years we have undergone seventeen separate audits and program reviews. All audits and program reviews were characterized as a “clean” audit with no major findings.

The audit team from the Department of Legislative Services spent approximately six months in our school system reviewing eleven major areas. In two areas, no recommendations were made and in nine areas, a total of twenty recommendations were made. As we continuously strive to improve our delivery of educational services for our students, families, and our community, we will review the areas noted in the “Financial Management Practices Performance Audit Report”.

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