

Financial Management Practices Audit Report

Frederick County Public Schools

May 2025

Public Notice

In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.



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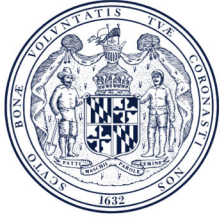
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DEPARTMENT OF LEGISLATIVE SERVICES
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MARYLAND GENERAL ASSEMBLY

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Legislative Auditor

May 13, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Frederick County Public Schools (FCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. The objectives of this audit were to evaluate whether FCPS' 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 certain requirements FCPS' procurement policies were not being consistently used when obtaining goods and services under intergovernmental cooperative purchasing agreements and the policies were not sufficiently comprehensive. In addition, FCPS did not publish certain contracts on *eMaryland Marketplace Advantage* as required by State law and did not execute formal written contracts for special education services received from 32 non-public schools.

Furthermore, our audit disclosed a cybersecurity-related finding. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the finding from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term "cybersecurity" is defined in the State Finance and Procurement Article, Section 3.5-301(b), and using our professional judgment we have determined that the redacted finding falls under the referenced definition. The specifics of the cybersecurity finding were previously communicated to those parties responsible for acting on our recommendations.

FCPS' response to this audit is included as an appendix to this report. Consistent with State law, we have redacted the elements of FCPS' response related to the cybersecurity audit finding. We reviewed the response to our findings and related recommendations, and while FCPS generally agrees with the recommendations in this report, we identified certain instances in which statements in the response conflict with or disagree with the report findings. In each instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted government auditing standards, we have included "auditor comments" within FCPS' response to explain our position. We will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with FCPS. Finally, there are other aspects of FCPS' response which will require further clarification, but we do not anticipate that these will require the Committee's attention to resolve.

We wish to acknowledge the cooperation extended to us during the course of this audit by FCPS.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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Background Information

Statistical Overview

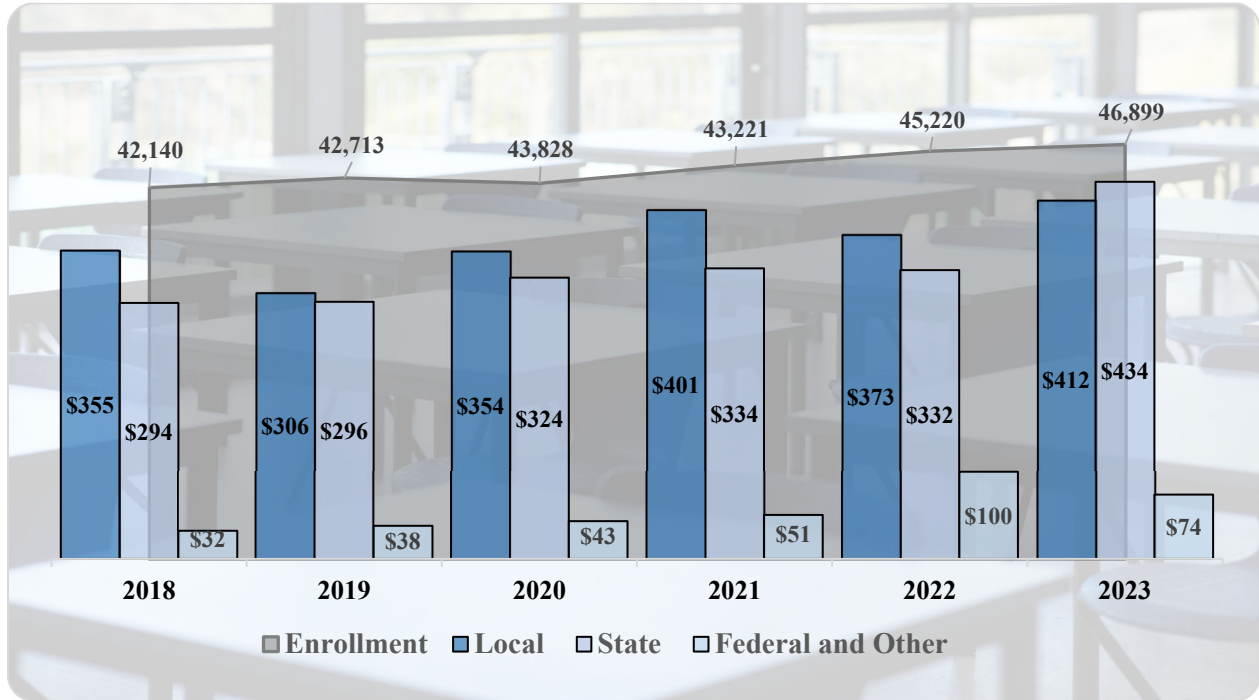
Enrollment

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Frederick County Public Schools (FCPS) ranks 7th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2023 full-time student enrollment was 46,899 students. FCPS had 69 schools, consisting of 38 elementary, 13 middle schools, 10 high schools, and 8 other types of schools (including vocational, charter, alternative, and special education).

Funding

FCPS revenues consist primarily of funds received from the State, Frederick County, and federal government. According to the FCPS' audited financial statements, revenues from all sources totaled approximately \$920.3 million in fiscal year 2023; including \$433.8 million from the State. See Figure 1 for FCPS' enrollment and funding by source for the six-year period from fiscal year 2018 through fiscal year 2023. See Figure 2 for revenue sources per enrolled student in fiscal year 2023 according to its audited financial statements.

Figure 1
FCPS Enrollment and Funding by Source
Fiscal Years 2018 through 2023
(dollar amounts in millions)

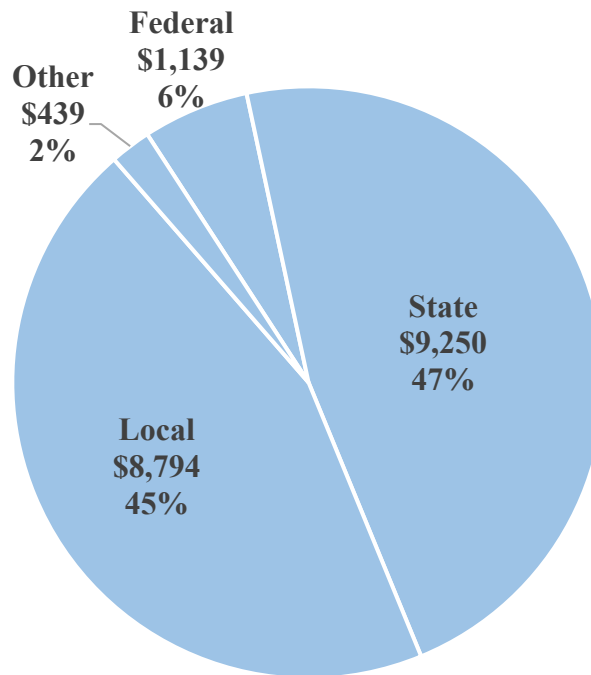


State funding for fiscal year 2023 included:

- \$321 million for Foundation Formula Grants
- \$68.8 million for Capital Projects
- \$32 million for the State-share of employee pension costs
- \$12 million for Other State funding

Source: FCPS' Fiscal Year 2023 Audited Financial Statements and MSDE Data

Figure 2
FCPS' Revenue Sources Per Enrolled Student
Fiscal Year 2023



Source: FCPS' Fiscal Year 2023 Audited Financial Statements and MSDE Data

Blueprint for Maryland's Future (Blueprint)

Blueprint is a State-funded grant program based on recommendations of the Maryland Commission on Innovation and Excellence in Education.¹ Chapter 771, Laws of Maryland, 2019, effective June 1, 2019, established principles of the Blueprint that are intended to transform Maryland's early childhood, primary, and secondary education systems to the levels of the highest-performing systems. Blueprint specifies how funding is calculated to support programs and initiatives from prekindergarten through college and career.

Blueprint allocates funding to schools based on a weighted-student formula. The funding formula provides resources to local education agencies based on the number of students enrolled at each school (known as Foundation Aid) and the characteristics of those students (such as, Special Education Aid, Concentration of Poverty Aid, and Compensatory Education Aid). Blueprint also provides

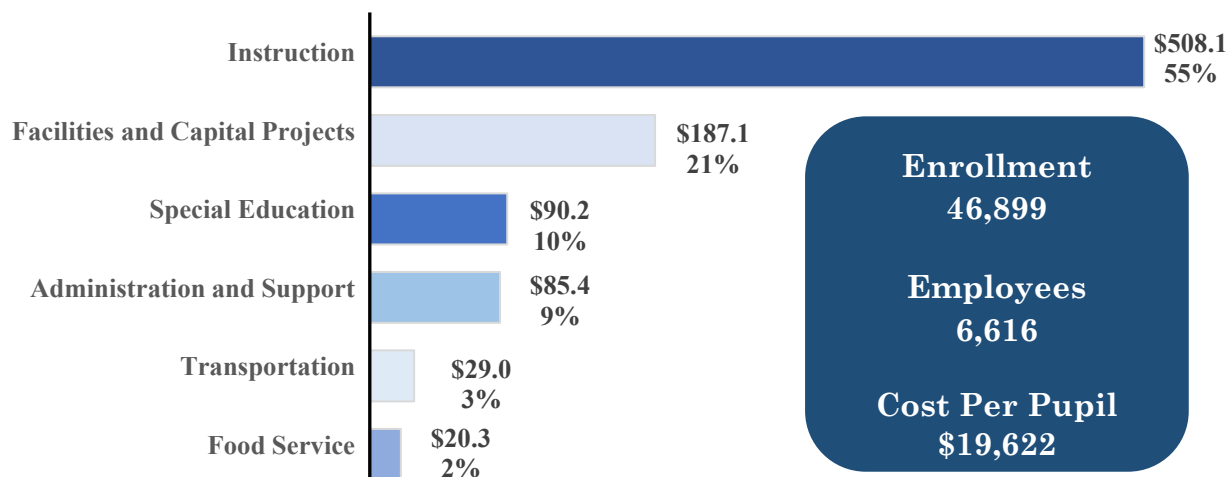
¹ The Maryland Commission on Innovation and Excellence in Education was established by Chapters 701 and 702, Laws of Maryland 2016, effective June 1, 2016 to review the adequacy of funding for education.

additional funding for specific programs that schools offer (such as Prekindergarten Aid).

Expenditures

According to FCPS' audited financial statements, fiscal year 2023 expenditures were approximately \$920.1 million. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 73 percent of total expenditures during fiscal year 2023. According to MSDE records, during the 2022-2023 school year, FCPS had 6,616 full-time equivalent positions, which consisted of 4,716 instructional and 1,900 non-instructional positions. Instruction accounted for 55 percent of FCPS' expenditures on a categorical basis (see Figure 3).

Figure 3
FCPS Expenditures by Category and Selected Statistical Data
Fiscal Year 2023
(dollar amounts in millions)



Source: FCPS' Fiscal Year 2023 Audited Financial Statements and MSDE Data

Oversight

FCPS is governed by a local school board, consisting of seven elected voting members and one non-voting student member. MSDE exercises considerable oversight of FCPS 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 FCPS to comply with the requirements and mandates of federal law. The Frederick County government also exercises authority over FCPS primarily through the review and approval of FCPS' annual operating and capital budgets.

Accountability and Implementation Board (AIB)

The AIB was authorized by State law as an independent unit of State government in February 2021 and is responsible for holding State and local governments, including local education agencies, accountable for implementing the Blueprint State-funded grant program and for evaluating the outcomes. Specifically, the AIB reviews the use of school-level expenditures and monitors school system compliance with Blueprint requirements. The AIB consists of a seven-member Board appointed by the Governor, with the advice and consent of the Senate. The Board Chair is designated by the Governor, the Senate President, and the Speaker of the House.

Office of the Inspector General for Education (OIGE)

The OIGE was established by State law as an independent unit of State government effective June 2019. The OIGE is responsible for examining and investigating complaints or information regarding the management and affairs of local boards of education, local school systems, public schools, nonpublic schools that receive State funds, MSDE, and the Interagency Commission on School Construction. Specifically, the law provides that the OIGE may receive and investigate information and complaints concerning potential fraud, waste, and abuse of public funds and property; civil rights violations involving students or employees; whether policies and procedures governing the prevention and reporting of child abuse and neglect comply with applicable federal and State laws; and compliance with other applicable federal and State laws.

The OIGE initiates examinations and investigations based on its assessment of complaints and information it receives from various sources, including State and outside agencies and through its fraud, waste, and abuse hotline. The OIGE also conducts an annual review of local school systems to ensure policies and procedures governing the prevention and reporting of child abuse and neglect comply with applicable federal and State laws. During the period covered by our

review the OIGE did not issue any reports related to FCPS reviews and investigations.

External Audits

As required by State law, FCPS engages a certified public accounting firm to independently audit its annual financial statements. The firm performs procedures to verify the amounts and disclosures in the financial statements. The firm also evaluates the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. In the related audit reports, the firm stated that the financial statements presented fairly, in all material respects, the financial position of FCPS as of June 30, 2018, 2019, 2020, 2021, 2022 and 2023, and the respective changes in its financial position and, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

We reviewed the aforementioned financial statement audits and Single Audit reports for fiscal years 2018 through 2023 and examined the related work papers for the fiscal year 2023 audits, which were the latest available during our audit fieldwork. Our review did not note any deficiencies that warranted inclusion in this report. In addition, certain work of the independent certified public accounting firm, which we determined was reliable, covered areas included in the scope of our audit. As a result, we did not conduct any audit work related to Federal grant activity.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the three findings contained in our preceding audit report dated December 5, 2019. See Figure 4 for the results of our review.

Figure 4 Status of Preceding Findings		
Preceding Finding	Finding Description	Implementation Status
Finding 1	Intrusion detection prevention system coverage for the FCPS network included a protection gap, and FCPS did not remove inactive domain user accounts on a timely basis.	Status Redacted ²
Finding 2	FCPS operated buses that had exceeded the maximum 15 years of service or had not been approved for operation beyond 12 years of services as required by State law and regulations.	Not Repeated
Finding 3	Modifications to bus route manifests were not subject to an independent supervisory review to ensure that changes agreed to approved route verification forms and to ensure the accuracy of related payroll payments.	Not Repeated

² Specific information on the current status of this cybersecurity-related finding has been redacted from this publicly available report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

Findings and Recommendations

Revenue and Billing Cycle

Background

Frederick County Public Schools (FCPS) revenues consist primarily of funds received from Frederick County, the State, and the federal government. According to FCPS' audited financial statements, revenues from all sources totaled approximately \$920.3 million in fiscal year 2023 including \$433.8 million from the State.

School Activity Funds

Schools collect funds for other purposes such as student activities, clubs, and school publications. Because they are not considered school revenue, these school activity funds are accounted for separately by each school and reported in summary in the audited financial statements. During fiscal year 2023, school activity collections totaled \$6.7 million and the June 30, 2023 fund balance was \$3.9 million. Based on our assessment of the relative significance of this activity, we did not review the procedures and controls over these funds.

Conclusion

Based on our current assessment of significance and risk relative to our audit objectives, our audit did not include a review of policies, procedures, and controls with respect to the revenue and billing area of operations. For state and local revenues, we performed analytical reviews and limited verifications with independent sources (such as the Maryland State Department of Education) to confirm that FCPS properly received and recorded the revenue in its records.

Federal Funds

Background

FCPS receives funds pertaining to federal government programs that are generally restricted for use for a specific program (such as the School Lunch Program or Special Education). According to FCPS' Single Audit, fiscal year 2023 (latest available at the time of our audit) federal expenditures totaled \$51.4 million, not including federally funded fee-for-service programs such as Medicaid reimbursement for special education services.

According to the audited financial statements, federal fund revenues (excluding Medicaid) increased, from \$22 million in fiscal year 2018 to \$51.4 million in fiscal year 2023 (133 percent) due to COVID-19 pandemic grant funding.

According to FCPS' records, as of June 30, 2024, FCPS was awarded federal COVID-19 pandemic grant funds totaling \$102.2 million to be distributed over fiscal years 2020 to 2024 under the Coronavirus Aid, Relief, and Economic Security Act, the Coronavirus Response and Relief Supplemental Appropriations Act, and the American Rescue Plan.

As of June 30, 2024, according to FCPS records, expenditures related to these COVID-19 grants from January 2020 to June 2024, totaled approximately \$94.5 million, and were primarily comprised of staffing, technology infrastructure to facilitate virtual learning, and air filtration systems. On March 28, 2025, the United States Department of Education (DOE) notified every State that it was ending the liquidation period for COVID-19 grants effective immediately. The DOE notification indicated that it would consider an extension to the liquidation period on an individual project specific basis. FCPS advised us that it had approximately \$272,500 in COVID-19 grants that had not been liquidated as of March 28, 2025. As of April 2, 2025, FCPS, in conjunction with MSDE, was determining what options it had to request an extension.

Single Audit Reports

There were similarities in the work performed by the independent CPA that conducted the Single Audit of FCPS' federal grants and the objectives of our audit in this area. In addition to expressing an opinion on FCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the required Schedule of Expenditures of Federal Awards (which includes claimed and reported grant expenditures) for fiscal years 2018 through 2023. Our review of the Single Audits did not identify any issues that warranted inclusion in this report.

Medicaid Funds for Eligible Services

FCPS has established a procedure to identify children eligible for Medicaid-subsidized services and the services rendered. Medicaid is an entitlement program for which certain service costs can be reimbursed to FCPS. Medicaid activity is not covered by the Single Audit of federal grants.

MSDE's Interagency Medicaid Monitoring Team issued a report in May 2023 of the results of its review of 40 student case files for 63 criteria. The report did not specifically address the propriety of Medicaid billing but overall concluded that FCPS was generally compliant with most criteria. For example, FCPS was 100 percent compliant with 49 criteria and between 85 and 99 percent compliant with 8 criteria.

According to FCPS records, fiscal year 2023 state and federal reimbursements for Medicaid-subsidized services totaled approximately \$3.5 million, which was generally consistent with the previous fiscal year. Based on our current assessment of significance and risk relative to our audit objectives, our audit did not include a review of Medicaid-subsidized services.

Conclusion

We relied on the work of the independent CPA that conducted the Single Audits for the work in the federal fund area, including policies, procedures, and controls with respect to federal grants and expenditures.

Procurement and Disbursement Cycle

Background

According to the audited financial statements and FCPS' records, disbursements (excluding payroll) totaled \$248.6 million during fiscal year 2023. FCPS uses a financial management system for purchases and disbursements. Requisitions are created in the system by departments are subject to on-line departmental approvals. Purchase orders are prepared in the system by the purchasing department based on approved requisitions. The purchasing department also generally handles the solicitation, bid evaluation, and establishment of contracts.

Invoices are submitted by vendors directly to the accounts payable department before being forwarded to the requesting school or department for approval as necessary. Once approved, the accounts payable department enters the invoice into the financial management system. The system matches the invoice to the related purchase order then prints the vendor checks, which are manually matched to appropriate purchasing and receiving documents before mailing, and then posts the payment to the financial records.

Section 5-112 of the Education Article of the Annotated Code of Maryland requires that procurements equal to or exceeding \$100,000 (prior to October 1, 2023 the amount was \$50,000) be competitively bid and FCPS *Purchasing Regulations* requires that procurements of contracts and agreements valued at \$100,000 or more, be approved by the Frederick County Board of Education (the Board).

Finding 1

Certain requirements of State law and recognized best practices were not incorporated into FCPS *Purchasing Regulations* and were not consistently used when participating in intergovernmental cooperative purchasing agreements (ICPAs).

Analysis

Certain requirements of State law and recognized best practices were not incorporated into FCPS *Purchasing Regulations* and were not consistently used by FCPS when participating in an ICPA³. State law, which legal counsel to the Maryland General Assembly advised us is applicable to local education agencies, provides for the participation in an existing State or local contract, if the governing body of the entity determines that (a) participation would provide a cost savings in purchase price or administrative burden; or (b) further other policy goals including operational and energy–efficiency goals related to the purchase, operation, or maintenance of the supply or service.

Our review of FCPS purchasing policies disclosed that the above statutory requirements as well as the following critical best practices were not included.

- Analyze all costs of conducting competitive solicitations;
- Research, compare, and evaluate available ICPAs; and
- Execute an addendum of participation with lead agency and remove or incorporate necessary local terms and conditions

We tested FCPS’ participation in four ICPAs (selected based on risk and significance) during fiscal years 2021 through 2023. Two of these ICPAs had contract award amounts totaling \$148 million and two did not have a contract award amount since they were contracts to purchase equipment at discounted prices with indefinite quantities. According to FCPS records, payments on these four contracts totaled approximately \$11.9 million during fiscal year 2024. Our test disclosed that for the four ICPAs tested, FCPS could not document that it adhered to the statutory requirements and did not adhere to two of the best

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

practices (analyzing the costs of conducting competitive solicitations and executing an addendum of participation with the lead agency).

We did find that other best practices were performed despite not being included in FCPS' policies. For example, FCPS researched, compared, and evaluated available ICPAs for two of the four ICPAs noted above. Incorporating ICPA best practices into FCPS *Purchasing Regulations* could help ensure they are consistently used.

The Institute for Public Procurement, formerly known as the National Institute of Government Purchasing, as well as other public and educational organizations have published ICPA best practices. These practices include comprehensive multi-step checklists that require, among other things (as per the list above), that prospective ICPA users verify that the contract allows other entities to participate. In addition, the practices also require that ICPA users should ensure that the contract was awarded through a competitive procurement process, that addendums documenting their participation, and that all local required terms and conditions are incorporated.

Recommendation 1

We recommend that FCPS incorporate the aforementioned statutory requirement and other identified and acknowledged best practices, into its *Purchasing Regulations* and ensure that the performance of the requirement and best practices are documented when evaluating and participating in ICPAs.

Finding 2

FCPS did not always publish contract awards on *eMaryland Marketplace Advantage (eMMA)* as required by State procurement law.

Analysis

FCPS did not always publish contract awards on *eMMA*⁴ as required by State procurement law. State law requires the solicitation and award of contracts of \$100,000 or more (prior to October 1, 2023 the amount was \$50,000) procured by public schools after July 1, 2022 to be published on *eMMA*.

Our test of four contracts procured during fiscal years 2023 and 2024 totaling \$38.1 million (selected based on materiality) disclosed that FCPS did not publish

⁴ *eMMA* is an Internet-based, interactive procurement system managed by the State of Maryland's Department of General Services.

awards for any of the four contracts on *eMMA* as required. Publishing awards on *eMMA* provides transparency over State procurements, including information about winning bidders and the amount of the related awards.

Recommendation 2

We recommend that FCPS publish contract awards on *eMMA* as required, including those noted above.

Finding 3

FCPS did not execute formal written contracts for certain special education services.

Analysis

FCPS did not execute formal written contracts for certain special education services. FCPS provides special education services in accordance with the individualized education program (IEP) developed for each student. According to FCPS' records, it paid 32 MSDE certified non-public schools a total of \$26.6 million for special education services during fiscal years 2022 through 2024.

Our review disclosed that FCPS did not have a contract with the 32 non-public schools. Although not specifically required by its *Purchasing Regulations*, written contracts set forth all financial terms and conditions, define the duties and responsibilities of the parties, protect each party in the event of default, and provide other critical terms for items such as resolution of disputes, termination for convenience, and retention of records.

Recommendation 3

We recommend that FCPS

- a. modify its *Purchasing Regulations* to require formal written contracts for special education services, and**
- b. comply with the modified *Purchasing Regulations* for future special education services.**

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the FCPS budget. According to FCPS' records, fiscal year 2023 salary, wage, and benefit costs totaled approximately \$671.5 million, representing 73 percent of the total expenditures. According to MSDE reports, during the 2022-2023 school year,

FCPS had 6,616 full-time equivalent positions, which consisted of 4,716 instructional and 1,900 non-instructional positions.

FCPS uses automated systems to maintain human resources information, record employee time, track employee leave usage, and process and record payroll transactions. The system generates payroll checks and direct deposit advices. Payroll processing involves both automated processes (such as compiling leave and running edit reports) and manual processes (such as data entry of new employee information).

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of FCPS' internal control over the human resources and payroll areas of operations reviewed. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Equipment Control and Accountability

Background

According to FCPS' audited financial statements, the undepreciated value of its capital equipment inventory (furniture, fixtures, and equipment) totaled \$71.8 million as of June 30, 2023. FCPS maintains centralized automated records for all equipment including assets with a cost of \$5,000 or more that are capitalized for financial statement purposes. Control and recordkeeping of laptop computers assigned to schools, students, and employees was maintained in a database maintained by the Department of Technology Infrastructure (DTI). FCPS has established comprehensive written equipment policies and performs inventories at each school annually.

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of FCPS' internal control over financial-related areas of operations for equipment. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Information Technology

We determined that the Information Technology section, including Finding 4 related to "cybersecurity," as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore is

subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following finding, including the analysis, related recommendations, along with FCPS' responses, have been redacted from this report copy.

Finding 4
Redacted cybersecurity-related finding.

Facilities Construction, Renovation, and Maintenance

Background

FCPS employs a staff of 542 employees to maintain 65 of its 69 schools (including vocational and special education) and a number of other facilities (such as administrative and support offices). The maintenance for FCPS' 4 charter schools is the responsibility of the operators of those schools. According to FCPS' fiscal year 2024 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to FCPS' facilities over the next six years are estimated to cost \$484.9 million.

Our review of four construction-related procurements (selected based on materiality) awarded during fiscal years 2022 to 2023 totaling approximately \$155.8 million, disclosed that the contracts were competitively solicited and approved by the Board. In addition, our test of 8 invoices totaling \$12.4 million for these contracts, disclosed that the invoices were properly reviewed and approved, and the amounts invoiced were in accordance with the related contract terms.

Processes are in Place to Promote Ongoing Facility Maintenance and to Minimize Energy Costs

FCPS is part of the Frederick Area Cooperative Team (FACT) portfolio which aids in purchasing energy at the best possible terms for its members.⁵ FCPS also has processes in place to promote ongoing facility maintenance. For example, FCPS provides scheduled maintenance of its buildings and equipment with the goal of preventing emergency repairs. In addition, FCPS reviews utility billings to monitor energy usage and related costs.

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of FCPS' internal control over financial-related areas of operations for facilities

⁵ Members include the Frederick County government, Frederick Community College, and FCPS.

construction, renovation, and maintenance. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Transportation Services

Background

According to statistics compiled by the MSDE, FCPS has approximately 30,900 students eligible to receive student transportation services. These students were transported using 342 system-owned buses. FCPS reported that 7.6 million route miles were traveled to transport students for the 2022-2023 school year.

According to FCPS' financial records, fiscal year 2023 transportation costs totaled \$29 million.

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of FCPS' internal control over financial-related areas of operations for transportation services. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Food Services

Background

According to FCPS' audited financial statements, food services operating expenditures totaled approximately \$20.3 million in fiscal year 2023, and were primarily funded with federal funds totaling \$12.5 million and food sales totaling \$6.5 million. The federal funds are received from the United States Department of Agriculture (USDA) based on an established rate per meals served. FCPS is allowed to retain federal funds it receives in excess of its annual food service operating costs to be used to offset future food service operating costs. According to FCPS' audited financial statements, the balance in FCPS' Food and Nutrition Services Fund totaled \$12.4 million as of June 30, 2023.

Conclusion

Based on our current assessment of significance and risk relative to our audit objectives, our audit did not include a review of policies, procedures, and controls related to Food Services financial area of operations.

School Board Oversight

Background

The Frederick County Board of Education (the Board) is composed of seven elected members and one non-voting student representative. The Board contracted with a certified public accounting firm to conduct independent audits of the FCPS financial statements and federal programs. To assist in its oversight of various areas of FCPS operation and governance, the Board has established several committees, such as a Citizens Advisory Council and an Ethics Panel.

FCPS Adopted an Ethics Policy

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

In accordance with the policy, FCPS established an Ethics Panel consisting of seven members appointed by the Board to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. Our review of the records for Board members and FCPS employees required to submit financial disclosure forms for calendar year 2023 disclosed that all forms were submitted as required.

Conclusion

Our audit did not disclose any reportable conditions in the school board oversight area.

Management of Other Risks

Healthcare Background

FCPS is self-insured and contracts with three third-party administrator firms (TPAs) for health care claims processing services for employee and retiree medical, prescription, dental, and vision costs. Medical providers submit claims to the TPA who pays on behalf of FCPS. FCPS reimburses the TPA for the claims it reports as paid on behalf of FCPS and also pays an administrative fee for these services. According to FCPS' records, healthcare expenditures totaled

approximately \$137.6 million in fiscal year 2023, including administrative fees totaling \$7.7 million.

FCPS contracts with a consultant to help manage the health plans. The consultant performs data analysis of health services utilization and costs, provides recommendations on potential rate changes, and evaluates the merits of health plan proposals. As of June 30, 2023, FCPS provided health insurance benefits to 8,291 enrolled employees, dependents, and retirees.

Conclusion

Our audit did not disclose any reportable conditions in the management of other risks area.

Audit Scope, Objectives, and Methodology

We have conducted a performance audit of the Frederick County Public Schools (FCPS). We conducted this audit under the authority of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland, which generally requires that every 6 years we audit each of the 24 local school systems to evaluate the effectiveness and efficiency of financial management practices. This performance audit was performed in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We had two broad audit objectives:

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

In planning and conducting our audit of FCPS, we focused on 11 major financial-related areas of operations as approved on December 6, 2016 by the Joint Audit and Evaluation Committee of the Maryland General Assembly in accordance with the enabling legislation. The 11 major financial-related areas included revenue and billing, federal funds, procurement and disbursements, human resources and payroll, equipment control, information technology security and control, facilities, transportation, food service, school board oversight, and the management of other risks (such as health care).

The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of findings included in our preceding audit report on FCPS dated December 5, 2019, was limited to those findings that were applicable to the current audit scope for each of the 11 areas.

The audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. Also, we did not evaluate the FCPS Comprehensive Education Master Plan or related updates, and we did not review the activities, financial or other, of any

parent teacher association, group, or funds not under the local board of education's direct control or management.

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by FCPS. We also interviewed personnel at FCPS and the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate). Our audit procedures included inspections of documents and records, and to the extent practicable, observations of FCPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2022 to June 30, 2024.

Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits FCPS' financial statements and conducts the federal Single Audit.

We used certain statistical data—including financial and operational—compiled by MSDE from various informational reports submitted by the Maryland local school systems. This information was used in this audit report for background or informational purposes, and was deemed reasonable.

We also extracted data from the FCPS automated financial management system for the purpose of testing expenditure and payroll transactions. We performed various audit procedures on the relevant data and determined the data were sufficiently reliable for the purposes the data were used during the audit.

FCPS' management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities,

information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to FCPS, were considered by us during the course of this audit.

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

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3.5-301(b), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation.” Based on that definition, and in our professional judgment, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to FCPS and those parties responsible for acting on our recommendations in an unredacted audit report.

We conducted our fieldwork from June 2024 to February 2025. FCPS’ response to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise FCPS regarding the results of our review of its response.

APPENDIX

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May 7, 2025

Mr. Brian S. Tanen, CPA, CFE
Legislative Auditor
Office of Legislative Audits
The Warehouse of Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201

Dear Mr. Tanen:

Enclosed are the agency responses to the draft legislative audit as it relates to the Financial Management Practices of Frederick County Public Schools (FCPS). As directed, agency responses have been populated in the Agency Response Form provided by the Office of Legislative Audits. Submission was/is due to your office by today, May 7, 2025.


Please feel free to reach out should you have questions regarding the agency responses provided.

On behalf of FCPS we appreciate the engagement, collaboration, and thoroughness of the Office of Legislative team.




Dr. Cheryl L. Dyson
Superintendent

05/08/2025
Date



Heather Jo Clabaugh
Associate Superintendent of Fiscal Services

05/08/2025
Date



Melissa Rollison
Financial Reporting Manager

05/08/2025
Date

Frederick County Public Schools

Agency Response Form

Procurement and Disbursement Cycle

Finding 1

Certain requirements of State law and recognized best practices were not incorporated into FCPS *Purchasing Regulations* and were not consistently used when participating in intergovernmental cooperative purchasing agreements (ICPAs).

We recommend that FCPS incorporate the aforementioned statutory requirement and other identified and acknowledged best practices, into its *Purchasing Regulations* and ensure that the performance of the requirement and best practices are documented when evaluating and participating in ICPAs.

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	<p>Finding 1 rests on the application of section 13-110 of the State Finance and Procurement Article of the Annotated Code of Maryland (“SFP § 13-110”), which governs the use of intergovernmental cooperative purchasing agreements (ICPA), to a Local Education Agency (LEA). The auditors analysis, while well meaning, is flawed.</p> <p>The Analysis in support of Finding 1 states that</p> <p>State law, which legal counsel to the Maryland General Assembly advised us is applicable to local education agencies, allows the use of ICPAs only after the using entity has met the statutory requirement of determining (or assessing) that the use of such arrangements will provide cost benefits, promote administrative efficiencies, or promote intergovernmental cooperation.</p> <p>See Financial Management Practices Audit Report, Frederick County Public Schools, April 2025 at p. 15. This is incorrect as it misstates the requirements that are applicable to a Local Entity, such as an LEA. The requirements articulated in the Analysis and adopted in the Finding – to determine that an ICPA has a cost benefit to the state, promotes administrative efficiency or promotes intergovernmental cooperation – apply pursuant SFP § 13-110(b)(1)-(3) to the “primary procurement unit procurement officer” (PPUPO). The PPUPO is responsible for the initial purchase agreement that other state and local entities piggyback upon. The only instance where these requirements would apply to a Local</p>

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Entity is if it is also the PPUPO, which is not the case in the contracts reviewed for the audit.

To be clear, the Maryland General Assembly legal counsel is correct that SFP § 13-110 applies to a Local Entity, just not in the manner indicated in the Analysis and Finding. Paragraph (e) sets a different set of requirements on a Local Entity when piggybacking on an ICPA, namely requiring the Local Entity to “determine[] that participation would (1) provide a cost savings in purchase price or administrative burden; or (2) further other policy goals including operational and energy-efficiency goals related to the purchase, operation, or maintenance of the supply or service.” Although these appear to be similar, they are in fact very different as will become evident through the comparison of the ICPA requirements in the Table below.

PPUPO SFP 13-110(b)	Local Entity SFP 13-110(e)
Cost benefits to the State	Cost savings in purchase price
Promote administrative efficiencies	Cost savings in administrative burden
Promote intergovernmental cooperation	Further operational and efficiency goals
Statement of best interests	
Statement that not intended to circumvent procurement laws	

As the Table indicates, the PPUPO is required to assess whether there is a cost benefit to the State; the Local Entity is required to determine if there is a cost savings in the purchase price. Consideration of the broader impact on the State is manifestly different than the more straight forward determination that the ICPA provides a cost savings on the purchase price.

The requirement imposed upon the PPUPO to assess whether the ICPA will promote administrative efficiencies is similar to the administrative burden cost savings assessment done by the Local Entity but it is not the same. Administrative efficiencies may be found in ways not reflected as a cost savings. Accordingly, the PPUPO has a wider analysis to conduct than does the Local Entity.

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	<p>The PPUPO must assess whether the ICPA promotes intergovernmental efficiencies; the Local Entity must only consider whether the ICPA furthers operational and efficiency goals. There is no expectation that the Local Entity consider, as the subordinate user of the master agreement entered into by the PPUPO, the broader promotion of intergovernmental efficiencies. This is a clear articulation of a differentiated policy position by the Legislature that the auditor's Analysis and Findings do not take into account.</p> <p>Unstated by the Analysis and Finding, but significant, are the last two items in the above Table – the PPUPO's requirements to provide a statement of best interests and a statement that the ICPA is not intended to circumvent procurement laws, which does not have a corresponding Local Entity requirement. The omission is significant because it further highlights the Legislature's intentional establishment of different sets of requirements for the PPUPO entering into the ICPA and the Local Entity that is purchasing through an ICPA.</p> <p>A careful reading of the statute demonstrates that the Analysis and Finding misstates the law as it is applicable to a Local Entity and ultimately imposes a burden on the Local Entity – in this case, FCPS – that is not expected of it by the law as written.</p> <p>The Analysis and Finding is further flawed as it demands that FCPS adopt "critical best practices" in its policy for ICPA participation. Specifically, the Analysis states</p> <p>Our review of FCPS purchasing policies disclosed that ... the following critical best practices were not included.</p> <ul style="list-style-type: none">• Analyze all costs of conducting competitive solicitations;• Research, compare, and evaluate available ICPAs; and• Execute an addendum of participation with lead agency and remove or incorporate necessary local terms and conditions <p>It is unsurprising that FCPS' purchasing policies do not include these purported "best practices" as they are not required by the law. SFP § 13-110 does not specifically require these "best practices" or require the Local Entity to identify and adhere to industry best practices. Had that been the intent of the Legislature, they would have included it in the statute. Instead the statute is silent and FCPS designed its purchasing policies to align with the expressly stated expectations of the governing law. To find that FCPS somehow has fallen short in its procurement</p>
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	<p>practices by applying an unwritten and unstated standard is tantamount to moving the goal post in the middle of the game.</p> <p>Furthermore, even were these so-called “best practices” required of FCPS, the application of those “best practices” is contrary to the operational efficiency goal expressly stated in SFP § 13-110(e). Indeed, implementing these “best practices” would be particularly burdensome on the Local Entity and would undermine the very purpose for piggybacking on an ICPA. Requiring an analysis of “all costs of conducting competitive solicitations” and requiring the execution of an addendum (<i>i.e.</i>, an entirely new agreement with the lead agency likely in the form of a Memorandum of Agreement) runs contrary to the statutory expectation that entering into a subordinate agreement to an ICPA would enhance operational efficiency. Indeed, the additional burden placed by these “best practices” would effectively make it more efficient for the Local Entity to directly procure the goods or services than it would to enter into an ICPA. As the Legislature saw fit to enact a statute that allows the use of an ICPA, this cannot be the intention of the law.</p> <p>While FCPS will continue to comply with all statutory requirements applicable to Local Entities, seek out opportunities to strengthen our guiding regulations, and conform with nationally established best practices, it will only do so within the confines of those requirements and not a more expansive set of expectations imposed without the benefit of the system of checks and balances in place through the legislative process.</p>		
Recommendation 1	<table border="1"> <tr> <td data-bbox="500 1251 841 1293">Disagree</td><td data-bbox="841 1251 1442 1293">Estimated Completion Date: 7/1/2025</td></tr> </table>	Disagree	Estimated Completion Date: 7/1/2025
Disagree	Estimated Completion Date: 7/1/2025		
Please provide details of corrective action or explain disagreement.	<p>Although FPCS disagrees with the Analysis and Finding, it is committed to operational excellence, sound fiscal governance and responsible use of public funds. Accordingly, FCPS will consider ways to strengthen its purchasing framework by weighing procurement best practices against operational efficiencies. In that spirit, FCPS will review and revise the current intergovernmental cooperative purchasing agreement (ICPA) checklist to ensure that the statutory requirements are documented when evaluating and participating in ICPAs. The ICPA checklist and supporting documentation will continue to be maintained within the contract file.</p>		

Auditor’s Comment: FCPS’ response states that we misstate the law regarding a local entity using an ICPA. We reevaluated the law and modified the law reference to the correct statute. However, FCPS policy also did not include the statutory requirements of the law cited in their response and as noted in the

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finding, compliance with these laws was not documented for the ICPAs tested. Accordingly, we stand by our finding and the related recommendation.

In addition, FCPS' response states the best practices we identified are not required by the law. Our finding does not indicate that these best practices were required by law. However, we continue to believe that FCPS should implement established best practices to the extent possible to help ensure the use of an ICPA maximizes the use of State and local funds and to enhance integrity of the procurement process.

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Finding 2

FCPS did not always publish contract awards on *eMaryland Marketplace Advantage (eMMA)* as required by State procurement law.

We recommend that FCPS publish contract awards on *eMMA* as required, including those noted above.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2	Agree	Estimated Completion Date:	07/01/2025
Please provide details of corrective action or explain disagreement.	Although FCPS believes the current practice of posting the notice of awarded contracts in the <i>Public Solicitations</i> section of eMaryland Marketplace Advantage (eMMA) meets compliance requirements, FCPS will revise its procedure. Beginning July 1, 2025, notification of all awarded contracts will be posted in the <i>Public Contracts</i> section of eMMA to better align with the Office of Legislative Audits' interpretation of State procurement law and related expectations.		

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Finding 3

FCPS did not execute formal written contracts for certain special education services.

We recommend that FCPS

- a. modify its *Purchasing Regulations* to require formal written contracts for special education services, and
- b. comply with the modified *Purchasing Regulations* for future special education services.

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	<p>The expectation that FCPS will enter into an agreement with non-public schools (NPS) for the provision of services to students is unrealistic and demonstrates a lack of understanding of the process for referring a student for special education services at an NPS.</p> <p><i>First</i>, a contract negotiation assumes that both parties to the contract have an interest in entering into an agreement. In this instance, there is little incentive for an NPS to enter into an agreement with FCPS. The placement of a student at an NPS results in one of three ways – by a collaborative decision made by an IEP team, by unilateral placement by the student’s parent(s) with resulting litigation to compel FCPS to pay for the cost, or by a settlement between the parties. Once any of those three events happens, FCPS has no option but to seek a placement for a student and, in some cases, place the student at a designated school. At that point, the NPS has no reason to agree with any terms proposed by FCPS because it knows that FCPS has no choice but to place the student there, especially if the NPS is the only one that is able to meet that particular student’s needs.</p> <p>Even the cost of the placement is outside of FCPS’ control, removing yet another point to be negotiated. When the IEP team recommends a non-public placement, the associated cost is set by the State. The Maryland State Department of Education (MSDE) provides all LEAs with a list of approved NPS and negotiates yearly with the NPS on the cost for placing a student at the school. FCPS then pays the rate and is reimbursed by the State for a portion of the cost incurred. When the placement is unilateral by the parent(s) with reimbursement after a due process hearing, the up-front cost is borne by the parent and reimbursement is made to the parent and not to the school for some or all of the student’s tuition. When the placement is through a settlement, the</p>

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	<p>settlement agreement may include a similar reimbursement model. As cost is the primary driver of any negotiation, the pre-set costs reduce the NPS' incentive to agree to other terms.</p> <p><i>Second</i>, negotiating contracts with every MSDE-approved NPS in Maryland, of which there are 70, is an administratively burdensome task. To enter into separate agreements with each school, assuming that a base contract could be established, would take a significant amount of time and resources at the outset. Then, if and once such an agreement was in place, the system and the NPS would have to negotiate specific addendums for each student that is placed that is consistent with the terms of that student's IEP. While either negotiation is ongoing, the student would not be attending the designated least restrictive environment (LRE). This would constitute a denial of the right to a free appropriate public education (FAPE) for that duration and would (1) expose the system to additional legal liability and (2) jeopardize the placement of the student (i.e., why would the NPS take on a student from a system that requires a contract when it could accept a student from another system that does not).</p> <p><i>Third</i>, the requirement to negotiate with each NPS, which presumably will be expected of every LEA, will result in vastly inconsistent agreements both between one LEA and the various NPS and as between one NPS and the various LEAs. This will create an administrative burden on school system staff and may result in inconsistent treatment of students at the NPS. A more prudent course of action would be for MSDE, in addition to negotiating the cost rate, to establish a standard set of terms and conditions that will apply to all approved NPS and to all LEAs, similar to the standard teacher contract.</p>		
Recommendation 3a	Disagree	Estimated Completion Date:	07/01/25
Please provide details of corrective action or explain disagreement.	<p>While FCPS disagrees with the recommendation that it enter into formal written contracts for special education services, namely, non-public placement of students, it will prepare an annual "Expectations Letter" for any MSDE-approved non-public school at which FCPS students receive special education services outlining the system's expectations with respect to attendance, progress reports, compliance with the IEP, participation in meetings, the use of restraint and seclusion, etc.</p>		
Recommendation 3b	Disagree	Estimated Completion Date:	07/01/25

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Please provide details of corrective action or explain disagreement.	See response to Recommendation 3a.
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Auditor's Comment: FCPS disagrees with the findings and recommendations for various reasons (such as, it believes non-public schools have little incentive to execute contracts and there is an administrative burden). We reviewed FCPS' reasons and continue to believe that it is in the best interest of both FCPS and its students to execute formal written contracts with non-public schools providing special education services.

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Information Technology

The Office of Legislative Audits (OLA) has determined that the Information Technology section, including Finding 4 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Although the specifics of the finding, including the analysis, related recommendation(s), along with FCPS’ responses, have been redacted from this report copy, FCPS’ responses indicated agreement with the finding and related recommendations.

Finding 4
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

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