

Financial Management Practices Performance Audit Report

Caroline County Public Schools

April 2010



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

April 27, 2010

Bruce A. Myers, CPA
Legislative Auditor

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 Caroline County Public Schools (CCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. CCPS is the 19th largest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 10 schools, with fiscal year 2009 expenditures of \$66 million. The objectives of this audit were to evaluate whether CCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

In many cases, CCPS had procedures and controls in place to ensure the safeguarding of assets and the efficient use of financial resources. Nevertheless, our report contains 18 recommendations to CCPS to enhance controls and processes in areas such as procurement, information technology services, and student transportation. For example, CCPS needs to update policies over procurements to reflect current bidding practices as well as to require Board approval of significant sole source procurements and procurements which "piggyback" on contracts previously procured by others, such as local governments. CCPS should establish better controls over critical information technology systems. CCPS should also implement certain recommendations designed to make student transportation services more cost effective, including evaluating certain factors used to make payments to bus contractors. Other issues to be addressed include establishing controls over equipment, and taking steps to ensure the propriety of health care cost payments.

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 59. The CCPS 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 CCPS.

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 Caroline County Public Schools (CCPS) 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 19 school systems; CCPS represents the twentieth to date. The approved process included 11 areas to be audited at each system. The following are summaries of the findings in these areas at CCPS.

Revenue and Billing Cycle (see pages 7 through 9)

According to the audited CCPS financial statements, \$67 million in revenue was received from all sources during fiscal year 2009, the vast majority of which was received via electronic fund transfers from other governmental entities. Procedures and controls for these revenue sources were generally found to be adequate; however, based on findings of the independent certified public accounting firm, controls over student activity funds maintained by the schools need to be improved. In its response to the certified public accounting firm, CCPS stated that documentation and internal controls would be strengthened. School activity fund collections totaled \$980,000 for fiscal year 2009.

Federal Funds (see pages 11 through 13)

Annually, CCPS is subject to an audit of its federally funded 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). 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. The related

report stated that CCPS 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 firm noted no matters considered to be significant deficiencies or material weaknesses. Reported federal fund expenditures totaled \$6.1 million during fiscal year 2009.

CCPS had an adequate process for the identification of children eligible for Medicaid-subsidized services and recovery of related costs. In addition, CCPS participated in the federal E-Rate program, which provides financial assistance for school systems in the areas of telecommunications and Internet access.

Procurement and Disbursement Cycle (see pages 15 through 20)

According to CCPS records, non-payroll disbursements totaled \$20.5 million during fiscal year 2009. CCPS had established beneficial procurement practices (such as piggybacking on contracts procured by other government entities) as well as policies for purchasing card use and travel. However, the audit disclosed that other existing procurement policies were outdated and did not address all types of procurements, such as sole source procurements. In addition, a number of employees had unrestricted access to the automated procurement system that did not require such access to perform their job duties. Finally, certain large procurements were not presented to the Board for approval and CCPS did not always maintain documentation to support prices paid or discounts allowed by vendors.

Human Resources and Payroll (see pages 21 through 23)

CCPS employed 781 full-time equivalent employees as of October 2008, and payroll and benefit costs during fiscal year 2009 totaled approximately \$45.6 million. CCPS has taken steps to address workforce planning for all employees of the System. However, CCPS should take steps to address unnecessary and inappropriate accesses that were given to certain personnel on the CCPS human resource and payroll system, and a lack of supervisory review of certain human resource and payroll transactions.

Inventory Control and Accountability (see pages 25 through 26)

CCPS had not developed written policies to control capital and sensitive equipment, which totaled \$3.9 million as of June 30, 2009. In addition, CCPS should improve control over its equipment inventories and the related record keeping. For example, our testing disclosed equipment at various locations that had not been tagged or otherwise identified as CCPS property, and had not been recorded in the inventory records.

Information Technology Services (see pages 27 through 29)

CCPS maintains and administers a computer network, computer operations, and a number of significant financial and academic information system applications. CCPS had developed a written technology plan and used in-school staff to assist the information technology (IT) department. The audit also found, however, that CCPS did not have comprehensive security and disaster recovery plans, and needs to improve procedures over backup of certain data and implement better password and security practices.

Facilities Construction, Renovation, and Maintenance (see pages 31 through 35)

CCPS maintains 10 schools and several other facilities (such as administration and support offices) with a staff of 47 custodial and maintenance personnel. CCPS has implemented a number of best practices to help reduce construction and maintenance costs for its facilities. However, CCPS had not established formal performance measures and related benchmarks, a formal customer feedback program, and estimated time and cost amounts to assess program efficiency for both custodial and maintenance operations. In addition, CCPS could not provide documentation that all required routine preventive maintenance had been performed at its facilities.

Transportation Services (see pages 37 through 42)

CCPS is responsible for the safe transportation of more than 4,700 eligible students. CCPS used a number of recognized best practices to increase student transportation efficiency, such as staggering school arrival and dismissal times to enable buses to perform multiple runs. However, we noted several areas where improvements could be made. For example, in its calculation to determine certain payments to bus contractors, CCPS was using a shorter period for the useful life for buses as compared to the length of time such payments were made, resulting in higher payments than were necessary. Also, CCPS paid maintenance costs for non-county owned buses at a significantly higher rate than what was paid for maintenance on its own vehicles. In addition, CCPS did not use automated routing software to help efficiently plan bus routes and had not developed formal performance measures to monitor and evaluate the efficiency and effectiveness of transportation services.

Food Services Operations (see pages 43 through 48)

CCPS has implemented a number of best practices to help reduce food service costs, such as utilization of United States Department of Agriculture (USDA) commodities and participation in purchasing cooperatives. CCPS has adequate procedures in place to identify students eligible for free meals and reduced-price meals under the federal national school meals programs. However, we found controls over the procurement, ordering, and receiving of goods and supplies need to be improved. In addition, CCPS needs to enhance its use of performance measures to help ensure efficient operations.

School Board Operations and Oversight (see pages 49 through 53)

Oversight of CCPS operations included the five-member Board receiving financial updates, such as monthly budget variances, to assist it in monitoring the use of funds. The Board is also extensively involved in a comprehensive budgeting process. CCPS has a detailed ethics policy and had established a process to independently investigate ethics issues and complaints. Nevertheless, the Board should adopt formal policies in a number of

financial-related areas. In addition, the Board could improve oversight of operations by receiving and reviewing key financial and operational performance measure data. The Board should also consider establishing an internal audit function and a confidential hotline for employees and others to report operational concerns and suspected fraud and abuse.

Other Financial Controls (see pages 55 through 57)

CCPS had certain practices and procedures in place to govern its cash and risk management. However, certain assets were at risk at year-end, CCPS did not have written policies governing its use of long-term liabilities, such as financing agreements, nor did it establish sufficient controls to ensure the propriety of health care costs.

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Background Information

Oversight

Caroline County Public Schools (CCPS) is governed by a local school board, consisting of five appointed members and two non-voting student members. The vast majority of CCPS funding is provided by the Caroline County government and the State. 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 CCPS to comply with the requirements and mandates of the federal No Child Left Behind Act of 2001. Oversight by the Caroline County government is limited, although the CCPS annual operational and capital budgets require County approval.

Statistical Overview

According to MSDE student enrollment records, CCPS ranks 19th in student enrollment among the 24 public school systems in Maryland. From fiscal year 2000 to 2009, the total full-time regular and special education pupil population has decreased three percent from 5,685 to 5,513, but the State projects an increase to 6,710 by 2017. For the 2009-2010 school year, CCPS had 10 schools, consisting of 5 elementary schools, 2 middle schools, 2 high schools, and 1 career and technology center. According to its audited financial statements, CCPS expenditures were \$66 million in fiscal year 2009. The largest expenditure category was salaries, wages, and benefits, which accounted for 69 percent of total expenditures during fiscal year 2009. The CCPS budgeted full-time positions in fiscal year 2009 totaled 781, which consisted of 531 instructional and 250 non-instructional employees.

Certain statistical information contained in this report was taken from reports distributed by MSDE and represents the most current information available at the time of our audit. These MSDE reports are based on self-reported data from the 24 public school

systems, and MSDE does not warrant the comparability or completeness of the data.

External Audit of Fiscal Year 2009 Activity

Annually, CCPS 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 CCPS federal grant programs (as required by federal regulations). The resulting audit reports for the 2009 fiscal year were issued in September 2009. Neither report disclosed any material weakness in CCPS record keeping, processes and controls but the audit of the year-end financial statements included a significant deficiency in internal controls as commented upon in Chapter 1 (Revenue and Billing Cycle).

Chapter 1

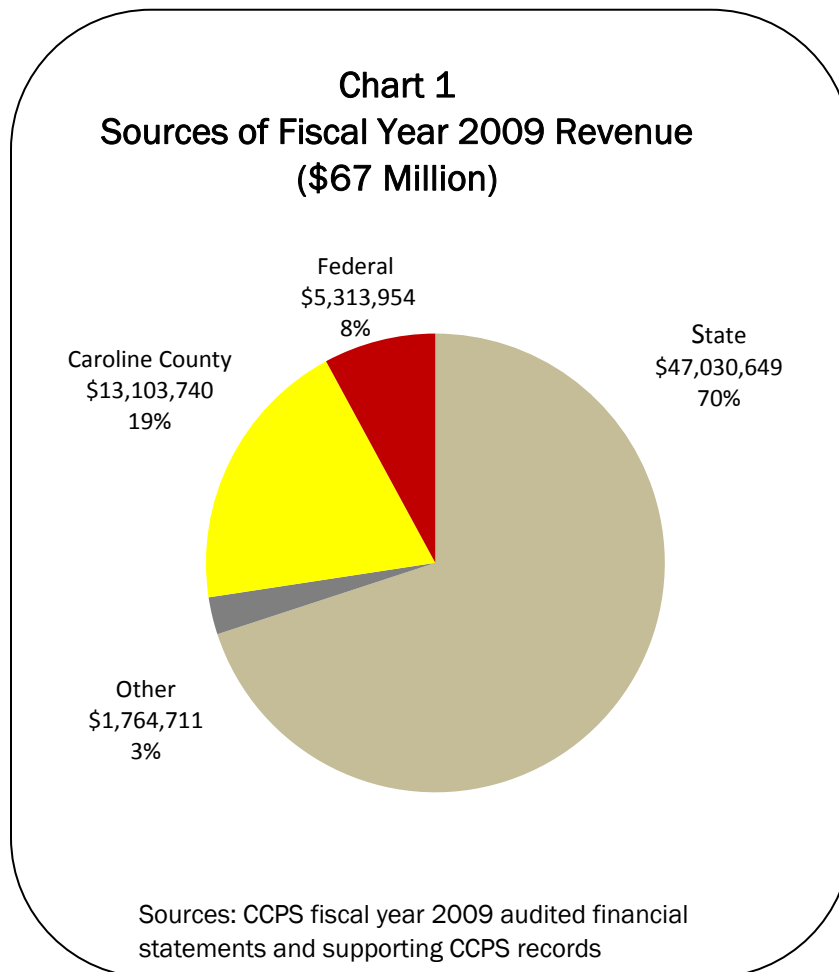
Revenue and Billing Cycle

According to the CCPS audited financial statements, \$67 million of revenue was received by CCPS during fiscal year 2009. Due to similarities between the work of the independent certified public accounting firm that audited the CCPS financial statements, student activity funds, and cafeteria funds, and the scope of our audit in this area, we placed significant reliance on the results of those fiscal year 2009 audits for revenues and accounts receivable (for example, amounts due from other governments). The firm's procedural reviews and testing for the most significant revenue types (the majority of which was received via electronic fund transfers from other government entities) and for accounts receivable, disclosed a significant deficiency¹ over financial reporting for school activity funds. For fiscal year 2009, school activity fund collections totaled \$980,000.

¹ 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 such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. With respect to Single Audit, a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability 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.

Background

CCPS revenues consist primarily of funds received from Caroline County and the State. Other sources include federal grant funds, interest income, receipts from the sale of food, and other miscellaneous sources. Chart 1 (below) shows CCPS fiscal year 2009 revenues of \$67 million by major source.



In addition to the revenues in Chart 1, schools also collect funds for various purposes, such as student groups, clubs, and school publications. These school activity funds² are accounted for separately by each school and are reported in summary in the

² The Board has a fiduciary responsibility to ensure that school activity funds are used only for intended purposes by those to whom the assets belong. Receipts for the school activity fund are not included in the \$67 million revenue total because the Board cannot use these assets to finance its operations.

audited financial statements. For fiscal year 2009, school activity fund collections totaled \$980,000 and the June 30, 2009 balance was \$354,000.

Revenue and Billing Cycle Activities Were Generally Adequate Although Internal Controls Over Student Activity Funds Could Be Improved

Due to similarities between the work of the independent certified public accounting firm that audited the CCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the financial statement audit of the fiscal year 2009 financial statements. The auditor's procedural review and testing disclosed no material weaknesses³ 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. However, the auditor identified a significant deficiency in the internal controls over student activity funds, commenting that controls over the related cash receipts were not adequate to minimize the risk of such receipts being misappropriated. Specifically, detailed records were not retained at the school level to sufficiently substantiate transactions to allow for proper review and audit. In its corrective action plan submitted in response to the audit, the Board stated that documentation and internal controls would be strengthened.

Recommendation

1. CCPS should implement internal controls over school activity funds as recommended by its independent certified public accounting firm.

³ 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 any entity's internal control.

Chapter 2

Federal Funds

Annually, CCPS is subject to an audit of its federally funded grant programs (often referred to as the Single Audit, and required by Circular A-133 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 the independent certified public accounting firm on September 28, 2009.

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

CCPS had an adequate process for the identification of children eligible for Medicaid-subsidized⁴ services and for recovering related costs. In addition, CCPS participated in the federally funded E-Rate program, which provides discounts for school systems related to telecommunications and Internet access.

⁴ 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

CCPS receives funds primarily from Caroline County, the State, and the federal government. Most funds received from Caroline County and 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 \$6.1 million.

According to the audited financial statements, CCPS also received an additional \$226,000 of federal fee-for-service payments during fiscal year 2009 for Medicaid-subsidized services for qualified students. In addition, according to CCPS' records, for fiscal year 2008, CCPS received \$113,000 as a Medicare Part D subsidy for keeping retirees on the CCPS prescription plan. (Funds related to fiscal year 2009 had not been received as of December 11, 2009.)

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

In the report on the audit of fiscal year 2009 federal grant activity issued by the CCPS external auditor on September 28, 2009, the auditor stated that CCPS complied, in all material respects, with the requirements applicable to each of its major federal programs for the year ended June 30, 2009. With respect to internal controls over compliance with and the operation of major federal programs, no material weaknesses or significant deficiencies were noted.

Processes Were in Place to Identify Students Eligible for Medicaid Services and to Obtain Federal Cost Reimbursements

Our review of Medicaid-subsidized services disclosed that CCPS had adequate processes in place to identify students eligible for Medicaid services and to recover the related costs. Specifically,

CCPS periodically compares listings of all children whose families are participating in Medicaid, as determined by the Department of Health and Mental Hygiene, to the student information system to identify newly eligible students and the continuation of eligibility for previously identified students. In addition, there is outreach to families during meetings to discuss educational services for special needs students (including programs and services subject to Medicaid funding) to identify potential eligibility and to encourage program participation. Finally, CCPS ensures that all services provided are billed and costs are recovered.

CCPS Participated in the Federal E-Rate Program

CCPS has a process in place to request and receive reimbursement for technology expenditures from the federal School and Libraries Universal Service Program (E-Rate). 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. CCPS received approximately \$171,000 of E-Rate funds for funding year 2008, the most recent year for which expenditures had been reimbursed.

Recommendation

None

Chapter 3

Procurement and Disbursement Cycle

CCPS has certain beneficial procurement policies and practices in place such as piggybacking onto contracts already procured by the other local governments and participating in purchasing consortiums. CCPS has also established policies for credit card use and employee travel. However, the audit found that other existing CCPS procurement policies were outdated and did not address certain types of procurements, such as sole source procurements. In addition, significant weaknesses in internal control existed over the automated CCPS procurement and disbursement system. For example, a number of employees were provided with unrestricted access to the system that allowed them to add or adjust vendor information, generate purchase orders, and process payments. Our testing of contracts and related expenditures found that procurements made through consortiums or via piggybacking onto other government contracts were not presented to the Board. CCPS also did not maintain contract pricing documents to ensure that it was getting appropriate prices or discounts from these vendors.

Background

CCPS uses an automated system for purchasing and disbursements. Requisitions entered by departments are subject to departmental approval. Purchase orders, solicitations, bids, and contracts are generally handled by a central purchasing office. Similar to State regulations, CCPS procurement practices require

that purchases over \$25,000 be formally bid. The receipt of goods and services is verified by the receiving school or department and payments are then processed by the finance office. Vendor payments are processed using the automated system. According to the CCPS financial statement, non-payroll disbursements totaled \$20.5 million during fiscal year 2009.

During fiscal year 2009, CCPS records indicated that its employees used credit cards to make a total of \$180,000 in purchases, and it had 34 active credit cards with the monthly charges being paid directly by the school system.

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

CCPS had instituted certain best practices, including the following, to enhance the cost effectiveness of its procurement and disbursement transactions.

- CCPS participates in purchasing consortiums with other governmental entities (such as other school systems) for items such as energy, fuel, and equipment. CCPS also piggybacks onto contracts procured by the State of Maryland and other governmental entities, as appropriate, to take advantage of already negotiated favorable terms. CCPS also participates in the U.S. Communities Government Purchasing Alliance, a purchasing forum designed to reduce the cost of goods through pooling the purchasing power of public agencies nationwide.
- CCPS had established a travel policy to control employee travel costs, including a requirement that all out-of-county travel requests be approved by the superintendent or assistant superintendent. According to CCPS records, travel expenses totaled \$158,000 during fiscal year 2009.
- CCPS had established a credit card procurement program for authorized employees, including Board members. CCPS developed written procedures that specify the appropriate uses of the card and that include requirements regarding supervisory approval and reconciliation of charges to monthly statements. According to CCPS records, credit card purchases

totaled \$180,000 during fiscal year 2009. Our review of card activity disclosed that charges appeared to be for appropriate school-related activities (such as maintenance and instructional supplies).

Board Policies for Certain Procurements Should Be Reevaluated and Updated

CCPS procurement policies and procedures were outdated, including the current administrative procedures (that provide detail guidance for small procurements) which were last updated in December 1996. For example, the existing policy requires advertising and bidding for acquisitions of goods and services exceeding \$15,000, even though the current state law and CCPS practices have increased this amount to \$25,000. In addition, the procedures do not address certain types of CCPS procurement activities, such as sole source procurements.

CCPS frequently piggybacked onto various contracts (noted previously as a best practice), and CCPS did not require Board review or approval of these procurement awards. Current practices require that procurements of \$25,000 or more be competitively bid and approved by the Board. However, piggybacked and consortium purchases (which were not bid) were not addressed in CCPS policy and, therefore, were not presented to or approved by the Board even when the procurements exceeded \$25,000. Our test of 10 procurements with fiscal year 2009 expenditures totaling \$1.8 million disclosed that none of the 3 procurements using piggybacked contracts were presented to the Board for its review and approval. These three procurements, for items such as a playground and office equipment, totaled \$542,000.

Policies also did not address the appropriate use of sole source procurements and any Board review and approval requirements, and did not specify the related requirement to document the justification for such purchases. Although sole source procurements should be infrequent, the reason for using this procurement method should be documented in each instance to substantiate that the best value was obtained or that the procurement was obtained from the only available vendor. Our aforementioned test of 10 procurements also disclosed one sole

source procurement, totaling \$235,000, that was not submitted to the Board for review and approval.

CCPS Should Strengthen Internal Controls Over Its Procurements and Disbursements

Procurement and disbursement controls need to be strengthened

– Access to the automated system used to prepare requisitions and process invoice payments needs to be restricted to improve internal control. Specifically, we found that the access granted to seven employees was excessive and allowed them to perform incompatible duties. Specifically, these employees had unrestricted purchasing and accounts payable functions, including entering and updating purchase orders, adding vendors, and printing disbursement checks. In addition, while we were advised that a CCPS employee compared checks to related supporting documentation, this review was not documented and the employee was one of the seven employees with unrestricted access to the system.

Although we were advised that blank check stock and the signature plate used to process checks were kept in a locked closet, we found that the closet was open on a number of occasions. The seven employees with unrestricted access to the system were among the employees with access to the closet. Finally, monthly bank reconciliations for the CCPS general disbursement account were not reviewed and approved by supervisory personnel.

Contract pricing information needs to be maintained

– Our test of 10 contracts and 21 related invoices (the invoices totaled approximately \$1 million) processed primarily in fiscal year 2009 disclosed the following conditions:

- CCPS could not provide documentation (such as price lists) to support the amounts charged on 7 invoices totaling \$391,000. These invoices related to items purchased under a consortium agreement or a “piggyback” contract of another entity.
- Even after we obtained pricing documentation from the vendors, we could not always determine if CCPS received appropriate discounts specified in the agreements or contracts

mentioned above. For example, a consortium agreement with one vendor specified discount percentages for each type of goods sold by the vendor; however, the related invoices processed by CCPS did not include sufficient information to determine whether any discount was provided.

Sole source contracts should be properly justified and the related contracts and invoices should be more detailed –

During our test of procurements, we noted that CCPS awarded three one-year contracts with a three-year value of \$166,089. The contractor was required to perform professional development and teacher evaluation support services during fiscal years 2008 to 2010. Our review of these contracts disclosed the following conditions:

- The contracts were procured as sole source although there was no documentation that these services were unavailable from other vendors or that competitive bidding was not appropriate to ensure the best possible cost.
- Although there was evidence that the Board was advised of the services being provided, none of the three contracts were specifically approved by the Board. The contracts were valued at \$39,616, \$61,901, and \$64,572 for fiscal years 2008, 2009, and 2010, respectively. As previously mentioned, CCPS policies did not address any Board review and approval requirements for sole source contracts.
- All contracts stated that payment would be made upon successful completion of required services. In addition, the contract for fiscal year 2010 stated that the vendor payments would be spread throughout the year. However, the contracts did not include specific deliverables or other requirements to be provided by the vendor in providing these leadership development and professional growth services, nor did the contracts require the vendor to provide detailed documentation to support amounts to be paid.
- Although CCPS officials advised that the services were performed, none of the vendor invoices were supported by detailed documentation, such as days worked, schools visited, or staff trained. Instead, the invoices simply stated that the vendor was to be paid for “services rendered per contract.”

The vendor was paid bi-weekly for a proportionate share of the total contract value without providing documentation of the services rendered.

Recommendations

2. CCPS should update its existing procurement policies to reflect actual practices and current State law, as well as sole source procurements. In addition, CCPS should enhance its existing procurement policies to require that contract awards resulting from the use of other agency contracts and sole source awards be reported to and approved by the Board when the awards exceed a predetermined dollar value (such as \$25,000).
3. CCPS should improve its controls over purchasing and the invoice payment process by separating incompatible functions and by restricting access to critical system functions to only those who need those capabilities to perform their job duties. In addition, CCPS should establish a process to ensure that a proper and independent review of all disbursement checks and bank reconciliations is performed. CCPS should also maintain contract pricing information on file, including the applicable contracts, and verify the accuracy of vendor billings. Finally, CCPS should ensure that the justification for all sole source contracts is documented and that contracts and related invoices are sufficiently detailed to support the services to be performed and subsequently paid for.

Chapter 4

Human Resources and Payroll

CCPS has taken steps to address workforce planning for all employees of the System. However, CCPS should address certain procedural and control deficiencies with respect to human resources and payroll functions. Specifically, unnecessary and inappropriate access capabilities were given to certain personnel on the CCPS human resource and payroll system and there was a lack of supervisory review of certain critical human resource and payroll transactions.

Background

Payroll expense represents the largest single cost component in the CCPS budget. Fiscal year 2009 salary and wage costs, including benefits, totaled \$45.6 million. According to MSDE reports, as of October 2008, CCPS had 781 full-time equivalent positions. The ratio of CCPS students to employees (7.1 to 1) was comparable to similarly sized school systems (see Table 1).

CCPS uses an automated integrated human resources and payroll system to maintain human resources information, record employee time, and track leave usage. The system automatically generates biweekly time records, and any adjustments are processed by central payroll personnel. 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).

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 2008)	Student to Employee Ratio
Caroline County	5,513	781	7.06 to 1
Queen Anne's County	7,859	963	8.16 to 1
Garrett County	4,425	643	6.88 to 1
Dorchester County	4,560	696	6.55 to 1
Worcester County	6,671	1,163	5.74 to 1

Source: MSDE Student/Staff Publications

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

Human Resources and Payroll Internal Controls Need to Be Strengthened

CCPS did not establish adequate internal control over its automated human resource and payroll system and related processes. Seven employees had unrestricted access to human resources and payroll functions, such as for adding and deleting employees and processing payroll adjustments; three of these employees did not require such access to perform their job responsibilities. The other four employees could also change social security numbers and direct deposit information without independent approval. As a result of these incompatible capabilities, improper or erroneous transactions could be processed without detection.

In addition, one of these employees who reviewed payroll adjustments also had the capability to process such adjustments, and the review did not include certain payroll adjustments (such as employee terminations).

Workforce Planning Addressed Future Critical Needs

CCPS established a number of methods to identify and address workforce needs involving critical instructional and non-instructional positions. For example, CCPS annually projects employees eligible for retirement based on age and years of service, including non-instructional personnel, to determine the impact on hiring decisions. In addition, CCPS uses an annual intent process to identify employees considering leaving at the end of the school year. In addition, the CCPS Master Plan sets the strategic direction of the school system and provides coordination and focus for initiatives to address the challenges faced by CCPS. The Plan includes a number of objectives and strategies to address human resource needs—which is evidence of workforce planning. This allows CCPS to tailor its recruitment and retention efforts.

Recommendation

4. CCPS should restrict critical system access capabilities to those employees whose job duties require such access, separate incompatible duties, and ensure that all transactions (such as adding an employee or changing salaries) are subject to independent review and approval.

Chapter 5

Inventory Control and Accountability

Our audit disclosed that CCPS had not developed written policies and procedures governing the accounting and safeguarding of equipment, including recording of equipment transactions, documenting physical inventories, and any subsequent adjustments needed to the equipment records. In addition, CCPS should improve its control over its equipment inventories and the related record keeping. For example, our testing disclosed equipment at various locations that had not been tagged or otherwise identified as CCPS property, and had not been recorded in the inventory records.

Background

According to audited financial statements, as of June 30, 2009, the undepreciated value of capital equipment was \$3.9 million. CCPS uses an automated system to track all property with a cost of \$5,000 or more. All property items with a cost of \$5,000 or more are capitalized and depreciated for financial statement purposes. In addition, CCPS practices require the recording and tagging of sensitive equipment items (such as computers and digital cameras) costing more than \$200.

Policies, Controls, and Record Keeping Over Equipment Need Improvement

CCPS should improve its procedures and controls to ensure accountability over equipment. Specifically, the audit disclosed the following conditions:

- Although CCPS had implemented certain practices and controls over equipment inventories, CCPS has not developed written policies and procedures to ensure proper accountability and control of capital and sensitive items. Such policies and procedures should address the accounting and safeguarding of equipment, proper recording of equipment transactions, and documenting physical inventories and any subsequent adjustments needed to the equipment records.
- CCPS inventory records did not accurately reflect all items owned by CCPS and certain items were not properly identified as CCPS property. Specifically, our test of 123 inventory items (including 118 items purchased during fiscal year 2009 and 5 items sighted at school locations) costing \$136,000 disclosed that 8 items costing \$14,000 were not properly tagged and recorded in CCPS' inventory records.
- The inventory records for sensitive equipment items often did not include the item's cost and the date the system acquired the item.

Recommendation

5. CCPS should adopt formal policies governing all equipment, and should ensure that the related detail equipment records are properly maintained and that all equipment items are properly identified as CCPS property.

Chapter 6

Information Technology Services

CCPS maintains and administers a computer network, computer operations, and a number of significant financial and academic information system applications. CCPS prepared a long-term technology plan and used in-school staff to assist the information technology (IT) department.

Nevertheless, we identified deficiencies in a number of areas including system user access and security and disaster recovery planning. Finally, the version of the student information database application used by CCPS had not been updated with critical security upgrades.

Background

CCPS operates a wide area network connecting the various schools within Caroline County. CCPS maintains and administers a network; academic, financial, and human resources information applications; and other general computer operations.

CCPS Has Taken Actions to Address Information Technology Needs

CCPS prepared an annual technology plan as part of the school system's Master Plan and prepared a separate, more extensive

technology plan every three years. These plans establish a vision and mission for technology in CCPS and have defined goals. These plans address various topics including system security, hardware and software replacement, replacement cost schedules, professional development, and training. In addition, CCPS has established technology support facilitators within each school to assist the Office of Technology in meeting the goals of the plan, including basic IT staff training and technology troubleshooting.

Data Processing Operations Should Be Better Secured

CCPS needs to develop certain information technology (IT)

policies and plans – CCPS did not have a comprehensive information security program to ensure that proper computer security controls existed for its IT operations and applications. The significance of IT requires the implementation of a comprehensive information security program comprised of information security policies, security procedures, and a supporting management structure.

CCPS also lacked a formal, comprehensive, disaster recovery plan for its computer operations. Without a plan, a disaster could cause significant delays (for an undetermined period) in restoring operations above and beyond the expected delays that would exist in a planned recovery scenario. The plan should include the following components:

- the identification of an alternate site in the event of a disaster
- applications prioritized for recovery
- disaster recovery team designations and areas of responsibility
- testing of the disaster recovery plan
- restoration of network connectivity

Procedures for the backup of critical servers need

improvement – Backup tapes of a critical server were not adequately secured. Specifically, daily backups were stored on the same server and, although weekly backups were stored offsite, they were stored in an unsecured location. Accordingly, if a disaster occurred, it is uncertain if all critical information could be readily recreated.

Steps Should Be Taken to Ensure Access to IT Software Applications and Databases Are Appropriate and Controlled

Access to CCPS computer resources was not adequately controlled

– Our review disclosed several deficiencies in computer application security which increased the vulnerability of various CCPS automated systems, programs, and data.

Enhancements should be made to existing procedures to ensure that all access to computer resources is appropriate. For example, for certain automated systems, automatic password expirations were not enabled and CCPS did not set password complexity requirements (to make them more difficult to hack). In addition, for one critical application, system security reports were not generated.

The student information database security software had not been properly updated

– As of September 2009, CCPS had not installed three critical security updates dating back to October 2008. Software product patches correct known security vulnerabilities. Without the most current product patches installed, the potential exists for hackers to exploit known security weaknesses, which could disrupt operations or result in the modification of critical production data.

Recommendations

6. CCPS should develop appropriate comprehensive plans to address security practices and disaster recovery. CCPS should also properly safeguard its computer operations, by storing critical back-up files at a secure off-site location.
7. CCPS should implement appropriate security measures to safeguard its applications and data systems by improving account and password protection, and logging all significant security-related activity for review. CCPS should also ensure that databases used are updated with all critical security upgrades in a timely manner.

Chapter 7

Facilities Construction, Renovation, and Maintenance

CCPS used a number of best practices in its capital planning process, as well as in controlling costs. These include (1) the development of a long-term Capital Improvement Plan based on a comprehensive and public process, (2) an energy management and conservation program, and (3) use of periodic evaluations of space utilization and portable classrooms to minimize the need for new construction.

However, with respect to its maintenance and custodial operations, CCPS had not established formal performance measures, related benchmarks, and a formal customer feedback program, and did not establish estimated time and cost amounts to assess program efficiency for both custodial and maintenance operations. In addition, CCPS could not document the performance of routine preventive maintenance at its facilities.

Background

CCPS maintains 10 schools and several other facilities (such as administration and support offices) with a staff of 43 custodial personnel and 4 maintenance personnel.

CCPS used a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. The annual CIP was developed using student demographic data and input from various sources, including public meetings, and was approved by the Board. In the fiscal year 2010 CIP (prepared in fiscal year 2008), necessary major renovations, repairs, and systemic improvements to existing schools over the next six years were estimated to cost \$113 million through 2015.

Table 2 compares CCPS fiscal year 2008 plant costs (that is, maintenance and operational costs) with other similarly sized school systems in Maryland. The table presents two cost measures used to assess plant costs: cost per student and cost per square foot. These statistics show that CCPS facilities operation and maintenance costs are significantly less than its peer group.

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		
Caroline County	\$ 4,244,011	\$757.60	\$5.10	148.60	832,272
Worcester County	7,666,568	1,141.66	7.22	158.10	1,061,804
Queen Anne's County	7,544,340	967.86	6.93	139.60	1,087,959
Garrett County	4,707,007	1,047.26	5.89	177.80	799,176
Dorchester County	4,548,546	987.35	5.48	180.30	830,410
Average of Comparable Schools	\$ 6,116,615	\$1,036.03	\$6.38	163.95	944,837

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 CCPS Facility Construction and Maintenance Department

CCPS has instituted several best practices to enhance project results and cost effectiveness in its facilities and maintenance department, in addition to the previously noted six-year CIP:

- Various methods were used to reduce the need for additional construction. The periodic evaluation of space utilization included consideration of capacity, enrollment projections, redistricting students among schools, and the use of portable classrooms.
- CCPS developed an educational specifications document for all new construction which addresses all required building requirements, including educational components required by the State.
- CCPS contracted with a vendor for energy management consulting services including computer software that monitors and records energy usage at all facilities. As part of the agreement, CCPS employs an energy manager to monitor energy practices. Based on reports from the consultant, CCPS cost savings totaled \$181,000 for the first 9 months of the program (October 2008 to June 2009). CCPS also participates in a multi-party energy trust to purchase energy at the best possible prices and has implemented in-house energy management practices, such as the use of automated monitoring systems in all schools to regulate heating and air conditioning usage, as well as to shut down systems at specified temperatures for occupied and unoccupied times at each location.

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

CCPS had not implemented a performance measurement system and had not used available information to assess current productivity or future needs – CCPS did not measure and assess the efficiency of its maintenance operations, both for internal self-evaluation purposes and for comparisons with other systems, which could identify other best practices. 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 and Florida) have mandated the establishment and use of measures and benchmarks to assist schools in the evaluation of costs and practices.

We also noted that CCPS did not use a staffing formula to periodically determine the number of maintenance employees required to efficiently meet its needs. Our comparison disclosed that CCPS maintenance staffing levels are significantly less than the national medians, as reported by *American School and University Magazine*. The national medians specify one maintenance employee per 107,439 square feet of building maintained. Using current staffing and square footage for CCPS facilities, we calculated that CCPS had one maintenance employee per 220,106 square feet of building maintained.

We also found that, although CCPS manually records the actual amount of labor and materials used to perform tasks on the work order requisition forms, this information is not entered in the automated work order system. Additionally, estimated cost and hours to complete tasks are not entered in the automated work order system, based on either history or industry guidebooks. As a result, actual time and costs were not compared to estimated time and costs of performing routine tasks. An effective work order system can be used to generate a variety of statistical data including employee productivity, cost reports, and facility assessments, all of which are key pieces of a performance measurement system.

CCPS could not provide documentation that all required preventive maintenance work had been performed –

CCPS had developed a comprehensive maintenance plan that included, among other details, preventive maintenance and custodial task schedules and requirements. While periodic preventive maintenance and custodial work are required to be documented when conducted, our review disclosed that documentation was not available to indicate that all preventive maintenance required by the comprehensive maintenance plan had been performed. For example, based on our test of 22 types of preventive maintenance tasks to be conducted at CCPS schools during fiscal year 2009 (such as emergency generator checks), only 64 percent of required maintenance work was documented as being completed.

Energy conservation and management programs could be enhanced –

Although CCPS had instituted several energy saving programs, its program could be further enhanced. For example, the program could include specific goals and related measures to determine program success (such as reducing total energy use by a stated percentage). We also noted that CCPS did not use school incentive programs to encourage energy conservation. Some school systems, including those in Montgomery and Howard counties, allow funds saved from school conservation programs to be provided to the school for use in other areas (such as instruction).

Recommendation

8. CCPS should develop a performance assessment system for maintenance and custodial operations and include in its work order system a comparison of actual to budgeted resources. CCPS should also document that preventive maintenance was performed to ensure appropriate and timely maintenance is provided to all facilities. Finally, CCPS should enhance its current energy management practices to include specific goals and consider implementing a school incentive program to encourage lower energy usage.

Chapter 8

Transportation Services

CCPS 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 on the same route. However, we noted several areas where improvements could be made. For example, in its calculation to determine payments to bus contractors, CCPS was using a shorter period for the useful life for buses as compared to the length of time such payments were being made, resulting in higher payments than were necessary. Specifically, by using a useful bus life of ten years in its calculation but making the related payments for twelve years, we estimated that CCPS could pay \$549,100 more for the 22 buses placed in service by contractors since 2004. Also, CCPS paid maintenance costs for non-county owned buses at a significantly higher rate than what was paid for maintenance on its own vehicles. In addition, CCPS did not use automated routing software to help efficiently plan bus routes, and had not developed formal performance measures to monitor and evaluate the efficiency and effectiveness of transportation services.

Background

CCPS is the 19th largest school system in Maryland, based on student enrollment. Approximately 4,700 students are eligible to ride the bus each day. These students were transported on one of 43 contractor-owned buses or 11 of its own buses. According to

agency records, fiscal year 2009 transportation costs totaled \$3.6 million. Of the 1,148,400 reported route miles for the 2008-2009 school year, 15 percent were for transporting disabled students.

As seen in Table 3 below, the CCPS cost per rider for fiscal year 2008 was reasonable when compared with other similarly sized school systems.

Table 3 Comparison of Transportation Costs per Rider and per Mile Fiscal Year 2008 (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
Caroline County	4,712	87	949	216	\$3,773	\$786	\$3.24
Worcester County	6,274	64	1,263	210	5,432	857	3.69
Garrett County	4,413	45	1,069	70	4,162	934	3.65
Dorchester County	4,370	81	829	123	3,065	689	3.22
Queen Anne's County	7,742	81	1,787	529	5,882	752	2.54
Average of Comparable Schools	5,700	68	1,237	233	\$4,635	\$808	3.28

Sources: MSDE 2007-2008 Fact Book, LEA Budget Documents

Several Best Practices Were in Place to Enhance Bus Route Efficiency and to Control Related Costs

The CCPS transportation department had several practices in place to help reduce student transportation costs:

- Staggering school arrival and dismissal times to enable certain buses to perform multiple runs on the same day, thereby reducing the need for CCPS to obtain additional buses through bus contractors or purchase
- Using multiple drop-off points to reduce the number of routes and maximizing the number of students transported (such as transporting middle and high school students together) on the same bus to take advantage of the close proximity of the schools and to avoid sending multiple buses

- Using county-owned facilities for fuel and maintenance for system-owned buses
- Establishing walking distance requirements to determine students eligible for transportation services

Bus Routing Procedures Should Be Enhanced and Routing Software Should Be Fully Used

Bus routing procedures should be more comprehensive –

Although CCPS has an informal process for planning, reviewing, and changing existing bus routes, its process was not comprehensive and was not formalized. For example, the process did not consider all relevant factors, such as busloads (that is, desired capacity) and student ride times, when determining the most appropriate bus routes.

CCPS should fully use its automated routing software –

CCPS did not fully use its automated bus routing system. For example, we were advised that, although the software interfaces with automated student information records to transfer student demographic information, the student address information does not always upload needed information since the mailing addresses for some students in the automated student information records are post office boxes which cannot be used by the routing software. As a result, staff must enter student address information manually into the routing software; however, CCPS has not updated student addresses or made any revisions to existing bus routes using the automated system since the 2007-2008 school year.

A fully functional automated routing system would enable staff to complete its planning, reviewing, and revising of bus routes in a more efficient and effective manner by providing student data quickly and bus routes in a visual format. For example, we noted that, for fiscal year 2009, 5 of the 46 buses used to transport non-disabled students operated at levels significantly below desired capacities. Specifically, according to driver manifests, none of the

runs for these buses exceeded 75 percent of the CCPS desired capacity⁵.

Another Eastern Shore school system advised that Implementation of automated routing software resulted in estimated savings of \$45,000.

Payments to Bus Contractors Should Be Based On Documented Criteria and Controls Over Payments Should Be Enhanced

Annual payments to bus contractors should be

reevaluated – CCPS pays contractors an annual ‘per vehicle allotment’ (PVA) for each bus. The CCPS PVA formula⁶ includes reimbursement for the cost of the bus, related financing costs, and a vehicle replacement factor.

The PVA formula is calculated for buses purchased each year by the contractors to reflect the average new bus cost and prevailing market borrowing interest rates at the time. The vehicle replacement factor included in the total PVA paid to contractors is set at a flat rate of 66 percent based on the cost of the bus.⁷ CCPS contractors receive the annual PVA payment for the life of the bus or 12 years. However, the PVA is calculated as if the bus will only be in operation for 10 years. Specifically, CCPS calculates the

total PVA payment and then determines annual payments based

Figure 1
Per Vehicle Allotment (PVA) Calculation
2008 – 2009 School Year
(Based on a 72-passenger bus)

Average New Bus Cost	\$ 74,950
Sales Tax (6% of Cost)	\$ 4,497 (A)
Loan Interest Rate	6.00%
Amount Financed (70% of Cost)	\$ 52,465
Monthly Payment	\$ 689.47
Loan Payback Period	96 months
Total Payments (Principal + Interest)	\$ 66,189 (B)
Down payment (30% of cost)	\$ 22,485 (C)
Total Cash Payment (A+B+C)	\$ 93,171 (D)
Vehicle Replacement Factor (66% Of Bus Cost	\$ 49,467 (E)
Total (D+E)	\$142,638 (F)
Yearly PVA (F divided by 10 years)	\$ 14,264

⁵ School bus capacities are lower than manufacturer stated capacities and differ depending on the school. For example, the capacity for combined high school/middle school and elementary school routes is 52 and 60 students, respectively based on 72-passenger buses (manufacturer stated capacity).

⁶ The CCPS PVA formula is unique and not the same as the PVA formula used by other local school systems in Maryland.

⁷ The vehicle replacement factor is in lieu of a return on investment (ROI) percentage. Based on the 10-year return period used for the CCPS PVA calculation, this works out to 6.6 percent per year. The prime rate, which we have used to determine reasonableness of ROI in other school systems, has fluctuated between 3.25 and 9 percent since 2000. Therefore, the vehicle replacement factor used by CCPS appears reasonable.

on 10 years; however, CCPS pays this figure annually for the 12-year useful life of the bus, resulting in at least two additional years of PVA payments. See an example of the calculation for the 2008-2009 school year in Figure 1 on the preceding page.

In addition, CCPS has continued to pay the full PVA amount for buses that remain in service past 12 years. Current State law allows school buses to operate for up to 15 years as long as the buses meet certain safety standards. For fiscal year 2010, two contractors are operating buses in the 13th year of service and continue to receive full PVA payments.

To estimate the financial impact to CCPS of paying the extra two years of PVA payments (based on the 10-year calculation), we calculated the PVA for each of the past six years (2004 to 2009) using the 12-year useful life of the bus in CCPS' PVA formula and compared our PVA results to CCPS' PVA amounts that were calculated using a 10-year useful life. (We could not determine the impact for buses placed in service prior to 2004 due to a lack of documentation for the CCPS rate calculation.) Compared to our PVA results, over the 12-year life of the 22 new buses put into service by contractors since 2004, CCPS will pay out \$549,100 more than if a 12-year cost reimbursement rate had been used. Of the \$549,100, \$159,400 was paid through fiscal year 2009 and, unless changes are implemented, the remaining \$389,700 will be paid out during fiscal years 2010 to 2020. This analysis does not include the effects for any new bus purchases that may be made after fiscal year 2009, payments made for buses maintained in service after the 12th year, and the lost interest income that could have been earned by CCPS on the excess amounts paid.

Payments related to maintenance costs may be excessive –

In addition to the PVA amounts, CCPS payments to contractors also include a per mile fee for maintenance costs. Our review of the maintenance costs disclosed that such costs were not supported (based on documented estimates of routine maintenance and other repair costs, for example) and that payments to contractors may be excessive. Based on CCPS expenditure records, costs for maintenance on CCPS-owned buses were \$.15 per mile for fiscal years 2008 and 2009. However, according to the CCPS contract, contractors were paid \$.74 per mile during fiscal year 2008, with an annual increase of \$.01

through fiscal year 2012. Using actual bus mileage for fiscal years 2008 and 2009, we estimated that maintenance related payments to the contractors exceeded what the payments would be based on actual CCPS cost experience by more than \$500,000 each year. According to a comparison of costs for these school systems using contractors to provide transportation services, which was prepared by another school system, CCPS' payments for maintenance and operating costs were fourth highest in the State.

Performance Should Be Measured

CCPS did not have a formal performance measurement system for its transportation services. Performance measures that could be considered include average bus occupancy, annual operational cost per student, frequency of vehicle breakdowns per 100,000 miles, and the percentage of students delivered within established ride times. Performance measures would serve as a tool that management and the Board could use to monitor transportation operations and to ensure accountability.

Recommendations

9. CCPS should establish formal, comprehensive bus routing procedures and fully use its existing automated routing software to help plan more efficient services.
10. CCPS should reevaluate the appropriateness of PVA and maintenance amounts paid to bus contractors.
11. CCPS should establish a performance measurement system for its transportation services.

Chapter 9

Food Services Operations

CCPS had implemented a number of best practices, which include participation in the United States Department of Agriculture (USDA) commodity program, and membership in various food-purchasing cooperatives. CCPS also had adequate procedures in place to identify students eligible for the federal national school meals programs. However, we found that controls over the procurement, ordering, and receiving of goods and supplies need to be improved. In addition, CCPS needs to enhance its use of performance measures to help ensure efficient operations.

Background

CCPS has nine cooking cafeterias to provide meals to its 10 schools. Food and related supplies are received and stored at each school. In fiscal year 2009, CCPS had 57 cafeteria employees (30 full-time and 27 part-time) and food service sales totaled approximately \$872,000. According to the audited financial statements, food service operation expenditures exceeded revenues by \$87,000 for fiscal year 2009. As noted in Table 4 on the next page, the fiscal year 2008 cost per meal for CCPS was similar to that of other similarly sized school systems in Maryland. See Table 5 on page 46 for information regarding fiscal year 2009 CCPS food services.

Table 4
Comparison of Cost per Meal
Fiscal Year 2008 (unaudited)

School System	Total Expenditures ^①	Meals Served				Cost per Meal
		Breakfast	Lunch	A La Carte	Total	
Caroline County	\$ 2,326,469	120,679	597,631	140,373	858,683	\$ 2.71
Garrett County	2,781,728	162,334	477,837	220,040	860,211	3.23
Worcester County	2,494,032	159,222	556,760	173,305	889,287	2.80
Dorchester County	2,276,201	219,857	497,064	131,750	848,671	2.68
Queen Anne's County	2,367,861	80,111	596,558	237,220	913,889	2.59
Average of Comparable Schools	\$ 2,479,955	155,381	532,055	190,579	878,014	\$ 2.83

Note: Breakfast sales represent meal equivalents based on actual meals and sales using National Food Service Management Institute guidelines.

① Expenditures do not include USDA commodity costs (which are included in fiscal year 2009 expenditures in Table 5 on page 45) as this information was not included in the source documents received from MSDE.

Sources: Local Education Agencies, MSDE Fact Book

Certain Best Practices Were in Place

CCPS implemented several practices to contain food

services costs – These measures helped to increase operational efficiency and reduce food supply and material costs.

- CCPS maximized the use of convenience foods (heat and serve items) to reduce the labor needed to prepare foods.
- CCPS participated in the USDA commodities free food program. According to the audited financial statements, \$119,398 in USDA commodities was received in fiscal year 2009.
- CCPS participated in two food purchasing cooperatives to maximize its buying power and to reduce food costs. According to CCPS records, payments to the cooperative-selected

wholesale vendors totaled \$716,000 during fiscal year 2009 (out of \$990,000 in total food related expenditures).

- CCPS used a number of methods to reduce waste including monitoring menus, adjusting food production, standardizing serving sizes and recipes, and reheating certain leftover items.

CCPS used several best practices to encourage participation in the federal free and reduced-price meal programs – CCPS used several best practices to encourage participation in the free and reduced-price meal programs. These practices include the use of a family application process – instead of individual student applications – to simultaneously qualify more students for the programs, and the use of a point-of-sale system accessed by a student ID number (regardless of the method used to purchase a meal) to eliminate the easy identification (and any perceived stigma) of students in the free and reduced-price meal programs. For fiscal year 2008, 78 percent of CCPS students eligible to receive free lunches and 73 percent of the students eligible to receive reduced-price lunches actually participated in the programs. These participation rates were consistent with those of similarly sized school systems (which had average participation rates of 81 percent and 73 percent for free and reduced-price meals, respectively).

Table 5
Food Service Activity for Fiscal Year 2009

Average Cost per Meal \$ 3.02

Number of Meals Served:

Breakfast	Paid	18,084	
	Free	93,294	
	Reduced Price	<u>12,873</u>	124,251
Lunch	Paid	217,822	
	Free	282,824	
	Reduced Price	<u>76,178</u>	576,824
Meal Equivalents			
Snacks			7,441
Ala Carte Sales			<u>76,036</u>
Total Meals Served			<u><u>784,552</u></u>

Schools	10
Kitchens	9
Employees	
Full-time	30
Part-time	27

Revenues:

Federal	Cash payments	\$1,227,225	
	USDA Commodities	<u>119,398</u>	\$1,346,623
Sales and other sources			890,084
State aid			<u>47,042</u>
Total Revenue (all sources)			\$2,283,749
Total Expenditures			<u>2,370,973</u>
Excess of Revenues over Expenditures			<u><u>\$ (87,224)</u></u>

Sources: MSDE Fact Book, CCPS Food Service Reports and Fiscal Year 2009
Audited Financial Statements

CCPS Needs to Improve Controls Over Purchasing of Food-Related Items

Controls over the ordering and receiving of food materials

and supplies need to be improved – Cafeteria managers at each school are responsible for the ordering and receipt of all supplies. All items received are stored at the individual schools. Our review of purchases from the five largest vendors totaling \$846,000 disclosed a total of \$366,000 was purchased from four of these vendors without any review or oversight by the central food services office. Since the employees responsible for ordering also signed that all items ordered were subsequently received, there was a lack of assurance that all items purchased were necessary and actually received and used at the schools.

Procurements were not always covered by a contract or

were not in agreement with contract terms – Our testing of ten invoices from the five previously mentioned vendors disclosed that purchases from one of the vendors were not covered by an approved contract even though payments to the vendor for fiscal year 2009 totaled \$67,000. In addition, a contract with another vendor was not approved by the Board as required. Current procurement procedures require Board approval for all contracts exceeding \$25,000.

Invoices received from the one vendor that did not have a contract with CCPS were not reviewed to ensure that prices charged agreed to the vendor's price list. For example, our review of invoices processed for one school, totaling \$12,500, disclosed that the school paid \$800 more than the vendor's price list for goods received. In addition, CCPS often purchased items not included on the vendor's price list. These same invoices included items totaling \$400 that were not included on the price list, and as a result, CCPS could not ensure that it received the best price for these items.

Performance Measures Should Be Used to Help Assess the Efficiency of Food Service Operations

Although CCPS generated certain performance measures on a periodic basis, there was no documentation that this information was used in any meaningful way to improve food service operations. Specifically, CCPS calculates meals per labor hour (MPLH - a common efficiency indicator) as well as overall breakfast and lunch participation. While we were advised that this information was used to modify operations (such as reallocation of staff), such determinations were not documented. Industry guidelines recommend a measure of 15 to 22 MPLH depending on the daily meal equivalents (that is, total meals, snacks and ala carte sales) and type of cafeteria (conventional vs. convenience). However, we calculated that, for the 2008-2009 school year, only two schools exceeded 17 MPLH (which is the CCPS minimum benchmark for performance) and four schools had a measure of less than 15 MPLH.

CCPS did not have other comprehensive performance and cost-efficiency measures (such as cost per meal, and free and reduced-price meal participation) in place to provide management with information to evaluate the entire food service program. Best practice models recommend the use of benchmarks and goals to help school districts identify ways to increase efficiency and reduce costs. Such a system should include realistic, justifiable standards and goals, with a process for periodic measurement and analysis of results.

Recommendations

12. CCPS should segregate the duties of ordering and receiving food service items. CCPS should also ensure that purchases receive prior approval of independent supervisory personnel. CCPS should also enter into formal, competitively bid, and Board-approved contracts with significant suppliers of food service items, in accordance with CCPS policies.
13. CCPS should enhance its performance measurement system to assist in monitoring the efficiency of food service operations.

Chapter 10

School Board Operations and Oversight

Oversight of CCPS operations includes a comprehensive budget process. The Board also receives regular financial updates, including monthly budget variances, to assist it in monitoring the efficient use of funds. The Board contracts with a certified public accounting firm to conduct the annual financial statement audit and the federal Single Audit. In addition, CCPS has a detailed ethics policy and had established a process to independently investigate ethics issues and complaints.

Several opportunities exist for the Board to improve operations and oversight. For example, the Board should develop and adopt policies governing a number of areas related to financial and support services. In addition, the Board did not establish and routinely monitor key financial and operational performance measures. Finally, the Board should consider establishing an internal audit function to act as an independent reviewer of CCPS operations for the Board and should consider establishing a confidential hotline as a mechanism for the reporting and investigation of suspected fraud.

Background

CCPS is governed by a five-member board (not including two non-voting student representatives) appointed by the Governor. By law, the members must be residents of Caroline 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 independent audits of the CCPS financial statements, federal programs, student activity funds, and cafeteria funds.

The Board is ultimately accountable for the success of CCPS in providing the children of Caroline County with a quality education, while wisely spending local, State, and federal funds. Following is the CCPS stated policy on educational philosophy according to the CCPS website:

Mission Statement

In partnership with family and the community, the Caroline County Public Schools will motivate and challenge students to attain educational excellence.

Board of Education Goals

- Maximize achievements for all children
- Effective involvement of all stakeholders in communication, information and policy matters
- Effective recruitment, retention, development and training for all staff
- Create and sustain a school climate conducive to the safety and security of students and staff
- Acquire resources necessary to achieve the priorities and mission of the school system

Certain Oversight Had Been Put in Place Regarding CCPS Operations

The CCPS Board uses a number of methods to oversee the operations of CCPS:

- The Board is actively involved in the development of the budget.

- The Board receives monthly expenditure data including budget variances.
- The Board hires an independent certified public accounting firm to perform audits of its financial statements and federally funded grant programs, and annually meets with that firm to review the results.

The Board adopted a detailed conflict of interest and ethics policy to cover Board members and all CCPS employees. CCPS established an Ethics Panel (composed of three individuals appointed by the Board) to interpret ethics policies and provide advice on policy implementation as well as to review and rule on any reported complaints of ethics violations. The policy identifies a number of supervisory employees and Board members required to file annual financial disclosure statements. We verified that all employees required to file disclosure statements filed the statements for calendar year 2008.

The Board Should Establish Formal Policies in a Number of Financial Related Areas

The Board needs to develop and adopt policies governing a number of areas related to financial and support services. Based on our review of the Board's policies and our audit work in a number of audit sections, we noted that the Board had not provided formal guidance in the following areas:

- Procurement
- Transportation
- Inventory
- Debt Management

The Government Finance Officers Association (GFOA) recommends that an entity should document its accounting policies and procedures and that these documents should be reviewed and updated on a periodic basis. The GFOA also has identified financial and operational best practices that should be considered when developing such policies and procedures.

The Board Should Consider Additional Steps to Assist It in Governing CCPS

CCPS should consider establishing an internal auditor

position – CCPS does not have an internal auditor. Although the System has an employee who performs certain internal audit-like functions (specifically, reviews of certain student activity fund transactions) as part of other job responsibilities, this employee does not communicate results of such work to the Board or senior school system management. The use of an internal auditor, independent of school system management, is a recommended best practice of the 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 CCPS system of internal control, such as unnecessary and unrestricted access to automated disbursement and payroll systems. While CCPS may not be able to justify an internal audit position based on its size (as the sixth 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 (similar to the work done by the auditor for student activity funds as commented upon in Chapter 1).

The CCPS Board should consider establishing a

confidential hotline and a whistleblower policy – We noted that a process, such as a confidential hotline, had not been implemented to enable employees and others to confidentially report operational concerns and suspected fraud, waste, and mismanagement. In addition, a whistleblower policy had not been established. Typically, such confidential mechanisms bring to light matters and issues previously unknown and unsuspected by organizational managers. If such a process were established, in conjunction with the establishment of a whistleblower policy and an internal audit function, the internal auditor could conduct the initial reviews of information received via the hotline or direct the information to other appropriate officials, such as law enforcement.

The Board should receive and review key financial and operational related performance measures – The Board had not adopted any key performance indicators related to the financial operations of CCPS, with the exception of actual expenditure data, as previously noted. Without this information, it is difficult for the Board to evaluate the progress of its budget and Master Plan. Examples of useful performance measures include cost comparisons, such as facility cost per student and transportation costs per bus rider. When implemented correctly, performance measures can assist in decision-making processes, such as allocating resources and budgeting, and monitoring departmental effectiveness and efficiency.

Recommendations

14. The Board should adopt policies to govern and monitor financial and support services operations.
15. The Board should enhance its oversight of CCPS operations. For example, the Board should consider establishing an internal audit function or expanding the scope of work performed by its independent auditor. The Board should also consider establishing a hotline and whistleblower policy for the confidential reporting of operational issues and suspected fraud, waste, and mismanagement. Furthermore, 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.

Chapter 11

Other Financial Controls

This chapter addresses the management of risk, cash, and debt (for example, long-term lease agreements) within CCPS. CCPS has practices in place to govern cash and risk management. However, certain assets were at risk at year-end, and CCPS did not have written policies governing its use of long-term liabilities, such as financing agreements, and had not established sufficient controls to ensure the propriety of health care costs.

Cash and Risk Management Policies Were in Place

CCPS used a combination of commercial insurance and self-insurance to manage its risks. CCPS insured its liability, property, and workers' compensation coverage through participation in the Maryland Association of Boards of Education (MABE) Group Insurance Pool and the MABE Workers' Compensation Group Self Insurance Fund. The notes to the fiscal year 2009 audited financial statements stated that settled claims had not exceeded coverage in any of the past three fiscal years.

With respect to cash management, CCPS invested its cash in the Maryland Local Government Investment Pool, in accordance with Board approved policies. According to its audited financial statements, as of June 30, 2009, cash and investments totaled \$7 million.

Certain Assets Were At Risk

Although CCPS had adopted a cash management policy (as previously noted) that requires CCPS to invest all funds in accordance with State and county law, certain funds were not adequately collateralized. According to the System's audited financial statements, funds totaling \$96,000, \$629,000, and \$21,069 for fiscal years 2007, 2008, and 2009, respectively, were not fully insured or collateralized at year-end. According to agency personnel, this condition is temporary and results from transfers of funds between accounts to cover routine operating expenses of the school system.

CCPS Needs to Develop a Policy on Long-Term Lease Obligations

CCPS has not adopted a policy to govern its use of long-term lease obligations to finance operations, as recommended by the GFOA. Long-term liability levels, and the related annual costs, are important long-term obligations that must be managed within available resources. By law, CCPS is not authorized to issue bonds or similar debt instruments to finance capital or operational needs. CCPS did use capital leases to finance the acquisition of energy equipment and vehicles. According to CCPS audited financial statements for fiscal year 2009, the present value of capital lease payments to be made through 2018 was \$1.7 million, with approximately \$361,000 due within one year.

CCPS Should Take Steps to Ensure the Propriety of Health Care Costs

CCPS provides health care coverage to employees and eligible dependents through the Eastern Shore of Maryland Educational Consortium Health Insurance Trust. The Trust contracts with a health care provider and each of the members pays premiums directly to the provider. As CCPS is self-insured, to the extent that premiums paid each year exceed actual and anticipated claims, the school system is eligible for a refund (CCPS would reimburse the provider to the extent that claims exceeded premium payments for the year). For fiscal years 2007 and 2008, CCPS

received refunds of \$492,000 and \$535,000, respectively, based on payments to the Trust of \$4.8 million and \$5.1 million for 2007 and 2008. The fiscal year 2009 settlement has not been completed.

The Trust, on behalf of the members, contracted with a third party to conduct a claims review to assess the insurer's administration of the Trust's self-funded health plans and compliance with the administrative agreement governing the plans. However, neither the Trust, nor CCPS, verified the authenticity of program participants and their listed dependents. We were advised that as of September 30, 2009, CCPS provided health care coverage to 880 employees and retirees (not including dependents).

Recommendations

16. CCPS should work with its financial institution to ensure all funds are properly insured or otherwise secured by adequate collateral.
17. CCPS should develop and adopt a formal policy governing long-term obligations.
18. CCPS should institute processes to verify the authenticity of health care program participants and their listed dependents.

Audit Scope, Objectives, and Methodology

Scope

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Caroline County Public Schools (CCPS). 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 CCPS procedures and controls were effective in accounting for and safeguarding its assets
2. To evaluate whether the CCPS 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 CCPS 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 CCPS. We also interviewed personnel at CCPS, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate).⁸ Our audit procedures included inspections of documents and records, and observations of CCPS 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, 2008 through June 30, 2009. For our audit work on revenue and federal grants, we primarily relied on the results of independent audits 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. We also 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. For comparison purposes, information provided in this report was generally limited to those Maryland school systems of similar sizes, based on student enrollment and/or system

⁸ During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

budget. In many cases, this information was self-reported by the school systems. The data 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 CCPS, the results of other auditors that we considered were reported in two distinct audit reports: one related to the administration of its federal grants and the other, the management letter from the audit of its Comprehensive Annual Financial Report.

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 CCPS federal financial assistance programs for the evaluation of internal controls and for compliance with federal laws and regulations and of the CCPS financial statement 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

CCPS 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 CCPS that did not warrant inclusion in this report.

Fieldwork and CCPS Responses

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

APPENDIX

Caroline County Public Schools

204 Franklin Street
Denton, Maryland 21629



EDWARD W. SHIRLEY, Ed.D.
SUPERINTENDENT OF SCHOOLS



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April 21, 2010

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

Dear Mr. Myers:

This letter is in response to your draft performance audit report of Caroline County Public Schools. We appreciate all of the areas in which you recognize us for already implementing best practices and the fact that several areas contained no recommendations.

Please note that there is an error on page five (5) of the report. In the Statistical Overview section, the first paragraph, third sentence should read: For the 2009-2010 school year, CCPS had 10 schools, consisting of 5 elementary schools, 2 middle schools, 2 high schools, and 1 **career & technology** school.

Specific responses follow each of your recommendations:

Revenue and Billing Cycle

1. Recommendation: CCPS should implement internal controls over student activity funds as recommended by its certified public accounting firm.

Response: We have been working diligently toward strengthening these internal controls to include the following actions: reviewed importance of and school administrator responsibilities at a recent A&S meeting; issued a detailed memo to school bookkeepers in an effort to reinforce importance of and compliance with existing controls; increasing frequency of surprise internal audits; implemented new cash receipts reporting forms; will be releasing new school activity funds manual later this spring. In addition, the independent auditor recommendation was primarily focused on one school and a subsequent audit of that school's funds has resulted in appropriate personnel actions being taken.

Procurement and Disbursement Cycle

2. Recommendation: CCPS should update its existing procurement policies to reflect actual practices and current State law, as well as sole source procurements. In addition, CCPS should enhance its existing procurement policies to require that contract awards and sole source awards be reported to and approved by the Board when the awards exceed a predetermined dollar value (such as \$25,000).

Response: We have always maintained the practice of not taking piggyback bid purchases to the Board for approval as long as the purchase amount was included as part of the approved budget. What we have not done

¹ **Auditor's Comment:** The audit report was appropriately modified.

though is updated our policies to reflect this long standing practice. We piggyback on a lot of State and National bids, which have already been legally approved and authorized. Over the next few months we will be reviewing our existing policies relative to purchasing in an effort to comply with this recommendation. Our goal is to complete this process by September, 2010.

3. Recommendation: CCPS should improve its controls over purchasing and the invoice payment process by segregating incompatible functions and by restricting access to critical system functions to those who need those capabilities to perform their job functions. In addition CCPS should establish a process to ensure that a proper and independent review of all disbursement checks and bank reconciliations is performed. CCPS should also maintain contract pricing information on file, including the applicable contracts, and verify the accuracy of vendor billings. Finally, CCPS should ensure that the justification for all sole source contracts is documented and that contracts and related invoices are sufficiently detailed to support the services to be performed and subsequently paid for.

Response: Most of these 'loose' controls are due to the new software and the fact that at the time of audit we were still conducting training and cross training. These controls have been locked down. In addition, a workgroup has been established and is working on realignment of job duties and responsibilities to maximize the segregation of duties and to ensure that internal controls are adequate. We anticipate that this work will be completed by June 30, 2010. We have implemented new procedures within the finance office which ensure that all disbursement checks and bank reconciliations are independently reviewed in a timely fashion. As we look at updating Board policies relative to sole source and piggyback purchases, the regulations for those policies will address the requirement that all related contract pricing be kept on file and referenced when invoices are received to ensure that pricing is accurate and that all justification relative to the sole source contract be maintained in the file. Finally, all contracts will be updated to include language which requires the vendor to submit sufficiently detailed invoices.

Human Resources and Payroll

4. Recommendation: CCPS should restrict critical system access capabilities to those employees whose job duties require such access, separate incompatible duties, and ensure that all transactions (such as adding an employee or changing salaries) are subject to independent review and approval.

Response: As previously stated in response to recommendation number three, this is due to the new payroll software and the fact that we were still training at the time of the audit. These controls have been locked down. In addition, a workgroup has been established and is working on realignment of job duties and responsibilities to maximize the segregation of duties and to ensure that internal controls are adequate. We anticipate that this work will be completed by June 30, 2010.

Inventory Control and Accountability

5. Recommendation: CCPS should adopt formal policies governing all equipment, and should ensure that the related detailed equipment records are properly maintained and that all equipment items are properly identified as CCPS property.

Response: This represents another policy that needs to be updated and the corresponding regulation will ensure that this recommendation is properly addressed. We anticipate that this work will be completed by September, 2010.

Information Technology Services

6. CCPS should develop appropriate comprehensive plans to address security practices and disaster recovery. CCPS should also properly safeguard its computer operations, by storing critical back-up files at a secure off-site location.

Response: We currently do not have a written comprehensive plan, however we do have documented backup procedures and do have backup equipment on hand in case of machine failure. Although we currently do store back-up files at an off-site location, it was determined that the site was not secure and therefore measures are being taken to change the site to one that is secure. We will have the secure site operational before September, 2010.

7. CCPS should implement appropriate security measures to safeguard its applications and data systems by improving account and password protection, and logging all significant security-related activity for review. CCPS should also ensure that databases used are updated with all critical security upgrades in a timely manner.

Response: To the extent that the software allows us to improve account and password protection as discussed during the audit, this will be complied with. We will also strive to do a better job of staying on top of critical system upgrades.

Facilities Construction, Renovation, and Maintenance

8. Recommendation: CCPS should develop a performance assessment system for maintenance and custodial operations and include in its work order system a comparison of actual to budgeted resources. CCPS should also document that preventative maintenance was performed to ensure appropriate and timely maintenance is provided to all facilities. Finally, CCPS should enhance its current energy management practices to include specific goals and consider implementing a school incentive program to encourage lower energy usage.

Response: Our existing work order system was developed in house. We have already had two internal meetings on expanding the features of the existing system to adequately address these recommendations. We anticipate that many of these new features will be operational by September, 2010. The establishment of an energy conservation incentive program is on our 'to do' list, however the contract that we have with Energy Education, Inc. is very specific as to program direction and goals. We are currently in our second year of the program with Energy Education, Inc. Once this second year's data has been finalized, we will look to implement an incentive program, using the first two years of data as the baseline.

Transportation Services

9. Recommendation: CCPS should establish formal, comprehensive bus routing procedures and fully use its existing automated routing software to help plan more efficient services.

Response: We will be conducting a thorough review of our existing transportation policies as they relate bus routing. Most of the delay associated with not using the automated routing software is due to the unfortunate passing of our former driver trainer. Transportation staff members are currently receiving training on the software so that we can utilize the software for next school year.

10. Recommendation: CCPS should reevaluate the appropriateness of PVA and maintenance amounts paid to bus contractors.

Response: The basics of this formula have been in place for over 20 years. The 10 vs. 12 was and continues to be a negotiated item. The bus contractors will argue that this difference in years represents a portion of the profit factor that they need in order to make it a viable business venture. Regardless, the report reflects the fact that our costs are very comparable to other school systems, and are below the average.

11. Recommendation: CCPS should establish a performance measurement system for its transportation services.

Response: We will investigate the costs associated with implementing this suggestion, however given our current fiscal situation implementation of such a system may be delayed because of a lack of resources.

Food Service Operations

12. Recommendation: CCPS should segregate the duties of ordering and receiving food service items. CCPS should also ensure that purchases receive prior approval of independent supervisory personnel. CCPS should also enter into formal, competitively bid, and Board-approved contracts with significant supplies of food service items, in accordance with CCPS policies.

Response: We will review the existing job duties and responsibilities within food services in an effort to accomplish greater segregation of duties. We will also review our internal procurement review process to ensure that purchases are independently approved. We will also review prior year expenditures in an effort to identify types of expenditures that justify entering into competitive bids. We anticipate that this work will be completed prior to September, 2010.

13. Recommendation: CCPS should enhance its performance measurement system to assist in monitoring the efficiency of food service operations.

Response: We are working on reducing the number of staff hours per cafeteria in an effort to increase the number of meals per labor hour. To this end, for this fiscal year, as vacancies are created through normal attrition, each position is carefully reviewed relative to the overall operation to determine whether the position needs to be filled or eliminated. As a result several positions have been eliminated this school year, thus making the food service operation more efficient. We will also investigate the availability of comparable performance data from other State of Maryland school systems in an effort to ensure that our program remains as efficient as possible.

School Board Operations and Oversight

14. Recommendation: The Board should adopt policies to govern and monitor financial and support services operations.

Response: Many of the previous recommendations tie directly to this recommendation and will be addressed within a timely fashion. The Board of Education considers their responsibilities relative to fiscal and support services as very serious and feels that they do receive timely and accurate information relative to these functions. However, the Board agrees that many of the policies which govern these areas are outdated and in some instances lacking.

15. Recommendation: The Board should enhance its oversight of CCPS operations. For example, the Board should consider establishing an internal audit function or expanding the scope of work performed by its independent auditor. The Board should also consider establishing a hotline and whistleblower policy for the

confidential reporting of operational issues and suspected fraud, waste, and mismanagement. Furthermore, 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.

Response: The Board agrees in concept to the idea of establishing an internal audit function but implementation of this recommendation will take fiscal resources that simply don't exist. The Board did add an accountant position a few years ago. One of the primary job duties of this position is internal, periodic audits of our school activity funds; the area where we are most susceptible to fraud due to the high volume of cash. The Board will discuss and investigate the ability to establish a hotline and whistleblower policy as well as comprehensive performance measures for the various support services listed.

Other Financial Controls

16. Recommendation: CCPS should work with its financial institution to ensure all funds are properly insured or otherwise secured by adequate collateral.

Response: We agree that there are times, however infrequent, in which the amount of funds that we have at our local bank exceed the amount of pledged collateral. Please note that this is very infrequent but also understand that we realize and agree that we need to work toward an arrangement with our bank to ensure that this never happens.

17. Recommendation: CCPS should develop and adopt a formal policy governing long-term obligations.

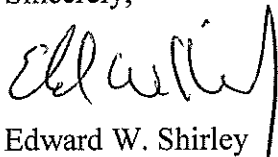
Response: As we look at updating a variety of existing policies and regulations relative to support services, many of which have been discussed in previous recommendations, we will also look at developing a policy relative to long-term obligations.

18. Recommendation: CCPS should institute processes to verify the authenticity of health care program participants and their listed dependents.

Response: We agree that this is an area that needs to be reviewed and have already contacted our insurance consultant relative to performing an eligible dependent audit, received the cost proposal and will be conducting the audit over the course of the next few months. Completion of this recommendation will be before September, 2010.

Thank you again for the opportunity to respond to your recommendations. Should you have any questions, please feel free to contact Mr. Milton Nagel or me.

Sincerely,



Edward W. Shirley
Superintendent of Schools

Cc: Board of Education
Milton Nagel, Chief Operating Officer

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