

# Financial Management Practices Audit Report

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## Prince George's County Public Schools

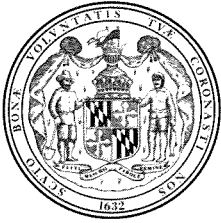
February 2014

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

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Karl S. Aro  
Executive Director

February 19, 2014

Thomas J. Barnickel III, CPA  
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee  
Delegate Guy J. Guzzone, 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 Prince George's County Public Schools (PGCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. The objectives of this audit were to evaluate whether PGCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

Our audit disclosed that PGCPS needs to implement steps to improve cost effectiveness and efficiency, especially as it relates to its student bus transportation. We found that PGCPS did not use its automated bus routing software to ensure the efficient use of its fleet of 1,146 buses. Furthermore, since the data contained in the routing system appeared to be unreliable and other manual processes were not effective, PGCPS was unable to assess bus utilization. A December 2011 task force report indicated that the average utilization of PGCPS buses during the 2010 – 2011 school year was 48 percent of capacity. Bus transportation costs totaled \$96 million during fiscal year 2011.

PGCPS was unable to provide key documentation related to energy performance contracts with two vendors. For example, PGCPS could not provide schedules of project completion or document how cost savings generated by these projects would be calculated to ensure that vendor guaranteed savings of \$184.4 million are achieved. These contracts were designed to improve energy efficiency and lower costs to PGCPS and the resulting savings were to be used to pay back funds borrowed to pay for the contracts.

PGCPS needs to enhance internal controls and accountability for certain financial operations including human resources and payroll, cash receipts, information system security, and equipment control. For example, PGCPS could not substantiate that human resources and payroll transactions were reviewed by supervisors. We noted a number of payroll overpayments and a lack of support for time worked, including overtime, by certain employees. Furthermore, the System's Before and After Care Program coordinators had complete control over the related cash receipts, which totaled \$7.5 million in fiscal year 2012. Finally, PGCPS had not implemented an effective process to ensure that the access capabilities assigned to employees on the automated financial system were appropriate based on their duties and provided for effective internal controls. Consequently, certain employees had been assigned system capabilities which enabled them to perform incompatible functions pertaining to purchasing and invoice processing.

PGCPS needs to establish or modify existing policies. PGCPS did not have a policy addressing the methodology to be used to calculate employee leave payouts. In addition, its property control manual did not specify the frequency of physical inventories of equipment. Also, PGCPS should ensure compliance with existing policies, including approval of requests to procure certain services without competitive procurement.

PGCPS has taken various actions to improve efficiency and controls over food services. For example, PGCPS has taken steps to help reduce food service operating deficits by implementing certain practices such as monthly financial reviews of individual cafeteria operations.

An executive summary of our findings can be found on page 5 of this report. PGCPS' response to this audit is included in Appendix A to this report. Auditor comments related to certain of the PGCPS' responses can be found in Appendix B. We wish to acknowledge the cooperation extended to us during our audit by PGCPS.

Respectfully submitted,

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

Thomas J. Barnickel III, CPA  
Legislative Auditor

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

# **Executive Summary**

## **Legislative Audit Report on the Prince George's County Public Schools (PGCPS) February 2014**

According to data compiled by the Maryland State Department of Education, PGCPS ranks 2<sup>nd</sup> in student enrollment among the 24 public school systems in Maryland. In fiscal year 2012, PGCPS had a total full-time regular and special education pupil population of 123,833 at its 197 schools. PGCPS' operating and capital expenditures totaled \$1.8 billion during that year.

The Office of Legislative Audits has conducted its second audit of PGCPS' financial management practices. The results of the first audit were issued in a report dated January 10, 2006. Our current audit identified a number of opportunities for PGCPS to improve internal controls, to adopt more cost-effective processes, and to enhance policy direction.

### **PGCPS Needs To Improve Internal Controls and Accountability in Certain Financial Areas**

Although proper internal controls had been established in certain financial areas, such as for food service contracts and cash receipts at the central office, PGCPS needs to improve internal controls and accountability in certain other financial areas. For example, PGCPS had not implemented adequate controls over its human resources and payroll. PGCPS could not substantiate that reports of human resource and payroll changes processed were routinely generated from the system, and that all such transactions were reviewed by supervisors. Our review disclosed that PGCPS made a number of overpayments to employees. We also found that over 300 supervisors had the ability to enter and approve timecard changes in the automated system. PGCPS did not implement controls to ensure that Transportation Department payroll, including overtime, was accurate. The Department did not use a standardized process (such as time clocks) to record time worked by drivers and attendants. Our tests identified a lack of support for certain actual hours worked, including overtime hours. For fiscal year 2012, transportation payroll totaled \$87.5 million including \$6.4 million in overtime.

PGCPS had not implemented procedures and controls over cash receipts related to the Before and After School Care Program (these receipts totaled \$7.5 million in fiscal year 2012). At each of the 57 sites where PGCPS operated this Program, Program coordinators had complete control over the receipts and related records as they enrolled students, collected and deposited tuition payments, and maintained all of the related records.

PGCPS had not implemented an adequate process to ensure that employee access to its automated systems (which includes purchasing, accounts payable, payroll and personnel among other functionality) was proper. For example, PGCPS did not establish standard user profiles to ensure that assigned system capabilities were appropriate based on an employee's position or job duties. In addition, PGCPS could not generate security reports that readily identified users with critical system capabilities. We also noted that proper security controls were not implemented for its student management and financial databases, and intrusion detection and prevention tools were not used on its network.

#### **PGCPS Should Implement Certain Steps to Improve Cost Effectiveness**

PGCPS needs to take steps to enhance bus transportation efficiency. We found that PGCPS did not use its automated routing software to promote efficiency in the use of its bus fleet. Further, the accuracy of the data contained in the automated system appeared to be questionable. For example, the system showed that 388 regular bus routes had a travel time of zero minutes and that 22 bus routes were assigned 100 or more students exceeding the bus manufacturer's capacity (manufacturer capacity is generally 64 students). Consequently, current bus utilization could not be readily assessed. A December 2011 transportation task force report indicated that the average utilization of PGCPS buses during the 2010 – 2011 school year was only 48 percent of capacity.

PGCPS was unable to provide key documentation related to energy performance contracts awarded to two vendors. These contracts are designed to improve energy efficiency and lower costs to PGCPS which are used to pay back funds borrowed to pay for the contracts. Project completion schedules were not available and PGCPS could not provide documentation to show how cost savings would be calculated. The contracts provided for vendor guaranteed savings of \$184.4 million. In addition, although PGCPS employed a third-party contract monitor to oversee these contracts, we found two instances totaling \$6.5 million where PGCPS paid a contractor even when the monitor did not approve the related invoice. PGCPS did not document its rationale for paying these invoices. Finally, we found instances where the contractors improperly increased the invoiced amounts for certain project components between various phases of the contracts. Contract documents specifically prohibit such increases unless PGCPS requested additional services and approved the increases.

#### **PGCPS Needs to Establish or Modify Certain Policies and Ensure Compliance with Existing Policies**

PGCPS frequently did not comply with its existing policy that requires approval of requests to procure certain services without competitive procurement. Our



test of six such contracts totaling \$1 million found no documentation that the requesting department submitted a request to use sole source procurement or that such a request was approved as required.

PGCPS did not have a policy to address its methodology for calculating leave payouts to employees. Our recalculations of leave payments to employees using the payroll system daily pay rates found that the actual payments made by PGCPS always exceeded our calculations. We were not provided with documentation to indicate that the method PGCPS used had been approved by the Board or the Superintendent.

PGCPS' Property Control Manual did not specify the frequency of physical inventories of equipment, which was valued at \$171 million as of June 2012. PGCPS had not conducted a complete physical inventory of 198 of its 212 locations since 2007.



## **Background Information**

### **Oversight and Governance Change**

Until June 1, 2013, Prince George's County Public Schools (PGCPS) was governed by a local school board consisting of nine elected members (four elected on a county-wide basis and five elected from the different school board districts) and a non-voting student member. The Board selected the Chief Executive Officer (CEO) who is responsible for the overall administration of PGCPS.

Effective June 1, 2013, Chapter 147, Laws of Maryland, 2013, modified the governance structure of the Board and the methodology for appointing the CEO. The law increased the number of Board members from 10 to 14 (including 1 student member) and provided that 3 of the 4 additional members shall be appointed by the Prince George's County Executive. The remaining new member is appointed by the Prince George's County Council. The law also states that the County Executive shall appoint the chair and vice chair of the Board. The law further states that the PGCPS CEO is selected by the County Executive and must receive the approval of the State Superintendent of Schools before appointment by the Board. The current CEO was appointed effective August 1, 2013.

The State and the Prince George's County government provide the vast majority of PGCPS funding. 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 PGCPS to comply with the requirements and mandates of federal law. Prince George's County government also exercises authority over PGCPS through review and approval of PGCPS' annual operating and capital budgets.

### **Statistical Overview**

According to student enrollment records compiled by the MSDE, PGCPS ranks 2<sup>nd</sup> in student enrollment among the 24 public school systems in Maryland. From fiscal year 2001 to 2012, the total full-time regular and special education pupil population has decreased 7.4 percent from 133,723 to 123,833 pupils. For the 2012 – 2013 school year, PGCPS had 197 schools and other educational facilities, not including 7 public charter schools. According to PGCPS' audited financial statements and required supplementary information, expenditures totaled \$1.8 billion in fiscal year 2012. The largest expenditure category is salaries and wages, including benefits, which

accounted for 77 percent of total expenditures during fiscal year 2012. According to MSDE records, during fiscal year 2012, PGCPs had 15,961 full-time equivalent positions which consisted of 9,756 instructional and 6,205 non-instructional employees.

## **External and Internal Audits**

Annually, PGCPs 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 PGCPs federal grant programs (as required by federal regulations). The resulting financial statement and Single Audit reports for the 2012 fiscal year were issued October 1 and December 7, 2012, respectively.

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

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

Our audit included a review to determine the status of 41 of the 66 findings contained in our preceding audit report dated January 10, 2006 (the 66 findings resulted in 24 detailed recommendations in that report). We followed up on these 41 findings based on our current assessment of significance and risk relative to the audit objectives. We determined that PGCPs satisfactorily addressed 25 of these findings. The remaining 16 findings are repeated as 12 findings in this report.

## Findings and Recommendations

### Revenue and Billing Cycle

#### Background

Prince George's County Public Schools (PGCPS) revenues consist primarily of funds received from Prince George's County, the State, and the federal government. According to the PGCPS audited financial statements, revenues from all sources totaled \$1.9 billion during fiscal year 2012. In addition, PGCPS maintains school activity funds that are collected to operate various student activities, clubs, and school publications. Each school maintains detail records which separately account for the activity of each group or club. Each school also maintains its own separate bank account. For fiscal year 2012, school activity fund collections totaled \$15 million and disbursements totaled \$14.6 million. The collective June 30, 2012 activity fund balance based on the audited financial statements totaled \$11 million.

#### External and Internal Audits Disclosed No Reportable Conditions Regarding Revenue Activities

Due to the similarities between the work of the independent certified public accounting firm that audited the PGCPS financial statements and the objectives of our audit in this area, we placed significant reliance on the results of that audit for certain revenues and accounts receivable (for example, amounts due from other governments). The auditor's procedural review and testing disclosed no material weaknesses regarding significant revenue types or accounts receivable. Such testing included the most significant revenue types—the majority of which related to electronic fund transfers from other government entities.

The PGCPS internal auditor conducts audits of school activity funds.<sup>1</sup> The internal auditor's review and testing of the school activity funds at PGCPS schools identified some control weaknesses at certain schools that were addressed by school management. The internal auditor's reports we reviewed disclosed that internal control weaknesses identified were not prevalent. The internal auditor audits all schools' activity funds on a rotating basis and reports its findings to the school principals, central administrative staff, and the Board.

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<sup>1</sup> 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 funds are not included in the \$1.9 billion revenue total because the Board cannot use these assets to finance its operations.

### **Revenues Tested Were Properly Processed and Deposited**

Our test of revenues collected and deposited by the Central Treasurer's Office disclosed that the receipts tested were properly deposited and recorded. Specifically, our test of 20 receipts processed by the Central Treasurer's Office (totaling \$4.8 million) disclosed that receipts tested were deposited in a timely manner and accurately recorded in PGCPs' accounting records. In addition, we determined that supervisory personnel verified that all amounts received were deposited as documented by supervisory sign-off of the validated deposit slip.

#### **Finding 1**

**Segregation of duties over the enrollment, collection, and deposit functions in the Before and After School Care Program were inadequate.**

#### **Analysis**

Although PGCPs had implemented certain procedures and controls over cash receipts, controls over the Before and After School Care Program were not adequate to ensure all collections were deposited. Specifically, program coordinators had complete control over the cash receipts process since they enrolled individual students, collected and deposited related tuition payments, maintained all related student records, and reported deposit summaries to the central program office.

PGCPs operates a Before and After School Care Program at 57 sites. Participating families pay the tuition (using money orders, certified checks, or on-line payment). Separately, tuition subsidies from the local Department of Social Services are paid on behalf of eligible students to each site's program coordinator. Each location maintains a bank account and processes all program revenue. All Program records were maintained manually. Program coordinators forward certain documentation, including weekly reports of enrollment, validated deposit slips, and bank reconciliations to a central office that provides program oversight. We were advised that the central office performed periodic site visits to review documentation maintained by the program, such as enrollment and deposit documents, although due to staffing cut-backs the visits were no longer performed regularly.

Although supervisory personnel at the central office reviewed validated deposit slips and the bank reconciliations, these processes did not ensure that all collections for program services were received and deposited due to the lack of segregation of duties within the Program. According to PGCPs records, program revenue for fiscal year 2012 totaled \$7.5 million. A similar condition was commented upon in our preceding audit report.

### **Recommendation 1**

We recommend that PGCPS ensure a proper segregation of duties is established over the enrollment, collection, and deposit functions of the Before and After School Care Program (repeat). For example, PGCPS should establish centralized enrollment and independently reconcile program revenue to enrollment records on a periodic basis.

## **Federal Funds**

### **Background**

PGCPS receives funds pertaining to federal government programs that are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2012 expenditures of federal award funds totaled \$140 million, not including federally funded fee-for-service programs such as Medicaid reimbursement for special education services.

### **Single Audit Report Regarding Federal Grant Management**

Due to the work performed by the independent certified public accounting firm that conducted the Single Audit of the PGCPs federal grants and the objectives of our audit in this area, we relied on the auditor's work and results to reduce our audit scope and detailed audit work for federal funds.

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

PGCPS has established procedures to identify students eligible for Medicaid-subsidized services and to recover the related funds. For example, at the beginning of the year, and on a quarterly basis, PGCPs electronically matches Medicaid Assistance records to all enrolled students. In addition, PGCPs ensures that services provided are billed and recoveries subsequently received on a monthly basis. According to the fiscal year 2012 audited financial statements, reimbursement for Medicaid-subsidized services totaled \$4 million.

## **Procurement and Disbursement Cycle**

### **Background**

According to the audited financial statements, non-payroll disbursements totaled \$412 million during fiscal year 2012. PGCPs has a comprehensive procurement policy and related procedures. For example, the policy sets bidding requirements for contracts for purchases of goods, services, and instructional supplies. PGCPs uses an automated system to process requisitions, purchase orders, invoices, and payments to vendors. Under

PGCPS procurement procedures, requisitions are prepared by departments and are subject to on-line supervisory approval within the requesting departments. Purchase orders, contracts, solicitations, and bids are generally handled by the central purchasing department. The ordering department is to document the receipt of goods and services by signing a copy of the related purchase order and entering receiving report information into the automated system. After the finance office's accounts payable unit matches invoices to information on the automated system, vendor payments are processed.

## **Finding 2**

### **PGCPS did not ensure the propriety of certain disbursements.**

#### **Analysis**

PGCPS did not adequately ensure the propriety of certain disbursements. For example, we found the following conditions:

- PGCPS did not adequately monitor utility usage, such as electricity and water. Although a PGCPS employee monthly selects 10 utility invoices for review to determine the existence of any unusual charges, we were advised that the review does not include any comparison of month-to-month or year-to-year usage nor does it include a determination that the billed meter readings were reasonable. Ten invoices represents one percent of all utility invoices received on a monthly basis. Furthermore, PGCPS did not utilize available automated technology to monitor energy usage. Consequently, there is no system in place to summarize utility usage information in order to monitor usage and make effective decisions for enhancing efficient resource utilization. Certain State agencies and other public schools systems in Maryland have implemented automated technology to monitor utility usage and assess the reasonableness of billings. We were advised that a utility bill pay system that would provide this function is included in the energy performance contracts currently underway within the system. According to PGCPS records, it spent \$33.5 million on utilities during fiscal year 2012.
- PGCPS did not ensure that amounts billed were accurate or appropriate. Our test of 14 disbursements for transportation maintenance totaling \$6 million paid to five vendors disclosed that for 10 invoices, PGCPS could not support the amounts billed. Specifically, for these 10 invoices totaling \$813,000, PGCPS could not provide contract documentation that supported the invoice pricing.
- Similarly, PGCPS did not ensure amounts billed agreed to approved contract rates for wireless phone services. Additionally, PGCPS lacked independent approval for payment of the wireless service invoices and for



the issuance of wireless phones. PGCPs has approximately 1,600 active wireless phones.

Similar conditions were commented upon in our preceding audit report.

#### **Recommendation 2**

**We recommend that PGCPs**

- a. ensure the accuracy and propriety of all amounts invoiced including verification to supporting documentation (repeat), and**
- b. segregate duties to ensure independent approval exists for the issuance of wireless phones and the payment of the related invoices.**

#### **Finding 3**

**PGCPs did not maintain required documentation justifying the use of sole source procurements totaling \$1 million.**

#### **Analysis**

PGCPs did not document, as required, the rationale for the use of sole source procurements for any of the six consulting contracts selected for testing totaling \$1 million. Without this documentation, there is no assurance that the services procured were the best value available to the system, or that they could not be competitively bid.

According to PGCPs procurement procedures, certain specialized services (including consulting) do not have to be competitively procured, but may be procured as a sole source. However, these procedures require that for sole source procurements, the department requesting the service complete a bid exemption letter that lists all potential advantages of not soliciting bids for the contract. This letter is required to be submitted to the Director of Purchasing for approval prior to the procurement. A bid exemption letter was not on file for any of the contracts tested nor was there any written documentation explaining the reasons for selecting the contracted vendor.

According to PGCPs records, the value of contracts not bid during fiscal year 2011 and 2012 totaled approximately \$22 million. The lack of competitive procurements without adequate justification was commented on in our preceding audit report.

#### **Recommendation 3**

**We recommend that PGCPs maintain adequate documentation supporting sole source procurements, including the Director of Purchasing's approval of all bid exemption letters prior to the related procurement, as required (repeat).**

## Human Resources and Payroll

### Background

Payroll represents the largest single cost component in the PGCPs budget. According to the audited financial statements and PGCPs records, fiscal year 2012 salary, wage, and benefits costs totaled \$1.4 billion. According to MSDE reports, as of October 2012, PGCPs had 15,931 full-time equivalent positions, including 6,046 non-instructional positions. PGCPs uses an automated system to maintain human resources information, process payroll, and track employee leave balances. PGCPs has a centralized human resource office that processes personnel transactions (such as adding new employees and processing salary information). Payroll processing is also handled on a centralized basis. Individual departments and schools are responsible for processing automated timesheets and leave data for employees.

### Finding 4

**Internal controls over payroll and personnel transactions were not adequate in both the central office and at the various departments.**

### Analysis

Critical human resources and payroll transactions were not subject to a documented independent supervisory review. For example, we noted the following conditions:

- Required supervisory approvals over changes recorded in the automated human resources system, including personnel information, salary adjustments, and special payouts were not documented. We were advised that supervisory personnel reviewed all changes to the automated human resources and payroll system by comparing the changes to the initiating documents. However, this review was not documented and PGCPs could not provide us with evidence that a report of changes processed was generated from the system on a routine basis to identify all transactions needing supervisory review. Similar conditions were included in our preceding audit report.
- Our test of 20 payouts for employee separation totaling \$777,433 made in fiscal years 2010 and 2011 disclosed that in 19 of the 20 tested items, there was no documentation of independent supervisory review and approval for the transactions. For two of the test items, PGCPs overpaid the employees \$25,111 as a result of duplicate payments. As of September 2012, PGCPs had recovered \$7,100 out of \$9,553 related to one of the duplicate payments, but was not aware of the other duplicate payment of \$15,558 which we brought to their attention.

- PGCPs did not limit certain supervisors' user capabilities on the automated system in the individual departments. We found that 303 supervisors responsible for approving timecards and any changes also had the ability to enter timecard information. As a result, these employees had incompatible duties. We also found that supervisors often were responsible for approving a large number of employee timecards within the system each pay period. For example, 13 supervisors were individually responsible for approving between 200 and 300 timecards each pay period and 27 supervisors were individually responsible for approving between 100 and 200 timecards each pay period. We questioned several supervisors and they advised that they did not take any action to determine if the information recorded on the timecard was accurate prior to approval.

#### **Recommendation 4**

**We recommend that PGCPs**

- perform and document evidence of supervisory reviews of critical human resources and payroll transactions and ensure they are supported by appropriate documentation (repeat);**
- recover the identified duplicate payments;**
- separate the functions of recording and approving timecards within the automated system; and**
- review current supervisory responsibilities for approving timecards and, to the extent practical, reduce the number of timecards these individuals are responsible for approving.**

#### **Finding 5**

**PGCPs did not implement adequate processes to prevent or timely detect overpayments to employees.**

#### **Analysis**

A lack of adequate manual and automated processes at PGCPs contributed to overpayments to employees. We identified a number of missing processes for identifying and reporting events and conditions that could cause overpayments. Specifically, our testing and review of accounts receivable records and an internal audit report disclosed that overpayments were made under an assortment of circumstances such as paying contract employees for days not worked, improperly calculating leave payouts to terminated employees, not timely or accurately recording employee separation dates, making payments to employees on unpaid leave, and processing duplicate payments. For example, our review of 11 overpayments identified by PGCPs totaling \$210,000 disclosed that 6 of these overpayments totaling \$95,000 were due to the failure to timely notify the Payroll Department of employee

separations. A similar condition was commented on in our preceding audit report regarding a lack of processes to prevent employee overpayments.

As of October 2012, outstanding overpayments to employees totaled \$1 million according to PGCPs records, including \$780,000 submitted to an outside collection agency for recovery. In addition, PGCPs approved write-offs of \$1.4 million in uncollectible accounts (those accounts with balances exceeding three years old) during fiscal years 2008 to 2012.

#### **Recommendation 5**

**We recommend that PGCPs develop appropriate processes to prevent overpayments (repeat).**

#### **Finding 6**

**PGCPs did not have a policy to support the method used to calculate leave payouts upon employee separation.**

#### **Analysis**

PGCPs did not have a Board approved policy supporting the basis for calculating leave payouts. Specifically, the automated system calculates an employee's daily pay rate based on 261 days per year for a 12 month work calendar, but the manual leave calculations supporting the leave payouts were based on 244 days per year (the 261 days less 17 holidays). Consequently, the manual calculations used a higher daily pay rate than that recorded in the automated system, resulting in higher payments made to employees receiving such payouts. Our test of 10 employee payouts totaling \$596,000 made during fiscal years 2010 and 2011, disclosed the 10 employees received an additional \$39,000 payout when compared to the payout calculated on the automated system's daily pay rate. According to PGCPs records, fiscal year 2011 payouts totaled \$5 million.

#### **Recommendation 6**

**We recommend that PGCPs establish a formal Board approved policy specifying the appropriate daily pay rate basis for calculating leave payouts.**

**Finding 7**

**PGCPS paid for sick leave usage totaling \$2.4 million in excess of donations to the sick leave banks.**

**Analysis**

PGCPS does not have a policy for reviewing and granting union employees' sick leave bank requests. Sick leave banks are established for employees to voluntarily donate sick leave for other employees who have exhausted their leave. Furthermore, PGCPS did not review total sick leave bank balances to determine the availability of sick leave hours prior to approving and processing the sick leave grants. As a result, PGCPS paid for sick leave usage in excess of donations.

Our review of the five union sick leave banks' records disclosed that one sick leave bank had granted to employees 27,922 hours in excess of the total hours donated by employees as of the end of fiscal year 2011 as well as the carryover of donated hours available at the beginning the fiscal year. This represented an unearned benefit provided to PGCPS union employees valued at approximately \$2.4 million. (Fiscal year 2011 was the last completed year for which records were available at the time of our field work).

Sick leave banks are authorized under PGCPS contracts with the five unions representing PGCPS employees, and the donation process is governed by each union agreement. The above situation occurred because although the union agreements grant PGCPS the authority to disagree with an approved grant after providing a full explanation, PGCPS management stated that it does not deny union approved grants.

**Recommendation 7**

**We recommend that PGCPS establish a policy over sick leave bank grants regarding the permissibility for granting requests in excess of the available balance.**

**Finding 8**

**Internal controls and record keeping related to certain Transportation Department employees were not adequate to ensure the propriety of salary payments.**

**Analysis**

Internal controls and record keeping related to Transportation Department bus drivers and bus attendants were not adequate. Bus drivers and bus attendants are paid based on predetermined route hours as calculated by the

automated routing system, with manual adjustments for other non-routine duties (such as bus inspections), leave taken, and overtime worked. Specifically, we noted the following conditions:

- PGCPs did not have a standardized process (for example, time clocks) to determine actual time worked by drivers and attendants. Instead, supervisors stationed at the various bus lots were responsible for maintaining documentation to track leave, substitute assignments, and other duties impacting time, which they recorded on payroll registers that were posted to the transportation timekeeping system for eventual interface to the automated payroll system. However, the documentation maintained by the supervisors was informal, inconsistent, or incomplete, such as handwritten notes recorded in spiral notebooks or on daily route schedules. In some instances, when we attempted to test time reported, documentation was missing. For example, our test of overtime payments made to 10 employees totaling \$21,895 during fiscal year 2011 disclosed that 238 of the tested 647.5 overtime hours were not adequately supported or approved. For 3 employees with 203.75 hours of overtime, PGCPs could not provide us with any documentation to support the hours worked. Also, for 6 of the remaining 7 employees, documentation provided did not support all of the overtime hours worked. PGCPs procedures require that approval for paid overtime be obtained in advance from appropriate supervisory personnel.
- Managers responsible for approving time in the transportation timekeeping system for drivers and attendants did not sight documentation of hours worked, even on a test basis.
- Changes to routes increasing hours worked for bus drivers were not independently verified. Drivers complete and sign a route manifest to document any additional time due to modifications to permanent route assignments (the union agreement forbids reductions in route times established at the beginning of each school year), which is ultimately used to support changes to the automated payroll system. Although PGCPs management stated that an independent employee rides on the bus to verify the modification, this process was not documented. As a result, changes to routes and ultimately to hours charged by the driver, may be improper or inaccurate. According to PGCPs records, changes to routes during fiscal year 2012 resulted in a total increase of 130,682 paid hours. Using the starting salary of \$16.68 for drivers, we estimated that these modifications increased employee payroll by at least \$2.2 million.

Similar conditions regarding the payroll documentation were commented upon in our preceding audit report. The Transportation Department employs 1,428 personnel, which includes 1,285 drivers. Payroll expenditures in fiscal year 2012 totaled \$87.5 million. In addition, overtime expenditures for PGCPs totaled approximately \$11 million in fiscal year 2011 (a \$2.6 million increase over the total overtime charged in fiscal year 2010). Of that amount, approximately 58 percent or \$6.4 million was paid to Transportation Department employees.

#### **Recommendation 8**

**We recommend that PGCPs ensure**

- a. that a standard time reporting process for transportation employees (such as timesheets or time clock) is implemented and that related documents are retained (repeat), and all overtime is properly supported and approved in accordance with PGCPs procedures;
- b. that supervisors approving payroll records, review the source documentation, at least on a test basis; and
- c. that an employee independent of the driver verifies the propriety and accuracy of all changes to permanent route assignments and documents the verification procedures performed.

### **Inventory Control and Accountability**

#### **Background**

According to PGCPs audited financial statements, the undepreciated value of its capital equipment inventory totaled \$171 million as of June 30, 2012. PGCPs uses automated records maintained in the accounting office to track equipment items with a cost of \$500 or more (items valued at \$5,000 or more are capitalized for financial statement purposes). In addition, the Information Technology Department (ITD) maintains separate inventory records for computers and related peripheral items.

#### **Finding 9**

**PGCPs equipment inventory records were not comprehensive or complete and items were not physically marked as being property of the System.**

#### **Analysis**

Our review disclosed a lack of compliance with established equipment record keeping policies. For example, we noted the following conditions:

- Our test of 14 purchases (including capital and non-capital items) totaling \$422,000 made in fiscal year 2012 disclosed that 6 items (including printers, freezers, and audio visual equipment) totaling \$217,000 had not

been posted to the detail equipment records as of October 2012. These items were purchased between July 2011 and June 2012. The PGCPs *Property Control Manual* (PCM) states that all items valued at \$500 or more will be recorded on a computerized system maintained by the Fixed Assets Department to support the value, for self-insurance and budget request purposes, establish control, and for reporting to State and federal agencies. The PGCPs Property Audit Office advised us that schools were frequently not following established PCM requirements for completing new property forms.

- Detail records for non-capital equipment (that is, equipment valued between \$500 and \$5,000) frequently did not include all required information. For example, a detail report of inventory provided to us included 47,958 items (out of a total of 104,586 items) that had a purchase price of zero or \$1. In addition, the records did not include the serial number for 4,849 items. The PGCPs PCM requires that the inventory records include description, serial number, model, manufacturer, and unit price.
- PGCPs does not always affix inventory tags or otherwise mark equipment as its property. However, starting in fiscal year 2011, ITD affixed bar codes that include unique identification numbers and identify computers and related peripherals as the property of PGCPs. In addition, we found that the PGCPs PCM already requires that special tags be displayed on certain grant funded equipment.

Similar conditions were commented on in our preceding audit report.

#### **Recommendation 9**

**We recommend that PGCPs**

- a. **ensure that detailed equipment records are maintained for all appropriate assets (repeat);**
- b. **ensure that detail records include all applicable information, including cost and serial numbers or other specific identifying information (repeat); and**
- c. **amend the Property Control Manual to require tagging of all equipment for identification purposes.**



**Finding 10**

**Physical inventories of equipment were not conducted regularly and policies had not established a process for performing physical inventories.**

**Analysis**

PGCPS did not conduct periodic physical inventories of its equipment. Furthermore, the PCM did not specify certain critical requirements for performing physical inventories such as the frequency, items to be inventoried, designating responsibility for conducting the inventories, and reconciling the results to the detail inventory records.

Our review disclosed that only the PGCPS Property Audit Office (a unit of the PGCPS Internal Audit Department) had conducted some physical inventories, which included reconciling results to the related detail records, and submitting an annual summary of these inventory results to the Board. In its reports to the Board for fiscal years 2011 and 2010, the Department commented that its property audits (which were for only a small portion of the 212 inventory locations) resulted in identifying missing items with a value of \$750,000 and \$980,000, respectively. Items not located included computers, printers, and mechanical equipment.

The Property Audit Office's records, which we verified, indicated that many locations had not been audited in several years (see Table 1 below).

<b>Table 1</b>			
<b>Physical Inventories Completed by Property Audit Office</b>			
Fiscal Year of Most Recent Physical Inventory	Number of Locations Inventoried by Equipment Type		
	Complete	Computers Only	Musical Instruments Only
2012	None	33	None
2011	None	41	None
2010	2	51	None
2009	5	30	None
2008	3	24	46
2007	4	10	None
Prior to 2007	5	4	13
None	193	19	153
<b>Total Locations</b>	<b>212</b>	<b>212</b>	<b>212</b>

Source: Property Audit Office, as of June 6, 2012

Note: "Locations" reflects the number of schools and administrative buildings as determined by the Property Audit Office.

A similar condition was commented on in our preceding audit report.

## **Recommendation 10**

**We recommend that PGCPs**

- a. amend the PCM to specify the frequency for conducting physical inventories (for example every three years), designate inventorying responsibilities and require documented reconciliations of the inventory counts to the detailed equipment records (repeat); and
- b. ensure that all locations are inventoried on a regular basis (repeat).

## **Information Technology**

### **Background**

PGCPS' Information Technology Department (ITD) maintains and administers the computer network, computer operations, and information systems applications. PGCPS operates a wide area network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at PGCPS' two data centers. These data centers host numerous devices including firewalls and computer servers to support PGCPS' information system applications. The ITD supports PGCPS' critical applications including its student management system and its Enterprise Resource Planning (ERP) application which includes financial, human resources, and payroll modules.

### **Finding 11**

**PGCPS did not ensure that employee access to its automated financial system was appropriate.**

### **Analysis**

PGCPS did not have a procedure to ensure that employee access to ERP applications and functions were appropriate based on the employee's job duties. Specifically, we found the following conditions:

- PGCPS did not require standardized user access profiles; rather, each user's access capabilities for various system functions could be unique as they are assigned based on their responsibilities and job duties. Consequently, this increases the likelihood that employees are assigned incompatible or inappropriate functions. Furthermore, PGCPS advised us that system security reports were not readily available to assess the appropriateness of user access. PGCPS also advised us that they could provide us with detailed access capabilities by user; however, we determined that this was not a practical way to determine propriety of system access due to the length of the related documentation. For example, one user profile was 141 pages long and there were 19,168 user names as of March 2012.

- Although, we were advised that PGCPs supervisory staff are required to periodically confirm the propriety of employee access capabilities based on current job duties, PGCPs system administrators advised us that supervisors often did not respond to periodic ITD reports requesting such confirmations. A similar condition was commented on in our preceding audit report.
- Our testing of certain critical access capabilities (such as purchasing) assigned to 46 individuals, disclosed that 38 of these employees had been assigned capabilities that resulted in an inadequate separation of duties. For example, 20 employees could record requisitions, purchase orders, and the related receiving information in the system without any independent review. We also found that several senior staff had system programming capabilities in addition to almost complete operational access (that is, PGCPs assigned certain information technology staff both programming and operations capabilities that provided essentially total access to the system).
- Approval paths have been established in the automated system to route requisitions to individuals with a sufficient approval authority as defined by Board policy. While this process provides some control over the procurement process, we found that two PGCPs Purchasing Department employees could modify approval paths and that these changes were not subject to independent review by supervisory personnel.

#### **Recommendation 11**

**We recommend that PGCPs ensure appropriate internal controls exist for granting and periodically reviewing assigned access capabilities on the automated financial system. Specifically, we recommend that PGCPs**

- a. develop security reports that readily identify employee access information for critical responsibilities and functions within the automated system,**
- b. implement standardized user profiles,**
- c. periodically ensure that employee access capabilities are appropriate and warranted based on the employee's current job duties (repeat),**
- d. ensure that staff who are assigned programming capabilities do not also have capabilities that would allow them to perform system operational functions, and**
- e. limit modification capabilities to independent supervisory personnel and ensure any changes are reviewed for propriety.**

**Finding 12**

**Inadequate controls over the student management system and ERP databases resulted in security vulnerabilities.**

**Analysis**

Security controls over the student management system and ERP databases were not adequate. As a result, security violations that could adversely affect the integrity of the databases could go undetected. Specifically, we noted the following conditions:

- Both aforementioned databases were not configured to log direct changes to critical data and security tables or to log the use of critical database privileges although the capability to perform such logging existed within the software for each database. In addition, there was no documentation to support any reviews performed of database logs that were generated. Best practices identified in the State of Maryland Department of Information Technology's (DoIT) *Information Security Policy* state that information systems must generate audit records for all security-relevant events and procedures must be developed to routinely review audit records for indications of unusual activities or suspected violations.
- At the time of our review, the student management system database was running a database version that had not been supported by the vendor for eight months. As a result, the database had not been updated for any vulnerability that may have occurred. Best practices identified in the University System of Maryland's *Guidelines in Response to the State IT Security Policy*, state that "all devices must have updates and patches installed on a timely basis to correct significant security flaws."
- An insecure service was enabled on the student management system database that could allow users to run commands as a privileged user. This service was intended only to accept requests from the database server but local users on the server hosting this database could execute commands using this service without authentication.

**Recommendation 12**

**We recommend that PGCPs**

- a. log direct changes to critical tables and the use of critical database privileges for the student management system and ERP databases,
- b. document reviews of database logs and retain the documentation for verification purposes,
- c. ensure that databases are fully supported by the database vendors and patched on a current basis, and

- d. disable the insecure service on the student management system database.

#### **Finding 13**

**PGCPS did not have an Information Technology Disaster Recovery Plan.**

#### **Analysis**

The PGCPS did not have an Information Technology Disaster Recovery Plan for recovering computer operations from disaster scenarios (for example, a fire or flood). Without a complete disaster recovery plan, a disaster could cause significant delays, for an undetermined period of time, in restoring operations above and beyond the expected delays that would exist in a planned recovery scenario. Specifically, the following critical elements of a recovery plan should be addressed according to the best practices outlined in the State of Maryland *Information Technology (IT) Disaster Recovery Guidelines*:

- Concept of operations
- Notification and activation procedures
- Recovery strategies (including use of alternate sites)
- Reconstitution procedures
- Periodic testing of the disaster recovery plan

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

#### **Recommendation 13**

**We recommend that PGCPS develop and implement a comprehensive information systems disaster recovery plan (repeat).**

#### **Finding 14**

**The PGCPS network was not properly secured.**

#### **Analysis**

The PGCPS network was not properly secured. For example, we noted the following conditions:

- PGCPS did not use intrusion detection and prevention (IDP) coverage on its network. Accordingly, PGCPS had no IDP protection relative to un-trusted connections (for example the Internet). Best practices noted in the DoIT *Information Security Policy* states that “intrusion detection/prevention tools and techniques must be employed to monitor system events, detect attacks and identify unauthorized use of information systems and/or confidential information.”

- Thirty-two publicly accessible servers were located on the internal network rather than in a separate network zone to minimize security risks. The placement of these servers, which could potentially be compromised, exposed the internal network to additional risk. The National Institute of Standards and Technology *Guidelines on Firewalls and Firewall Policy* recommends placing publicly accessible servers in a separate network zone to protect those servers as well as an entity's internal network.
- Connections from PGCPs student computer labs were not properly restricted from accessing critical PGCPs internal network resources. A similar condition was commented upon in our preceding audit report. Best practices, as per the DoIT *Information Security Policy*, prescribe that entities networks "must ensure that only authorized individuals have access to confidential information and that such access is strictly controlled, audited, and that it supports the concepts of 'least possible privilege' and 'need to know.'"

#### **Recommendation 14**

**We recommend that PGCPs adequately secure its network from potential attack. Specifically, we recommend that PGCPs**

- a. perform a documented review and assessment of its network security risks, identify how IDP coverage should be best applied to its network, and implement IPD coverage for all critical portions of its network as appropriate;**
- b. place publicly accessible servers in a separate protected network zone to minimize security risk; and**
- c. implement controls to limit network level student access to only authorized local school and headquarters network resources (repeat).**

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

### **Background**

PGCPs maintains 197 schools not including other facilities (such as administration and support offices) with a staff of 1,540 custodial and 298 maintenance personnel. According to the approved fiscal year 2012 Capital Improvement Plan, the estimated cost of new construction, facility replacement, major renovations, and systemic improvement projects over the next six years totaled \$781 million. In its Comprehensive Maintenance Plan that was prepared in October 2011, PGCPs estimated that the cost of deferred maintenance projects was \$2.5 billion.

**Finding 15**

**PGCPS did not adequately document preventive maintenance work performed.**

**Analysis**

Although PGCPS has developed a comprehensive maintenance plan that included preventive maintenance and task schedules, and required that inspections and preventive maintenance work be completed at certain intervals and documented on logs contained in the plan, PGCPS did not always have this documentation on file to substantiate that maintenance was performed. PGCPS has various maintenance logs applicable to each facility that include a number of specific tasks to be completed as scheduled (daily, weekly, or monthly). For example, the boiler maintenance log includes nine unique tasks (such as checking the water level and safety valve). Our test of five schools for documentation of January 2013 maintenance and inspections disclosed that logs were not always retained. Specifically, one school provided five of the required nine maintenance logs and the remaining four schools could not provide us with any logs for that month. Without sufficient documentation and review by supervisory personnel, PGCPS lacks assurance that all preventive maintenance is performed.

PGCPS has acknowledged the challenges in completing preventive maintenance, noting that many such tasks would require shutting down the related systems (which cannot be done while students are in the building) or otherwise disrupt the school day. Although PGCPS has identified the need for an additional shift to perform after-hour's tasks and new automated software for work order processing, it had not implemented these plans as of August 2013.

**Recommendation 15**

**We recommend that PGCPS complete and document all preventive maintenance performed in compliance with the requirements of the comprehensive maintenance plan.**

**Energy Performance Contracts – Background**

PGCPS originally procured the services of two Energy Service Companies (ESCOs) in fiscal year 2006 to implement energy conservation measures under the Maryland Department of General Services (DGS) statewide contract for energy performance contracting. PGCPS implemented the energy performance contracts in four phases from 2006 to 2010. The Board approved each phase of the contracts, including the total cost for each phase. Project costs totaling approximately \$105 million were financed through third

parties beginning in fiscal year 2008, over periods ranging from 13 to 15 years. (The total cost of the project was not readily available.) The projects' energy conservation measures included physical plant improvements, installation of energy efficient devices (lighting for example) and new heating and cooling equipment at certain schools, as well as a system to monitor and measure the project benefits as a result of such improvements. While all related improvements have not been completed as of June 2012, the financing procured to fund these projects is currently being repaid. Debt service payments through fiscal year 2012 totaled \$25 million.

PGCPS contracted with a third-party monitor in August 2006 to monitor the progress of construction, the installation of energy conservation measures, and the accuracy of progress billings submitted by the two ESCOs. The monitor is responsible for reviewing invoices submitted by the ESCO and certifying completeness and accuracy. Based on PGCPS payment records, the monitor has been paid \$3.7 million between fiscal year 2007 and 2012.

Energy performance contracts allow agencies to pay for the cost of installing energy savings equipment with the savings realized from that equipment. In order to minimize the risk that these installations will not result in real savings, ESCOs generally guarantee that a certain level of savings will be achieved every year during a pre-determined payback period (generally the same number of years the agency repays the related financing or 15 years). If the guaranteed savings are not achieved, the vendor is responsible for the difference. However, this guarantee is not effective until construction is finalized because the estimated savings will be calculated based on all equipment being online and working effectively.

#### **Finding 16**

**ESCO contracts lacked necessary specificity to ensure timely project completion and realization of expected savings.**

#### **Analysis**

PGCPS lacked contract documentation to facilitate monitoring and ensure timely project completion. Specifically, we noted the following conditions:

- PGCPS could not monitor or enforce timely completion of energy projects since the two ESCO contracts did not include schedules of project completion or any related penalty provisions. In addition, upon our inquiry, PGCPS could not provide any other documentation that showed when individual components of the projects would be completed, as well as an overall project completion date. As of the end of fiscal year 2012, the construction related to these projects which began in fiscal year 2006 was



not completed. PGCPs advised that it anticipated completion of all related projects by the end of calendar year 2013.

- Based on the proposals submitted by the ESCOs, guaranteed savings over the 15 year savings period were to total \$184.8 million. Annual savings are to be measured based on future energy usage as compared to a base year; however, contract documents did not establish how the annual savings would be calculated, nor specify the base year. Given the length of time the project has been in process (over six years) and that savings do not accrue until construction is completed, the determination of the base year is critical to determining overall savings. The original DGS statewide contract required each project to achieve a minimum 20 percent reduction from the base year in annual energy usage and a maximum payback period of 15 years.

#### **Recommendation 16**

**We recommend that PGCPs develop an approach to ensure that projects are completed on time and determine that guaranteed saving are achieved.**

#### **Finding 17**

**PGCPs did not always obtain adequate assurance that payments were for proper amounts or for services that had been provided in accordance with the approved contract.**

#### **Analysis**

PGCPs paid for services without sufficient evidence that they were received. Our test of four fiscal year 2011 invoices totaling \$9.7 million, disclosed that two invoices for \$6.5 million were paid to the ESCOs (one to each ESCO), even though the PGCPs third-party contract monitor did not approve them for payment. Specifically, for one invoice totaling \$3.2 million the third-party monitor could not determine whether all services included on the invoice were provided in accordance with the contract. As a result, the monitor provided no opinion regarding completion to PGCPs; nevertheless, PGCPs paid the invoice without further investigation. In addition, the other ESCO requested a pre-payment of \$3.3 million for the delivery of equipment and construction supplies to school locations before the commencement of construction on the final phase of the project. However, the third-party monitor did not agree with the justification for this pre-payment provided by the vendor. Furthermore, there was no evidence that PGCPs independently confirmed that the related equipment and construction supplies had been received.

#### **Recommendation 17**

**We recommend that PGCPs ensure that**

- a. all goods and services invoiced by the ESCOs are provided prior to payment of the related invoices and that the prices charged by the ESCOs are in accordance with the related contract; and**
- b. comply with the recommendations and reviews of the third-party monitor, or document why the recommendations were not accepted.**

#### **Finding 18**

**PGCPS paid the ESCOs higher prices for certain projects than specified in the contracts, without a formal contract modification or Board approval.**

#### **Analysis**

The ESCOs increased the price of certain projects contained in the original proposals. The original proposals contained all of the potential projects to be performed by the ESCOs. Furthermore, due to the related costs, PGCPs financed the contracts over four phases covering several fiscal years. We found instances in which prices fluctuated over the different phases of the contract while the scope of work did not change. Specifically, our review of individual energy savings projects implemented at three schools, with original proposed costs of \$3.3 million, disclosed increases in pricing for certain projects totaling \$230,000 when compared to the pricing for these projects included in the original proposal. PGCPs paid these higher costs even though these changes in price were not explained by the ESCOs as required by the contract and were not presented to the PGCPs Board for approval. Further, for these cases the third-party monitor was not included by PGCPs in the review process, which included these increased costs. The extent to which such price increases occurred on other projects could not be readily determined.

The Maryland DGS ESCO Request for Proposals (incorporated by reference into the PGCPs contracts) specifically states that costs shall not be modified unless PGCPs requested additional services which were approved by PGCPs.

#### **Recommendation 18**

**We recommend that PGCPs thoroughly investigate any increases in costs for energy conservation measures and take action to recover any payments for unjustified increases or seek retroactive Board approval for cost increases that are adequately explained.**

## Transportation Services

### Background

PGCPS has approximately 81,000 students eligible to receive student transportation services. These students were transported on 1,146 school system-owned buses. According to PGCPS records, fiscal year 2011 transportation costs totaled \$96 million. Of the 19.9 million reported route miles for the 2010 – 2011 school year, 40 percent represented miles traveled to transport disabled students.

A December 2011 report by a transportation task force (which included representatives from PGCPS and a number of other local and State agencies) included numerous recommendations for improving PGCPS transportation services such as staggering bell times, combining elementary and middle school students on the same bus and reducing the number of stops. Many of the findings and recommendations repeated similar findings and recommendations found in a 1998 transportation study. Based on the 2011 report, PGCPS implemented several changes to the routing policies. For example, PGCPS implemented a staggered bell time schedule for schools and combined students going to more than one school on a single bus. According to the PGCPS automated routing system, these changes resulted in 462 fewer (from 5,632 to 5,170) bus routes for the 2012-2013 school year as compared to the previous year.

### Finding 19

**PGCPS did not implement certain practices to promote more efficient use of its bus fleet.**

### Analysis

PGCPS did not implement certain practices that may allow it to more efficiently use its bus fleet. Specifically, we found the following conditions:

- PGCPS transportation staff advised us that routing is primarily done manually. Although PGCPS has owned an automated routing system since 2001, this system is used as a mapping tool and is not used to calculate alternative routes, route consolidations, or stop consolidations that may reduce costs. Consequently, routes may be inefficiently designed and result in significantly underutilized capacity on individual buses, and operating more buses than necessary to fulfill PGCPS' transportation needs.
- PGCPS could not use the automated routing system to assess route efficiency because the system data were unreliable. For example, our

analysis of the routing system data for regular bus routes for the 2012 – 2013 school year disclosed 388 bus routes had a listed travel time of zero and 1,157 had a route time between 1 and 10 minutes. The system also showed 22 bus routes with 100 or more students assigned to the individual routes (the largest bus in the PGCPs fleet had a listed capacity of 64 students).

When prepared, PGCPs used driver manifests of actual ridership on the day prepared as well as actual drive time. However, these manifests were not compared to expected utilization to determine routing efficiency and help transportation staff make decisions for route modifications. Furthermore, as of October 31, 2012, drivers had not completed a manifest for the 2012 – 2013 school year. Typically, these manifests are completed by the end of September. As a result, PGCPs management could determine the level of bus utilization based on actual ridership for that school year. According to the December 2011 task force report, PGCPs bus utilization operated at an average of only 48 percent of capacity for the 2010 – 2011 school year.

- PGCPs did not document processes used to manually plan, review, and revise bus routes to ensure that such processes include all appropriate factors. Current documented procedures did not instruct routers on how to plan, review, and revise bus routes and provided only a general guideline for routing. PGCPs had not established documented policies for related areas such as bus loads and maximum student ride times. A similar condition was commented on in our preceding audit report.

#### **Recommendation 19**

**We recommend that PGCPs take steps to use buses more efficiently.**

**Specifically, we recommend that PGCPs**

- a. utilize an automated routing system to assist in developing efficient bus routes on a system-wide basis;**
- b. take appropriate steps to ensure the accuracy of routing system data;**
- c. obtain manifests for all bus runs and periodically review bus ridership data and established routes to ensure capacity goals are met to the extent practical; and**
- d. develop detailed policies and procedures to provide guidance for determining and revising bus routes, including goals for bus utilization, capacity, and ride times (repeat).**

**Finding 20**

**PGCPS did not adequately control access to the automated fuel dispensing system.**

**Analysis**

PGCPS had not fully implemented available controls in the automated fuel dispensing system, used for both gas and diesel. As a result, PGCPS did not adequately control access to fuel. Specifically, PGCPS does not require employees to sign a user agreement to clearly establish the employees' responsibilities for using the system. In addition, PGCPS has no established process to timely deactivate user access to the fuel system when warranted. As a result, terminated employees may continue to maintain access after leaving PGCPS or transferring to another job assignment that did not require access. Finally, PGCPS did not review user access on a periodic basis to determine if continued access was warranted. According to system records, there were 72 employees with assigned access who had not used the access since it was assigned to them.

According to PGCPS records, 527 employees (primarily Maintenance and Transportation Department staff who refuel buses) are currently assigned access to the automated fuel system. Fuel purchases in fiscal year 2012 totaled approximately \$10.2 million.

**Recommendation 20**

**We recommend that PGCPS ensure access to the automated fuel dispensing system is adequately controlled. Specifically we recommend that PGCPS**

- a. develop a standard user agreement, which is signed by employees authorized to use the system, delineating employee responsibilities and inappropriate use;**
- b. deactivate user access immediately upon employee termination or position transfer; and**
- c. review user access on a periodic basis and remove access from employees who do not need the access.**

**Food Service Operations****Background**

PGCPS has a cooking cafeteria at most of its schools. Food and related supplies are received and stored in each school. In fiscal year 2012, PGCPS had 932 cafeteria positions (consisting of 907 food service positions and 25 administrative positions). According to the audited financial statements, food service operations revenues exceeded expenditures by \$352,000 for fiscal

year 2012, and deficiencies were resolved by a transfer of \$20.2 million from general operating funds to the food service fund (the food service fund experienced operating losses totaling \$45.2 million for the period from fiscal year 2007 to 2011).

### **PGCPS Utilized Certain Best Practices to Monitor and Track the Results of Food Service Operations**

PGCPS utilized certain best practices to monitor and track the results of food service operations. The implementation of these procedures (described below) has dramatically reduced overall operating deficits for the food services program over the last two fiscal years (see table 2 below).

<b>Table 2</b> <b>Revenues, Expenditures, and General Fund Transfers</b> <b>For the Food Services Fund</b> <b>Fiscal Years 2007 to 2012</b>			
<b>Fiscal Year</b>	<b>Revenues</b>	<b>Expenditures</b>	<b>Excess (Deficiency) of Revenues Over Expenditures</b>
2007	\$ 49,978,890	\$ 57,452,822	\$ (7,473,932)
2008	53,195,447	64,020,409	(10,824,962)
2009	55,048,063	70,796,632	(15,748,569)
2010	56,782,576	66,914,231	(10,131,655)
2011	61,742,531	62,719,516	(976,985)
2012	63,363,743	63,011,793	351,950

Source: Audited Financial Statements

Specifically, PGCPS compiles a monthly profit and loss statement by cafeteria site to track detailed revenue and expenditure transactions. This function allows PGCPS' food services management to compare schools and make comparisons from month to month. If costs are determined to be high for a specific school as a result of this analysis, management will communicate with school personnel to identify the causes for any deviations and to establish a strategy for correcting it. PGCPS management attributed the decrease in operating losses to this increased accountability at the school level. In addition, PGCPS required all cafeteria managers to participate in training focused on improving labor and food costs (for example, inventory management). PGCPS also worked with food vendors to create online ordering forms that are limited to items included in the approved contracts. This prevents managers from inadvertently ordering items which are not

covered by approved price lists. Finally, PGCPs has requested vendors to notify the central Food Service office of large or unusual food orders. Our test of food service procurements and disbursements disclosed that PGCPs properly procured the contracts tested and that related expenditures were properly supported and in accordance with contract prices.

#### **PGCPs Has an Appropriate Process in Place to Maximize Participation of All Eligible Students in the National School Meals Program**

PGCPs ensures that all eligible students are enrolled in the federal National School Meals Program through their qualification process. They have established procedures to automatically qualify certain households based on their qualification for supplemental assistance. Additionally, the schools send free and reduced meal applications home with all students on the first day of school. The application is also available online throughout the school year. Furthermore, PGCPs has identified and addressed measures to follow up with students who are eligible but not participating in the program. For fiscal year 2011, 86 percent of students eligible to receive free lunches and 75 percent of students eligible to receive reduced price lunches actually participated in the program.

#### **PGCPs Had Implemented Appropriate Procedures and Controls Over Cafeteria Related Cash Receipts**

PGCPs had implemented procedures and controls designed to ensure that cafeteria receipts were properly accounted for, processed, and deposited. Specifically, the central food services office verifies on a daily basis, that amounts collected according to the automated cash register system used at each school agrees to the validated deposit slips received from the bank. Our testing disclosed that the central office was properly performing this reconciliation, and as a result, ensured that funds collected by the school cafeterias were properly deposited.

### **School Board Oversight**

#### **Background**

Until June 1, 2013, PGCPs' Board of Education was composed of members elected from nine school board districts and a non-voting student representative. Effective June 1, 2013, Chapter 147 Laws of Maryland 2013 modified the governance structure of the Board. The number of Board members increased to 14 (including a student member) and provided that 3 of the 4 additional members would be appointed by the Prince George's County Executive and the remaining member be appointed by the Prince George's County Council. In its oversight responsibilities, the Board

contracted with a certified public accounting firm for independent audits of the PGCPs financial statements and federal programs.

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

The Board has adopted a detailed ethics policy that conforms to State law and includes provisions for conflicts of interest and financial disclosure.

Provisions of this policy are applicable to Board members as well as all PGCPs employees. PGCPs established an Ethics Panel consisting of five members who are not subject to the authority of the Board of Education to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. According to the ethics policy, annual financial disclosure statements are required to be filed by Board members, candidates for the Board, the Superintendent, Associate Superintendents, and a number of other administrators (such as Division Directors) by April 30<sup>st</sup> of each year. Our test of 20 judgmentally selected employees disclosed that the required financial disclosure forms had been submitted for the most current year.

#### **PGCPs Has an Active Internal Audit Function and an Operational Fraud Hotline**

The Board has implemented several methods to help deter and detect fraud and misuse of PGCPs assets. PGCPs employs an Internal Audit Department (IAD) consisting of a Director and 12 audit staff to conduct independent reviews of school activity funds at all of the schools, as well as audits of operational functions of the school system, such as transportation and food-related services. The IAD periodically reports the results of its audits to the audit committee of the Board. According to the IAD's fiscal year 2011 Annual Report, the Department conducted 143 financial operational/fraud audits for the fiscal year (including student activity fund and property audits).

In 2005, PGCPs implemented a confidential fraud hotline to enable employees and others to confidentially report operational concerns and suspected fraud, waste, and mismanagement. The IAD is responsible for investigating the allegations and documents their efforts, results, and any follow-up actions taken. According to the aforementioned fiscal year 2011 Annual Report, the hotline received 248 calls during the fiscal year. The IAD investigated and resolved 53 cases. The remaining cases were either still open, referred to another department, or deemed not significant enough to warrant additional inquiry or research. Resolutions included personnel actions against employees, repayment of funds, and certain administrative actions.



**Finding 21**

**PGCPS has not determined if various cost saving measures have had the expected results.**

**Analysis**

PGCPS did not establish a process to ensure that cost savings for programs met the intent of the programs, nor report to the Board on the financial results of these programs. In addition, PGCPS could not provide us with the expected savings or target goals for the programs. As a result of economic difficulties, decreasing revenue, and declining enrollments, PGCPS had implemented strategies designed to reduce costs, primarily through the reduction of staffing such as a reduction in positions, furloughs, and a retirement incentive program for fiscal years 2010 to 2012. The goal of these programs was to reduce employee costs.

For example, the Board approved retirement incentive program implemented in fiscal year 2012, provided incentive to employees meeting the set criteria to retire. However, PGCPS could reemploy program participants after a certain period of time under criteria contained in the program documents, which would reduce the savings desired. A PGCPS report of employees who participated in the program disclosed that of the 370 participating employees, 179 were recalled back to employment before the end of the prohibited period (generally 18 months to 3 years). Furthermore, PGCPS did not formally determine if each of the actions had resulted in the anticipated savings on an immediate or long-term basis, and as a result, the Board does not know if the program met its intended objectives.

**Recommendation 21**

**We recommend that PGCPS establish a process to monitor cost saving initiatives based on pre-established goals.**

**Other Financial Controls****Charter School Funding was Calculated in Compliance with State Regulations**

Funds paid to seven Prince George's County charter schools totaling \$21.2 million for the 2011-2012 school year were calculated in compliance with State regulations. Charter school funding is based on a per pupil allotment to ensure funding is commensurate with funding provided to traditional students. The charter school funding totals are reconciled based on actual enrollment for each year.

A charter school is a public school usually created or organized by a group of teachers, parents and community leaders, or a community-based organization. It is usually sponsored by an existing local public school board or county board of education. Specific goals and operating procedures for the charter school are detailed in an agreement (or “charter”). Charter schools are generally exempt from most laws that apply to regular public schools so administrators have considerable autonomy in designing an educational program, hiring faculty and staff, using facilities, and developing a budget that meets the needs of their students. Charter schools must meet all the student performance and operational goals listed in their charters, or their charters may be revoked.

**Finding 22**

**PGCPS did not implement risk management strategies to identify, monitor, mitigate, or prevent risk factors.**

**Analysis**

PGCPS has not implemented a comprehensive risk management strategy to help ensure that risks associated with operating a large school system are mitigated to the extent practical. Currently, PGCPS insures itself against risks related to auto and general liability, property damage, workers’ compensation, theft, and other risks. In addition, PGCPS employs one full-time employee to conduct risk management services for the System. Responsibilities for this position are mainly focused on processing workers’ compensation claims rather than developing and implementing strategies to reduce claims.

Workers’ compensation expenditures have increased from \$6.2 million in fiscal year 2004 to \$17.5 million in fiscal year 2012.

We determined that PGCPS has not formally identified or evaluated potentially significant risk factors within the school system, determined a strategy for alleviating these risks, or evaluated the efficiency of procedures currently in place, including workers’ compensation and other risks. Risk management strategies could include training and workshops for employees, back-to-work programs to decrease workers’ compensation expenses, and evaluating insurance options.

Risk management is a program designed to identify potential events that may affect PGCPS and to protect and minimize risks to PGCPS property, services, and employees. The Government Finance Officers Association recommends that entities develop a comprehensive risk management program that identifies, reduces, or minimizes risk to its property, interests and employees and specifies the steps to be taken (such as evaluating and identifying risks and developing measure to treat them).

## Recommendation 22

We recommend that PGCPs implement risk management strategies to identify, evaluate, and mitigate risks to the System.

## Finding 23

PGCPS did not take sufficient actions to control health care costs.

### Analysis

PGCPS did not take all available steps to ensure that health care costs were adequately controlled. PGCPS procured the services of a third party to conduct an audit of claims accuracy and compliance with plan documents for retiree medical and dental plans (for claims submitted between October 1, 2008 and September 30, 2010), which found a 15 percent error rate. However, PGCPS has not conducted a claims audit for active employee claims nor conducted a subsequent audit for retirees. In addition, PGCPS' Internal Auditor found in limited testing that adequate documentation was often not on file to support the enrollment of employee dependents. Specifically, the audit included a test of 52 active employees (during the period of July 1, 2009 through December 31, 2010) and found that in at least 10 instances, adequate documentation was not on file to support employee dependents enrolled in PGCPS health care plans. The audit was not meant as a comprehensive review of all employees/retirees with dependents enrolled in the System's healthcare program. PGCPS provides health insurance coverage for over 12,700 active employees and 6,000 retirees. Health insurance claim payments totaled \$196.9 million in fiscal year 2012.

PGCPS self funds all health care costs. PGCPS uses a third-party administrator to pay claims on behalf of plan participants and authorized dependents. Providers submit claims to the administrator who pays them on behalf of PGCPS and then obtains reimbursement from PGCPS for actual costs of claims paid. PGCPS pays an administrative fee for these services.

Recommended practices published by the Government Finance Officers Association state that health care cost containment is a critical component of long-term financial planning and budgeting. An example of a cost containment practice would be audits of claims to ensure that third-party administrators pay benefits according to plan rules and verification of enrolled participants.

**Recommendation 23**

**We recommend that PGCPs institute processes to**

- a. verify the propriety of claims paid by the third-party administrator for active and retired employees, and**
- b. verify the eligibility of enrolled health care program participants and their listed dependents.**

## Audit Scope, Objectives, and Methodology

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

We had two broad audit objectives:

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

In planning and conducting our audit of PGCPS, we focused on 11 major financial-related areas of operations as approved on September 14, 2004 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of findings included in our preceding audit report on PGCPS dated January 10, 2006, was limited to those findings that were applicable to the current audit scope for each of the 11 areas.

The audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. Also, we did not evaluate the PGCPS Comprehensive Education Master Plan or related updates, and we did not review the activities, financial or other, of any parent teacher association, group, or funds not under the direct control or management of the Prince George's County Board of Education.

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 PGCPS. We also interviewed personnel at PGCPS, the Maryland State Department of Education

(MSDE), and staff at other local school systems in Maryland (as appropriate).<sup>2</sup> Our audit procedures included inspections of documents and records, and observations of PGCPs 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, 2010 through January 31, 2012. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits PGCPs' financial statements and conducts the federal Single Audit.

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

PGCPs' 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 PGCPs that did not warrant inclusion in this report.

We conducted our fieldwork from September 2011 to October 2012. The PGCPs response to our findings and recommendations is included as Appendix A to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise PGCPs regarding the results of our review of its response.

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<sup>2</sup> During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.



## APPENDIX A

**Kevin M. Maxwell, Ph.D.**  
*Chief Executive Officer*

February 3, 2014

Thomas J. Barnickel III, CPA, Legislative Auditor  
Department of Legislative Audits  
Office of Legislative Audits  
301 West Preston Street, Room 202  
Baltimore, MD 21201

Dear Mr. Barnickel,

Enclosed please find management responses and documentation pertaining to the Office of Legislative Audit's financial management practices audit of Prince Georges County Public Schools (PGCPS) for the period January 1, 2011 through June 30, 2012. The documented responses are for the Draft Financial Management Practices Audit Report dated December 2013.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kevin Maxwell", is positioned above the printed name and title.

Kevin Maxwell, Ph.D.  
Chief Executive Officer

cc: Segun Eubanks, Ed.D., Board Chair  
Thomas Sheeran, Chief Financial Officer  
Michele Winston, Director of Internal Audit

**Prince George's County Public Schools  
Response to Financial Management Practices Audit**

**Finding 1:** Segregation of duties over the enrollment, collection, and deposit functions in the Before and After School Care Program were inadequate.

**Recommendation 1**

We recommend that PGCPs ensure a proper segregation of duties is established over the enrollment, collection, and deposit functions of the Before and After School Care Program (repeat). For example, PGCPs should establish centralized enrollment and independently reconcile program revenue to enrollment records on a periodic basis.

**Management Response 1**

Agree.

PGCPs has realigned the staffing and responsibilities within the Before & After School Care Program to better address accountability and separation of duties within the current system while the district evaluates online solutions. Two centralized Before & After School Care Program Liaisons have been added and are now responsible for reconciling enrollment and payment records; this task will no longer be performed by the Site Coordinators. Reconciliation will be performed every two weeks to coincide with the bi-weekly payment cycle. In addition, Program Liaisons will resume the practice of conducting site audits to review documentation and ensure the number of children reconciles with reported enrollment.

PGCPs has also initiated a feasibility study to review software options available for centralizing enrollment and providing electronic payment and tracking. This is a component of a larger systemic initiative to evaluate cashless systems in multiple parts of the organization in order to streamline payments for parents and increase internal controls surrounding payments. Upon completion of this study, management will select an automated system that best integrates with existing processes and systems.



**Prince George's County Public Schools**  
**Response to Financial Management Practices Audit**

**Finding 2:** PGCPs did not ensure the propriety of certain disbursements.

**Recommendation 2**

We recommend that PGCPs

- a. ensure the accuracy and propriety of all amounts invoiced including verification to supporting documentation (repeat), and
- b. segregate duties to ensure independent approval exists for the issuance of wireless phones and the payment of the related invoices.

**Management Response 2**

Agree.

**Monitoring utility usage:** PGCPs has recently purchased a comprehensive facilities management tool that combines work order management, utilities monitoring and facilities usage. The application is a utility tracking and bill analysis management system that will capture and track energy and utility usage and spending by facility by month. The system will allow for comparison across all schools (not the small sampling used in the past) and across time periods (month-to-month and year-to-year). During implementation, PGCPs will incorporate several years of historical data in order to build a comprehensive system-wide baseline profile. By implementing this system and tracking usage and the amount spent, the district will also be able to assess the reasonableness of billings and evaluate facilities against comparable facilities in other districts.

As part of the implementation of this software, PGCPs is working with existing utility vendors to move from current paper billing processes to electronic billing, which will make the district's data storage, tracking, and analysis more timely and efficient. Although the district is still in the planning phase, management expects to have the utilities solution fully implemented in FY15, which will improve decision making around resource utilization.

- o **Verifying supporting documentation:** PGCPs' review of the transportation invoices cited in this finding revealed a need for the following process improvements: PGCPs will work with vendors to ensure all necessary information for price validation is included on individual quotes and invoices. In the case of vehicle repair parts and labor contracts, vendor invoices will include a breakdown of prices displaying list price by part number, discount applied to parts, and number of hours and hourly rate charged for labor.<sup>1</sup>
- o Staff responsible for approving invoices will be granted access to a database that displays contract pricing. This new process will be in place by June 2014.

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<sup>1</sup> For complex contracts such as those found in transportation, plant operations and supporting services, contracts typically include a fixed percentage discount off list price for parts, and a fixed hourly labor rate. Price validation for parts involves: 1) checking the list price, which is often not fixed in contracts, and 2) ensuring the percentage discount applied to that list price matches the contract.

## Prince George's County Public Schools Response to Financial Management Practices Audit

- For 'piggybacked' contracts from other jurisdictions, in addition to continuing to require that requisitions include an attached copy of the contract, staff will ensure the original contract is permissible for PGCPs use in its current form by confirming that the specific items being purchased are included in the contract.<sup>2</sup>

***Segregation of duties for issuance of wireless phones:*** PGCPs will further develop Administrative Procedure 0700, Information Technology Services Acceptable Usage Guidelines, Section I, to include a formalized policy and procedure for wireless phones. The AP will lay out eligibility criteria and the requisition and approval process for adding new phone lines; it will be applied district-wide and executed intra-departmentally. This AP will also include language that will exclude the district from liabilities for phones purchased outside of the formalized process, whereby prices can be validated against contracted rates with contracted providers. The district will review all phone lines currently in use to validate school business need, uniformity for employee eligibility, and auditing of phones to control for personal use and contracted pricing.

In order to segregate duties, PGCPs will update the automated workflow procedures for monitoring and invoicing to differentiate these responsibilities; the new procedures will ensure that the people authorized to add phone lines are not also able to authorize payments. In addition, PGCPs will consider the feasibility of contracting with a telecommunications cost reduction audit firm to assist with the identification and recovery of overpayments to cellular phone carriers. Some of these best practices are already in place within the Division of Information Technology and Office of Communications; management will integrate those processes within Plant Operations and Supporting Services.

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<sup>2</sup> This finding illustrates examples where necessary contract price exceptions were made and documented but the documentation was not available in Accounts Payable's files.

**Prince George's County Public Schools  
Response to Financial Management Practices Audit**

**Finding 3:** PGCPs did not maintain required documentation justifying the use of sole source procurements totaling \$1 million.

**Recommendation 3**

We recommend that PGCPs maintain adequate documentation supporting sole source procurements, including the Director of Purchasing's approval of all bid exemption letters prior to the related procurement, as required (repeat).

**Response to Finding 3**

Agree.

PGCPs Board Policy 3323 establishes thresholds for procuring services and materials without the need for a formal bid. As per this policy, a formal bid is not required if, in any given fiscal year, the cumulative sum of purchases from a single vendor is anticipated to be less than or equal to:

1. \$1,000,000 for instructional materials or supplies
2. \$25,000 for non-instructional equipment, materials or supplies
3. \$500,000 instructional or staff development contracted services
4. \$250,000 non-instructional and non-staff development contracted services

The procedure referenced in this finding which requires the submission of a bid exemption letter is found in the PGCPs Procurement Manual. A close review of the manual revealed that there are internal inconsistencies in the procedures addressing documentation requirements for consultants and professional services. PGCPs will revise the manual to clarify these requirements and will subsequently adhere to the revised procedures. The revised Procurement Manual will be effective July 1, 2014 and re-training of impacted personnel will take place at that time.

The Procurement Department has modified current requisition procedures to require requesting departments to provide the justification for bid exception. Additionally, for existing no-bid contracts, PGCPs will obtain bid exception justification prior to executing contract renewals.

**Prince George's County Public Schools**  
**Response to Financial Management Practices Audit**

**Finding 4:** Internal controls over payroll and personnel transactions were not adequate in both the central office and at the various departments.

**Recommendation 4**

We recommend that PGCPs

- a. perform and document evidence of supervisory reviews of critical human resources and payroll transactions and ensure they are supported by appropriate documentation (repeat);
- b. recover the identified duplicate payments;
- c. separate the functions of recording and approving timecards within the automated system; and
- d. review current supervisory responsibilities for approving timecards and, to the extent practical, reduce the number of timecards these individuals are responsible for approving.

**Management Response 4**

Agree.

***Document evidence of supervisory review (4a):*** While the process PGCPs uses to document personnel changes is partially manual, involving a paper form routed through several departments within the organization, inherent checks and balances take place within the process. As the form moves through the process flow, each subsequent staff member verifies the accuracy of the data supplied up until that point. For example, when a salary change is required for an employee, the staffing specialist completes the form and gives it to a Data Entry Technician. The Data Entry Technician reviews the form and enters the employee's new grade and step, signs the form, and forwards a copy to both Payroll & Benefits Services and the records room. By the end of the process the information entered into the form has been reviewed twice by Human Resources staff. Going forward, PGCPs will audit a sample of personnel transactions by comparing changes reflected in the Employee Information System against the originating paper forms. This review will be conducted on a semi-annual basis and results from the review will be used to inform which types of transactions should require independent supervisory review and signature going forward.

In addition, the district has begun to shift toward completely automated processes for certain types of personnel transactions. During fiscal year 2012, PGCPs automated the process for entering and approving new hires as well as all employee transfers. By integrating technology into additional processes, PGCPs will gain efficiencies and reduce errors associated with manual paperwork, processing and data entry. Voluntary resignations, which should shorten the timeline for notifying payroll and benefits staff, are currently in the testing phase.

Additional controls that will be put in place for payroll transactions are discussed in the response to finding 5.

## Prince George's County Public Schools Response to Financial Management Practices Audit

***Recover duplicated payments (4b):*** This effort is already underway; one employee has reimbursed the district in full, the other is in the process of establishing a repayment agreement. Corrective action for preventing duplicate payments is discussed in the response to finding 5.

***Segregate time entry and time approval functions (4c):*** PGCPs Payroll Department will work with IT to modify current database responsibilities for Time Approvers to only include approval rights, not editing. This will be completed in February 2014.

***Reduce the number of timecards assigned to a single approver (4d):*** PGCPs currently has Administrative Procedure 4132 in place whereby Division Chiefs, Executive Directors and Department Directors may request exceptions to the default approver assignment for workload or alternative time approval reasons. All requests for consideration are reviewed and approved by the Chief Financial Officer. Requests currently occur when an assigned time approver is unable to approve timecards because of long term illnesses, vacations, out of building assignments, vacancies, or other reasons that prevent the assigned time approver from completing this responsibility. Examples include assistant principals, supervisors and managers. Any alternative time approver must complete time approver training before being assigned time approval responsibilities and must meet required continuing professional education activities. PGCPs will look into expanding the use of this functionality with individual departments to address inequities in work load, low on-time entry or approver rates, or high error rates for time entry personnel and time approvers.

**Prince George's County Public Schools  
Response to Financial Management Practices Audit**

**Finding 5:** PGCS did not implement adequate processes to prevent or timely detect overpayments to employees.

**Recommendation 5**

We recommend that PGCPs develop appropriate processes to prevent overpayments (repeat).

**Management Response 5**

Agree.

The analysis to this finding cites types of circumstances under which employees have been overpaid. The table below displays the corrective actions to address these.

Type of Error	Corrective Action	Target Completion Date
Improper calculation of leave payouts	<ul style="list-style-type: none"><li>Revise procedure for calculating payouts to executive employees to specify the calculation method for daily pay rate.<sup>3</sup></li></ul>	March 31, 2014
	<ul style="list-style-type: none"><li>Seek clarification on when employees are eligible to receive leave payouts as per negotiated agreements; revise procedures and train staff accordingly.</li></ul>	June 30, 2014
	<ul style="list-style-type: none"><li>Improve existing tool used to calculate leave payouts. Consider feasibility of automating leave payout calculations.</li></ul>	June 30, 2014
	<ul style="list-style-type: none"><li>Require a payroll supervisor to review and approve all leave payouts.</li></ul>	In place as of July 1, 2013
Inaccurate/delayed recording of separation dates and other personnel changes	<ul style="list-style-type: none"><li>Implement automated resignation process.<sup>4</sup></li><li>Develop tracking reports for time entry errors. Deliver training to timekeepers annually and require annual recertification. Timekeepers with no errors logged will be automatically recertified. Potentially implement additional accountability measures for those with recurring errors.</li><li>Consider implementing an automated workflow process that requires employees to review and attest to the accuracy of their timesheet before receiving payment.<sup>5</sup></li></ul>	June 2014  Fiscal Year 2015

<sup>3</sup> See response to finding 6 for more detail.

<sup>4</sup> Submission of this resignation allows for automated notification of all relevant parties and the disabling of timecards beyond the last date of employment. In addition, PGCPs will examine where additional staff training and accountability measures may be needed to ensure compliance with existing processes.

<sup>5</sup> Although such a process still relies on employee honesty, it may lower the likelihood that an employee is overpaid due to a timekeeper's inaccurate recording of time worked.

**Prince George's County Public Schools  
Response to Financial Management Practices Audit**

Type of Error	Corrective Action	Target Completion Date
Duplicate payments	<ul style="list-style-type: none"><li>• Add an automated alert that informs staff when a leave payout has already been processed. If a second payment needs to be processed (to correct a prior error) the system will require staff to enter explanatory notes to document the reason for the secondary payment.</li></ul>	June 30, 2014
Payment for days not worked	<ul style="list-style-type: none"><li>• Whenever possible, only allow new hires to start work at the beginning of a pay cycle.</li><li>• Allow for non-equal payments when employees start in the middle of a pay cycle. See explanation below.</li></ul>	Fiscal Year 2015 <sup>6</sup>

The district currently apportions an employee's annual salary across bi-weekly payments in order to provide equal payment amounts in every pay period. For example, if a 10 month employee starts work at the beginning of a pay period, the employee works for 10 days in that period but is paid for 8.7 days.<sup>7</sup> Similarly, if the same employee started halfway through the pay period, they would have worked five days but would still have been paid for 8.7. As exhibits 1 and 2 below illustrate, the practice of allowing employees to start working midway through a pay period creates times of the year when the employee has been paid for more days than they have worked.

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<sup>6</sup> Subject to union negotiations.

<sup>7</sup> Ten month employees work a total of 192 contract days. This number is divided by the number of pay periods (22).

**Prince George's County Public Schools  
Response to Financial Management Practices Audit**

**Exhibit 1**

**Pay Period Comparison of Days Worked versus Paid  
for a Ten Month Employee by Start Scenario**

Pay Period	Pay Period			Cumulative			Running Balance (Cum. Earned - Cum. Paid)	
	Days Paid	Days Earned (Mid-Pay Period Start)	Days Earned (Beginning Pay Period Start)	Cumulative Days Paid	Cumulative Days Earned (Mid-Pay Period Start)	Cumulative Days Earned (Beginning Pay Period Start)	Mid-Pay Period Start	Beginning Pay Period Start
1	8.73	*5	*10	8.7	5	10	(3.73)	1.27
2	8.73	8	8	17.5	13	18	(4.45)	0.55
3	8.73	10	10	26.2	23	28	(3.18)	1.82
4	8.73	10	10	34.9	33	38	(1.91)	3.09
5	8.73	9	9	43.6	42	47	(1.64)	3.36
6	8.73	10	10	52.4	52	57	(0.36)	4.64
7	8.73	10	10	61.1	62	67	0.91	5.91
8	8.73	7	7	69.8	69	74	(0.82)	4.18
9	8.73	10	10	78.5	79	84	0.45	5.45
10	8.73	5	5	87.3	84	89	(3.27)	1.73
11	8.73	7	7	96.0	91	96	(5.00)	-
12	8.73	9	9	104.7	100	105	(4.73)	0.27
13	8.73	10	10	113.5	110	115	(3.45)	1.55
14	8.73	9	9	122.2	119	124	(3.18)	1.82
15	8.73	10	10	130.9	129	134	(1.91)	3.09
16	8.73	10	10	139.6	139	144	(0.64)	4.36
17	8.73	10	10	148.4	149	154	0.64	5.64
18	8.73	5	5	157.1	154	159	(3.09)	1.91
19	8.73	9	9	165.8	163	168	(2.82)	2.18
20	8.73	10	10	174.5	173	178	(1.55)	3.45
21	8.73	9	9	183.3	182	187	(1.27)	3.73
22	8.73	*10	*5	192.0	192	192	-	-
Total	192	192	192					

The first three columns in the table above display the number of days paid and days worked in a given pay period for different start scenarios. When comparing days earned for both scenarios in individual pay periods it is clear that all pay periods are identical except for the first and last pay period (\*highlighted in yellow).

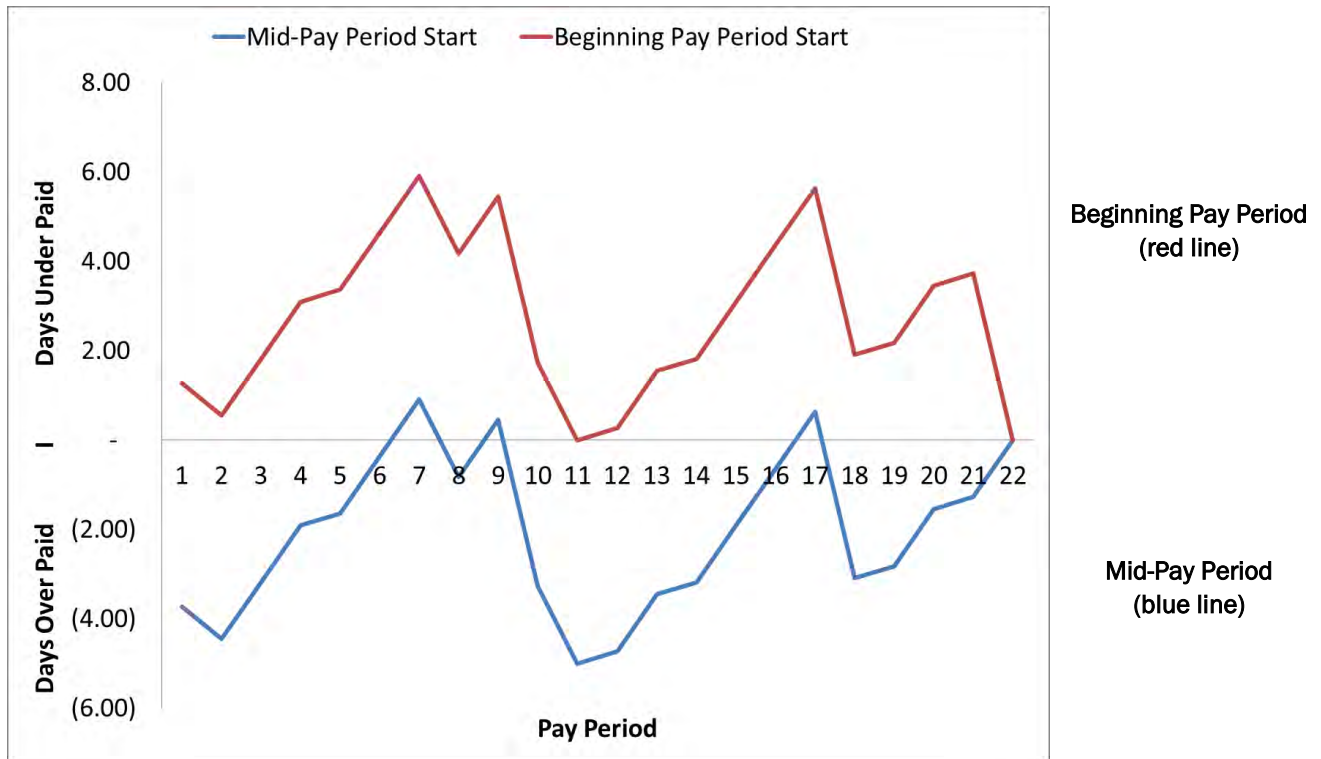
The next three columns in the middle show the cumulative number of days paid and days earned for both scenarios.

The final two columns on the left display the running balance in days paid by calculating difference between the cumulative days earned minus days paid. A negative running balance represents days overpaid, a positive running balance indicates underpayment. Exhibit 2 shows a graphical representation of these two columns.



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Exhibit 2  
Running Balance of Cumulative Days Earned versus Paid  
for a Ten Month Employee by Start Scenario



An employee that starts halfway through the pay period, shown in blue, is paid in advance for much of the year. Thus, if this employee quits in the pay period 11 or 12 (just before or after the winter break), that employee will owe the district for approximately four days of pay that they have been advanced. An employee who starts at the beginning of a pay period is never paid for days not yet worked.

Approximately one third of the overpayments that occurred last year and are still outstanding, or \$56,000, were paid to employees who started working in the middle of a pay period and terminated employment before the end of the fiscal year.

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**Finding 6:** PGCPs did not have a policy to support the method used to calculate leave payouts upon employee separation.

**Recommendation 6**

We recommend that PGCPs establish a formal Board approved policy specifying the appropriate daily pay rate basis for calculating leave payouts.

**Management Response 6**

Agree in part.

Every unionized employee is paid per the requirements in their respective union contract. All negotiated contracts in place stipulate the calculation method for prorating salaries, which is then used to calculate employee payouts. During the time of the audit, for the remaining less than one percent of all employees who do not have a union contract governing their payouts (executive, managerial and confidential employees), PGCPs utilized ASASP III contract language to calculate leave payouts. On June 1, 2013, PGCPs adopted Administrative Procedure (AP) 3174 which details the procedure for paying out leave to executive employees. PGCPs will revise AP 3174 to specify the number of days per year that should be used to calculate daily pay rates. The change in procedure will be formalized by March 31, 2014.<sup>8</sup>

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<sup>8</sup> In the fall of 2011, the district changed the practice of calculating daily pay rates for executive leave payouts using 244 days and began using 261. However, this change was never documented as an official change to the administrative procedure.

**Prince George's County Public Schools  
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**Finding 7:** PGCPs paid for sick leave usage totaling \$2.4 million in excess of donations to the sick leave banks.

**Recommendation 7**

We recommend that PGCPs establish a policy over sick leave bank grants regarding the permissibility for granting requests in excess of the available balance.

**Management Response 7**

Agree in part.

The union referenced in this finding has been notified that PGCPs will no longer contribute funds in excess of the available balance; grants approved after contributed days have been exhausted will be financed solely by the union going forward. Negotiations to determine a plan and timeline for repayment of the existing negative balance are underway.

Internal controls have been put in place to ensure PGCPs does not approve sick leave grants in excess of the available balance. As of July 1, 2013, staff perform monthly reconciliations and projections to ensure balances are available to award new grants. Representatives from the Payroll and Benefits and Employee Labor Relations offices now participate in sick bank reviews with all unions to monitor available balances.

Additionally, the union referenced in this finding has implemented a number of changes to manage the sick leave bank request and approval process. The union has:

- Modified the sick leave bank request form to ensure a more detailed medical diagnosis is provided prior to grant approval;
- Increased the annual contribution amounts for those that elect to contribute to the sick leave bank (from two days to two and a half days per person); and
- Adopted the use of the Official Disability Guidelines<sup>9</sup> to inform the review and approval of sick leave grant requests.

These changes appear to be having the intended effect. According to the most recent report which reconciles monthly projections with actual expenditures, the union is currently on track to maintain a positive balance in their sick leave bank account this fiscal year.

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<sup>9</sup> Official Disability Guidelines (ODG) are provided by Work Loss Data Institute (WLDI), an independent database development company focused on workplace health and productivity. The ODG, now in its 18th edition, provide evidence-based disability duration guidelines and benchmarking data for every reportable condition.

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**Finding 8:** Internal controls and record keeping related to certain Transportation Department employees were not adequate to ensure the propriety of salary payments.

**Recommendation 8**

We recommend that PGCPs ensure

- a. that a standard time reporting process for transportation employees (such as timesheets or time clock) is implemented and that related documents are retained (repeat), and all overtime is properly supported and approved in accordance with PGCPs procedures;
- b. that supervisors approving payroll records, review the source documentation, at least on a test basis; and
- c. that an employee independent of the driver verifies the propriety and accuracy of all changes to permanent route assignments and documents the verification procedures performed.

**Management Response 8**

Agree.

PGCPs acknowledges that a standard time reporting process is necessary for consistent record keeping in all bus lots and will establish Standard Operating Procedures (SOPs) to instruct and require staff to assign, document, validate and approve hours worked. As part of this effort, PGCPs will examine the possibility of implementing an automated system to document and verify actual hours worked. SOPs will be developed and piloted in one bus lot in calendar year 2014 and rolled out to all bus lots in the subsequent year. In the interim, for all bus lots, transportation supervisors will review timesheets against source documentation and take corrective actions as errors are discovered.

In 2013, all PGCPs buses were fitted with GPS units. In addition to using these units for asset tracking purposes, transportation staff have begun to examine supplementary uses of offered by the GPS reporting system. Transportation staff are now in the process of installing new software to integrate GPS and routing technologies to allow for districtwide comparisons of planned versus actual routes. Such expanded technology will enable transportation staff to review, approve and document route changes using GPS system reports rather than having a supervisor ride along. PGCPs anticipates that all route changes will be verified using this technology by August 2014.

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**Finding 9:** PGCPs equipment inventory records were not comprehensive or complete and items were not physically marked as being property of the System.

**Recommendation 9**

We recommend that PGCPs

- a. ensure that detailed equipment records are maintained for all appropriate assets (repeat);
- b. ensure that detail records include all applicable information, including cost and serial numbers or other specific identifying information (repeat); and
- c. amend the Property Control Manual to require tagging of all equipment for identification purposes.

**Management Response 9**

Agree in part.

***Maintaining detailed equipment records (9a and 9b):*** In September 2013, PGCPs completed a comprehensive physical inventory of all depreciable assets (those with value greater than or equal to \$5,000) across all district locations. As part of this process, accounting records were updated and all depreciable assets tagged with barcodes. The barcodes are linked to the inventory system by asset number. Assets over \$5,000 are now being tagged as they are purchased, as are non-depreciable assets with a value greater than \$500. Going forward, the inventory system for all tagged assets will also include cost information; the system will no longer allow items to be entered with a value of zero.<sup>10</sup> Construction in Process (CIP) items will continue to be tagged and logged once projects are certified as complete.

***Updating the Property Control Manual to require tagging of all assets (9c):*** PGCPs has determined that retroactive tagging of inventoried assets currently in the database and valued at between \$500 and \$4,999 is not cost-effective. However, the school system has directed resources to cleaning the inventory database and will concentrate on future purchases instead of conducting a wall-to-wall inventory of these less valuable durable goods. Beginning July 1, 2013, all assets with a value over \$500 will be tagged.<sup>11</sup>

The PGCPs Public Property Control Manual has been revised and is currently being reviewed and finalized. It has been updated to provide guidance on how items which typically do not have a serial number (e.g. wrestling mat, bookcase, table, etc.) should be posted to the detailed equipment records. As described further in the response to finding 10, PGCPs is developing and will implement an Administrative Procedure (AP) setting forth requirements for performing physical inventories and updating detailed inventory records. A draft of the AP has been completed and is being finalized. The updated manual should be completed by February 28, 2014.

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<sup>10</sup> The finding states that there were 47,958 items with a value of \$0 or \$1 value, 42,469 of those items are retired IT assets that were transferred from our legacy system in 2002/2003.

<sup>11</sup> Prior to July 1, 2013 only technology assets valued over \$500 were tagged.

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**Finding 10:** Physical inventories of equipment were not conducted regularly and policies had not established a process for performing physical inventories.

**Recommendation 10**

We recommend that PGCPs

- a. amend the PCM to specify the frequency for conducting physical inventories (for example every three years), designate inventorying responsibilities and require documented reconciliations of the inventory counts to the detailed equipment records (repeat); and
- b. ensure that all locations are inventoried on a regular basis (repeat).

**Management Response 10**

Agree.

***Establish additional policies for performing physical inventories:*** PGCPs has drafted an Administrative Procedure. Results from the comprehensive physical inventory were useful in informing the requirements specified in this draft. The AP will:

- 1) define which assets should be inventoried;
- 2) set forth required components of detailed inventory records;
- 3) establish asset tagging requirements;
- 4) define the frequency for performing physical inventories by equipment type; and
- 5) establish inventory responsibility both at PGCPs central office and in locations throughout the district.

As mentioned in finding 9, the Public Property Control Manual has also been revised to reference this AP for use in the PGCPs Public Property Control section of the Internal Audit Department. The AP is expected to be finalized and released by March 31, 2014.

***Perform comprehensive physical inventories regularly:*** The timeline for inventories by equipment type will be clearly outlined in the revised AP and PCM. The application of bar codes mentioned in the response to finding 9 has streamlined the physical inventory process. This added efficiency will enable staff to inventory all locations on a more regular basis using handheld scanners and other technologies.

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**Finding 11:** PGCPs did not ensure that employee access to its automated financial system was appropriate.

**Recommendation 11**

We recommend that PGCPs ensure appropriate internal controls exist for granting and periodically reviewing assigned access capabilities on the automated financial system.

Specifically, we recommend that PGCPs

- a. develop security reports that readily identify employee access information for critical responsibilities and functions within the automated system,
- b. implement standardized user profiles,
- c. periodically ensure that employee access capabilities are appropriate and warranted based on the employee's current job duties (repeat),
- d. ensure that staff who are assigned programming capabilities do not also have capabilities that would allow them to perform system operational functions, and
- e. limit modification capabilities to independent supervisory personnel and ensure any changes are reviewed for propriety.

**Management Response 11**

Agree.

**Identifying employee access (11a):** A custom report/query has been created to deliver an Excel pivot output of all users with assigned responsibilities and functions, making the security information much more readily available. The report includes User-Responsibility-Function mapping for all PGCPs users, so it can be used to filter for a selected Responsibility or selected Function. The Enterprise Resource Planning application (E-Business Suite) does not automatically classify Functions as critical or otherwise.

**Standardizing and certifying user access (11b and 11c):** PGCPs has been using the vendor's built in utility to manage E-Business Suite entitlements. When an employee is on-boarded (e.g. new hire), the system automatically provisions a basic set of responsibilities (i.e. Employee Self-service and iRecruitment) that is applicable to everyone. Additional responsibilities are assigned to individuals by request of his/her supervisor, and as approved by Departmental Information Security Approver (DISA). When HR makes a change to an employee's position or location, the utility automatically disables any additional responsibilities other than Employee Self-service and iRecruitment assigned to that individual. Even if the same responsibility is required by the employee in the new position/location, it will only be assigned based on a new request by the supervisor and approval by DISA. While all the employees are offered in-class and web-based training for various business functions for which they are responsible, the DISA are selected based on their rich experience with EBS, in addition to their business knowledge. Management believes that the supervisors, with support and mentoring from a DISA, are best positioned to determine the need for a responsibility for their staff performing specific job



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functions. Further, the utility “attestation” workflow process<sup>12</sup> currently being implemented, will help streamline how supervisory employees review entitlements and approve them.

Implementing a Role Based Access Control (RBAC) for EBS is a major endeavor that requires commitment of resources and time by all PGCPs divisions and departments. Yet the benefits of such a model, in the context of an automated identity and access management system, are unclear. PGCPs will generate internal discussions on the benefits of RBAC and conduct a feasibility study for a phased approach to implementing RBAC. PGCPs also will simplify the attestation process with OI&AM, and ensure that an appropriate level of access is maintained for all the employees accessing EBS.

***Programmer access to live production environment (11d):*** PGCPs Information Technology employs functional analysts who work with the user departments to troubleshoot production/operational issues, as well as develop new processes & reports in EBS. These individuals also function as an EBS trainer/mentor to new hires in the end-user departments, and provide operational coverage in case of emergencies.

To help these analysts perform their job expeditiously, they have been assigned one or more responsibilities, with the “query only” attribute/profile turned on. As such, these individuals can review live production data, but are not able to make any changes to it. In addition, the applications DBA is required to run post-upgrade or post-patch steps that may involve a functional setup or execution of specific concurrent requests using an operational responsibility. In such cases, the DBA utilizes the required responsibility for the duration of the maintenance only. Given that system technician and programmer access to the operational functions is required for a smooth business operation; PGCPs will selectively grant access to staff and monitor that access for appropriate use.

***Monitoring Super Users in the Purchasing Function (11e):*** Super Users in the Purchasing Department make changes to the purchasing hierarchy<sup>13</sup> in order to keep requisitions moving efficiently through the purchasing system when they get stalled because approvers are unavailable or positions authorized to approve are vacant. When approval paths require modification, the requisition continues to follow the hierarchy prescribed by Board Policy which is based on the value of the requisition. Prior to modifying the approval path, the Purchasing Department Super User obtains approval to modify the approval path via email. This request must always come from the approver being skipped or someone higher in the hierarchy. For instance, an Area Superintendent may request approval path modification when a Principal is on leave. All such email requests are attached to the requisition for documentation purposes.

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<sup>12</sup> Attestation enables designated reviewers to be notified of reports they must review. These reports describe entitlements of other users. A reviewer can attest to the accuracy of these entitlements by providing a response. The attestation action, along with the response the reviewer provides, any associated comments, and an audit view of the data that the reviewer views and attests to, is tracked and audited to provide a complete trail of accountability.

<sup>13</sup> Only supervisory level personnel have this capability.



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In addition, the Purchasing Director reviews all requisitions that go through this augmented approval process.

When a change to a Purchasing hierarchy is made, EBS creates a log of who made the change and when it was made. PGCPs will look into creating an EBS Alert that notifies the appropriate individuals that a change has been made to the hierarchy. Additionally, EBS does not have a standard report to log when a supervisor must manually route a requisition to the authorized alternate approver, but PGCPs will look into creating one. The district will also look into implementing work flow rules in EBS to automate re-routing for stalled requisitions to a pre-designated departmental back-up. This would allow not only allow for exception reporting for auditing purposes but would also enable the district to calculate cycle times to identify the need for process improvement.

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**Finding 12:** Inadequate controls over the student management system and ERP databases resulted in security vulnerabilities.

### Recommendation 12

We recommend that PGCPs

- log direct changes to critical tables and the use of critical database privileges for the student management system and ERP databases,
- document reviews of database logs and retain the documentation for verification purposes,
- ensure that databases are fully supported by the database vendors and patched on a current basis, and
- disable the insecure service on the student management system database.

### Management Response 12

Agree in part.

**Logging changes (12a):** PGCPs accepts the recommendation to log the use of critical database privileges for the Student Information System and E-Business Suite. The change has already been implemented and these events are currently logged.

While PGCPs recognizes the importance of auditing direct object modifications, the district unable to implement the recommendation to "log direct changes to critical tables" due to the following reasons:

- All the critical tables of E-Business Suite (EBS) and the Student Information System (SIS) have seeded database triggers that populate a log of who made any change and when it was made for auditing of data updates. Customer modifications or additional triggers are not supported by the vendor for application performance and data integrity reasons.
- EBS and SIS use a common database user account (e.g. APPS) to perform all database actions (while application security is maintained at the application layer). Therefore, distinguishing a direct update from an application update, and auditing those transactions requires the use of a sophisticated tool. PGCPs is currently investigating the return on investment associated with this type of undertaking.

Currently, the databases log all changes made through the "application (Forms/GUI interface)" by capturing who made the change and when it was made for each unique transaction. However, if a privileged user (DBA) makes changes to the tables "directly" (using a SQL/API) the change information may not be captured. The complexity of EBS (e.g. product design, number of objects, referential integrity constraints, performance impact, etc.) and the vendor's support policies preclude the district from making any structural modifications to capture any additional audit information at such granularity. PGCPs will look into the possibility of using specialized products to capture and report on such direct table modifications to EBS and SIS.

**Reviewing change logs (12b):** Audit logs for Student Information and E-Business Systems are currently reviewed electronically. PGCPs will have in place electronic documentation that will serve as the Audit log of such reviews by March 31, 2014.

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***Updating database tables to current vendor specifications (12c):*** All district production systems have been patched up to the current/supported code levels offered by the respective the vendors.

***Disabling insecure service (12d):*** The Student Information System database service identified as insecure has been disabled.

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**Finding 13:** PGCPs did not have an Information Technology Disaster Recovery Plan.

**Recommendation 13**

We recommend that PGCPs develop and implement a comprehensive information systems disaster recovery plan (repeat).

**Management Response 13**

Agree.

PGCPs has an application level disaster recovery plan in place for the critical transactional systems, namely E-Business Suite and SIS. This plan has been extensively tested using a combination of backup/recovery and cloning techniques, making these primary production systems (hosted at the central office datacenter) available as a cloned/standby copy at a secondary datacenter. Servers have been placed at the secondary site; and the databases and application are currently synchronized using various utilities.

PGCPs had an independent network assessment and audit performed in 2010 by Brocade. While some of their recommendations may present adverse side effects in our environment which could be mitigated with proper diligence, the general direction of the recommendations in the report represents sound advice. PGCPs has performed network failover testing of each of the datacenters.

PGCPs is currently working on a comprehensive disaster recovery plan documenting the database, application and network recovery procedures using the State of Maryland IT Disaster Recovery Guidelines. This plan will cover only critical information systems and a contracted third party will help the district compile this document over the next six months. In addition, by May 2014, PGCPs will have established an off-site location where payroll and accounts payable activities can be conducted to ensure continuity of operations. This functionality is a component of the comprehensive disaster recovery plan.

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**Finding 14:** The PGCPs network was not properly secured.

**Recommendation 14**

We recommend that PGCPs adequately secure its network from potential attack. Specifically, we recommend that PGCPs

- a. perform a documented review and assessment of its network security risks, identify how IDP coverage should be best applied to its network, and implement IDP coverage for all critical portions of its network as appropriate;
- b. place publicly accessible servers in a separate protected network zone to minimize security risk; and
- c. implement controls to limit network level student access to only authorized local school and headquarters network resources (repeat).

**Management Response 14**

Agree in part.

**Assessment of network security risks (14a):** Agree. PGCPs has developed a plan to implement Intrusion Detection System on the network and has acquired the necessary equipment. It will be implemented by June 30, 2014. PGCPs is also currently evaluating companies to select a vendor to conduct a documented review and assessment of network security risks. Management anticipates this review will take place before the 2014 – 2015 school year begins.

**Migration of publicly accessible servers onto a separate network (14b):** Agree. PGCPs will consider the deployment of additional firewalls for core servers to protect internal applications by creating a multilayer approach.

**Limiting network level student access (14c):** Disagree. Given the age of servers and lack of sufficient personnel resources, PGCPs cannot in good faith agree to establish VLAN in all of its buildings to segment student traffic from the access given to teachers and staff as it would be uneconomical and unmanageable to do so. PGCPs will look into separate VLANs for remote connections.\*

\*See Appendix B for related auditor's comment.

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**Finding 15:** PGCPs did not adequately document preventive maintenance work performed.

**Recommendation 15**

We recommend that PGCPs complete and document all preventive maintenance performed in compliance with the requirements of the comprehensive maintenance plan.

**Management Response 15**

Agree.

At the time of this audit, preventive maintenance was performed outside of the work-order system with area supervisors providing only limited oversight of the auditing of school and office log books. The district's prior work order system provided no monitoring or future scheduling for preventive maintenance. PGCPs has since purchased a comprehensive Plant Operations and Supporting Services software suite. This software allows for the creation of work orders for specific employees and tasks and will capture time and materials required. This information will allow the use of analytical tools available within the work order system to capture and report on the volume of work, timeliness of repairs, and future purchasing requirements; it will also display schedules by facility.

As part of the implementation of the new system, existing work orders from prior system will be migrated into the new system, and then schedules for future scheduled maintenance, by piece of equipment, will populate. Existing equipment is being asset tagged (see finding 9), as well as mobile equipment (buffers, tractors, etc.), so maintenance can be logged by serial number at the time it is performed, along with the nature of the work (i.e. belt replacement). PGCPs is actively in the process of rolling out the new system in all facilities and conducting system-wide training on use of the system.

As is the case with many other school districts state-wide, funding for preventative maintenance will continue to be an issue. Current priorities focus resources (personnel, time, funding) on replacement or repair of broken equipment and preventative maintenance may require the district to replace equipment that is actually currently working outside of its prescribed 'useful life'. However, by utilizing the new software solution and increasing training and awareness, the preventative maintenance team will be better positioned to perform tasks that will extend the life of equipment while minimizing cost.

In an effort to determine how the department can dedicate more time to preventative maintenance activities, PGCPs has reassessed how the department operates and holds staff accountable. As part of this effort, the department will be adopting a new training plan which will include a time management component for supervisory staff. Additionally, custodial staff have begun to transition away from zone cleaning to team cleaning, which should yield efficiencies in both time and quality.

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Performing preventative maintenance to critical systems while schools are occupied will continue to present a scheduling challenge as staff cannot perform most preventive maintenance work without shutting down the building systems during normal school hours. PGCPs acknowledges that all the hurdles for implementing a second shift preventive maintenance program have not yet been cleared. The establishment of a dedicated evening shift will be re-evaluated as part of the FY15 budgeting process. In the meantime, management will work to evaluate staffing and identify staff with the availability and training to transition from daily custodial work to preventive maintenance functions.

Plant Operations is also in the process of implementing new performance and tracking metrics, as a part of PGCPs' Performance Management system. Below are plans for FY14 and FY15.

<b>OBJECTIVE: Reduce the number of unscheduled work orders by 5% in FY14; in FY15, an additional 5%.</b>				
<b>Rationale:</b> The increase of effective preventative maintenance will decrease the loss of educational time due to school building system failures related to HVAC.				
<b>PERFORMANCE MEASURES:</b>				
MEASURE NAME	MEASURE CATEGORY	FY 2013 ACTUAL	FY 2014 TARGET	FY 2015 TARGET
Labor hours devoted to HVAC Preventative Maintenance	Output	*No Data	*Baseline	*Baseline
Percent of Preventive Maintenance HVAC work orders completed	Output	85%	100%	100%
Percent increase in HVAC Preventative Maintenance Hours	Output	*No Data	*Baseline	*Baseline
Number of unscheduled HVAC work orders	Outcome	3790	3600	3420
Number of HVAC Preventative Maintenance work orders	Input	3790	3600	3420

<b>DEPARTMENT STRATEGY: Increase preventative maintenance activity.</b>			
ACTION(S)	RATIONALE	OWNER	DATE
Develop a second shift to perform PM	PM is accomplished more efficiently if done when the facility is not in use	Director Building Services	FY15 (if approved, positions open July 2014)
Increase training for all staff that interface with building systems	Increase skills of workforce	Training Coordinator Building Services	FY14
Implement work order tracking system	To track and monitor timeliness and quality of completion of work orders	Director Building Services	FY14

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**Finding 16:** ESCO contracts lacked necessary specificity to ensure timely project completion and realization of expected savings.

**Recommendation 16**

We recommend that PGCPs develop an approach to ensure that projects are completed on time and determine that guaranteed saving are achieved.

**Management Response 16**

Agree in part.

This finding implies that the Energy Performance Contracts (EPC) have lasted an inordinate amount of time due to PGCPs' inability to enforce timely completion of the work. PGCPs does not agree with this implication. It is true that most EPCs are generally completed within two years of the notice to proceed. However, most of these are projects with total contract values in the range of two to five million dollars and are usually for a limited number of buildings using a single Energy Service Company (ESCO). PGCPs took on a more comprehensive, complex, and challenging program. With 200 buildings and thousands of individual energy conserving Facility Improvement Measures (FIMs) it was very difficult to set accurate start and completion dates for each school building. In many instances, even after nearly all improvements had been made, projects could not be considered complete until the controls and monitoring equipment were in place and tested. Moreover, staff training and commissioning of equipment, required by the DGS, could only be performed during the appropriate season (i.e. chiller and cooling equipment during the warm weather months and heating equipment during the cooler weather months). These factors contributed to the protracted length of time required before an individual school building could be considered completed. Given the scale and complexity of the work undertaken by these ESCOs, execution of the full scope of work could not possibly be completed in a two year period. The first three phases of the program were initiated in 2006 and the last phase was initiated in 2010). The district anticipates the entire EPC program will be complete by March 1, 2014.

Although existing ESCO contracts do not directly incorporate language that addresses energy savings measurement, these contracts include language which legally binds the ESCOs to the terms in their original proposal. Proposals submitted by both ESCOs included base year 2005 utility consumption, annual rate increase assumptions, as well as methods of savings calculations. These contracts also require that the ESCOs adhere to the terms set forth in the State of Maryland Department of General Services' Request for Proposal and Indefinite Quantity Contract with Energy Services Companies. These documents require the ESCOs to submit a secondary proposal specifying how energy savings will be measured and verified annually over the course of the payback period.

In the latter half of 2013 both ESCOs submitted their proposals presenting their plan for operations and maintenance of equipment as well as the measurement and verification of energy savings. PGCPs has engaged a new contractor to assist with reviewing these proposals



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and negotiating terms for the final phase of the EPC. The district acknowledges the benefit of having contract language and exhibits which specify the baseline year, annual savings guarantees, and savings calculation methodology directly incorporated into the EPCs and will work to ensure that the final amendment to the ESCO contracts includes such detail.

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**Finding 17:** PGCPs did not always obtain adequate assurance that payments were for proper amounts or for services that had been provided in accordance with the approved contract.

**Recommendation 17**

We recommend that PGCPs ensure that

- a. all goods and services invoiced by the ESCOs are provided prior to payment of the related invoices and that the prices charged by the ESCOs are in accordance with the related contract; and
- b. comply with the recommendations and reviews of the third-party monitor, or document why the recommendations were not accepted.

**Management Response 17**

Agree.

From the inception of the EPC program, PGCPs has had a process in place whereby a Project Manager (which OLA refers to in this report as the “third party monitor”) reviews all invoices submitted by both ESCOs. Since 2006, the Project Manager’s responsibility had been to review invoices to: 1) ensure compliance with the contract; and 2) to confirm that the percentage of completed work referenced in the invoice was accurate based on review of back-up materials submitted by the ESCO and the Project Manager’s own field observations; this included both confirming delivery of services and ensuring the receipt of materials was documented. When the Project Manager discovered inaccuracies, the invoice was either sent back to the ESCO for adjustment or was reduced according to the Project Manager’s recommendation.

In mid-2013, PGCPs initiated a review of the entire EPC effort. As part of this review management discovered that a breakdown in the approval process for ESCO invoices occurred during phase 2B of the EPCs. When the EPCs were modified the first two times (phases 1B and 2A) PGCPs enlisted the help of the Project Manager to review individual project costs proposed by the ESCOs and suggest changes. These changes were subsequently incorporated in the contract modifications for those phases. When the contract was modified once again for Phase 2B, the Project Manager was not involved in reviewing project costs. Consequently, the fourth modification formalized changes in scope and price with which the Project Manager did not agree. Therefore, the Project Manager in reviewing and forwarding any subsequent invoices for payment included a disclaimer as to the veracity of the invoice prices. Despite this disclaimer, management was under the impression that the Project Manager continued to review invoices to verify the percentage of work completed and the receipt of materials invoiced. PGCPs has since discovered that this was not the case. The district has since released this Project Manager, and has enlisted the help of a new contractor to conduct a review of current invoices and oversee the close-out of construction. This new contractor is also reviewing costs for each scope type and doing cursory review of installed scopes to determine if adjustments to final invoice values for different schools need revision or adjustment.

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For the facility improvements that have yet to be paid out, totaling approximately ten million dollars, PGCPs will work closely with the new Project Manager to ensure that all goods and services invoiced by the ESCOs are provided prior to payment and that the prices charged are in accordance with the related contract. In the event that PGCPs determines the need to pay an invoice despite the Project Manager's recommendation to the contrary, PGCPs will document the rationale for making this determination.

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**Finding 18:** PGCPs paid the ESCOs higher prices for certain projects than specified in the contracts, without a formal contract modification or Board approval.

**Recommendation 18**

We recommend that PGCPs thoroughly investigate any increases in costs for energy conservation measures and take action to recover any payments for unjustified increases or seek retroactive Board approval for cost increases that are adequately explained.

**Management Response 18**

Agree in part.

***Lack of Board approval:*** As stated in the finding, the Energy Performance Contracts (EPC) consisted of four phases. Every new phase represented an expanded scope of work relative to the original contract and was added as an amendment to the original contract. The additional work increased the total contract value, and therefore every amendment and its corresponding budget increase received Board approval. The first three phases of the project included facility improvements and costs referenced in the original proposal. The last phase referenced a second, final proposal. There were some increases to project costs between the original and final proposals, but the fourth amendment that referenced the costs in the final proposal, was agreed to by the parties, and was approved by the Board. Therefore PGCPs did receive Board approval for all project costs, and is obligated to pay contractually agreed costs for work delivered or performed.

***Variances in costs between original and final proposals:*** PGCPs recognizes that there were instances where the costs for particular facility improvement project types did change between the original 2006 proposal and the final 2010 proposal. Cost for many project types remained unchanged, while others increased or decreased. There are a number of justifiable reasons why costs for particular improvement measures could have increased between the original feasibility study in 2006 and when conditions were reassessed in 2010. For example:

1. the conditions of the equipment and related items deteriorated over time and the scope therefore had to be modified (increased) to accomplish the same designated facility improvement measure;
2. operating conditions and requirements at the facility (i.e. the school) had changed leading to the determination that slightly revised improvement measures could be accomplished; and/or
3. equipment/technologies outlined in the initial proposal were traded out for newer, more efficient models that became available in the intervening years.

Unfortunately, PGCPs staff did not document justification for the modified costs before they were formally incorporated in contract modifications. PGCPs is now bound to adhere to and make payments consistent with the individual project costs incorporated into the final amendment of the ESCO contracts.

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***Investigation of cost increases:*** Due to the scale and level of complexity of the entire EPC effort, the amount of time that has elapsed since the initial feasibility study in 2006, and the turnover in staff both at PGCPS and the ESCOs, as well as the recent change in the contracted Project Manager, a thorough investigation of the entire EPC program would be a significant, and potentially costly, undertaking. Should such an investigation determine that cost increases were unjustified, the district may nevertheless have limited legal recourse given the terms of the contracts in effect. Be that as it may, PGCPs is weighing the options for and the benefits of taking on such an endeavor and will make a final decision in consultation with legal counsel.\*

\*See Appendix B for related auditor's comment.

## Prince George's County Public Schools Response to Financial Management Practices Audit

**Finding 19:** PGCPs did not implement certain practices to promote more efficient use of its bus fleet.

### Recommendation 19

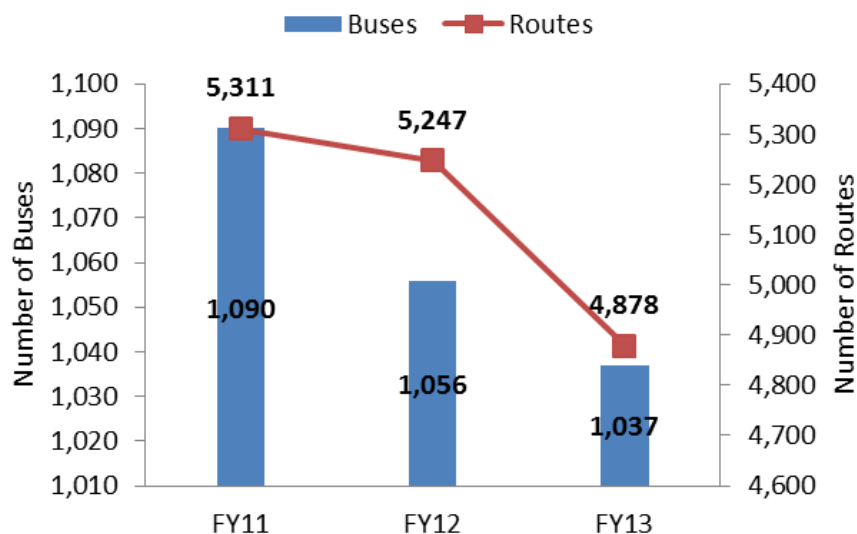
We recommend that PGCPs take steps to use buses more efficiently. Specifically, we recommend that PGCPs

- utilize an automated routing system to assist in developing efficient bus routes on a system-wide basis;
- take appropriate steps to ensure the accuracy of routing system data;
- obtain manifests for all bus runs and periodically review bus ridership data and established routes to ensure capacity goals are met to the extent practical; and
- develop detailed policies and procedures to provide guidance for determining and revising bus routes, including goals for bus utilization, capacity, and ride times (repeat).

### Management Response 19

Agree in part.

**Automated routing system use:** For the last several years PGCPs has utilized routing software to assist with various aspects of the planning process for bus routes. Understanding that there is no routing system that can completely automate the routing function, PGCPs utilizes routing software to develop an initial set of routes for the district. The routing team then adjusts routes manually to reflect circumstances not captured by the software. Since the fall of 2012 when auditors were on site, PGCPs has installed a number of software updates and has worked with the Maryland-National Park and Planning Commission and other government agencies to ensure the routing software is utilizing updated maps. These updates have greatly improved the software's ability to produce operational routes, calculate alternative routes, and recommend route and stop consolidations ultimately resulting in a 5% reduction in the number buses of in use and an 8% reduction in routes over the last two years (see exhibit below).



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Despite these improvements the need for manual adjustments remains as routing software is only as good as the data utilized in the automated analysis. For example, maps available often do not reflect availability of sidewalks nor distinguish roads that are unsafe for walking; temporary road closures or road construction which could substantially affect a route's efficiency are also not always reflected. In addition, the school district currently does not have a process in place to allow eligible students to opt out of transportation services. As a result, manual adjustments are made to reflect these circumstances including intentionally over-booking routes for schools with historically low ridership.<sup>14</sup>

***Routing system data quality:*** As mentioned in the response to finding 8, PGCPs is piloting a tool to integrate routing software with newly available GPS technology. This integration will allow staff to conduct a districtwide analysis of planned versus actual routes. As part of this pilot staff will explore the extent to which this tool can help the district maintain accurate routing system data.

***Policies and procedures and evaluation of efficiency:*** PGCPs agrees that detailed policies and procedures are necessary to provide guidance for determining and revising bus routes. Standard Operating Procedures (SOPs) will be developed to document processes used to plan, review and revise bus routes and to evaluate the district's overall transportation efficiency. SOPs will be drafted in calendar year 2014, piloted during the 2014 - 2015 school year, and fully adopted in the subsequent school year. Manifests to capture actual ridership are critical to the successful implementation of the SOPs and rider counts will be conducted at least twice a year.<sup>15</sup>

Metrics addressing costs and efficiency in transportation have been added to the district's Master Plan. The following measures and performance targets were added to the Transportation Department's list of Key Performance Indicators (KPIs) in the current (2013 - 2014) fiscal year:

1. Measure: Cost per total mile operated (all buses)  
Target: \$4.20
2. Measure: Cost per student  
Target (FY 14): \$1,150

In addition, PGCPs management will arrange training sessions with staff to ensure staff understands the full functionality of the routing system including real time reporting capabilities. Training will also address how these reports can be used for improved decision making and efficient resource management. This training will occur in the spring of 2014 in preparation for planning of routes for the 2014 - 2015 school year. Management will continue to examine where additional measures, such as ride times, need to be added to the department's list of KPIs.

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<sup>14</sup> These include schools where many students attend before or after-school programs or where parents transport their children to/from school.

<sup>15</sup> Semi-annual execution of ridership manifests has already resumed in the current fiscal year. Manifests were completed in December 2013 and will be collected once again in April 2014.

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**Finding 20:** PGCPs did not adequately control access to the automated fuel dispensing system.

**Recommendation 20**

We recommend that PGCPs ensure access to the automated fuel dispensing system is adequately controlled. Specifically we recommend that PGCPs

- a. develop a standard user agreement, which is signed by employees authorized to use the system, delineating employee responsibilities and inappropriate use;
- b. deactivate user access immediately upon employee termination or position transfer; and
- c. review user access on a periodic basis and remove access from employees who do not need the access.

**Management Response 20**

Agree.

PGCPs has developed a user agreement outlining the rights and responsibilities, usage parameters, and consequences of inappropriate use. All employees with fuel system access will be required to review and sign this agreement. PGCPs will ensure this usage agreement is on file for all authorized employees as soon by June 30, 2014.

Since the audit PGCPs has implemented a system whereby Human Resources staff informs Central Garage personnel of employees who no longer work for the school system to ensure termination fuel system access. Previously, HR provided Central Garage with report of employee separations twice a year. Beginning in 2014, Central Garage staff will receive the employee separation report monthly to deactivate access for users who are no longer employed by the district. At the moment this process is manual. However, PGCPs is exploring the feasibility of implementing automated processes for the authorization request, verification of access, and notification of termination. Central Garage staff has also begun to work with department heads to review user access for all personnel and recertify that continued access to the fuel system is still warranted. Going forward fuel access will be reviewed and recertified on an annual basis.



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**Finding 21:** PGCPs has not determined if various cost saving measures have had the expected results.

**Recommendation 21**

We recommend that PGCPs establish a process to monitor cost saving initiatives based on pre-established goals.

**Management Response 21**

Agree.

While there was no formal process in place to measure the specific financial outcome of the early retirement incentive (ERI) program established in fiscal year 2012, the district's growth in its fund balance from \$3.7 million in fiscal year 2011 to \$93 million in fiscal year 2012 offers an indication of the success of this initiative. However, management agrees that having a more granular understanding of the impact of specific cost savings initiatives would be beneficial.

Since the time of the audit, no situations such as those cited in the finding have been requested by Administration. In the future, should revenue suggest the need to implement short-term cost savings measures, PGCPs will institute formal procedures and recommendations and submit them for CEO review and, if Board approval is needed, through the monthly Finance and Budget (FAB) committee meetings. The results of cost savings strategies will be published in the Comprehensive Annual Financial Report, to include cost cutting initiatives such as furlough plans, early-retirement incentives, or other management strategies implemented to conserve funds or reduce spending.

## Prince George's County Public Schools Response to Financial Management Practices Audit

**Finding 22:** PGCPs did not implement risk management strategies to identify, monitor, mitigate, or prevent risk factors.

### Recommendation 22

We recommend that PGCPs implement risk management strategies to identify, evaluate, and mitigate risks to the System.

### Management Response 22

Agree.

Currently, the Division of Risk Management and Workers' Compensation has been realigned to report directly to the Chief Financial Officer rather than the Director of Finance. Recognizing the need to expand its focus beyond claims management, PGCPs has reconstituted the Office of Risk Management to add loss prevention and mitigation capacity. Specifically, three new full-time positions— a Program Coordinator and two Workers' Compensation Safety Analysts— have been approved. Their role will be to:

- focus on the reduction of worker's compensation expense;
- partner with the Safety Office to design and implement a comprehensive loss prevention program;
- identify trends in PGCPs data and conduct root cause analysis;
- expand school and office-based training programs to reduce claims.

PGCPs will onboard these new employees by March 2014. Additionally, a previously vacant Safety Officer position, which works under the Chief Operating Officer, has been filled and will establish in-house expertise in avoiding, eliminating, and mitigating risks and costs associated with property damage and worker injury.

From a claims perspective, PGCPs is working with the district's third party administrator and outside counsel to analyze data around incidences, locations, types of accidents, etc. in order to develop strategies for loss prevention. For on-going claims management, PGCPs is working to settle or mitigate older claims and reduce new claims.

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**Finding 23:** PGCPs did not take sufficient actions to control health care costs.

**Recommendation 23**

We recommend that PGCPs institute processes to

- a. verify the propriety of claims paid by the third-party administrator for active and retired employees, and
- b. verify the eligibility of enrolled health care program participants and their listed dependents.

**Management Response 23**

Agree.

In fiscal year 2015, PGCPs will contract with a vendor to conduct an audit of claims accuracy and compliance with plan documents for active employees and retired employees.

Management will use the findings of these audits to gauge the need for and frequency of similar audits going forward. In addition, staff will initiate an effort to ensure that eligibility documentation is on file for health care program participants' dependents.

## APPENDIX B

### **Auditor's Comments on the Prince George's County Public Schools' Response**

While Prince George's County Public Schools (PGCPS) concurred with the recommendations included in the report, in some cases disagreement was indicated regarding the underlying conditions noted. Our comments addressing these disagreements are presented below. In accordance with State law, all areas of disagreement will be addressed through separate correspondence between this Office and PGCPS.

#### Finding 14c:

PGCPS does not disagree with the finding but rather takes issue with the cost and size of the project required to implement our recommendation that they establish controls to limit network level student access to only authorized local school and headquarters network resources. While we understand their concerns, we continue to believe that implementation of our recommendation is important to provide adequate security controls over critical PGCPS resources.

#### Finding 18:

Although the Board approved each of the four phases, there was no evidence provided to us that the Board was aware that the overall contract cost increase for a particular phase included not only new work, but also price increases made for certain project components it had previously approved at a lower specified cost in earlier phases. As noted in the report finding, the contract states that costs shall not be modified unless PGCPS requested additional services which were approved by PGCPS.

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