

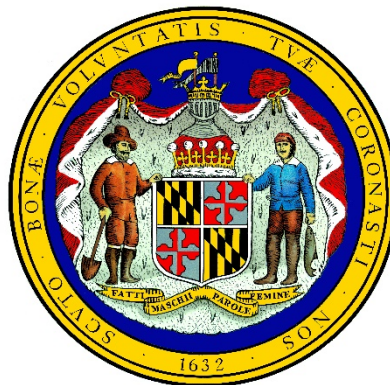
Financial Management Practices Audit Report

Cecil County Public Schools

January 2024

Public Notice

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



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MARYLAND GENERAL ASSEMBLY

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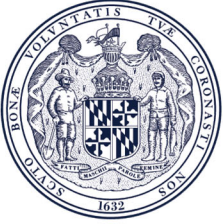
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

January 8, 2024

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

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Cecil County Public Schools (CCPS) 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 CCPS' procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

Our audit disclosed that CCPS' procurement policies were not sufficiently comprehensive and were not always consistently used when obtaining goods and services under intergovernmental cooperative purchasing agreements. In addition, CCPS did not always prepare written justifications for sole source procurements of education service contracts or obtain the approval of the Board of Education as required by its policies. Furthermore, CCPS awarded a sole source contract for a school bus camera system instead of conducting a competitive procurement. CCPS allowed the vendor to draft both the camera system contract and a related memorandum of understanding between CCPS and the Cecil County Sheriff's Office without them being reviewed for legal sufficiency.

Our audit also disclosed that CCPS needs to improve internal controls and accountability for health care services. Specifically, CCPS did not audit or adequately monitor the performance of its third-party administrators that provide health care claims processing services.

Furthermore, our audit disclosed certain risks in CCPS' information systems. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted these findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact

cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term “cybersecurity” is defined in the State Finance and Procurement Article, Section 3.5-301(b), and using our professional judgment we have determined that the redacted findings fall under the referenced definition. The specifics of the cybersecurity findings were previously communicated to CCPS as well as those parties responsible for acting on our recommendations.

Finally, based on our current audit assessment of significance and risk to our audit objectives, our audit included a review to determine the status of 12 of the 14 findings contained in our preceding audit report. For the non-cybersecurity-related findings we determined that CCPS satisfactorily addressed 4 of those 5 findings. The remaining finding is repeated in this report.

CCPS’ response to this audit is included as an appendix to this report. We reviewed the response and noted agreement to our findings and related recommendations and while there are other aspects of the response which will require further clarification, we do not anticipate that these will require the Joint Audit and Evaluation Committee’s attention to resolve. Additionally, in accordance with our policy, we have edited CCPS’ response to remove vendor names or products. Consistent with State law, we have redacted the elements of CCPS’ response related to the cybersecurity audit findings.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA
Legislative Auditor

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Background Information

Statistical Overview

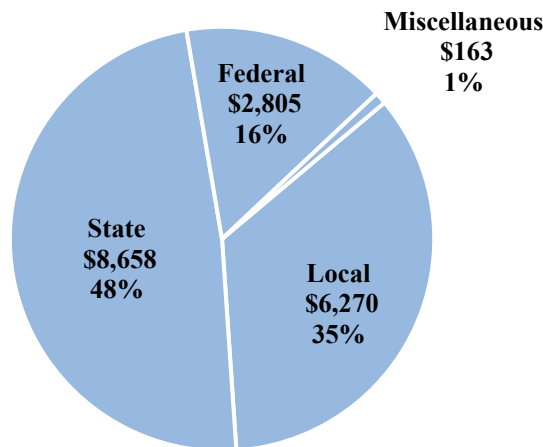
Enrollment

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Cecil County Public Schools (CCPS) ranks 14th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2022 full-time student enrollment was 14,780 students. CCPS had 30 schools, consisting of 17 elementary, 6 middle schools, 5 high schools, 1 vocational school, and 1 alternative school.

Funding

CCPS revenues consist primarily of funds received from the State, Cecil County, and the federal government. According to the CCPS' audited financial statements, revenues from all sources totaled approximately \$264.5 million in fiscal year 2022; including approximately \$128 million from the State. See Figure 1 below for CCPS' revenue sources per enrolled student in fiscal year 2022 according to its audited financial statements.

Figure 1
CCPS' Revenue Sources Per Enrolled Student
Fiscal Year 2022

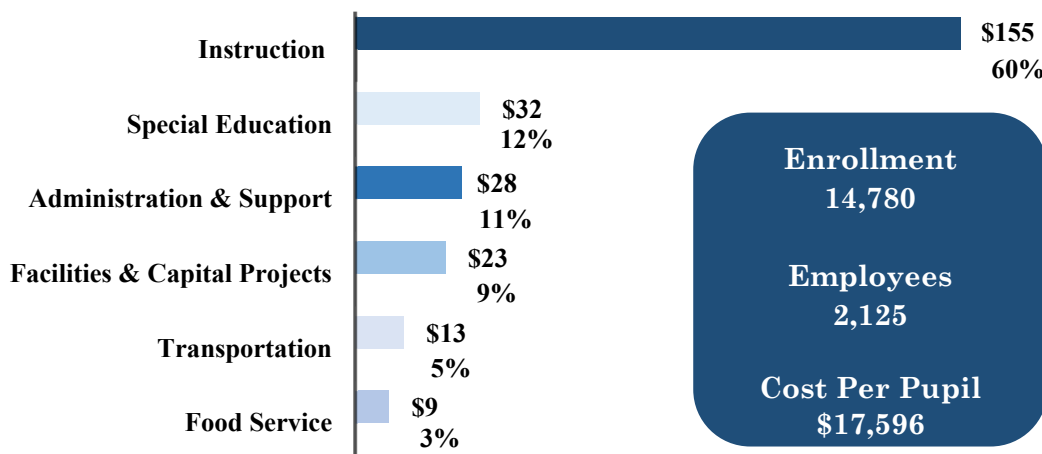


Source: CCPS' Fiscal Year 2022 Audited Financial Statements and MSDE Data

Expenditures

According to CCPS' audited financial statements, fiscal year 2022 expenditures were approximately \$260 million. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 81 percent of total expenditures during fiscal year 2022. According to MSDE records, during the 2021-2022 school year, CCPS had 2,125 full-time equivalent positions, which consisted of 1,526 instructional and 599 non-instructional positions. Instruction accounted for 60 percent of CCPS' expenditures on a categorical basis (see Figure 2).

Figure 2
CCPS Expenditures by Category and Selected Statistical Data
Fiscal Year 2022
(amounts in millions)



Source: CCPS' Fiscal Year 2022 Audited Financial Statements and MSDE Data

Oversight

CCPS is governed by a local school board, consisting of five elected voting members and one non-voting student member. MSDE exercises considerable oversight of CCPS through the establishment and monitoring of various financial and academic policies and regulations, in accordance with certain provisions of the Annotated Code of Maryland. MSDE also works with CCPS to comply with the requirements and mandates of federal law. The Cecil County government

exercises authority over CCPS primarily through the review and approval of CCPS' annual operating and capital budgets.

External Audits

CCPS engages a certified public accounting firm to independently audit its annual financial statements. The firm performs procedures to verify the amounts and disclosures in the financial statements. The firm also evaluates the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. In the related audit reports, the firm stated that the financial statements presented fairly, in all material respects, the financial position of CCPS as of June 30, 2017, 2018, 2019, 2020, 2021, and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

We reviewed the aforementioned financial statement audits and Single Audit reports for fiscal years 2017 through 2022 and examined the related work papers for the fiscal year 2021 audits, which were the latest available during our audit fieldwork.

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

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

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

Status of Findings From Preceding Audit Report

Based on our current assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of 12 of the 14 findings contained in our preceding audit report dated July 26, 2017. As disclosed in Figure 3, for the non-cybersecurity-related findings, we determined that CCPS satisfactorily addressed 4 of these 5 findings. The remaining non-cybersecurity-related finding is repeated in this report.

Figure 3
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	There was no independent verification that all recorded collections were subsequently deposited	Not repeated (Not followed up on)
Finding 2	CCPS had not established adequate internal controls over its automated accounts payable functions.	Status Redacted ¹
Finding 3	CCPS did not use the methodology described in the request for proposal when evaluating the bids for certain professional services.	Not repeated
Finding 4	CCPS did not assess the benefits of using intergovernmental cooperative purchasing agreements (ICPA) as required by State law, nor in most cases did it establish that the ICPA's were awarded through a competitive procurement process.	Not repeated
Finding 5	Human resources and payroll system user capabilities were not adequately monitored and restricted. In addition, independent reviews of personnel and payroll transactions were not performed.	Status Redacted ¹
Finding 6	CCPS had not established adequate controls over its automated equipment inventory records as system entries were not independently verified and access to the records was not adequately restricted.	Not repeated (Not followed up on)
Finding 7	Database and server controls were not sufficient, as security activity was not logged.	Status Redacted ¹
Finding 8	CCPS did not have a Disaster Recovery Plan for recovering computer operations.	Status Redacted ¹

¹ Specific information on the current status of this cybersecurity-related finding has been redacted from the publicly available report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

Figure 3
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 9	The CCPS computer network was not adequately secured, as the internal network could be exposed to attack from external sources and reports of attacks from the CCPS intrusion detection prevention system were either not generated or when generated not reviewed.	Status Redacted ²
Finding 10	Workstations and servers were not sufficiently protected against malware.	Status Redacted ²
Finding 11	CCPS executed three 20-year power-purchasing agreements with a solar provider without a competitive process or a formal financial analysis, and without evidence it had fully resolved the risk concerns of its legal counsel.	Not repeated
Finding 12	CCPS did not establish comprehensive bus routing procedures and did not periodically perform a system-wide analysis of bus routes and related bus capacities to maximize the efficiency of its bus routes and address bus routes operating below ridership capacity goals.	Not repeated
Finding 13	Certain elements used to determine payments to bus contractors did not reflect market conditions, use actual costs, or consider available fuel credits, resulting in higher payments than necessary for student transportation services.	Repeated (Current Finding 8)
Finding 14	There was no documented independent review and approval of the monthly payments for contractor bus operating costs, and user access to the automated system used to calculate bus payments was not adequately restricted.	Status Redacted ²

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

Findings and Recommendations

Revenue and Billing Cycle

Background

Cecil County Public Schools (CCPS) revenues consist primarily of funds received from the State, Cecil County, and the federal government. According to CCPS' audited financial statements, revenues from all sources totaled approximately \$264.5 million in fiscal year 2022; including approximately \$128 million from the State.

External Audits

There were similarities between the work of the independent certified public accounting firm that audited CCPS' financial statements and the objectives of our audit for certain revenue activities. We relied on this work to provide audit coverage for State and local government revenues received via wire transfer and accounts receivable, for which the auditor's procedural review and testing disclosed no material weaknesses or significant deficiencies.

School Activity Funds

Schools collect funds for other purposes such as student activities, clubs, and school publications. Because they are not considered school revenue, these school activity funds are accounted for separately by each school and reported in summary in the audited financial statements. During fiscal year 2022, school activity collections totaled \$1.4 million and the June 30, 2022 fund balance was \$1.7 million.

CCPS' Board of Education has a fiduciary responsibility to ensure that school activity funds were used only for intended purposes. The independent certified public accounting (CPA) firm contracted by CCPS to perform the annual financial audit also conducts limited reviews of the school activity funds. These reviews consist primarily of school activity fund bank reconciliations and confirmations. The CPA's review did not disclose any issues.

In addition, it is the policy of CCPS' Business Services Office to conduct annual reviews of the school activity funds at each of its schools.³ The reviews consist of evaluating and testing compliance with CCPS' policies, regulations, and procedures. The results of the reviews are provided to the respective school's principal and CCPS management to be addressed. Our review of these reviews

³ Due to the COVID-19 pandemic health crisis, CCPS' Business Services Office did not conduct reviews of school activity funds from March 2020 to June 2021.

during fiscal years 2018, 2019, and 2020 generally found the management of these funds to be adequate, control weaknesses identified were not prevalent, and the reports reviewed did not identify any improprieties regarding the misuse of funds.

Conclusion

Based on our current assessment of significance and risk relative to our audit objectives, we relied on the work of the CPA and CCPS Business Services Office to provide audit coverage in this area, including procedures and controls related to the accounting for and safeguarding of cash receipts with respect to revenue and billing.

Federal Funds

Background

CCPS receives funds pertaining to federal government programs that are generally restricted for use for a specific program (such as the School Lunch Program or Special Education). According to CCPS' Single Audit, fiscal year 2022 (latest available at the time of our audit) federal expenditures totaled \$39.9 million, not including federally funded fee-for-service programs such as Medicaid reimbursement for special education services.

According to the audited financial statements, federal fund revenues (excluding Medicaid) increased, from \$14.8 million in fiscal year 2019 to \$39.9 million in fiscal year 2022 (170 percent), due to COVID-19 pandemic grant funding. Specifically, according to CCPS' records, as of June 30, 2022, CCPS was awarded federal COVID-19 pandemic grant funds totaling \$60.5 million to be distributed over federal fiscal years 2020 to 2024 under the Coronavirus Aid, Relief, and Economic Security Act, Coronavirus Response and Relief Supplemental Appropriations Act, and American Recovery Plan Act.⁴

As of June 30, 2022, CCPS expenditures related to these COVID-19 grants programs totaled \$25.4 million, from March 2020 to June 2022, and were primarily comprised of staffing, laptops, instructional software and materials, personal protection equipment, and sanitary supplies. CCPS has policies and procedures to ensure grant funds are properly monitored and accounted for, and

⁴ In addition to the federal grants, CCPS was also awarded five State and local COVID-19 grants totaling \$1.2 million, of which \$778,000 had been spent as of June 30, 2022. Specifically, CCPS received County COVID-19 relief and assistance awards of \$805,000 and State Broadband enhancement awards of \$348,000. State and local grants are subject to review and testing during our audit.

used to the fullest extent possible. In addition, reports of grant fund activity are presented periodically to the Board. CCPS initially funded the expenditures with State and local funds and intends to obtain reimbursement from the aforementioned programs to the extent allowed.

Single Audit Reports Disclosed No Reportable Conditions Regarding Federal Grant Management

There were similarities in the work performed by the independent certified public accounting firm that conducted the Single Audit of CCPS' federal grants and the objectives of our audit in this area. In addition to expressing an opinion on CCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the required Schedule of Expenditures of Federal Awards (which includes claimed and reported grant expenditures) for fiscal years 2017 through 2022.

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

Medicaid Funds for Eligible Services

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

The Maryland State Department of Education's Interagency Medicaid Monitoring Team issued a report in December 2021 of the results of its review of 75 student case files for 72 criteria (including the correct billing of Medicaid for eligible services). The report found that CCPS was generally compliant with most criteria. For example, CCPS was 100 percent compliant with 61 criteria and between 94 and 99 percent compliant with 8 criteria. According to CCPS records, fiscal year 2022 state and federal reimbursements for Medicaid-subsidized services totaled approximately \$1.6 million, which was 60 percent higher than the previous year, due to increases in the provision of services provided and the processing of related billings.

Conclusion

Based on our current assessment of significance and risk relative to our audit objectives, our audit did not include a review of Medicaid-subsidized services. We relied on the work of the independent certified public accounting firm that

conducted the Single Audits for all other work in this area, including policies, procedures, and controls with respect to federal grants and expenditures.

Procurement and Disbursement Cycle

Background

According to the audited financial statements and CCPS records, disbursements (excluding payroll) totaled \$50 million during fiscal year 2022. CCPS uses an automated system for purchases and disbursements. Requisitions are created in the system by departments and are subject to on-line departmental and purchasing department approvals. Purchase orders are prepared in the system by the purchasing department based on approved requisitions. The purchasing department also generally handles the solicitation, bid evaluation, and establishment of contracts.

Hardcopy invoices are submitted by vendors directly to the accounts payable department for entry into the financial management system. The system matches invoices to appropriate purchasing documents and the verification of receipt entered by the receiving school or department. Payments are processed by Business Services through the automated system, which either prints vendor checks or transfers the funds electronically, and then posts the payment to the financial records.

CCPS' written procurement policies require that procurements exceeding \$50,000 be competitively bid in accordance with Section 5-112 of the Education Article of the Annotated Code of Maryland. Contracts and agreements exceeding \$50,000 that CCPS procures are to be approved by the Board.

Finding 1

Certain requirements of State law and recognized best practices were not incorporated into CCPS policies and/or were not consistently used when participating in intergovernmental cooperative purchasing agreements (ICPAs).

Analysis

Certain requirements of State law and recognized best practices were not incorporated into CCPS policies and/or were not consistently used by CCPS when participating in an ICPA. State law, which legal counsel to the Maryland General Assembly advised us is applicable to local education agencies, allows the use of ICPAs only after the using entity has determined (or assessed) in writing that the use of such arrangements will provide cost benefits, promote administrative

efficiencies, or promote intergovernmental cooperation.⁵ According to CCPS records, CCPS used ICPAs for 58 procurements with awards totaling \$14.9 million during fiscal years 2020 through 2022.

Our review of CCPS procurement policies disclosed that the following statutory requirement and critical best practices were not included.

- Prepare a written assessment of the benefits of using an ICPA as required by State law
- Analyze all costs of conducting competitive solicitations
- Research, compare, and evaluate available ICPAs
- Verify ICPA has a clause allowing utilization by other parties
- Verify terms, scope of services, specifications, and price meet our needs
- Execute an addendum of participation with lead agency and remove or incorporate necessary local terms and conditions

In addition, we tested CCPS' participation in seven ICPAs (selected based on significance) during fiscal years 2018 through 2022, with contract awards totaling approximately \$3.3 million. Our review disclosed that although CCPS had completed a checklist to document its written assessment of the benefits of using six of the seven ICPAs tested, CCPS did not adhere to three best practices for all seven ICPAs tested that were not included in CCPS policy (analyzing the costs of conducting competitive solicitations, researching, comparing, and evaluating other available ICPAs, and executing an addendum of participation with the lead agency). One other best practice that was included in CCPS policy (obtain a copy of ICPA and related price lists for invoice verification) was not complied with for five of the seven ICPAs tested.

We did find that other best practices were performed despite not being included in CCPS' policies. For example, CCPS verified the ICPA had a clause allowing utilization by other parties and verified the terms, scope of services, specifications and overall price met their needs for six of the seven ICPAs we tested.

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

Incorporating ICPA best practices into CCPS procurement policies could help ensure they are consistently used.

CCPS also did not ensure the amounts invoiced by the ICPA vendors agreed with the original contract pricing. Specifically, our test of eight payments totaling \$2 million related to the seven aforementioned ICPAs disclosed that CCPS had not obtained the price information to verify it was receiving the discounts or pricing as stated in the governing ICPA for five payments totaling \$1.5 million. CCPS relied on informal cost proposals received from the vendors, instead of the actual contract terms and conditions from the ICPAs, to verify invoice pricing. Using available price lists or internet searches we noted that vendor pricing was similar to market prices for comparable items for vendor payments totaling \$928,000, but we could not readily perform such a review of pricing for the remaining payments totaling \$536,000.

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

Recommendation 1

We recommend that CCPS

- a. incorporate the aforementioned statutory requirement and other identified and acknowledged best practices into its procurement policies, and ensure that the performance of the requirement and best practices are documented when evaluating and participating in ICPAs; and**
- b. ensure that amounts invoiced by ICPA vendors agreed with the related contract pricing.**

Finding 2

CCPS did not always prepare written justifications for sole source procurements of education service contracts or obtain the approval of the Board of Education as required.

Analysis

CCPS did not always prepare written justifications for sole source procurements of education service contracts or obtain the approval of the Board of Education as required. Our test of eight sole source procurements awarded in fiscal years 2020 and 2022 totaling \$2.8 million disclosed that written justifications were not prepared as required for five procurements totaling \$1.9 million. In addition, these five sole source contract awards for education services were not submitted to the Board of Education for approval as required.

According to CCPS records, CCPS used the sole source procurement method for 20 procurements with awards totaling \$3.3 million in fiscal years 2020 to 2022. State law and CCPS policy require that competitive procurement practices be used to the extent possible for purchases exceeding \$50,000. In addition, a written justification must be prepared when there is only one source available, and these procurements must be approved by the Board of Education.

Recommendation 2

We recommend that CCPS

- a. ensure that written justifications are prepared for sole source procurements as required, and**
- b. ensure that sole source procurements are approved by the Board of Education as required.**

Human Resources and Payroll**Background**

Payroll expense represents the largest single cost component in the CCPS budget. According to CCPS' records, fiscal year 2022 salary, wage, and benefit costs totaled approximately \$210 million, representing 81 percent of the total expenditures. According to Maryland State Department of Education reports, during the 2021-2022 school year CCPS had 2,125 full-time positions, which consisted of 1,526 instructional and 599 non-instructional positions.

CCPS uses automated systems to maintain human resources information, record employee time, track employee leave usage, and process and record payroll transactions. The system generates payroll checks and direct deposit advices. Payroll processing involves both automated processes (such as compiling leave

and running edit reports) and manual processes (such as data entry of new employee information).

Conclusion

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

Equipment Control and Accountability

Background

According to CCPS' audited financial statements, the undepreciated value of its capital equipment inventory was \$29.3 million as of June 30, 2022. CCPS maintains centralized automated records for all equipment including assets with a cost of \$5,000 or more (including assets capitalized for financial statement purposes). Control and recordkeeping of laptop computers assigned to schools, students, and employees was maintained in a database maintained by the Office of Technology Services. CCPS has established comprehensive written equipment policies and performs inventories at each school at least every two years.

Conclusion

Based on our current assessment of significance and risk relative to our audit objectives, our audit did not include a review of policies, procedures, and controls with respect to the equipment area of operations.

Information Technology

We determined that the Information Technology section, including Findings 3 through 7 related to "cybersecurity", as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available report in accordance with the State Government Article, Section 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with CCPS' responses, have been redacted from this report copy.

Finding 3

Redacted cybersecurity-related finding.

Finding 4
Redacted cybersecurity-related finding.

Finding 5
Redacted cybersecurity-related finding.

Finding 6
Redacted cybersecurity-related finding.

Finding 7
Redacted cybersecurity-related finding.

Facilities Construction, Renovation, and Maintenance

Background

CCPS employs a staff of 172 employees to maintain its 30 schools (including a vocational and an alternative school) and a number of other facilities (such as administrative and support offices). According to its fiscal year 2022 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to CCPS' facilities over the next five years are estimated to cost \$107.7 million.

CCPS Capital Projects Were Competitively Solicited and Approved by the Board and Related Expenditures Were Properly Supported

Our review of two high dollar construction-related procurements awarded during fiscal years 2017 to 2020 totaling \$22 million, disclosed that the contracts were competitively procured and approved by the Board. In addition, our test of six invoices totaling \$6.8 million for these contracts disclosed that they were properly supported and in accordance with contract terms.

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

CCPS has processes in place to promote ongoing facility maintenance and minimize energy costs. For example, CCPS provides preventive maintenance of its buildings and equipment with the goal of preventing emergency repairs. In addition, CCPS participates in a consortium with other Eastern Shore area entities

to purchase energy at the best possible terms for members of the consortium. CCPS also uses a vendor energy management program to monitor and control heating and air conditioning usage and a utility bill management program to monitor related costs. CCPS has written best practices that encourage both students and employees to be aware of and limit their energy use and conducts internal on-site reviews of building energy efficiency. Further, CCPS makes limited use of solar and geothermal alternative energy sources.

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of CCPS' internal control over the facilities construction, renovation, and maintenance financial-related areas of operations reviewed. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Transportation Services

Background

According to statistics compiled by the Maryland State Department of Education (MSDE), CCPS has approximately 14,300 students eligible to receive student transportation services. These students were transported using 132 contractor-owned buses and 9 system-owned buses. CCPS reported that 2.6 million route miles were traveled to transport students for the 2021-2022 school year.

CCPS bus contracts are for one-year terms and continue annually throughout the service life of the contractor's buses, subject to the Board's right to terminate the contract for various reasons (such as available funding, cause, contractor insolvency, termination of routes to reduce or consolidate routes). During school year 2021-2022, CCPS had contracts with 13 bus contractors for student transportation. According to CCPS' financial records, fiscal year 2022 transportation costs totaled \$12.5 million, including \$9.1 million (73 percent) paid to 13 bus contractors. When schools were closed, between March 17, 2020 to September 1, 2020 due to the COVID-19 pandemic, CCPS continued to pay the bus contractors at its agreed-upon rates (except for fuel). The cost components for contractor bus payments for fiscal year 2022 are summarized in Figure 4.

Figure 4
Cost Components for Bus Contractor Payments
Fiscal Year 2022
(dollar amounts in millions)

Cost Component	Amount	
Maintenance Fee and Fuel Costs	\$3.3	36%
Reimbursements for Drivers Hourly Rates	3.1	35%
Per-vehicle Allotment (PVA) – reimbursement for the cost of purchasing a bus	2.3	25%
Other Costs – (such as administrative fee and spare buses)	0.4	4%
Total	\$9.1	100%

Source: CCPS Records

School Bus Safety Camera Program

As allowed by State and County law, CCPS contracted for the use of school bus safety cameras to monitor drivers who illegally pass a stopped school bus and entered into a Memorandum of Understanding (MOU) with the Cecil County Sheriff's Office to process citations and receive CCPS's share of program revenue. In May 2021, CCPS' School Board approved a five-year sole-source contract (with a five-year renewal option) to a vendor to install and operate bus safety cameras that would be owned and maintained by the vendor on CCPS owned and contracted-for school buses. The contract also provided for internal cameras to monitor the conduct of drivers and students inside the bus.

While the vendor installed the cameras on CCPS buses in June 2021, the program did not begin until January 2022, when Cecil County legislation passed in November 2021, that allowed the use of a bus camera safety monitoring and enforcement system, became effective. Vehicles that are caught on camera illegally passing a bus are assessed a \$250 violation. The cameras take videos and still images of vehicles (and license plate) passing a bus that is operating its alternating flashing red lights. The registered owner(s) of the vehicles are identified by vendor employees using access provided by County law enforcement to Maryland Motor Vehicle Administration (MVA) and the National Law Enforcement Telecommunications System (NLETS) databases. Upon notification from the vendor, the Cecil County Sheriff's Office verifies the image of the event constitutes a violation and the vendor prints and mails the citation to the registered owner. Citations can be paid to the vendor by credit card, electronically through the internet, or by mailing a check. The vendor is required to develop automated processes to retrieve and post all daily payment data.

The contract provides that the monthly citation revenue would be disbursed 60 percent to the vendor and 40 percent to CCPS.⁶ In addition, CCPS would pay a monthly technology fee of \$115 per bus to the vendor that would be deducted from CCPS' 40 percent share of the citation revenue prior to distribution.

Finding 8

CCPS did not obtain and use actual cost information when negotiating bus contracts to assess the reasonableness of proposed payment elements. Further, certain elements of bus contractor payments did not reflect market conditions, could not be supported, or did not consider available fuel credits.

Analysis

CCPS did not obtain and use actual cost information when negotiating bus contracts to assess reasonableness of proposed payment elements. Further, certain elements used to determine payment amounts to bus contractors did not reflect market conditions, could not be supported, or did not consider available fuel credits. Although for fiscal year 2021, CCPS has the 10th lowest cost per rider, 10th lowest cost per bus, and 2nd lowest cost per mile among the 24 local school systems, the basis for these cost elements should be adequately documented and justified to provide assurance that the cost structure is appropriate (and costs are reasonable). Our review of the contract payments disclosed the following conditions:

- The standard contract language used by CCPS for its bus contracts did not include a right to audit provision. Such a provision would allow CCPS to verify the contractors' actual costs of purchasing and maintaining the buses when negotiating the per-vehicle allotment (PVA), plus hourly reimbursements for drivers, the per-mile maintenance fee, fuel costs, and the annual administrative fees. The State of Maryland has established a preference in regulation that all contracts require contractors to make their records available for audit by authorized representatives of the State at all reasonable times. Further, the use of audited cost data in negotiations is a best practice for federal contracts and is recommended by certain consulting firms.
- The negotiated methodology used to calculate the PVA paid to the 13 bus contractors could not be supported and consequently may not have been in the best interest of CCPS. A primary component of the PVA payment is the allowable return on investment (ROI). There is no generally agreed upon formula or method for determining ROI; however, a consultant hired by

⁶ According to the MOU, CCPS designated the County Sheriff's Office the recipient of these funds to reimburse it for associated costs for participating in this Program.

another school system in 2012 recommended the prime rate plus two percent as a reasonable ROI. CCPS used an ROI rate of 9.5 percent in its payment formula for the 72 buses placed into service by contractors from fiscal year 2016 through 2022. CCPS could not document the basis for the ROI used to enable an assessment of whether the rate was in the best interest of CCPS. In this regard, if CCPS would have used the prime rate plus two percent for the ROI calculation (which ranged from 5.25 to 6.75 percent during fiscal years 2016 to 2022 at the time the buses were initially placed into service), we estimate that CCPS could have saved approximately \$2.9 million over the 15-year life of those buses.

- CCPS could not support the appropriateness of the estimated \$2 million it paid to bus contractors for per-mile bus maintenance costs (\$0.8609 per mile) during fiscal year 2022. The per-mile bus maintenance cost is intended to fund the expenses incurred by the bus contractors for maintaining the bus, but no cost data was compiled and analyzed to determine what should be reimbursed.
- CCPS did not exclude federal excise and State fuel taxes from payments to bus contractors. CCPS pays contractors for fuel usage using a monthly average of diesel fuel prices, including taxes, and dividing by a miles per gallon rate established by CCPS. However, according to federal and State law, CCPS contractors are exempt from the per gallon federal excise tax and per gallon State fuel tax on diesel fuel⁷ and are able to receive a credit for fuel taxes paid when they file their income tax returns. If CCPS had considered the exemption amount in its calculation, payments to the contractors would have been lower in total by \$1.1 million for fiscal years 2017 through 2022.

Similar conditions were commented upon in our preceding audit report. CCPS' response to our preceding report indicated that corrective actions would be implemented to address our recommendations; however, CCPS did not take the corrective actions as indicated.

⁷ The per gallon federal excise tax was \$0.243 from fiscal year 2017 to fiscal year 2022 while the per gallon State fuel tax ranged from \$0.3425 in fiscal year 2017 to \$0.3685 in fiscal year 2022.

Recommendation 8

We recommend that CCPS

- a. include a provision to audit the bus contractors in future contracts and use it to determine the actual cost of operating contractor buses for consideration during contract price negotiations,**
- b. consider using an ROI to calculate the PVA payments to bus contractors that provides a reasonable rate of return consistent with the study from 2012 (repeat),**
- c. use actual bus operating costs as a basis for establishing contractor rates for per mile maintenance costs or otherwise develop supportable cost estimates as the basis for per mile maintenance costs (repeat),**
- d. exclude fuel excise taxes from contractor payments (repeat).**

Finding 9

CCPS awarded a sole source contract for a school bus safety camera system instead of conducting a competitive procurement. Additionally, CCPS allowed the vendor to draft both the contract and the memorandum of understanding (MOU) between CCPS and the Cecil County Sheriff's Office without being reviewed for legal sufficiency.

Analysis

CCPS awarded a sole source contract with a vendor for a school bus camera system instead of conducting a competitive procurement. Additionally, CCPS allowed the vendor to draft the contract between the vendor and CCPS and the MOU between CCPS and the Cecil County Sheriff's Office without being reviewed for legal sufficiency by CCPS to ensure that government interests were appropriately addressed.

Lack of a Competitive Procurement

CCPS did not solicit other bids for the school bus safety camera system contract or formally consider utilizing an ICPA to determine whether another vendor could implement the program. Also, CCPS' written justification for the sole source procurement incorrectly indicated there was only one source for these services. Our audits of other Maryland local education agencies (LEAs) have disclosed that other vendors exist and at least one LEA has awarded a similar contract using a competitive bidding process. In addition, other LEAs have conducted procurements that have included negotiations of the financial terms (such as revenue sharing and other fees), which in the case of CCPS, without documentation to the contrary, appear to have been unilaterally imposed by the vendor.

CCPS management advised us that it learned about the benefits of a particular vendor's school bus safety camera program that was implemented in other school systems and CCPS approached this vendor to implement a similar program. CCPS management also advised us that it had conversations with other LEAs in Maryland which had contracts with the vendor but did not perform a documented comparison of key financial terms. CCPS agreed that the monthly citation revenue would be disbursed 60 percent to the vendor and 40 percent to the County. In addition, CCPS agreed to a monthly \$115 technology fee per bus that is paid out of the County's 40 percent share of the citation revenue. However, CCPS did not have support for how the technology fee was determined by the vendor or why it was necessary in addition to the revenue sharing. By CCPS allowing the vendor to receive a 60 percent share of the citation revenue plus the technology fee, the County (for the Sheriff's Office) has not received any program revenue as of March 31, 2023.

According to the vendor's invoices, the citation revenue totaled \$414,425 for the first 15 months of the program's operation from January 1, 2022 through March 31, 2023. Additionally, the amount owed to the vendor totaled \$549,295, which included the vendor's 60 percent share of the citation revenue totaling \$248,655 and the monthly technology fees totaling \$300,640. Since the citation revenue was not sufficient to cover the amount owed to the vendor, the outstanding balance of the technology fees due from future revenues totaled \$134,870 as of March 31, 2023.⁸

Lack of Review for Legal Sufficiency

CCPS did not have evidence that the contract with the vendor or memorandum of understanding (MOU) between CCPS and the Cecil County Sheriff's Office was reviewed for legal sufficiency by its legal counsel. Instead, CCPS allowed the vendor to draft the related contract for the school bus safety camera services as well as the financial terms related to the vendor's fees and sharing of revenue and CCPS, without the documented involvement of its legal counsel, made minimal edits to the draft (edits consisted mostly of names and dates). In addition, the MOU did not sufficiently define the responsibilities of the parties under the MOU. For example, unlike the MOUs with other county school systems, there were no details regarding how the billing and collection of citations was to be performed, the need for criminal background checks on vendor employees processing citations (this requirement to safeguard vehicle owners' PII is also

⁸ The contract provides that, in the event CCPS' gross revenue share is insufficient to cover the technology fees owed for the month, the balance of unpaid technology fees are rolled over for payment in the following month until all outstanding technology fees are paid. The contract does stipulate that CCPS is not liable for any outstanding technology fees that exceed citation revenue at the end of the agreement.

omitted from the contract between the vendor and CCPS), or the need to segregate access to the interior and exterior system image and financial data files.

Recommendation 9

We recommend that CCPS

- a. adhere to statutory requirements for competitive bidding, where appropriate;**
- b. ensure the basis and reasoning for revenue sharing and technology fees are documented in future school bus safety camera contracts; and**
- c. seek retroactive review and approval from its legal counsel for the school bus safety camera contract and MOU with the Cecil County Sheriff's Office.**

We determined that Finding 10 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following finding, including the analysis, related recommendation(s), along with CCPS’ responses, have been redacted from this report copy.

Finding 10 Redacted cybersecurity-related finding.

Food Services

Background

According to CCPS’ audited financial statements, food services operating expenditures totaled \$8.7 million in fiscal year 2022 and were primarily funded with federal funds totaling \$11.9 million and food sales totaling \$383,500. According to MSDE records, in fiscal year 2022, CCPS had 99 food services positions for its 30 schools, consisting of 93 cafeteria positions and 6 administrative positions.

Similar to other Maryland Local Education Agencies, CCPS continued to serve meals from certain schools during the COVID-19 pandemic health crisis by providing free meals for parents and students to pick up. The number of meals increased by 13 percent from 2.7 million in fiscal year 2019 to 3.1 million in fiscal year 2022. CCPS food service expenditures increased by 31 percent (food

costs and equipment) during the same period, from \$6.6 million to \$8.7 million. CCPS indicated that no employees were laid off due to the COVID-19 pandemic.

Conclusion

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

School Board Oversight

Background

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

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

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

In accordance with the policy, CCPS established an Ethics Panel consisting of three members appointed by the President of the Board to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. Our review of the records for Board members and CCPS employees required to submit financial disclosure forms for calendar year 2021 disclosed that all forms were submitted as required.

Conclusion

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

Management of Other Risks

Healthcare Background

CCPS is self-insured and contracts with five third-party administrator firms (TPAs) for health care claims processing services⁹ for employee and retiree medical, prescription, dental, and vision costs. CCPS also contracts with a consultant to help manage the health plans. The consultant performs data analysis of health services utilization and costs, provides recommendations on potential rate changes, and evaluates the merits of health plan proposals. In addition, CCPS contracts with an insurer for stop-loss insurance, which indemnifies CCPS against health claim amounts that exceed \$275,000 per participant per plan year.

The health benefit plans for CCPS employees and retirees are financed through governmental funds, with a fiduciary fund (referred to as the Retiree Benefit Trust Fund) established as an investment reserve for future retiree health benefit costs.¹⁰

The plans provide coverage under contracts with several insurance companies and a health maintenance organization (HMO). According to CCPS records, the healthcare revenues and expenditures for fiscal year 2022 totaled \$38.0 million and \$31.6 million respectively (see Figure 5).

CCPS employs a verification process in its enrollment procedures whereby employees must submit documentation (such as birth certificates) for dependents they want added to their health plan. As of June 30, 2022, CCPS provided health insurance benefits to approximately 4,400 enrolled employees, dependents, and retirees.

Figure 5
CCPS 2022 Healthcare Financing
(dollar amounts in millions)

Revenues	
Employer Contributions	\$24.6
Employee/Retiree Contributions	9.9
Rebates	2.0
Retiree Benefit Trust Fund	1.5
Total Revenue	<u>\$38.0</u>
Expenditures	
Claims Payments	\$26.7
Administrative Fees	3.3
Stop-loss Insurance Premiums	1.6
Total Expenditures	<u>\$31.6</u>

Source: CCPS Records

⁹ There is a separate TPA for the claims for each of the preferred provider medical entities, health maintenance organizations and the prescription, dental, and vision plans.

¹⁰ These funds are invested with the Maryland Association of Boards of Education, Other Post-Employment Benefits Investment Trust and totaled \$15 million as of June 30, 2022.

Finding 11

CCPS did not audit or adequately monitor the performance of its third-party administrators that provide health care claims processing services.

Analysis

CCPS did not audit or adequately monitor the performance of its third-party administrators (TPAs) that provide health care claims processing services. Specifically, although CCPS verified the propriety of administrative fees, it did not verify the propriety of TPA billings for employee and retiree health care claims (including HMO costs), and the receipt of prescription drug rebates. Additionally, CCPS did not perform audits of TPA performance measures.

- CCPS did not obtain and review claim data to support the amounts billed by the five TPAs for healthcare claims (including HMO costs). Rather, CCPS was provided with a schedule of the total claims paid for each health plan. CCPS approved the claim payments based on a review of the summary data with no review of supporting documentation.
- Although we were advised CCPS tracked the receipt of prescription drug rebates and compared it to prior year amounts, this process was not documented. Additionally, CCPS did not audit the pharmacy TPA to ensure that it received all the prescription drug rebates the TPA received from drug manufacturers. Drug rebates are determined based on volume and type of drug dispensed per agreements with drug manufacturers.
- CCPS did not routinely audit healthcare claims (including HMO costs) paid by the TPAs to ensure that the billed services were provided to participants, were covered by the health plans, and that amounts paid were proper. The last claims audit performed by CCPS was for claims paid during fiscal years 2014 and 2015. CCPS' TPA contracts allowed for periodic independent third-party audits of the accuracy and validity of claim reimbursements paid by CCPS.
- CCPS did not audit, or otherwise verify, the accuracy of TPA self-reported compliance with performance measures. For example, one medical insurance TPA contract included 10 performance measures relating to account management, claim administration, plan sponsor services, and member services. Additionally, the contract allowed for the assessment of penalties up to \$98,000 annually, if the TPA did not meet the performance measures. However, CCPS had not determined whether any penalties were self-assessed by this medical TPA. In addition, the other medical TPA reported self-assessed penalties of \$15,220 in calendar year 2022 based on its reported compliance, but CCPS did not have a process in place to verify the TPA's

reported compliance. Finally, the remaining three TPA contracts included performance measures that allowed for the assessment of penalties, but none were reported.

Recommendation 11

We recommend that CCPS

- a. establish procedures to independently verify the propriety of TPA billings;**
- b. conduct pharmacy TPA audits to assess that all drug rebates due were received;**
- c. conduct claims audits to assess the accuracy and validity of claim reimbursements made by the TPAs; and**
- d. establish a process to independently verify, on an annual basis, the TPAs' compliance with reported performance measures and assess penalties when performance goals are not met.**

Audit Scope, Objectives, and Methodology

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

We had two broad audit objectives:

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

In planning and conducting our audit of CCPS, we focused on 11 major financial-related areas of operations as approved on December 6, 2016 by the Joint Audit and Evaluation Committee of the Maryland General Assembly in accordance with the enabling legislation. The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of findings included in our preceding audit report on CCPS dated July 26, 2017, 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 CCPS Comprehensive Education Master Plan or related updates, and we did not review the activities, financial or other, of any parent teacher association, group, or funds not under the local board of education's direct control or management.

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by CCPS. We also interviewed personnel at CCPS and the Maryland State Department of Education (MSDE), and staff at

other local school systems in Maryland (as appropriate). Our audit procedures included inspections of documents and records, and to the extent practicable, observations of CCPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2020 to June 30, 2022.

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

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

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

CCPS' management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to CCPS, were considered by us during the course of this audit.

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

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

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

We conducted our audit fieldwork from April 2022 to December 2022. CCPS’ response to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise CCPS regarding the results of our review of its response.



Serving Learners, Families, and the Community

APPENDIX

CECIL COUNTY PUBLIC SCHOOLS

OFFICE OF THE SUPERINTENDENT

GEORGE WASHINGTON CARVER EDUCATION LEADERSHIP CENTER
201 BOOTH STREET • ELKTON, MD 21921

phone: 410.996.5499 • fax: 410.996.5471 • www.ccps.org

Jeffrey A. Lawson, Ed.D.
Superintendent of Schools

Diana B. Hawley
President, Board of Education

December 13, 2023

Gregory A. Hook, CPA
Legislative Auditor
Department of Legislative Services
Maryland General Assembly
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, MD 21201

Dear Mr. Hook:

Enclosed please find Cecil County Public Schools' responses to the draft audit report recommendations.

I would like to thank you and your staff for assisting us to identify areas in which we can improve the performance and efficiency of our school system. Please do not hesitate to contact me if you have any questions or require any additional information.

Sincerely,

Jeffrey A. Lawson, Ed.D.
Superintendent

Cc: Ms. Diana B. Hawley, Board of Education President
Ms. Denise M. Sopa, Chief Financial Officer

Cecil County Public Schools

Agency Response Form

Procurement and Disbursement Cycle

Finding 1

Certain requirements of State law and recognized best practices were not incorporated into CCPS policies and/or were not consistently used when participating in intergovernmental cooperative purchasing agreements (ICPA).

We recommend that CCPS

- a. incorporate the aforementioned statutory requirement and other identified and acknowledged best practices into its procurement policies, and ensure that the performance of the requirement and best practices are documented when evaluating and participating in ICPAs; and
- b. ensure that amounts invoiced by ICPA vendors agreed with the related contract pricing.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	N/A		
Recommendation 1a	Agree	Estimated Completion Date:	2/7/2024
Please provide details of corrective action or explain disagreement.	CCPS is in the process of revising our procurement policy and regulation. We will include the aforementioned statutory requirement and other identified best practices. We have also already updated our internal worksheet to reflect these requirements and best practices to ensure we are following them with each ICPA.		
Recommendation 1b	Agree	Estimated Completion Date:	7/1/2023
Please provide details of corrective action or explain disagreement.	When we solicit quotes from vendors, we will require the vendor to include the list price and the discounted contract price. We will ensure that the appropriate discount is being included in our price. This information will be attached to the requisition for the purchase order.		

Cecil County Public Schools

Agency Response Form

Finding 2

CCPS did not always prepare written justifications for sole source procurements of education service contracts or obtain the approval of the Board of Education as required.

We recommend that CCPS

- a. ensure that written justifications are prepared for sole source procurements as required, and
- b. ensure that sole source procurements are approved by the Board of Education as required.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	Originally, we worked with a specific non-public program when a student was identified by an IEP team as needing this type of specialized educational placement. With this being the closest non-public, appropriate placement for a student, it did not require us to follow procurement procedures. Starting in 2020, CCPS began utilizing this vendor to create specialized classrooms within the school system. There was some confusion distinguishing between the uses of the vendor and what required Board of Education approval and what did not.		
Recommendation 2a	Agree	Estimated Completion Date:	7/1/2023
Please provide details of corrective action or explain disagreement.	Written justification will be provided for each sole source procurement.		
Recommendation 2b	Agree	Estimated Completion Date:	7/1/2023
Please provide details of corrective action or explain disagreement.	All sole source procurements will be approved by the Board of Education before contracts are signed and awarded.		

Cecil County Public Schools

Agency Response Form

Information Technology

The Office of Legislative Audits (OLA) has determined that the Information Technology section, including Findings 3 through 7 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Although the specifics of the following findings, including the analysis, related recommendations, along with CCPS’ responses, have been redacted from this report copy, CCPS’ responses indicated agreement with the findings and related recommendations.

Finding 3
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 4
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 5
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 6
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 7
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Cecil County Public Schools

Agency Response Form

Transportation Services

Finding 8

CCPS did not obtain and use actual cost information when negotiating bus contracts to assess the reasonableness of proposed payment elements. Further, certain elements of bus contractor payments did not reflect market conditions, could not be supported, or did not consider available fuel credits.

We recommend that CCPS

- a. include a provision to audit the bus contractors in future contracts and use it to determine the actual cost of operating contractor buses for consideration during contract price negotiations,
- b. consider using an ROI to calculate the PVA payments to bus contractors that provides a reasonable rate of return consistent with the study from 2012 (repeat),
- c. use actual bus operating costs as a basis for establishing contractor rates for per mile maintenance costs or otherwise develop supportable cost estimates as the basis for per mile maintenance costs (repeat),
- d. exclude fuel excise taxes from contractor payments (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	N/A		
Recommendation 8a	Agree	Estimated Completion Date:	7/01/2024
Please provide details of corrective action or explain disagreement.	CCPS will require all bus contractors to provide a pay scale for bus drivers and bus assistants on an annual basis. The scale must be specific and identify the number of drivers and assistants at each pay scale. If contractors fail to provide this information, CCPS will reserve the right to audit the contractor.		
Recommendation 8b	Agree	Estimated Completion Date:	Ongoing Process
Please provide details of corrective action or explain disagreement.	CCPS believes that the rate of return is reasonable per the CCPS Table of Rates. With that being said, CCPS will work to minimize increases in PVA in the next Table of Rates negotiation.		

Cecil County Public Schools

Agency Response Form

Recommendation 8c	Agree	Estimated Completion Date:	7/1/2024
Please provide details of corrective action or explain disagreement.	CCPS will require all bus contractors to provide general bus maintenance costs at the end of each fiscal year. We will use this data going forward in negotiations with our bus contractors to determine reasonable contractor maintenance rates per mile.		
Recommendation 8d	Agree	Estimated Completion Date:	7/1/2023
Please provide details of corrective action or explain disagreement.	CCPS will exclude the state fuel excise tax from contractor pay.		

Cecil County Public Schools

Agency Response Form

Finding 9

CCPS awarded a sole source contract for a school bus safety camera system instead of conducting a competitive procurement. Additionally, CCPS allowed the vendor to draft both the contract and the memorandum of understanding (MOU) between CCPS and the Cecil County Sheriff's Office without being reviewed for legal sufficiency.

We recommend that CCPS

- adhere to statutory requirements for competitive bidding, where appropriate;
- ensure the basis and reasoning for revenue sharing and technology fees are documented in future school bus safety camera contracts; and
- seek retroactive review and approval from its legal counsel for the school bus safety camera contract and MOU with the Cecil County Sheriff's Office.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	The aforementioned contract was reviewed by Cecil County Government's legal counsel prior to entering into the contract.		
Recommendation 9a	Agree	Estimated Completion Date:	Current Process
Please provide details of corrective action or explain disagreement.	At the time, CCPS believed we were adhering to statutory requirements for competitive bidding because we were not aware of another vendor offering this specific type of safety camera system. We will adhere to statutory requirements for competitive bidding when this contract is up for renewal.		
Recommendation 9b	Agree	Estimated Completion Date:	Winter 2024
Please provide details of corrective action or explain disagreement.	CCPS is currently in the process of renegotiating the contract with the current vendor, focusing on the revenue sharing plan and the technology fees.		
Recommendation 9c	Agree	Estimated Completion Date:	Winter 2024
Please provide details of corrective action or explain disagreement.	CCPS is currently in the process of renegotiating the contract with the current vendor, and we will share this contract with legal counsel before contract implementation.		

Cecil County Public Schools

Agency Response Form

OLA has determined that Finding 10 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Although the specifics of the finding, including the analysis, related recommendation(s), along with CCPS’ response, have been redacted from this report copy, CCPS’ response indicated agreement with the finding and related recommendation(s).

Finding 10

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Cecil County Public Schools

Agency Response Form

Management of Other Risks

Finding 11

CCPS did not audit or adequately monitor the performance of its third-party administrators that provide health care claims processing services

We recommend that CCPS

- a. establish procedures to independently verify the propriety of TPA billings;**
- b. conduct pharmacy TPA audits to assess that all drug rebates due were received;**
- c. conduct claims audits to assess the accuracy and validity of claim reimbursements made by the TPAs; and**
- d. establish a process to independently verify, on an annual basis, the TPAs' compliance with reported performance measures and assess penalties when performance goals are not met.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	N/A		
Recommendation 11a	Agree	Estimated Completion Date:	9/30/2023
Please provide details of corrective action or explain disagreement.	We began receiving this data on a monthly basis from one of our health insurance companies in the summer of 2022 to verify our claims. The CCPS Benefits Department has requested backup data from each of the other TPAs to support the amount on each claims invoice. This supporting documentation will be used to verify claims invoices.		
Recommendation 11b	Agree	Estimated Completion Date:	Once per contract cycle
Please provide details of corrective action or explain disagreement.	The contract included a requirement of funds related to the completion of a claims audit. Upon approval of this recommendation to continue services with the current vendor at our Board of Education meeting on 12/13/23, CCPS will begin the new contract on 9/1/24. During the three year contract period (9/1/24 - 8/31/27), an audit of rebate dollars awarded to CCPS will be conducted.		

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Recommendation 11c	Agree	Estimated Completion Date:	As each contract is renewed
Please provide details of corrective action or explain disagreement.	The contract included a requirement of funds related to the completion of a claims audit. Upon approval of this recommendation to continue services with our current vendor at our Board of Education meeting on 12/13/23, CCPS will begin the new contract on 9/1/24. During the three year contract period (9/124 - 8/31/27), a one time independent audit of claims dollars charged to CCPS will be conducted.		
Recommendation 11d	Agree	Estimated Completion Date:	As each contract is renewed
Please provide details of corrective action or explain disagreement.	<p>Our consultant works directly with the TPAs to collect data with respect to performance goals. The consultant and the TPA share this data with CCPS annually during the annual plan reviews. An annual plan review is held for each TPA in conjunction with the consultant and a written report/summary is also provided. If performance guarantees are not met, CCPS receives a rebate based on the conditions in the contract.</p> <p>CCPS will work with the consultant to add a clause to all future RFPs that the TPA must utilize an outside vendor to conduct a performance guarantee audit annually.</p>		

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