

Financial Management Practices Performance Audit Report

Dorchester County Public Schools

January 2011



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

January 10, 2011

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Members of Joint Audit Committee
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Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Dorchester County Public Schools (DCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. DCPS is the 20th largest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 12 schools, with fiscal year 2009 expenditures of \$73 million. The objectives of this audit were to evaluate whether DCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

In many cases, DCPS had procedures and controls in place to ensure the safeguarding of assets and the efficient use of financial resources. Nevertheless, our report contains 18 recommendations to DCPS to enhance controls and processes in areas such as procurement, information technology services, and student transportation. For example, DCPS needs to update policies over procurements to reflect all types of procurements, and should control access to its payroll and vendor payments systems. DCPS should establish better controls over critical information technology systems. DCPS should also implement certain recommendations designed to make student transportation services more cost effective, including evaluating certain factors used to make payments to bus contractors. For example, certain components of the formula used to establish bus contractor payment rates should be reevaluated, as the rates appear to result in unnecessarily high payments, and could cost DCPS approximately \$1 million over the life of the new buses put into service since 1998. Other issues to be addressed include establishing controls over equipment, and taking steps to ensure the propriety of health care cost payments.

An executive summary of our findings can be found on page i, immediately following this cover letter, and our audit scope, objectives and methodology are explained on page 57. The DCPS response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by DCPS.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Executive Summary

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

Revenue and Billing Cycle (see pages 7 through 9)

According to the audited DCPS financial statements, \$73.2 million in revenue was received from all sources during fiscal year 2009, the vast majority of which was received via electronic fund transfers from other governmental entities. Procedures and controls for these revenue sources and for accounts receivable were generally found to be adequate.

Federal Funds (see pages 11 through 13)

Annually, DCPS is subject to an audit of its federally funded programs (often referred to as the Single Audit, and required by Circular A-133, which is issued by the U.S. Office of Management and Budget). Due to parallels between that work and the scope of our audit, we placed significant reliance on the results of the independent audit of the fiscal year 2009 grant activity, for which reported expenditures totaled \$5.5 million. The related report

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

DCPS had an adequate process for the identification of children eligible for Medicaid-subsidized services and recovery of related costs. In addition, DCPS obtained applicable rebates under the Medicare Part D pharmacy rebate program for its retirees, and participated in the E-Rate program.

Procurement and Disbursement Cycle (see pages 15 through 18)

According to DCPS records, non-payroll disbursements totaled \$31.7 million during fiscal year 2009. DCPS had established certain beneficial procurement practices (such as “piggybacking” on contracts procured by other government entities) as well as policies for purchasing card use and travel. However, DCPS’ procurement policies were not comprehensive because they did not address all types of procurements. Furthermore, our tests found that contracts were not executed for certain procurements and certain services were not competitively bid. In addition, significant weaknesses in internal control existed over the automated DCPS procurement and disbursement system.

Human Resources and Payroll (see pages 19 through 22)

DCPS employed 688 full-time equivalent employees as of June 2010, and payroll and benefit costs during fiscal year 2009 totaled approximately \$41.3 million. DCPS uses a centralized hiring and approval process to help control payroll costs. DCPS should improve controls over its human resources and payroll system processing functions. Although DCPS had implemented workforce planning for teachers and other instructional personnel, such planning was not comprehensive since it did not address the needs and processes for non-instructional personnel.

Inventory Control and Accountability (see pages 23 through 24)

DCPS had not developed written policies and procedures to account for and control its equipment. Consequently, formal detail inventory records were not maintained for certain equipment. According to DCPS' audited financial statements, as of June 30, 2009, the undepreciated value of capital equipment was \$3.6 million.

Information Technology Services (see pages 25 through 28)

DCPS maintains and administers a computer network, computer operations, and a number of significant financial and academic information system applications. DCPS had developed written technology plans, which establish a vision and mission for technology in DCPS and defined goals. The audit also found, however, that DCPS needs to implement better password and security practices and to develop a disaster recovery plan. DCPS should also address certain performance and security issues related to a contract with a third-party vendor that maintains its financial application.

Facilities Construction, Renovation, and Maintenance (see pages 29 through 32)

DCPS maintains 12 schools and several other facilities (such as administration and support offices) with a staff of 51 custodial and maintenance personnel. DCPS has implemented a number of best practices to help reduce construction and maintenance costs for its facilities. However, DCPS had not established formal performance measures and related benchmarks or a formal customer feedback program to better gauge operational effectiveness and efficiency.

Transportation Services (see pages 33 through 39)

DCPS is responsible for the safe transportation of more than 4,300 eligible students. These students were primarily transported on buses owned by contractors. DCPS used a number of recognized best practices to increase student transportation efficiency, such as staggering school arrival and dismissal times to enable buses to

perform multiple runs. However, there are opportunities to improve efficiency and cost effectiveness. For example, DCPS did not use bus routing software and did not have a written policy for determining bus contractor payment rates. Consequently, DCPS may be paying more than necessary to meet its transportation needs. Its method for calculating the annual per vehicle allotment, which is designed to cover the depreciation cost of the bus and provide a return of investment for the contractor, may result in DCPS paying \$1 million more to contractors than necessary. In addition, DCPS had not developed formal performance measures to monitor and evaluate the efficiency and effectiveness of transportation services.

Food Services Operations (see pages 41 through 45)

DCPS has implemented a number of best practices to help reduce food service costs, such as utilization of United States Department of Agriculture (USDA) commodities and participation in purchasing cooperatives. DCPS has adequate procedures in place to identify students eligible for free meals and reduced-price meals under the federal national school meals programs and has one of highest levels of program participation in the State. However, we found controls over the procurement, ordering, and receiving of goods and supplies need to be improved.

School Board Operations and Oversight (see pages 47 through 52)

Oversight of DCPS operations included the five-member Board receiving financial updates, such as monthly budget variances, to assist it in monitoring the use of funds. The Board is also extensively involved in a comprehensive budgeting process. DCPS has a detailed ethics policy but did not ensure that the provisions of the policy were being carried out and had not obtained approval from the State Ethics Commission for changes to its policy. For example, although the policy establishes an Ethics Panel to oversee policy implementation and compliance, the Panel has not been functioning since February 2008. Furthermore, the Board should adopt formal policies in a number of financial-related areas and improve oversight of operations by receiving and reviewing key financial and operational performance measure data. The Board should also consider establishing an internal audit function and a

confidential hotline for employees and others to report operational concerns and suspected fraud and abuse.

Other Financial Controls (see pages 53 through 55)

DCPS had not adopted formal policies to govern cash and debt management. In addition, DCPS could do more to ensure the propriety of health care costs.

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Background Information

Oversight

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

Statistical Overview

According to MSDE student enrollment records, DCPS ranks 20th in student enrollment among the 24 public school systems in Maryland. From fiscal year 2000 to 2009, the total kindergarten through grade 12 regular and special education pupil population has decreased 10 percent from 5,072 to 4,560, but the State projects an increase to 5,480 by 2017. For the 2009-2010 school year, DCPS had 12 schools, consisting of 6 elementary schools, 2 middle schools, 2 high schools, 1 combined elementary/middle school and 1 vocational/technical school. According to its audited financial statements, DCPS expenditures (including capital expenditures) were \$73 million in fiscal year 2009. The largest expenditure category was salaries, wages, and benefits, which accounted for 57 percent of total expenditures during fiscal year 2009. According to MSDE records, in fiscal year 2010 DCPS had 688 full-time positions, which consisted of 462 instructional and 226 non-instructional employees.

Certain statistical information contained in this report was taken from reports distributed by MSDE and represents the most current information available at the time of our audit. These MSDE reports

are based on self-reported data from the 24 public school systems, and MSDE does not warrant the comparability or completeness of the data.

External Audit of Fiscal Year 2009 Activity

Annually, DCPS 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 DCPS federal grant programs (as required by federal regulations). The resulting audit reports for the 2009 fiscal year were issued in September 2009. Neither report disclosed any significant deficiencies or material weakness in DCPS record keeping, processes, and controls.

Chapter 1

Revenue and Billing Cycle

According to the DCPS audited financial statements, \$73.2 million of revenue was received by DCPS during fiscal year 2009. Due to similarities between the work of the independent certified public accounting firm that audited the DCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of that audit for revenues and accounts receivable (for example, amounts due from other governments). The auditor's procedural review and testing disclosed no material weaknesses¹ or significant deficiencies² in accounting for revenues and accounts receivable. Such testing included the most significant revenue types—the majority of which related to electronic fund transfers from other government entities—as well as school activity funds and food service cash receipts.³

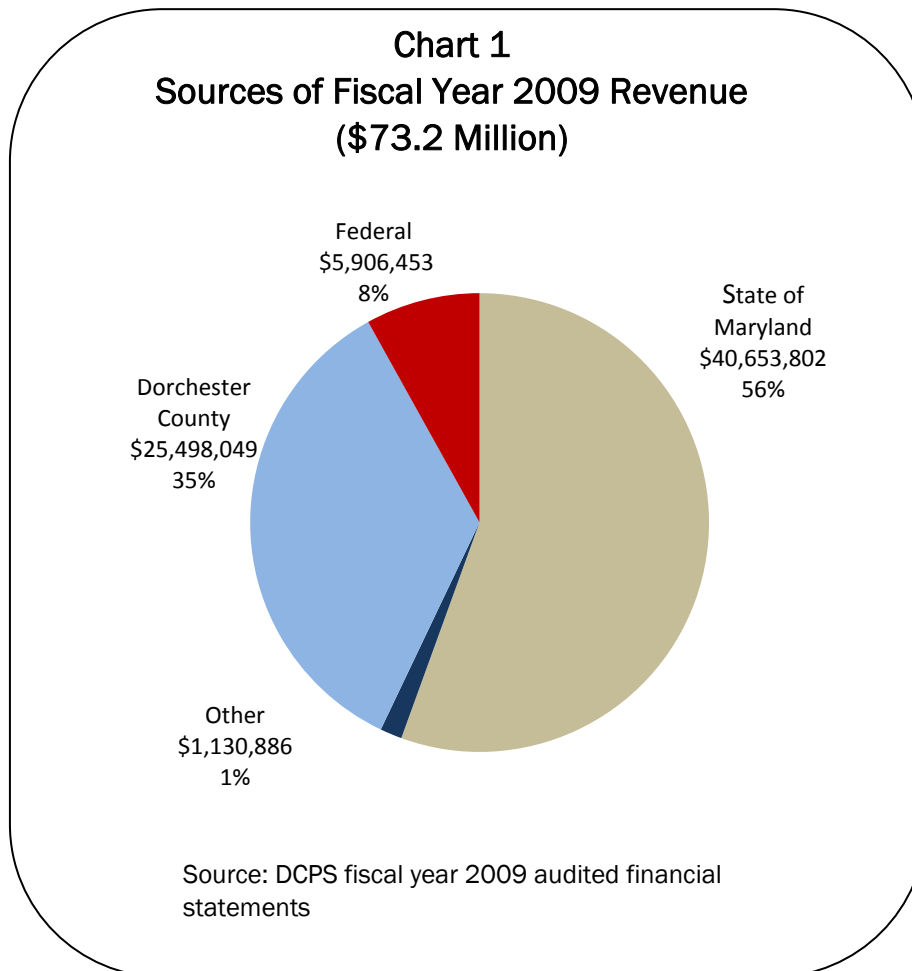
¹ A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements (or, with respect to Single Audit, material noncompliance with a type of compliance requirement of a federal program) will not be prevented or detected by an entity's internal control.

² A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. With respect to Single Audit, a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

³ The Board has a fiduciary responsibility to ensure that school activity funds are used only for intended purposes by those to whom the assets belong. Receipts for the school activity fund are not included in the \$73.2 million revenue total because the Board cannot use these assets to finance its operations.

Background

DCPS revenues consist primarily of funds received from Dorchester County and the State. Other sources include federal grant funds and miscellaneous sources, such as interest income and receipts from the sale of food. Chart 1 (below) shows DCPS fiscal year 2009 revenues of \$73.2 million by major source.



In addition to the revenues in Chart 1, schools also collect funds for various purposes, such as student groups, clubs, and school publications. These school activity funds are accounted for separately by each school and are reported in summary in the audited financial statements. For fiscal year 2009, school activity fund collections totaled \$1 million and the June 30, 2009 balance was \$218,000.

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

Due to similarities between the work of the independent certified public accounting firm that audited the DCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the fiscal year 2009 financial statement audit. The firm's procedural review and testing disclosed no material weaknesses or significant deficiencies regarding significant revenue types and related accounts receivable. The majority of this revenue was received via electronic funds transfers from other government entities. The firm also audited student activity funds, including a review of internal controls. The independent auditors identified no material weaknesses or significant deficiencies over these funds.

Recommendation

None

Chapter 2

Federal Funds

Annually, DCPS is subject to an audit of its federally funded grant programs (often referred to as the Single Audit, and required by Circular A-133 issued by the U.S. Office of Management and Budget). The report on the audit of fiscal year 2009 federal grant activity was issued by the independent certified public accounting firm on September 8, 2009.

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

DCPS had an adequate process for the identification of children eligible for Medicaid-subsidized⁴ services and for recovering related costs. In addition, DCPS participated in the federally funded E-Rate program, which provides discounts for school systems related to telecommunications and Internet access. DCPS also obtained applicable rebates under Medicare Part D pharmacy rebate program for retirees.

⁴ The Federal Medical Assistance Program, or Medicaid, is not a grant program under Circular A-133 and is not included in the Single Audit.

Background

DCPS receives funds primarily from Dorchester County, the State, and the federal government. Most funds received from Dorchester County and the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2009 expenditures of federal award funds totaled \$5.5 million.

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

Because of the accounting firm's work on DCPS federal fund expenditures, we relied on the auditor's results. Besides expressing an opinion on DCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the fiscal year 2009 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). In the report on the audit of fiscal year 2009 federal grant activity issued by the DCPS external auditor on September 8, 2009, the auditor stated that DCPS complied, in all material respects, with the requirements applicable to each of its major federal programs for the year ended June 30, 2009. With respect to internal controls over compliance with and the operation of major federal programs, no material weaknesses or significant deficiencies were noted.

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

Our review of Medicaid-subsidized services disclosed that DCPS had adequate processes in place to identify students eligible for Medicaid services and to recover the related costs. Specifically, DCPS periodically compares listings of all children whose families are participating in Medicaid, as determined by the Department of Health and Mental Hygiene, to the student information to identify newly eligible students and the continuation of eligibility for

previously identified students. In addition, there is outreach to families during meetings to discuss educational services for special needs students (including programs and services subject to Medicaid funding) to identify potential eligibility and to encourage program participation. Finally, DCPS ensures that all services provided are billed and costs are recovered. According to the audited financial statements, DCPS received \$522,000 of federal fee-for-service payments during fiscal year 2009 for Medicaid-subsidized services for qualified students.

DCPS Participated in Other Federal Programs

DCPS has a process in place to request and receive reimbursement for technology expenditures from the federal School and Libraries Universal Service Program (E-Rate). The E-Rate program provides funding to schools for telecommunications expenses (such as Internet access). The funding is based on the level of poverty and the rural status of the school district. DCPS received approximately \$206,000 of E-Rate funds for funding year 2009, the most recent year for which expenditures had been reimbursed. In addition, according to DCPS records, for fiscal year 2009, DCPS received \$118,000 under the Medicare Part D pharmacy rebate program for keeping DCPS retirees on its prescription drug program.

Recommendation

None

Chapter 3

Procurement and Disbursement Cycle

DCPS used certain beneficial procurement practices, such as piggybacking onto contracts already procured by the other local governments and participating in purchasing consortiums. DCPS has also established policies for credit card use and employee travel. However, other existing DCPS procurement policies need to be enhanced as the current policies do not address certain types of procurements. For example, our testing of contracts and related expenditures found that procurements were sometimes not competitively bid when appropriate. DCPS also needs to improve internal control over its automated procurement and disbursement system. For example, a number of employees were assigned incompatible system capabilities that allowed them to add or adjust vendor information, generate purchase orders, and process payments.

Background

DCPS uses a manual system for purchasing goods and services and an automated system for paying the related invoices. Purchase orders (which are manually prepared by the requesting school or department), contracts, solicitations, and bids are generally managed by the ordering department. DCPS procurement practices require that purchases of goods over \$15,000 be formally bid, and that requests for purchases of both goods and services over this amount be approved by the Board. Additionally, invoices are recorded in the automated system after comparison with the related

manual receiving report, if applicable, and manual purchase order. According to DCPS audited financial statements, non-payroll disbursements totaled \$31.7 million during fiscal year 2009.

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

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

- DCPS participated in purchasing consortiums with other governmental entities (such as other school systems) for items such as energy, fuel, and equipment. DCPS also piggybacks onto contracts procured by the State of Maryland and other governmental entities. These practices save certain costs associated with the procurement of the contracts and may provide larger discounts as a result of the combined purchasing power of multiple entities.
- DCPS had established a travel policy to control employee travel costs. According to DCPS records, travel expenses totaled \$140,000 during fiscal year 2010.
- DCPS had established a credit card procurement program for authorized employees. DCPS developed written procedures that specify the appropriate uses of the card and that include requirements regarding supervisory approval and reconciliation of charges to monthly statements. According to DCPS records, credit card purchases totaled \$147,000 during fiscal year 2010, and there were 36 active credit cards with the monthly charges being paid directly by the school system.

DCPS Should Develop Comprehensive Procurement Policies and Procedures

DCPS procurement policies and procedures did not address all procurement methods that were used. The existing policy requires advertising and bidding for acquisitions of goods exceeding \$15,000. However, the written policies and procedures do not

address certain other types of DCPS procurement activities, such as the procurement of goods of \$15,000 or less, and services at any amount. Furthermore, the policies do not specify the requirements for sole source procurements (including the need for written justifications), and when written contracts are necessary. Our test of 15 invoices totaling \$940,000 paid in fiscal years 2009 and 2010, and the related procurement documents, disclosed that, for two invoices, DCPS entered into contracts for consultant and staff development services without obtaining competitive bids or documenting that the services being provided were not available from other vendors. Comprehensive procurement policies should ensure acquisitions are obtained at the best value and, at a minimum, should specify the acceptable procurement methods for all types of procurements, when contracts should be in writing, the mandatory contract provisions, and the related approval requirements, such as Board approval.

DCPS Had Not Established Adequate Internal Control Over the Processing of Procurements and Payments

DCPS had not separated duties adequately to establish effective internal control over its automated system used to prepare purchase orders and process invoice payments. Specifically, we found that four employees had been assigned system capabilities that allowed them to perform critical incompatible functions (such as entering and updating purchase orders, adding vendors, and printing checks). In addition, there was no independent supervisory review and approval of the checks or check register to the related supporting documentation and no independent verification that changes to vendor information were proper.

Also, although blank check stock and the signature plate used to process checks were kept in a locked cabinet, the key was kept in an unlocked desk and therefore was accessible to all staff, including the previously mentioned four employees.

Finally, DCPS did not always verify the accuracy of vendor invoices. Our test of 15 invoices totaling \$940,000 paid in fiscal years 2009 and 2010 disclosed that DCPS did not ensure that it received appropriate pricing for 3 invoices totaling \$252,000. These items related to purchases under a “piggyback” agreement or multi-jurisdiction contract. In these instances, neither DCPS nor we could

determine if DCPS received proper discounts rates for the goods provided since no documentation was available to indicate what discount DCPS should have received.

Recommendations

1. DCPS should develop comprehensive procurement policies that ensures acquisitions are made at the best value and addresses all categories of goods and services purchases. These policies should specify the procurement methods to be used (such as competitive sealed bidding, sole source), when contracts should be in writing, and the mandatory contract provisions. Additionally, DCPS should obtain goods and services through a properly documented competitive procurement process. If a competitive procurement process is not deemed appropriate (such as when only one vendor can provide the required services), then documentation justifying the decision should be maintained.
2. DCPS should improve its controls over purchasing and the invoice payment process by separating incompatible functions and by assigning critical system functions to only those who need those capabilities to perform their job duties. Furthermore, DCPS should restrict access to blank check stock and the signature plate to employees who are independent of the invoice processing functions. In addition, DCPS should establish a process to ensure that a proper and independent review of all disbursement checks is performed. Finally, DCPS should maintain contract pricing information on file, including the applicable contracts, and verify the accuracy of prices on vendor billings.

Chapter 4

Human Resources and Payroll

DCPS uses automated systems to maintain human resources information, to record employee time and track leave, and to process and record payroll transactions. In addition, DCPS uses a centralized hiring and approval process to help control payroll costs. However, DCPS should address certain procedural and control deficiencies with respect to human resources and payroll functions. These deficiencies included the assignment of unnecessary and incompatible automated system capabilities and the lack of independent supervisory review of certain critical human resource and payroll transactions. Additionally, although DCPS had implemented workforce planning for teachers and other instructional personnel, such planning was not comprehensive since it did not address the needs and processes for non-instructional personnel.

Background

Payroll expense represents the largest single cost component in the DCPS budget. Fiscal year 2009 salary, wage, and benefit costs totaled \$41.3 million. According to MSDE reports, as of June 2010, DCPS had 688 full-time equivalent positions. The ratio of DCPS students to employees (6.7 to 1) was comparable to similarly sized school systems (see Table 1 on the following page).

DCPS uses an integrated human resources and payroll system to maintain human resources information, record employee time, and track leave usage. The system automatically generates biweekly time records, and any adjustments are processed by central payroll personnel. The system generates payroll checks and direct deposit advices. Payroll processing involves both automated processes (such as compiling leave and running edit reports) and manual processes (such as data entry of new employee information).

Table 1 Comparison of Student to Employee Ratios – Fiscal Year 2010 (Unaudited)			
School System	Number of Students (as of September 30, 2009)	Number of Full-Time Equivalent Employees (as of June 2010) ❶	Student to Employee Ratio
Dorchester County	4,628	688	6.7 to 1
Talbot County	4,495	601	7.5 to 1
Caroline County	5,551	791	7.0 to 1
Garrett County	4,311	646	6.7 to 1
Worcester County	6,659	1,167	5.7 to 1

Source: MSDE Student/Staff Publications

❶ Since the number of employees does not significantly change during the school year, these numbers would also approximate the number of employees at October 1, 2009.

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

Human Resources and Payroll Internal Controls Need to Be Strengthened

DCPS did not adequately separate duties to establish effective internal control over its automated human resource and payroll system and related processes. Eight employees had been assigned incompatible system processing capabilities, such as for adding and deleting employees and recording payroll adjustments, even though none of these employees required all such capabilities to perform

their job duties. As a result, improper or erroneous transactions could be processed without detection.

In addition, bi-weekly reports of personnel and payroll changes were not compared to supporting documentation, and the employees who reviewed the reports were also assigned human resource and payroll system processing capabilities. Also, certain personnel and payroll transactions (such as leave balance adjustments or leave payout calculations) were not subjected to any review.

Workforce Planning Should Be Expanded to Include Non-Instructional Positions

Although DCPS had implemented workforce planning for instructional positions, DCPS should expand its workforce planning efforts to include non-instructional positions. As of June 30, 2010, approximately 14 percent of DCPS 688 employees are currently eligible to retire. Approximately 33 percent of DCPS employees are non-instructional. The DCPS Master Plan sets the strategic direction and provides coordination and focus for initiatives to address challenges faced by DCPS. The Plan includes a number of objectives and strategies to address human resource needs—which is evidence of workforce planning. However, it addresses only the recruitment and retention of highly-qualified instructional staff (that is, teachers and certain instructional aides).

Non-instructional positions play a key role in the ultimate success of DCPS in providing quality education and, therefore, should be included in workforce planning.

Recommendations

3. DCPS should improve controls over the human resources and payroll system by segregating incompatible functions and assigning critical system functions to only those employees who need the capabilities to perform their job duties. In addition, DCPS should ensure that critical transactions (such as adding an employee or changing salaries) are reviewed by supervisory personnel independent of the payroll processing function using supporting documentation.

4. DCPS should expand its workforce planning to include key non-instructional positions in critical operational units.

Chapter 5

Inventory Control and Accountability

DCPS had not developed written policies and procedures governing the accounting and safeguarding of equipment that addresses maintaining equipment records, tagging of equipment items, and conducting physical inventories. In addition, DCPS did not maintain inventory records for certain equipment and certain employees had unnecessary access to the automated inventory records for computer items.

Background

According to the DCPS audited financial statements, as of June 30, 2009, the undepreciated value of capital equipment was \$3.6 million. The DCPS IT Department maintains automated records for all computers, and a separate automated system is used to maintain detail equipment records for sensitive non-computer IT equipment items (such as document cameras) costing more than \$50.

Policies, Controls, and Record Keeping Over Equipment Need Improvement

DCPS should improve its policies, procedures, and controls to ensure accountability over equipment – The audit disclosed the following conditions with respect to equipment:

- DCPS does not have any written policies to govern accountability and control over its equipment addressing such areas as recordkeeping, equipment tagging, physical inventories, segregation of duties, and disposals.
- DCPS does not maintain formal inventory records for non-IT items. DCPS only maintains a listing of capitalized items (\$5,000 or more) for calculating depreciation for financial statement purposes. Also, such equipment generally was not tagged for identification purposes and no physical inventories of these items were conducted.
- There was no documentation that DCPS had conducted a physical inventory of computers since 2007. Moreover, we were advised that an inventory of computers was not conducted prior to this date.

DCPS should restrict access to the automated records for computers – Three individuals were assigned capabilities that allowed them to modify the automated inventory records for computers even though such access was not required as part of the employees' routine job responsibilities. In addition, the system contained a general logonid that could be used by information technology specialists at each school to access and modify the inventory records. None of these school employees required such capabilities.

Recommendation

5. DCPS should develop and implement comprehensive policies and procedures to govern the accounting and safeguarding of equipment that addresses: maintaining detail equipment records; tagging of equipment; conducting physical inventory counts; and disposing of equipment. DCPS should ensure that only those employees who require the capability to modify the equipment records as part of their job responsibilities be assigned this capability.

Chapter 6

Information Technology Services

DCPS maintains and administers a computer network, computer operations, and a number of significant financial and academic information system applications. DCPS prepared a long-term technology plan and used in-school staff to assist the Information Technology (IT) Department. The plan provides a vision and mission for technology in DCPS and includes measurable goals and objectives.

Nevertheless, we identified deficiencies in a number of areas, including system user access and security, and disaster recovery planning. Finally, the DCPS needs to address performance and security issues related to a contract with a third party vendor that maintained DCPS' financial application.

Background

DCPS operates a wide area network connecting the various schools within Dorchester County and the DCPS central office. The DCPS Information Technology Department maintains and administers the DCPS network, the academic application, and other general computer operations. A contractor hosts the DCPS financial application and provides the related maintenance and support.

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

DCPS prepared an annual technology plan as part of the school system's Master Plan and prepared a separate, more extensive, technology plan every three years. These plans establish a vision and mission for technology in DCPS and have defined goals. These plans address various topics, including system security, hardware and software replacement, replacement cost schedules, professional development, and training. In addition, DCPS has established specialists to assist the IT and the Curriculum Departments in meeting the goals of the plan, including employee training and technology troubleshooting.

Steps Should Be Taken to Ensure Access to IT Resources Are Appropriate and Controlled

Our review disclosed several deficiencies in computer application security which increased the vulnerability of various DCPS automated systems, programs, and data. Enhancements should be made to existing procedures to ensure that all access to computer resources is appropriate. For example, for certain automated systems, automatic password expirations were not enabled and DCPS did not set password complexity requirements (to make them more difficult to hack). In addition, for one critical database, system security reports were not generated.

Contract Terms for Outsourced Applications Need to Address Certain Security and Performance Risks

The contract between DCPS and a third-party vendor, which hosted DCPS' financial application, did not adequately address various security and performance issues. The applications processed by this third-party vendor (for example, accounts payable, purchasing, payroll, and personnel) included certain personal and sensitive information, such as employee names, birth dates, and social security numbers. As a result, DCPS did not have sufficient legal protection for risks associated with the contracted services. For example, we noted the following contract omissions:

- The contract did not require the third-party vendor to protect DCPS data at the same level as provided by DCPS' own internal policies. In addition, the contract did not specify the security measures to be used to restrict vendor personnel access to DCPS data or ensure that other companies using this vendor could not access DCPS data.
- The contract did not provide a specific timetable for recovery of data in the event of a data loss. The contract with the vendor also contained a disclaimer of liability relating to service quality and availability.
- The contract did not address the handling of DCPS data upon termination of the contractual relationship or in the event that the vendor goes out of business.

DCPS Should Develop a Comprehensive Disaster Recover Plan

DCPS did not have a formal, comprehensive, disaster recovery plan (DRP) for its computer systems. Without a plan, a disaster could cause significant delays (for an undetermined period) in restoring operations above and beyond the expected delays that would exist in a planned recovery scenario. Specifically, DCPS had made no provisions for the following critical elements of a DRP:

- Alternate site processing arrangements
- Current and complete list of required hardware and software components
- Current and complete network restoration procedures
- Current and complete list of applications prioritized for recovery
- Procedures for testing the DRP

Recommendations

6. DCPS should implement appropriate security measures to safeguard its applications and data systems by improving account and password protection, and logging all significant security-related activity for review.

7. DCPS should ensure that contracts for outsourced computer applications contain provisions that provide sufficient legal protection to address security and performance risks.
8. DCPS should develop and implement a comprehensive disaster recovery plan.

Chapter 7

Facilities Construction, Renovation, and Maintenance

DCPS used a number of best practices in its capital planning process, as well as in controlling costs. These include (1) the development of a long-term Capital Improvement Plan based on a comprehensive and public process, (2) an energy management and conservation program, and (3) use of periodic staffing calculations for determining custodial staffing needs.

However, DCPS should implement certain processes to help monitor and further promote operational efficiency and effectiveness. Specifically, DCPS had not established formal performance measures and related benchmarks to measure and assess the efficiency of its maintenance operations. In addition, DCPS should implement a formal customer feedback program.

Background

DCPS maintains 12 schools and other facilities (such as administration and support offices) with a staff of 45 custodial personnel and 6 maintenance personnel. DCPS uses a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. The annual CIP was developed using student demographic data and input from various sources, including public meetings, and was approved by the Board.

In the fiscal year 2011 CIP (prepared in fiscal year 2009), necessary major renovations, repairs, and systemic improvements to existing schools over the next ten years were estimated to cost \$215.5 million.

Table 2 below compares DCPS fiscal year 2009 plant costs (that is, maintenance and operational costs) with other similarly sized school systems in Maryland. The table presents two cost measures used to assess plant costs: cost per student and cost per square foot. These statistics show that DCPS facilities operation and maintenance costs are generally less than other peer school systems.

Table 2 Plant Cost Comparison Per Student and Per Square Foot Fiscal Year 2009 (Unaudited)					
School System	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student ^❶	Per Square Foot		
Dorchester County	\$4,423,067	\$973.60	\$5.01	194.33	882,836
Talbot County	4,968,486	1,125.62	6.92	162.69	718,099
Garrett County	4,884,348	1,108.57	5.90	188.05	828,527
Caroline County	4,347,367	793.03	4.94	160.60	880,425
Worcester County	7,818,950	1,174.55	6.22	188.91	1,257,548
Average of Comparable Schools	\$5,504,788	\$1,050.44	\$5.99	175.06	921,150

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

❶ - Based on Average Daily Enrollment 2008-2009

Certain Best Practices Were in Place to Enhance the Efficiency and Effectiveness of the DCPS Facility Construction and Maintenance Department

DCPS has instituted several best practices to enhance project results and cost effectiveness in its Facilities and Maintenance Department, in addition to the previously noted six-year CIP:

- Various methods were used to reduce the need for additional construction. The periodic evaluation of space utilization included consideration of capacity, enrollment projections, redistricting students among schools, and the use of portable classrooms.
- DCPS developed an educational specifications document for all new construction which addresses all building requirements, including educational components required by the State.
- DCPS implemented a System-wide energy conservation policy in 2007. In addition, DCPS contracted with a vendor for energy management consulting services, including computer software that monitors and records energy usage at all facilities. As part of the agreement, DCPS employs an energy manager to monitor energy practices. Based on reports from the consultant, as of June 2010, DCPS' energy savings totaled \$1.5 million since 2007. DCPS also participates in a multi-party energy trust to purchase energy at the best possible prices and has implemented in-house energy management practices, such as the use of automated monitoring systems in all schools to regulate heating and air conditioning usage, as well as to shut down systems at specified temperatures for occupied and unoccupied times at each location.

DCPS Should Use Certain Methods to Better Gauge Operational Efficiency and Effectiveness

DCPS had not implemented a formal performance measurement system that establishes standards and expectations for its maintenance operations – DCPS did not measure and assess the efficiency of its maintenance operations, both for internal self-evaluation purposes and for comparisons with other systems, which could identify other best practices. Comparability with other systems in Maryland could not necessarily be done unilaterally since there would need to be a consensus on the measures and methodology; however, other states (for example, Michigan and Florida) have mandated the establishment and use of

measures and benchmarks to assist schools in the evaluation of costs and practices. For example, DCPS did not develop measures to evaluate maintenance assignment costs and timeliness.

DCPS did not use a staffing formula to periodically determine the number of maintenance employees required to efficiently and effectively meet its needs. Our comparison disclosed that DCPS maintenance staff size was significantly less than the national median, as reported in the April 2009 issue of *American School and University Magazine*. The national median specifies one maintenance employee per 92,074 square feet of building maintained. Using current staffing and square footage for all DCPS facilities, we calculated that DCPS had one maintenance employee per 147,139 square feet of building maintained, or significantly more than the national median.

One potential consequence of limited staffing is an increase of deferred maintenance, the practice of postponing maintenance and repair activities due to lack of funds or personnel. In its October 2009 Comprehensive Maintenance Plan, DCPS stated that “the long-standing backlog of deferred maintenance items has created a significant amount of unscheduled maintenance tasks.” The Plan did not include a specific cost associated with this deferred maintenance or suggest any solution.

DCPS should consider implementing a formal customer feedback program – DCPS does not use a formal customer feedback program to address matters pertaining to the care and upkeep of its facilities. A formal feedback program can be an effective tool to gauge how well the department is serving the customers and to make needed adjustments to improve service.

Recommendation

9. DCPS should develop a performance assessment system that establishes standards and expectations for maintenance personnel. DCPS should formally identify the extent of its deferred maintenance projects and develop solutions for addressing any backlog. Finally, DCPS should consider implementing a formal customer feedback program to assist in evaluating performance and improving maintenance and custodial operations.

Chapter 8

Transportation Services

DCPS used a number of recognized best practices to increase student transportation efficiency, such as staggering school arrival and dismissal times to enable certain buses to perform multiple runs on the same day. According to data compiled by MSDE, DCPS transportation costs on a per mile and per student basis were lower than comparably sized school systems. Nevertheless, there are opportunities to further improve efficiency and cost effectiveness. For example, DCPS did not use automated routing software to help efficiently plan bus routes and did not have a written policy establishing the criteria for determining bus contractor payment rates. Furthermore, the methodology used to reimburse the bus contractors for the purchase of buses may result in paying \$1 million more than necessary for buses purchased over a 13-year period. In addition, the basis for the rate used to reimburse bus contractors for maintenance costs was not documented and may be higher than necessary. Finally, DCPS had not developed formal performance measures to monitor and evaluate the efficiency and effectiveness of transportation services.

Background

DCPS is the 20th largest school system in Maryland, based on student enrollment. Approximately 4,300 students are eligible to ride the bus each day. These students were transported on one of 48 contractor-owned buses or 6 school system-owned buses.

According to DCPS records, fiscal year 2009 transportation costs totaled \$2.9 million. Of the 934,000 reported route miles for the 2008-2009 school year, 13 percent were for transporting disabled students.

Under the arrangements with the bus contractors, DCPS assumes nearly all of the risks for bus operations while essentially guaranteeing a profit to the contractors each year for the life of each bus. Specifically, contractors are paid a per vehicle allotment each year, which is designed to cover the depreciation cost of the bus and provide a return on investment for the contractor's investment in the bus. In addition, the contractors receive a per-mile rate for operating and maintenance costs (which includes fuel costs), a driver per-hour payment to cover the contractor's labor costs, and an annual administrative cost payment. DCPS also pays for the liability insurance, including property damage, and medical coverage, for all contractor buses.

As seen in Table 3 below, the DCPS cost per rider for fiscal year 2009 was significantly lower when compared with other similarly sized school systems.

Table 3
Comparison of Transportation Costs per Rider and per Mile
Fiscal Year 2009 (Unaudited)

School System	Number of Eligible Riders		Miles (in thousands)		Expenditures (in thousands)	Average Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
Dorchester County	4,241	86	814	120	\$2,924	\$676	\$3.13
Garrett County	4,297	46	1,055	59	4,056	934	3.64
Worcester County	6,213	67	1,306	211	5,488	874	3.62
Caroline County	4,626	70	981	167	3,806	810	3.32
Talbot County	2,806	13	767	34	2,667	946	3.22
Average of Comparable Schools	4,486	49	1,027	118	\$4,004	\$891	\$3.48

Sources: MSDE 2008-2009 Fact Book, MSDE Expenditure Summary for FY 2009

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

The DCPS Transportation Department had several practices in place to help reduce student transportation costs:

- Staggering school arrival and dismissal times to enable certain buses to perform multiple runs on the same day, thereby reducing the need for DCPS to obtain additional buses through bus contractors or purchase
- Using multiple drop-off points to reduce the number of routes and maximizing the number of students transported (such as transporting middle and high school students together) on the same bus to take advantage of the close proximity of the schools and to avoid sending multiple buses
- Piggybacking with the Dorchester County government to contract for fuel for system-owned buses
- Establishing walking distance requirements to determine students eligible for transportation services

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

Bus routing procedures should be more comprehensive –

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

DCPS does not use automated routing software –

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

It is current DCPS practice to use existing bus routes and then make changes on an as-needed basis, primarily relying on the knowledge of transportation department employees to develop bus routes. Implementation of an electronic routing system could help in the development of more efficient bus routes and assist in the periodic evaluation of routes. For example, our analysis of DCPS' September 2008 and 2009 bus forms for 140 bus runs disclosed that 79 runs were below 75 percent capacity.⁵ On 26 of the 79 routes, student capacity was less than 50 percent.

Bus Contractor Rates Paid Were Not Based On Documented Criteria and More Could Be Done to Help Ensure Cost Effectiveness

DCPS did not have a written policy addressing the methodology to be used for calculating payments to contractors, including the per vehicle allotment (PVA), and fuel and maintenance costs. For at least the past 10 years, DCPS calculated the annual PVA based on amounts paid by other school systems (predominantly those located on the Eastern Shore). Specifically, DCPS negotiates the PVA amount with contractors based on contractor requests and averages paid by the other school systems. However, DCPS had no assurance that this process provides the best value for its transportation needs.

Moreover, certain payments to bus contractors should be reevaluated. DCPS pays contractors an annual PVA for each bus. For the majority of school systems that use bus contractors, the PVA formula includes reimbursement for the cost of the bus as depreciation and a specified or imputed rate of return for investing in the bus. DCPS contractors receive the annual PVA payment for the life of the bus or 13 years. However, as previously mentioned, DCPS does not use a formula to calculate the PVA to be paid for new buses acquired each year. Thus, DCPS does not consider the actual cost of a new bus or market interest rates when setting its PVA. Instead, the DCPS PVA payments are based merely on

⁵ DCPS does not have a formal bus capacity target. Its school bus capacities would be lower than manufacturer stated capacities and differ depending on the type of school. We calculated target capacities based on the average target capacities of similarly sized school systems and determined the capacity for high, middle, and elementary schools routes at 51, 53, and 62, respectively, based on 72 passenger buses (manufacturer-stated capacity).

amounts paid by other school systems and subsequently negotiated with DCPS bus contractors. Bus contracts run for one-year terms and are renewable from term to term without either party being required to give notice of renewal; DCPS generally renews contracts for the approved useful life of the bus (13 years).⁶

To estimate the financial impact to DCPS of using this method, we calculated the PVA for each of the 48 new buses placed into service from fiscal years 1998 to 2010 using the prime interest rate⁷, estimated bus acquisition costs, and DCPS' 13-year estimated useful life in the PVA formula; we compared our PVA results to the PVA paid by DCPS. This comparison showed that the DCPS annual PVA payments per bus were from \$1,385 less to \$5,221 more than the payments would have been had the bus acquisition cost and the prime rate that existed at the time of purchase been used in the calculation. The effect is that, over the 13-year life of these 48 new buses put into service by contractors since 1998, DCPS will pay out approximately \$1 million more than if the prime interest rate had been used as the return on investment in the formula. Of the \$1 million, \$200,000 has already been paid out through fiscal year 2010 and, unless changes are implemented, the remaining \$800,000 will be paid out during fiscal years 2011 to 2022. This analysis does not include the effects for any new bus purchases that may be made after fiscal year 2010 and the lost interest income that could have been earned by DCPS on the excess amounts paid.

⁶ A May 2010 MSDE report from the PVA workgroup that included State and local school system officials did not result in prescribing any particular methodology or rates for paying for bus contractors. Instead, the report concluded that, "How to fairly and equitably determine compensation to school bus contractors – whether it be PVA, bid, or per mile rate – is the choice of the local jurisdiction as each best knows its own unique transportation needs. Clearly, it is essential that the basis of and process for such determination be thoroughly documented and reviewed in an ongoing manner."

⁷ We used the prime rate since this rate was recommended in a November 1999 study commissioned by another Maryland school system. Also, in 1975, an MSDE study recommended the prime rate as a reasonable bus investment interest rate. The May 2010 MSDE study report indicated that using the prime rate for the PVA return on investment may be deficient, but the study provided no empirical data to support that position. The study also stated that the rate used should reflect what a reasonable person would expect on a long-term investment. If the long-term investment mentioned in the study refers to U.S. Treasury investments, the use of the prime rate would provide a higher PVA payment amount since the prime rate is higher than the U.S. Treasury investment interest rates.

In addition to the PVA amounts, DCPS payments to contractors also include a per-mile fee for fuel and maintenance costs. However, our review disclosed that DCPS reimbursements rates to school bus contractors for such costs also appear to be excessive. For example, maintenance costs paid to school bus contractors were based on negotiated rates with those contractors, rather than documented costs. In this regard, according to the DCPS table of rates, bus contractors are currently paid \$.71 per mile to reimburse maintenance costs. However, DCPS expenditure records indicate that the per-mile costs for maintenance on three DCPS-owned buses (which are generally similar in age and size to the fleet of contractor buses) were only \$.25 per mile for fiscal year 2008 and \$.34 per mile for fiscal year 2009. Although there may be other factors contributing to the variation, this difference suggests that DCPS could be overpaying for contractor bus maintenance. The cost differential for fiscal year 2009, based on actual bus mileage, equates to approximately \$300,000.

Performance Should Be Measured and Reported Regularly to the Board

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

Recommendations

10. DCPS should establish formal, comprehensive bus routing procedures to address factors such as desired bus loads and student ride times, and investigate the use of automated routing software to help plan more efficient bus routes.
11. DCPS should establish written policies that justify and describe how each component of the bus contractor's table of rates are to be determined, and retain documentation for each year to show that the rates were determined in accordance with the

policy. In developing the policies, DCPS should reevaluate the appropriateness of the PVA, and the fuel and maintenance amounts paid to bus contractors.

12. DCPS should establish a formal performance measurement system for its transportation services, and periodically report the results to the Board.

Chapter 9

Food Services Operations

DCPS has implemented a number of best practices, including participation in the United States Department of Agriculture (USDA) commodity program, and membership in various food-purchasing cooperatives. DCPS also has adequate procedures in place to identify students eligible for the National School Meals Program and has one of the highest levels of program participation in the State. However, DCPS should improve internal controls over the procurement of food supplies.

Background

DCPS has a cooking cafeteria at 11 of its 12 schools. Food and related supplies are received and stored in each school. In fiscal year 2009, DCPS had 48 cafeteria employees (45 full and 3 part-time positions) and food service revenues totaled \$2.2 million. According to the audited financial statements, food service operations expenditures exceeded revenues by \$90,006 for fiscal year 2009. As noted in Table 4 on the next page, the fiscal year 2009 cost per meal for DCPS was similar to that of other similarly sized school systems in Maryland. See Table 5 on page 44 for information regarding fiscal year 2009 DCPS food services.

Table 4
Comparison of Cost per Meal
Fiscal Year 2009 (unaudited)

School System	Total Expenditures	Meals Served				Cost per Meal
		Breakfast	Lunch	A La Carte	Total	
Dorchester County	\$2,292,915	222,163	517,569	105,677	845,409	\$2.71
Garrett County	2,692,443	153,502	454,213	223,008	830,723	3.24
Caroline County	2,251,576	124,251	576,824	83,477	784,552	2.87
Worcester County	2,533,519	196,088	552,513	174,828	923,429	2.74
Talbot County	1,691,629	133,378	400,127	141,899	675,404	2.50
Average of Comparable Schools	\$2,292,292	151,805	495,919	155,803	803,527	\$2.84

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

Sources: Local Education Agencies, MSDE Fact Book

Certain Best Practices Were in Place

DCPS implemented several practices to contain food

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

- DCPS maximized the use of convenience foods (heat and serve items) to reduce the labor needed to prepare foods.
- DCPS participated in the USDA commodities free food program. According to the audited financial statements, \$94,000 in USDA commodities was received in fiscal year 2009.
- DCPS participated in food purchasing cooperatives to maximize its buying power and to reduce food costs. According to its records, DCPS payments to the wholesale vendor selected by one cooperative totaled \$465,000 during fiscal year 2009.

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

DCPS used several best practices to encourage participation in the federal free and reduced-price meal programs – These practices include the use of a family application process—instead of individual student applications—to simultaneously qualify more students for the programs, and the use of a point-of-sale system accessed by a student ID number (regardless of the method used to purchase a meal) to eliminate the easy identification (and any perceived stigma) of students in the free and reduced-price meal programs. For fiscal year 2009, 85 percent of DCPS students eligible to receive free lunches and 74 percent of the students eligible to receive reduced-price lunches actually participated in the programs, which was consistent with the average participation rates of similarly sized school systems (with average participation rates of 80 percent and 72 percent for free and reduced-price meals, respectively). MSDE recognized DCPS for having the largest increase in free and reduced-price lunch participation from fiscal year 2008 to 2009 in the State. In addition, 69 percent of students who participated in the lunch program also participated in the breakfast programs, well above the national average of 46.7 percent. DCPS participation in the breakfast programs was the second highest of any school system in the State.

Table 5
Food Service Activity for Fiscal Year 2009

Average Cost per Meal \$ 2.71

Number of Meals Served:

Breakfast	Paid	64,248	
	Free	141,057	
	Reduced Price	<u>16,858</u>	222,163
Lunch	Paid	176,982	
	Free	296,996	
	Reduced Price	<u>43,591</u>	517,569
Meal Equivalents			
Snacks and Summer Meals			1,994
A La Carte Sales			<u>103,683</u>
Total Meals Served			<u>845,409</u>

Schools	12
Kitchens	11
Full-time Employees	45
Part-time Employees	3

Revenues:

Federal	Cash Payments	\$1,327,592	
	USDA Commodities	<u>93,908</u>	\$1,421,500
Sales and other sources			682,583
State aid			<u>98,826</u>
Total Revenue (all sources)			\$2,202,909
Total Expenditures			<u>2,292,915</u>
Excess of Expenditures over Revenues			<u>\$ (90,006)</u>

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

DCPS Needs to Improve Internal Controls Over Purchasing of Food-Related Items

We found that the same individuals (that is, the cafeteria managers) at each school, who were responsible for ordering food items and supplies, were also responsible for receiving the orders and inventorying the supplies without any independent oversight or approval of the orders. Consequently, there was a lack of assurance that all items purchased were necessary, received, and used at the schools. According to DCPS records, expenditures for food and related supplies totaled \$823,000 for fiscal year 2010.

Recommendation

13. DCPS should segregate the duties of ordering and receiving food service items. DCPS should also ensure that purchases receive prior approval of independent supervisory personnel.

Chapter 10

School Board Operations and Oversight

Oversight of DCPS operations includes a comprehensive budget process. The Board is actively involved in the development of DCPS' budget. We also found that financial information is made available to the proper parties (such as principals and administrative supervisors) in a timely and consistent manner. Additionally, the Board meets each year with DCPS' certified public accounting firm to review the results of the annual financial statement and federal Single Audits. Furthermore, we also noted that the Board has a comprehensive ethics policy that applies to all DCPS staff.

Several opportunities exist for the Board to improve operations and oversight. Specifically, the Board should consider establishing an internal audit function to act as an independent reviewer of DCPS operations for the Board and a mechanism for the reporting and investigation of suspected fraud (for example, a hotline). Furthermore, the Board should formally adopt and receive performance measurement data pertaining to critical operational areas to help monitor DCPS implementation of the budget and Master Plan. Finally, the Board should also ensure that the provisions of its ethics policy are being carried out, and obtain approval from the State Ethics Commission for changes to its ethics policy to ensure that it conforms to requirements established in State law.

Background

DCPS is governed by a five-member board (not including two student representatives) elected by the voters of Dorchester County. The Board does not have an established committee structure, due to its size, and generally acts in whole to carry out its oversight duties. In its oversight responsibilities, the Board contracted with a certified public accounting firm for independent audits of the DCPS financial statements and federal grant programs.

The Board is ultimately accountable for the success of DCPS in providing the children of Dorchester County with a quality education, while wisely spending local, State, and federal funds. Following is the DCPS stated mission vision and goals, according to its website:

Mission Statement

The mission of the Dorchester County Board of Education, in partnership with the community, is to provide leadership for excellence in teaching and learning for all students by:

- consistently advocating for resources,
- continuously developing sound policies, and
- carefully monitoring student progress.

Vision

The Dorchester County Public Schools will provide continually improving educational programs in a safe and nurturing school environment with exceptional faculty and staff. This will be achieved through a cooperative and supportive partnership among schools, home and community. All students will acquire the self-discipline, knowledge, and skills necessary to become creative, self-sufficient lifelong learners and productive citizens.

Board of Education Goals

1. To establish high academic expectations for all children particularly in the areas of reading, writing, and mathematics.
2. To provide well-trained, caring staff with strong visionary leadership.
3. To encourage parent/family involvement in the schools.
4. To make our schools safe, disciplined, and drug free.

Certain Oversight Had Been Put in Place Regarding DCPS Operations

The DCPS Board uses various methods to oversee the financial operations of DCPS:

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

The Board adopted a detailed conflict of interest and ethics policy to cover Board members and all DCPS employees. DCPS policy established an Ethics Panel (to be composed of five individuals appointed by the Board) to interpret ethics policies and provide advice on policy implementation as well as to review and rule on any reported complaints of ethics violations. The policy identifies a number of supervisory employees and Board members required to file annual financial disclosure statements.

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

DCPS should consider establishing an internal auditor

position – DCPS does not have an internal auditor. Although it has an employee who performs certain internal audit-like functions (specifically, reviews of certain student activity fund transactions) as part of other job responsibilities, this employee does not communicate the results of such work to the Board or senior DCPS management. The use of an internal auditor, independent of school system management, is a recommended best practice of the Government Finance Officers Association (GFOA). The GFOA notes that internal auditors commonly assist directors in monitoring the design and proper functioning of internal controls and procedures, and can play a valuable role in conducting performance audits, special investigations, and studies. As cited in this report, our audit identified certain deficiencies in the DCPS system of internal control, such as unnecessary and unrestricted access to automated

disbursement and payroll systems. While DCPS may determine it is unable to afford the additional costs for a full-time internal audit position based on its size (as the fifth smallest of all 24 public school systems in Maryland), it should determine if such a position could be shared with other local Boards. Alternatively, the Board could consider expanding the scope of work performed by its independent auditor (similar to the work done by the auditor for student activity funds as commented upon in Chapter 1).

The DCPS Board should consider establishing a confidential

hotline – The Board had no process, such as a confidential hotline, to enable employees and others to confidentially report operational concerns and suspected fraud, waste, and mismanagement. In addition, a whistleblower policy had not been established. Typically, such confidential mechanisms bring to light matters and issues previously unknown and unsuspected by organizational managers. If such a process were established, in conjunction with the establishment of an internal audit function, the internal auditor could conduct the initial reviews of information received via the hotline or direct the information to other appropriate officials, such as law enforcement.

The Board should adopt and review key financial and

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

The Board Needs to Update and Enforce Its Ethics Policy

Although the Board had adopted an ethics policy (that was approved by the State Ethics Commission on May 8, 1984), we found:

- The Ethics Panel had not had any members since February 2008. The policy establishes a five-member Ethics Panel, whose responsibilities include interpreting the ethics policy, reviewing financial disclosure forms, and hearing and deciding complaints regarding alleged violations of the policy.
- In absence of its own Ethics Panel, we were advised that the employees and Board members were supposed to submit financial disclosure forms to the Dorchester County Ethics Panel. Based on the policy, DCPS identified 39 individuals required to submit financial disclosure statements annually. Our review of these forms for calendar year 2009 disclosed that the forms were generally not filed timely. Specifically, although the policy requires the forms be submitted by January 31, 2010, we noted that 33 of the 39 forms were not submitted until after May 11, 2010, the date when we originally requested to review them.
- Revisions to the DCPS ethics policy since 1984 had not been approved by the State Ethics Commission as required by law. Additionally, effective October 1, 2010, State law requirements were expanded to require that local school board regulations regarding conflict of interest and financial disclosure provisions for board members be equivalent to or exceed the State requirements in Subtitles 5 and 6 of Title 15 of the State Government Article of the Annotated Code of Maryland.⁸ For example, conflict of interest provisions of the current DCPS ethics policy focuses on the member, their spouse, and dependent children. Subtitle 5 includes additional relatives that should be considered when considering potential conflicts of interest, including non-dependent children, parents, brothers, and sisters. Also, the disclosure of gifts received under the current DCPS policy would only be required if a gift was actually received. Under Subtitle 6, an annual disclosure statement needs to be filed even when no gifts were received to report that fact. Accordingly, DCPS will need to update its ethics policy and

⁸ Chapter 277, Laws of Maryland, 2010.

submit the policy to the State Ethics Commission to ensure it complies with State law requirements.

Recommendations

14. The Board should adopt policies to govern and monitor critical financial and support services operations and ensure that appropriate administrative procedures are developed to support these policies.
15. The Board should enhance its oversight of DCPS operations. For example, the Board should consider establishing an internal audit function or expanding the scope of work performed by its independent auditor. The Board should also consider establishing a hotline for the confidential reporting of operational issues and suspected fraud, waste, and mismanagement. Furthermore, the Board should adopt comprehensive performance measures in key operational areas, such as transportation, food service, and facilities management, to assist in its oversight duties; such data should be periodically reviewed by the Board.
16. The Board needs to re-establish its ethics panel and monitor the panel's activities to ensure that the provisions of its ethics policy, including the financial disclosure requirements, are being complied with. The Board also needs to ensure that its ethics policy includes all provisions required by State law and obtain approval for all changes to the policy from the State Ethics Commission.

Chapter 11

Other Financial Controls

This chapter addresses the management of risk, cash, and debt (for example, long-term lease agreements) within DCPS. Although current practices minimized the risk to DCPS cash, DCPS had not developed policies for cash or debt management. In addition, our review disclosed that DCPS has taken steps to reduce its risks; however, more can be done to enhance efforts to control health care costs.

Risk Management Best Practices Were in Place

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

To control workers' compensation costs, DCPS reviewed workers' compensation reports provided by MABE to prevent similar reoccurrences in the future, and established initiatives, such as a return-to-work program, to help reduce workers' compensation costs.

DCPS Should Develop Formal Cash and Debt Management Policies

DCPS had not adopted policies governing cash or debt management as recommended by the Government Finance Officers Association. DCPS primarily invested its excess cash in the Maryland Local Government Investment Pool (MLGIP) . According to DCPS' audited financial statements cash and investments totaled \$5.2 million as of June 30, 2009. The MLGIP is under the control of the State Treasurer. The notes to the audited financial statements indicated that deposits were fully insured or collateralized.

DCPS is not permitted to issue bonds or long-term debt to finance capital or operational needs. DCPS currently uses operating leases to lease computers and may use capital leases/purchase agreements to purchase equipment. For example, according to its records, during fiscal year 2009, DCPS lease payments totaled approximately \$500,000. However, DCPS has not adopted a policy to govern its use of long-term lease obligations to finance operations. Long-term liability levels, and the related annual costs, are important long-term obligations that must be managed within available resources.

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

DCPS provides health care coverage to employees and eligible dependents through the Eastern Shore of Maryland Educational Consortium Health Alliance. The Alliance contracts with a health care provider and each of the members pays premiums directly to the provider. As DCPS is self-insured, to the extent that premiums paid each year exceed actual and anticipated claims, DCPS is eligible for a refund (DCPS would reimburse the provider if claims exceeded premium payments for the year). According to its records, for fiscal years 2008 and 2009, DCPS paid the health care provider \$5.4 million for each year and was owed refunds of \$1.2 million and \$651,000 respectively. According to DCPS personnel, these refunds were credited to DCPS' account to offset costs for the following year.

The Alliance, on behalf of the members, contracted with a third party to conduct a claims review to assess the insurer's administration of the Alliance's self-funded health plans and compliance with the administrative agreement governing the plans. However, neither the Alliance, nor DCPS, verified the authenticity of program participants and their listed dependents. As of August 4, 2010, DCPS provided health care coverage to 1,387 employees, retirees and their dependents.

According to recommended practices published by the GFOA, health care cost containment is a critical component of long-term financial planning and budgeting. The GFOA recommends the establishment of a cost containment program including specific steps such as: evaluating plan design, management of vendors, management of employee health, aggregation, and cost sharing. Although some of these recommended steps (cost sharing by participating in ESMEC) were implemented by DCPS, more can be done.

Recommendations

17. DCPS should develop and adopt formal policies governing cash management and long-term obligations.
18. DCPS should institute processes to verify the authenticity of health care program participants and their listed dependents.

Audit Scope, Objectives, and Methodology

Scope

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

Objectives

We had two broad audit objectives:

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

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit approach, including the specific

objectives of our local school system audits, was approved on September 14, 2004 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. As approved, the audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. We also did not review the activities, financial or other, of any parent teacher association, group, or funds not under the local board of education's direct control or management. Finally, we did not evaluate the DCPS Comprehensive Education Master Plan or related updates.

Methodology

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by DCPS. We also interviewed personnel at DCPS, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate).⁹ Our audit procedures included inspections of documents and records, and observations of DCPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from January 1, 2009 through March 31, 2010. For our audit work on revenue and federal grants, we primarily relied on the results of independent audits of fiscal year 2009 activity.

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

⁹ During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

In many cases, this information was self-reported by the school systems. The data were neither audited nor independently verified by us. Finally, information provided in this report was obtained from various reports readily available during our fieldwork.

Other Independent Auditors

When developing the approach for the audits of school system financial management practices, a consideration was the reliance on the work of other independent auditors to the extent practicable to avoid unnecessary duplication of audit effort. With respect to DCPS, the results of other auditors that we considered were reported in two distinct audit reports: one related to the administration of its federal grants and the other, the management letter from the audit of its Comprehensive Annual Financial Report.

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

Limitations of Internal Control

DCPS 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 DCPS that did not warrant inclusion in this report.

Fieldwork and DCPS Responses

We conducted our fieldwork from March 2010 to August 2010. The DCPS response to our findings and recommendations is included as an appendix to this report.



THE BOARD OF EDUCATION OF DORCHESTER COUNTY

APPENDIX

Henry V. Wagner, Jr.
Superintendent of Schools

Gary A. McCabe, Sr.
*Assistant Superintendent
for Administration*

Lorenzo L. Hughes
*Assistant Superintendent
for Instruction*

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Cambridge, Maryland 21613
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January 3, 2011

BOARD MEMBERS

James M. Bishop
President

Lorraine T. Henry
Vice President

Glenn L. Bramble

Philip L. Bramble, Jr.

Glen A. Payne

Mr. Bruce A. Myers, CPA
Legislative Auditor
Department of Legislative Audits
301 West Preston Street – Room 1202
Baltimore, Maryland 21201

Dear Mr. Myers:

Enclosed you will find the Legislative Audit report of findings and Dorchester County Board of Education's final responses to those findings. An electronic copy has been sent to the "response" e-mail and has also been faxed to you on Monday, January 3, 2011.

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

Sincerely,

Henry V. Wagner, Jr.
Superintendent of Schools

Enclosures

cc: Gary McCabe

Dorchester County Public Schools**Agency Responses to Financial Management Practices Performance Audit Report****December, 2010****Recommendations and Responses**

1. DCPS should develop comprehensive procurement policies that ensures acquisitions are made at the best value and addresses all categories of goods and services purchases. These policies should specify the procurement methods to be used (such as competitive sealed bidding, sole source), when contracts should be in writing, and the mandatory contract provisions. Additionally, DCPS should obtain goods and services through a properly documented competitive procurement process. If a competitive procurement process is not deemed appropriate (such as when only one vendor can provide the required services), then documentation justifying the decision should be maintained.

DCPS Response:

DCPS agrees to review its existing internal procedures to ensure acquisitions continue to be made at the best value and addresses all categories of goods and services. As a small school system, written comprehensive procurement policies have not been previously identified as an area in need of attention. Employees have been expected to use judgment and their knowledge of available resources to fulfill procurement requirements in a cost effective manner. DCPS agrees that we should better document sole source procurements when they are the appropriate procurement method. DCPS does competitively bid (or quote) whenever practical and enters into formal contracts for all goods and services when a purchase order (and the associated bid documents, if any) are not adequate to serve as a contract. In the coming year, DCPS will endeavor to better document procurement decisions.

2. DCPS should improve its controls over purchasing and the invoice payment process by separating incompatible functions and by assigning critical system functions to only those who need those capabilities to perform their job duties. Furthermore, DCPS should restrict access to blank check stock and the signature plate to employees who are independent of the invoice processing functions. In addition, DCPS should establish a process to ensure that a proper and independent review of all disbursement checks is performed. Finally, DCPS should maintain contract pricing information on file, including the applicable contracts, and verify the accuracy of prices on vendor billings.

DCPS Response:

DCPS agrees and during 2011, many of the recommended actions will occur. Due to the small number of administrative staff, formal segregation of duties is not always possible. However, there are mitigating procedures that are in place, or that could be strengthened, to offset these weaknesses. The Finance Department has already modified the process for the review of disbursements, and securing of the keys to the check supply storage cabinet.

Operating departments have increased their scrutiny of and retention of copies of piggy back contracts that are utilized in lieu of bidding. Currently, better documentation of these actions is being implemented. DCPS agrees that all invoices should be reviewed for propriety prior to payment and by general practice makes effort to do so, including the utilizing of vendor discounts required by contractual agreements.

3. DCPS should improve controls over the human resources and payroll system by segregating incompatible functions and assigning critical system functions to only those employees who need the capabilities to perform their job duties. In addition, DCPS should ensure that critical transactions (such as adding an employee or changing salaries) are reviewed by supervisory personnel independent of the payroll processing function using supporting documentation.

DCPS Response:

DCPS agrees and has commenced a review of all those who have ‘critical’ system access. Initially, we have decided to reassign duties within HR to assign data input to one secretary, which allows a reduction of the number of staff members with that ability. However, with only four (4) Human Resources staff members, it is important that all have some level of access in the event a staff member is absent for any period of time. Also, the DCPS Human Resources office will implement a procedure for reviewing HR transactions (especially those that affect payroll). The person, who serves in the internal control capacity, for these ‘transactions’ will have limited ‘critical’ system access.

4. DCPS should expand its workforce planning to include key non-instructional positions in critical operational units.

DCPS Response:

DCPS agrees and has already begun to include in its workforce planning key non-instructional positions in critical jobs.

5. DCPS should develop and implement comprehensive policies and procedures to govern the accounting and safeguarding of equipment that addresses: maintaining detail equipment records; tagging of equipment; conducting physical inventory counts; and disposing of equipment. DCPS should ensure that only those employees who require the capability to modify the equipment records as part of their job responsibilities to be assigned this capability.

DCPS Response:

DCPS agrees and will begin the process in FY 2011 to adopt policies and procedures to address this recommendation.

DCPS will consider how to limit update access to the inventory records to employees requiring such access as part of their routine job duties without impairing network

operations. As a small system, segregation of duties can be difficult to achieve. A physical inventory is being planned for the summer of 2011.

6. DCPS should implement appropriate security measures to safeguard its applications and data systems by improving account and password protection, and logging all significant security-related activity for review.

DCPS Response:

DCPS agrees and will take steps to implement these recommendations in the next 12 months.

7. DCPS should ensure that contracts for outsourced computer applications contain provisions that provide sufficient legal protection to address security and performance risks.

DCPS Response:

DCPS agrees with this recommendation and will contact the vendor to determine what can be done to address the contract terms that should be strengthened to provide greater legal protection.

8. DCPS should develop and implement a comprehensive disaster recovery plan.

DCPS Response:

DCPS agrees with this recommendation and will be working on plan preparation in the coming year.

9. DCPS should develop a performance assessment system that establishes standards and expectations for maintenance personnel. DCPS should formally identify the extent of its deferred maintenance projects and develop solutions for addressing any backlog. Finally, DCPS should consider implementing a formal customer feedback program to assist in evaluating performance and improving maintenance and custodial operations.

DCPS Response:

DCPS agrees with the recommendation and feels that the current procedures, as explained below, adequately address the concerns. DCPS will investigate a performance assessment system for maintenance and custodial operations. Assessment of Maintenance staff size is warranted. As we have reassigned some job tasks, due to staff turnover in the summer of 2010, we are hopeful that some of the backlog of maintenance tasks will be remedied. An additional HVAC technician has been hired, utilizing existing budget funds from a discontinued custodial manager's position (attrition).

DCPS will investigate how it can implement a formal customer feedback program to assist in evaluating performance and improving maintenance and custodial operations. We value the benefit of feedback from our students, staff and community that we serve.

10. DCPS should establish formal, comprehensive bus routing procedures to address factors such as desired bus loads and student ride times, and investigate the use of automated routing software to help plan more efficient bus routes.

DCPS Response:

DCPS agrees with the recommendation and feels that the current procedures, as explained below, adequately address the concerns. DCPS will review our current processes and develop written bus routing procedures based upon the informal procedures already in place, which have been utilized to maximize bus loads, while considering student ride times. In December 2010, DCPS staff investigated automated routing software, which is in use in neighboring school systems. Upon determining that it was cost-effective and would integrate with our existing student data base, and was compatible with our county government's GIS system, we have issued a purchase order for the software. Previously, these types of software have not been cost-effective for our school system, nor were GIS and student data base interfaces readily available.

11. DCPS should establish written policies that justify and describe how each component of the bus contractor's table of rates are to be determined, and retain documentation for each year to show that the rates were determined in accordance with the policy. In developing the policies, DCPS should reevaluate the appropriateness of the PVA, and the fuel and maintenance amounts paid to bus contractors.

DCPS Response:

DCPS agrees with the intent of this recommendation and will take steps to improve documentation to support the Table of Rates funding. Prior to the legislative audit, in the fall of 2009, our Board of Education held an extensive discussion of PVA and considered the overall profitability of a bus contract considering work time, contractor investment, liability, quality of service to our students, and the shrinking population of "qualified" drivers. DCPS annually (during the budget process) considers the various factors in the Table of Rates, which serve as the basis of the payments to all contractors. A meet and confer process is used, with representatives of the bus contractors association, to communicate challenges that contractors face and to "negotiate" payment rates for the coming year. Cost is a primary factor in the determination of the rates paid to contractors, but additionally total compensation to contractors must be sufficient to assure that an adequate supply of buses will continue to operate in an extremely reliable and safe manner.

12. DCPS should establish a formal performance measurement system for its transportation services, and periodically report the results to the Board.

DCPS Response:

DCPS agrees with the recommendation and feels that the current procedures, as explained below, adequately address the concerns. DCPS will develop performance goals for transportation services in the coming year and report the results to the Board.

13. DCPS should segregate the duties of ordering and receiving food service items. DCPS should also ensure that purchases receive prior approval of independent supervisory personnel.

DCPS Response:

DCPS agrees to segregate the receiving function, where feasible. During the fall of 2010, DCPS changed its operating procedures, wherever possible, such that a food service worker checks and verifies the receipt of goods; not the manager who placed the order, as had been our past practice. This strengthens our procurement verification process.

DCPS agrees with the recommendation and feels that the current procedures, as explained below, adequately address the concerns. Given the amount of internal controls in the procurement process, which include the ordering of items that must correlate to the centrally planned menu, segregated receiving and invoice verification processes, reviews of food production records, review of sales, and monthly inventories, DCPS believes that reasonable controls are in place. Therefore adding prior approval of routine food supply orders by independent supervisory personnel would only increase administrative workload, delay the food delivery process and is not necessary. Independent supervisory personnel will continue to review the necessity of products ordered and to take action as necessary, if inappropriate items or quantities are ordered.

14. The Board should adopt policies to govern and monitor critical financial and support services operations and ensure that appropriate administrative procedures are developed to support these policies.

DCPS Response:

DCPS agrees that an accounting policies and procedures manual should be created. Efforts to create a manual will begin in Fiscal Year 2011.

15. The Board should enhance its oversight of DCPS operations. For example, the Board should consider establishing an internal audit function or expanding the scope of work performed by its independent auditor. The Board should also consider establishing a hotline for the confidential reporting of operational issues and suspected fraud, waste, and mismanagement. Furthermore, the Board should adopt comprehensive performance measures in key operational areas, such as transportation, food service, and facilities management, to assist in its oversight duties; such data should be periodically reviewed by the Board.

DCPS Response:

Given the present budget constraints, the Board will continue its current practices of oversight of operations through the monthly Board of Education meeting finance reports, budget monitoring, and work session updates on current matters such as construction projects, minor capital projects and other operating matters. The Board will investigate during FY 2011, the costs and opportunities to expand its oversight of DCPS operations by establishing an internal audit function perhaps by expanding the scope of work performed by its independent auditor. The Board will investigate establishing a hotline for the confidential reporting of operational issues and suspected fraud, waste, and mismanagement. The Board will consider adopting comprehensive performance measures in key operational areas, such as transportation, food services, and facilities management, to further expand its current oversight duties. The data, once obtained, would be periodically reviewed by the Board.

16. The Board needs to re-establish its ethics panel and monitor the panel's activities to ensure that the provisions of its ethics policy, including the financial disclosure requirements, are being complied with. The Board also needs to ensure that its ethics policy includes all provisions required by State law and obtain approval for all changes to the policy from the State Ethics Commission.

DCPS Response:

Subsequent to this audit (FY 2011), the Board of Education re-established its ethics panel. Financial disclosure statements have been submitted. The Board will review its ethics policy as compared to the provisions of the State policy and seek all required approvals.

17. DCPS should develop and adopt formal policies governing cash management and long-term obligations.

DCPS Response:

DCPS will develop local policies for these recommended items. DCPS has always operated within State law governing cash management, specifically investment practices. The State law is very limiting as to the type of investments and is reviewed annually for compliance by our independent auditors. Developing a local policy would be more a mirror image of State law. The use of leases is very limited and is only with Board approval.

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

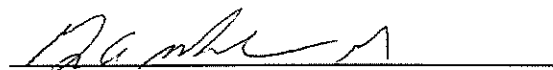
DCPS Response:

DCPS agrees with this recommendation and in the fall of 2010 contracted with a consulting firm to perform an eligibility audit during FY 2011.

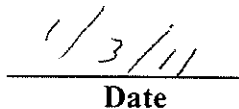
DORCHESTER COUNTY
Agency Responses to Financial Management Practices Performance Audit Report

Recommendations and Responses

Submitted by:



Gary A. McCabe, Sr.
Assistant Superintendent for Administration


Date

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