

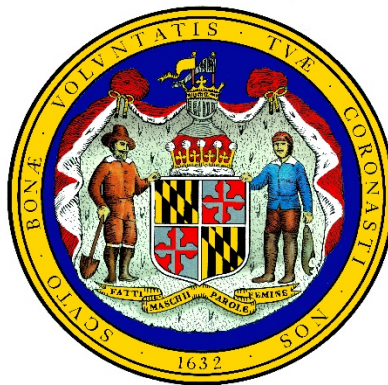
Financial Management Practices Audit Report

Queen Anne's County Public Schools

November 2024

Public Notice

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



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MARYLAND GENERAL ASSEMBLY

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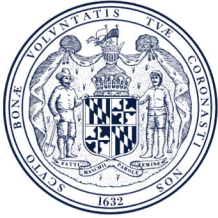
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MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

November 22, 2024

Brian S. Tanen, CPA, CFE
Legislative Auditor

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

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Queen Anne's County Public Schools (QACPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. The objectives of this audit were to evaluate whether QACPS' procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

Our audit disclosed that QACPS' procurement policies were not sufficiently comprehensive and were not always consistently used when obtaining goods and services under intergovernmental cooperative purchasing agreements. In addition, purchase orders were not always prepared and approved prior to obtaining the related goods or services. QACPS also awarded a sole source contract for a school bus safety camera system instead of conducting a competitive procurement. We also noted that certain components of the payments to bus contractors could not be supported and QACPS did not require its food service management service contractor to provide support for reimbursable food and labor cost.

Our audit also disclosed that QACPS needs to improve internal controls and accountability in several areas, including payroll processing, equipment inventory, and health care services. For example, QACPS did not obtain Board approval for certain executive level employees as required by State law. Additionally, QACPS did not audit or adequately monitor the performance of its third-party administrator that provides health care claims processing services.

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

Finally, based on our current audit assessment of significance and risk to our audit objectives, our audit included a review to determine the status of 18 of the 19 findings contained in our preceding audit report. For the non-cybersecurity-related findings, we determined that QACPS satisfactorily addressed 6 of the 12 findings. The remaining 6 findings are repeated in this report.

QACPS’ response to this audit is included as an appendix to this report. Consistent with State law, we have redacted the elements of QACPS’ response related to the cybersecurity audit findings. We have also edited the response to remove certain vendor names or products, as allowed by our policy.

In accordance with State law, we have reviewed the response and, while QACPS generally agrees with the recommendations in this report, we identified certain instances in which statements in the response conflict with or disagree with the report findings. In each instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted government auditing standards, we have included “auditor comments” within QACPS’ response to explain our position. We will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with QACPS.

Additionally, in a number of instances, although QACPS’ response indicated agreement, certain actions indicated by QACPS may be insufficient to comprehensively address all the audit issues. These responses will require further clarification, but we do not anticipate that these instances will require the Committee’s attention to resolve.

We wish to acknowledge the cooperation extended to us during the course of this audit by QACPS. We also wish to acknowledge QACPS' willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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Background Information

Statistical Overview

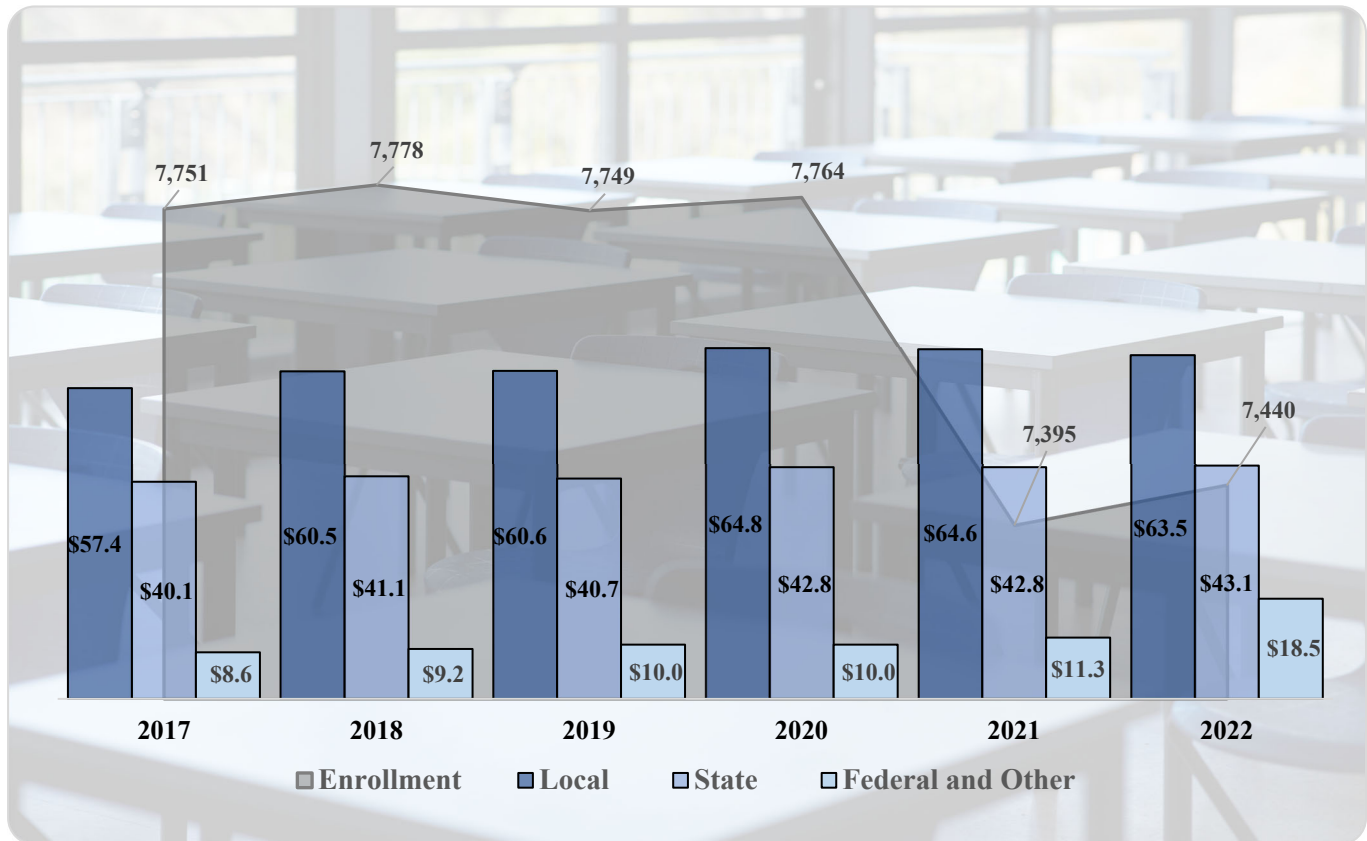
Enrollment

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Queen Anne's County Public Schools (QACPS) ranks 17th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2022 full-time student enrollment was 7,440 students. QACPS had 14 schools, consisting of 8 elementary, 4 middle schools, and 2 high schools.

Funding

QACPS revenues consist primarily of funds received from Queen Anne's County, the State, and the federal government. According to QACPS' audited financial statements, revenues from all sources totaled approximately \$125.1 million in fiscal year 2022; including \$43.1 million from the State. According to MSDE's records, the State funding included formula funding grants totaling \$32.7 million, Blueprint for Maryland's Future grants totaling \$3.7 million, State-share for employee pension payments totaling \$6 million and other State funding sources totaling \$700,000. See Figure 1 (on the following page) for QACPS' funding by source for the six-year period from fiscal year 2017 through fiscal year 2022. See Figure 2 (on page 8) for revenue sources per enrolled student in fiscal year 2022 according to its audited financial statements.

Figure 1
QACPS Enrollment and Funding by Source
Fiscal Years 2017 through 2022
 (dollar amounts in millions)

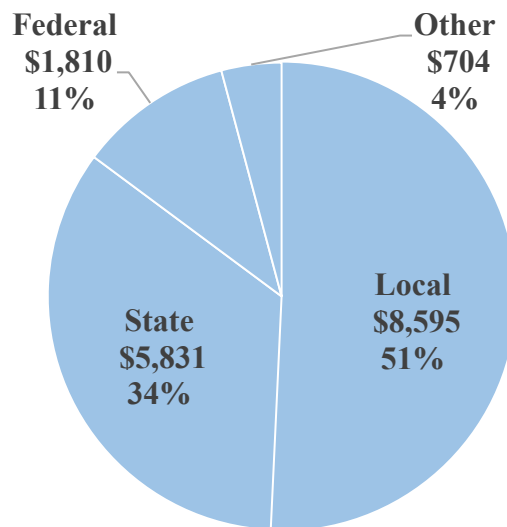


State funding for fiscal year 2022 included:

- \$32.7 million for Foundation Formula Grants
- \$3.7 million for Blueprint Grants
- \$6.0 million for the State-share of employee pension costs
- \$0.7 million for Other State funding

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

Figure 2
QACPS' Revenue Sources Per Enrolled Student
Fiscal Year 2022



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

Blueprint for Maryland's Future (Blueprint)

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

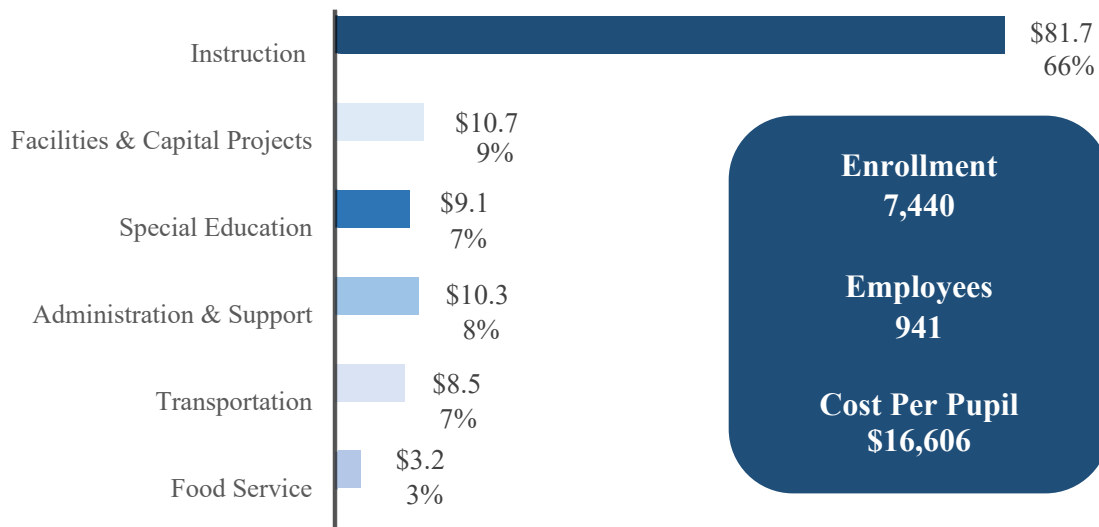
Blueprint allocates funding to schools based on a weighted-student formula. The funding formula provides resources to local education agencies based on the number of students enrolled at each school (known as Foundation Aid) and the characteristics of those students (such as, Special Education, Concentration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

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

Expenditures

According to QACPS' audited financial statements, fiscal year 2022 expenditures were approximately \$123.5 million. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 73 percent of total expenditures during fiscal year 2022. According to MSDE records, during the 2021-2022 school year, QACPS had 941 full-time equivalent positions, which consisted of 694 instructional and 247 non-instructional positions. Instruction accounted for 66 percent of QACPS' expenditures on a categorical basis (see Figure 3).

Figure 3
QACPS Expenditures by Category and Selected Statistical Data
Fiscal Year 2022
(amounts in millions)



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

Oversight

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

Accountability and Implementation Board (AIB)

The AIB was established by State law as an independent unit of State government in February 2021 and is responsible for holding State and local governments, including local education agencies, accountable for implementing the Blueprint State-funded grant program and for evaluating the outcomes. Specifically, the AIB reviews the use of school-level expenditures and monitors school system compliance with Blueprint requirements. The AIB consists of a 7-member Board appointed by the Governor, with advice and consent of the Senate. The Board Chair is designated by the Governor, the Senate President, and the Speaker of the House.

Office of the Inspector General for Education (OIGE)

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

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

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

External Audits

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

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

We reviewed the aforementioned financial statement audits and Single Audit reports for fiscal years 2017 through 2022 and examined the related work papers for the fiscal year 2022 audit, which were the latest available during our audit fieldwork. Our review did not note any deficiencies that warranted inclusion in this report. In addition, certain work of the independent certified public accounting firm, which we determined was reliable, covered areas included in the scope of our audit. As a result, we did not conduct any audit work related to the following areas:

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

Status of Findings From Preceding Audit Report

Based on our current assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of 18 of the 19 findings contained in our preceding audit report dated August 1, 2018. As disclosed in Figure 4 on the following pages, for the non-cybersecurity-related findings, we determined that QACPS satisfactorily addressed 6 of the 12 findings. The remaining 6 findings are repeated in this report.

Figure 4
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	Adequate accountability and control over cash receipts had not been established, as collections were not always restrictively endorsed and recorded immediately upon receipt and there was no independent verification that collections were deposited.	Not repeated
Finding 2	QACPS had not established a process to independently review school activity fund transactions, verify compliance with established policies and internal controls, and properly account for receipts and disbursements.	Not repeated
Finding 3	QACPS' procurement policies were not sufficiently comprehensive, as they did not include specific requirements for Board approval, the competitive solicitation of services, or the use of intergovernmental cooperative purchasing agreements. QACPS did not always comply with the existing policies and State law.	Repeated (Current Finding 1)
Finding 4	QACPS did not always verify amounts billed with contract terms.	Not repeated
Finding 5	QACPS had not established adequate internal controls over the processing of certain critical human resource and payroll transactions, such as other earnings and salary increases.	Repeated (Current Finding 5)
Finding 6	QACPS had not executed employment contracts for six central office employees and there was no evidence that the Board had approved their salaries as required by State law, which totaled a combined \$637,000 in fiscal year 2016.	Repeated (Current Finding 4)
Finding 7	QACPS had not established comprehensive equipment policies and adequate record keeping practices and controls over equipment.	Repeated (Current Finding 7)
Finding 8	Monitoring of security activities and password and account controls over critical systems were not sufficient.	Status Redacted ²
Finding 9	QACPS' computer network was not adequately secured.	Status Redacted ²
Finding 10	QACPS had not identified and protected sensitive personally identifiable information maintained on its computer systems.	Status Redacted ²
Finding 11	QACPS had not established procedures to ensure that malware protection software was installed, current, and operational, on all active computers, administrative rights were properly limited, and operating system security updates were applied.	Status Redacted ²

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

Figure 4
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 12	QACPS lacked assurance that adequate information technology security and operational controls existed over its financial system that is hosted, operated, and maintained by a service provider.	Status Redacted ³
Finding 13	QACPS did not have a complete information technology disaster recovery plan for recovering computer operations.	Status Redacted ³
Finding 14	QACPS executed three 20-year power-purchasing agreements and a subsequent amendment with a solar provider without a competitive process or a formal analysis to ensure it received the best value. In addition, QACPS did not advise the Board of the related fiscal impact of the amendment, which increased the electricity rate.	Not repeated (Not followed up on)
Finding 15	QACPS did not establish comprehensive bus routing procedures and did not periodically perform a system-wide analysis of bus routes and related bus capacities to maximize the efficiency of its bus routes and address bus routes with low ridership.	Not repeated
Finding 16	QACPS had not established a formal methodology to calculate its per-vehicle allotment rate and payments to bus contractors included elements that did not consider market conditions, actual costs, or available discounts.	Repeated (Current Finding 16)
Finding 17	Financial disclosure statements were not always filed, or filed timely, as required by QACPS' ethics policy.	Not repeated
Finding 18	Eligibility documentation was not always obtained to verify that certain dependents met health insurance enrollment criteria, as required by QACPS policy.	Not repeated
Finding 19	QACPS did not ensure the propriety of employee and retiree health care claims paid and did not verify plan administrative fees were properly charged.	Repeated (Current Finding 18)

³ Specific information on the current status of this cybersecurity-related finding has been redacted from the publicly available report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

Findings and Recommendations

Revenue and Billing Cycle

Background

Queen Anne's County Public Schools (QACPS) revenues consist primarily of funds received from Queen Anne's County, the State, and the federal government. According to the QACPS audited financial statements, revenues from all sources totaled approximately \$125.1 million during fiscal year 2022, including \$43.1 million from the State.

External Audits

There were similarities between the work of the independent certified public accounting firm (CPA) that audited QACPS' financial statements and the objectives of our audit for certain revenue activities. As a result, we relied on this work to provide audit coverage for State and local government revenues received via electronic funds transfer and accounts receivable, for which the auditor's procedural review (related to the fiscal year 2022 audit) and testing disclosed no material weaknesses or significant deficiencies.

School Activity Funds

Schools collect funds for other purposes such as student activities, clubs, and school publications.⁴ Because they are not considered school revenue, these school activity funds are accounted for separately by each school and reported in summary in the audited financial statements. During fiscal year 2022, school activity collections totaled approximately \$1.1 million and the June 30, 2022 fund balance was \$863,000. Based on our assessment of relative significance of this activity, we did not review the procedures and controls over these funds.

Conclusion

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

⁴ In accordance with Board policy, the school activity funds are intended to promote the general welfare of students and to facilitate the normal extracurricular activities of the school.

Federal Funds

Background

QACPS receives funds pertaining to federal government programs that are generally restricted for use for a specific program (such as the School Lunch Program or Special Education). According to QACPS' Single Audit, fiscal year 2022 (latest available at the time of our audit) federal expenditures totaled approximately \$13.4 million, not including federally funded fee-for-service programs such as Medicaid reimbursement for special education services.

According to the audited financial statements, federal fund revenues (excluding Medicaid) increased, from \$5.1 million in fiscal year 2020 to \$13.4 million in fiscal year 2022 (160 percent increase), due to COVID-19 pandemic grant funding. Specifically, according to QACPS' records, as of June 30, 2022, QACPS was awarded federal COVID-19 pandemic grant funds totaling \$15.7 million to be distributed over federal fiscal years 2020 to 2024 under the Coronavirus Aid, Relief, and Economic Security Act, the Coronavirus Response and Relief Supplemental Appropriations Act, and the American Rescue Plan.⁵

As of June 30, 2022, QACPS expenditures related to these COVID-19 grants totaled \$7.4 million, from March 2020 to June 2022, and were primarily comprised of staffing, laptops, summer enhancement programs, personal protection equipment, sanitary supplies, and positions associated with learning loss. QACPS has policies and procedures to ensure federal grant funds are properly monitored and accounted for to ensure the funds are used to the fullest extent possible. In addition, reports of grant fund activity are presented monthly to the Board. QACPS initially funded the expenditures with State and local funds and will obtain reimbursement from the aforementioned programs to the extent allowed.

Single Audit Reports

There were similarities in the work performed by the independent CPA that conducted the Single Audit of QACPS' federal grants and the objectives of our audit in this area. In addition to expressing an opinion on QACPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the required Schedule of Expenditures of Federal Awards (which includes claimed and

⁵ In addition to the federal grants, QACPS was also awarded State and local COVID-19 grants totaling \$1.1 million, all of which had been spent as of June 30, 2022. State and local grants are subject to review and testing during our audit.

reported grant expenditures) for fiscal years 2017 through 2022. Our review of the Single Audits did not identify any issues that warranted inclusion in this report.

Medicaid Funds for Eligible Services

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

The Maryland State Department of Education's Interagency Medicaid Monitoring Team issued a report in June 2022 of the results of its review of 41 student case files for 78 criteria. The report did not specifically address the propriety of Medicaid billing but overall concluded that QACPS was generally compliant with most criteria. For example, QACPS was 100 percent compliant with 58 criteria, and between 90 and 99 percent compliant with 8 criteria. According to QACPS records, fiscal year 2022 State and federal reimbursements for Medicaid-subsidized services totaled approximately \$714,000, which was consistent with the previous fiscal year. Based on our current assessment of significance and risk relative to our audit objectives, our audit did not include a review of Medicaid-subsidized services.

Conclusion

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

Procurement and Disbursement Cycle

Background

According to the audited financial statements and QACPS' records, disbursements (excluding payroll) totaled \$33.3 million during fiscal year 2022. QACPS uses a financial management system for purchases and disbursements. Requisitions are created in the system by departments and are subject to online departmental approvals. Purchase orders are prepared in the system by the purchasing department based on approved requisitions. The purchasing department also generally handles the solicitation, bid evaluation, and establishment of contracts.

Invoices are submitted by vendors directly to the accounts payable department for entry into the financial management system. Generally, the system matches invoices to appropriate purchasing documents and the verification of receipt entered by the receiving school or department. When invoices are received that

do not relate to an established purchase order, the accounts payable department enters the invoices into the financial management system and manually approves the related payment. The system then prints vendor checks or processes an electronic payment and posts the payment to the financial records.

QACPS written procurement policies require that procurements equal to or exceeding \$25,000 be competitively bid in accordance with Section 5-112 of the Education Article of the Annotated Code of Maryland. Procurements of contracts and agreements valued at \$25,000 or more, are to be approved by the Queen Anne's County Board of Education.

Finding 1

Certain requirements of State law and recognized best practices were not incorporated into QACPS policies and were not consistently used when participating in an intergovernmental cooperative purchasing agreement (ICPA).

Analysis

Certain requirements of State law and recognized best practices were not incorporated into QACPS policies and were not consistently used by QACPS when participating in an ICPA. State law, which legal counsel to the Maryland General Assembly advised us is applicable to local education agencies, allows the use of ICPAs only after the using entity has met the statutory requirement of determining (or assessing) in writing that the use of such arrangements will provide cost benefits, promote administrative efficiencies, or promote intergovernmental cooperation.⁶

According to QACPS records, QACPS used the ICPA procurement method for 15 procurements with awards totaling approximately \$2.4 million during fiscal year 2023. Our review of QACPS procurement policies disclosed that the above

⁶ Section 13-110 of the State Finance and Procurement Article of the Annotated Code of Maryland, in part, defines an ICPA as a contract that is entered into by at least one governmental entity in a certain manner, that is available for use by the governmental entity entering the contract and at least one additional governmental entity, and that is intended to promote efficiency and savings that can result from intergovernmental cooperative purchasing. The aforementioned law applies to all ICPAs regardless of the services, goods, or commodities purchased. In addition, Section 5-112(a)(3) of the Education Article, of the Code provides that local education agencies do not need to conduct competitive procurements for goods and commodities if they use a contract awarded by public agencies or intergovernmental purchasing organizations and the originating procuring agency followed public bidding procedures.

statutory requirement as well as the following critical best practices were not included.

- Analyze all costs of conducting competitive solicitations;
- Research, compare, and evaluate available ICPAs;
- Verify ICPA has a clause allowing utilization by other parties;
- Verify the ICPA solicitation was competitively bid and publicly advertised. Obtain originating agency's competitive procurement documentation (including public advertisements and proposal evaluations);
- Verify terms, scope of services, specifications and price meet our needs;
- Execute an addendum of participation with lead agency and remove or incorporate necessary local terms and conditions; and
- Obtain a copy of ICPA and related price lists for invoice verification.

In addition, we tested QACPS' participation in seven ICPAs (selected based on significance), awarded during fiscal years 2020 through 2023, totaling approximately \$2.8 million. Our review disclosed that QACPS did not adhere to three best practices for three ICPAs tested (preparing a written assessment of the benefits of using the ICPAs, analyzing the costs of conducting competitive solicitations, and researching, comparing, and evaluating other available ICPAs). A similar condition was commented upon in our preceding audit report, dated August 1, 2018. In response to that audit report, QACPS indicated that it would document analysis of the benefits of all ICPAs and, when necessary, submit to the Board for approval. However, QACPS did not take the corrective actions as indicated.

We did find that other best practices were performed despite not being included in QACPS' policies. For example, QACPS verified the terms, scope of services, specifications, and overall price met its needs for the three ICPAs noted above. QACPS also ensured the amounts invoiced by the three ICPA vendors tested agreed with the original contract pricing. Incorporating ICPA best practices into QACPS procurement policies could help ensure they are consistently used.

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

documenting their participation, and that all local required terms and conditions are incorporated.

Recommendation 1

We recommend that QACPS incorporate the aforementioned statutory requirements and other identified and acknowledged best practices into its procurement policies and ensure that the performance of the requirements and best practices are documented when evaluating and participating in ICPAs (repeat).

Finding 2

QACPS did not always prepare and approve purchase orders prior to obtaining goods or services and did not have system edits to prevent payments from exceeding contract maximums.

Analysis

QACPS did not always prepare and approve purchase orders prior to obtaining the related goods or services and did not have system edits to prevent payments from exceeding contract maximums. Establishing purchase orders helps QACPS control invoice payments by electronically matching the approved invoice payments to the established purchase order.

Our analysis of certain invoice payments over \$10,000 during the period from July 2019 to May 2023 disclosed that payments to 200 vendors totaling approximately \$100 million did not have an established purchase order.⁷ For example, QACPS paid its food service vendor \$8.2 million and its healthcare vendor \$43.8 million without a related purchase order being recorded in its financial management system.

Furthermore, when purchase orders were prepared, the financial management system did not contain an automated edit to prevent the related payments from exceeding the purchase order. Our analysis of purchase orders and related invoice payments during the period from July 2019 to May 2023 disclosed that 47 purchase orders totaling \$12.8 million had invoice payments totaling \$13.4 million that exceeded the approved purchase order amount by \$600,000. For example, QACPS paid two bus contractors \$4.74 million when the related purchase orders totaled \$4.46 million, a difference of \$280,000. Our review of these payments determined that the bus contractors were paid for appropriate

⁷ Our analysis excluded payments for utilities and corporate purchasing card transactions since QACPS advised us that it does not establish purchase orders for these transactions since they are reoccurring, or the expenses are variable.

services (such as, routine monthly payments for approved routes and payments for fuel cost adjustments and transporting students to athletic games) but the established purchase orders were only for the routine monthly payments for routes.

This condition was caused, at least in part, because QACPS' *Procurement Policy* only required purchase orders for the purchase of goods and services under \$25,000. In this regard, QACPS advised us that its practice was to prepare purchase orders for the majority of its contracts regardless of the dollar amount. Given the benefits of using purchase orders as described above and QACPS' practice for preparing purchase orders for all contracts, QACPS should consider revising its *Procurement Policy* to include controls that prevent payments from exceeding the related purchase order.

Recommendation 2

We recommend that QACPS

- a. ensure purchase orders are prepared and approved prior to obtaining the related goods or services,**
- b. consider revising the procurement policy to require purchase orders for all contracts consistent with its practice, and**
- c. establish controls to prevent invoice payments from exceeding the related purchase order.**

Finding 3

QACPS did not properly report vendor payments in aggregate of \$25,000 or more to the Department of Budget and Management (DBM), as required to enhance transparency of the procurement process.

Analysis

QACPS did not report all vendor payments in aggregate of \$25,000 or more to DBM. Effective July 1, 2019, Chapter 541, Laws of Maryland 2019 requires local education agencies to annually report specified information for the immediately preceding fiscal year to DBM beginning January 1, 2020. DBM uses the information to report the procurements on the Maryland Transparency Portal, a public website that allows the public to search and view information about payments to vendors to enhance transparency over the procurement process.

Local education agencies must report all vendor payments in aggregate of \$25,000, including the name of the vendor receiving a payment, the location of the vendor by zip code, and the amount of the payment. Certain payments are

excluded from this requirement including a public school employee's compensation and a public school retiree's retirement allowance.

Our review of amounts reported by QACPS to DBM for fiscal year 2022 disclosed that it only reported \$10.1 million of the \$43.2 million in vendor payments that were required to be reported, a difference of \$33.1 million. For example, QACPS did not report payments related to certain healthcare and food services vendors. We were advised by QACPS management that this was an oversight.

Recommendation 3

We recommend that QACPS

- a. establish procedures to ensure all vendor payments in aggregate of \$25,000 or greater are reported to DBM, as required; and**
- b. retroactively report the vendor payments that were not reported to DBM for fiscal year 2022.**

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the QACPS budget. According to QACPS' records, fiscal year 2022 salary, wage, and benefit costs totaled approximately \$90.2 million, representing 73 percent of the total expenditures. According to Maryland State Department of Education reports, during the 2021-2022 school year QACPS had 941 full-time positions, which consisted of 694 instructional and 247 non-instructional positions.

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

Finding 4

QACPS could not document that the Queen Anne's County Board of Education (the Board) reviewed and approved salaries for three executive-level employees as required by State law.

Analysis

QACPS could not document that the Board reviewed and approved salaries for three of the eight executive-level employees tested, as required by State law. According to the employment contracts for these three employees, their collective salaries (excluding fringe benefits) totaled \$446,000 during fiscal year 2022. These three employees were not covered by union contracts and as such the salaries were not regulated. Our test of payroll payments totaling \$11,100 to two of the three employees disclosed that they were consistent with the related contracts.

State law requires that the Board appoints all system employees and set their salaries based on the recommendation of the county superintendent. A similar condition was commented upon in our three preceding audit reports dating back to October 2006. In response to our preceding audit report, QACPS agreed to obtain Board approval for appointments and salaries. However, QACPS did not take the corrective actions as agreed.

Recommendation 4

We recommend that QACPS obtain Board approval for executive-level salaries, as required by State law (repeat).

Finding 5

QACPS did not have a documented independent review and approval of other earnings payments which totaled \$595,000 during fiscal year 2022.

Analysis

QACPS did not have a documented independent review and approval of other earnings payments (including final leave payouts, extra-duty pay, sick leave pay, retroactive pay, and workshop pay) which totaled \$595,000 during fiscal year 2022. Our review of 15 other earnings payments totaling approximately \$163,000 processed from July 2021 to January 2023 disclosed that while they appeared to be proper and accurate, there was no evidence of independent supervisory review.

Similar conditions regarding the lack of an independent review of payroll transactions were commented upon in our two preceding audit reports. In response to our audit report dated August 1, 2018, QACPS indicated that it would

perform a documented independent review of critical transactions. However, QACPS did not take the corrective actions as indicated.

Recommendation 5

We recommend that QACPS perform a documented independent review and approval of other earnings payroll transactions (repeat).

Finding 6

QACPS did not always perform a required screening before hiring certain applicants for positions involving direct contact with minors.

Analysis

QACPS did not always perform a required screening before hiring certain applicants for positions involving direct contact with minors (such as, care, supervision, guidance, control, or routine interaction). State law effective July 1, 2019 (and updated July 1, 2021) requires local education agencies to provide screening of certain applicants. Specifically, the schools must obtain information from an applicant for positions that involve direct contact with a minor including a written statement whether they were the subject of a child sexual abuse or sexual misconduct investigation by any employer that resulted in a finding.⁸ The law also requires local education agencies to contact the applicant's current or prior employers and obtain the same information.

According to QACPS' records, during fiscal year 2022, QACPS hired 136 individuals that were assigned to schools or student programs that would have contact with minors. Our test of 15 individuals having direct contact with minors, who were hired after the law went into effect, disclosed that QACPS had not performed the required screening for 11 employees. Without a proper screening, QACPS lacks assurance regarding the conduct of individuals it hired.

Recommendation 6

We recommend that QACPS perform and document the required screening for positions involving direct contact with minors, including those noted above, in compliance with State law.

⁸ This is in addition to existing requirements to obtain a criminal background check.

Equipment Control and Accountability

Background

According to QACPS' audited financial statements, the undepreciated value of its capital equipment inventory (furniture, fixtures, and equipment) totaled \$18.9 million as of June 30, 2022. QACPS maintains centralized automated records for equipment with a cost of \$1,000 or more for financial statement purposes. In addition, QACPS' Department of Information Technology maintains an inventory database of laptops issued to staff, teachers, and students. As of April 2023, the database listed 11,977 laptops with a total recorded cost of \$5.9 million. QACPS has established written equipment policies and coordinated a physical inventory at each school annually.

Finding 7

QACPS' equipment record keeping policies were not comprehensive, equipment records were not complete, and equipment disposals were not properly controlled.

Analysis

QACPS' equipment record keeping policies were not comprehensive, equipment records were not complete, and equipment disposals were not properly controlled.

- QACPS' equipment record keeping policies did not include critical controls including record keeping and physical inventory requirements, the processes for investigating missing items, reporting lost or stolen items, approving disposals, and specifying the items that should be treated as sensitive (items being subject to theft). Due to the lack of a formal policy and the distributed nature of inventory recordkeeping there is a lack of assurance that all sensitive equipment items were being consistently tracked and to ensure proper control and accountability.
- Although QACPS' Department of Information Technology maintained a database listing all computers issued to staff, teachers, and students; other sensitive electronic items (such as, digital cameras, projectors, and smart boards) were not accounted for. Additionally, our review disclosed that 286 laptops each with a value over \$1,000 and an aggregate value of approximately \$355,000 were not recorded in the centralized equipment records as required by QACPS' policy.
- For QACPS' Department of Information Technology, one employee was primarily responsible for recording disposals of QACPS' laptops without

maintaining a record of the deletion and without any independent review and approval.

As a result of these conditions, equipment could be lost or misappropriated without detection. Similar conditions regarding the lack of adequate policies and procedures governing sensitive equipment records, and the authorization of disposals and maintenance of complete records were commented upon in our three preceding audit reports dating back to October 2006. In response to the preceding report, QACPS stated that individual departments that purchased sensitive equipment costing less than \$1,000 were expected to track their equipment and that QACPS would revise the procedures regarding information to be maintained for sensitive equipment to be distributed to all departments. However, QACPS did not implement the corrective actions as indicated in its response.

Recommendation 7

We recommend that QACPS

- a. establish a policy defining sensitive equipment items that requires them to be recorded in the inventory records (repeat);**
- b. establish requirements for conducting physical inventory counts of equipment, investigating missing items, reporting lost or stolen items and approving disposals (repeat);**
- c. ensure that disposals are properly supported, independently approved, and that disposal records are maintained (repeat); and**
- d. ensure inventory records are properly maintained, including recording the aforementioned laptops (repeat).**

Information Technology

We determined that the Information Technology section, including Findings 8 through 13 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with QACPS’ responses, have been redacted from this report copy.

Finding 8
Redacted cybersecurity-related finding.

Finding 9
Redacted cybersecurity-related finding.

Finding 10
Redacted cybersecurity-related finding.

Finding 11
Redacted cybersecurity-related finding.

Finding 12
Redacted cybersecurity-related finding.

Finding 13
Redacted cybersecurity-related finding.

Facilities Construction, Renovation, and Maintenance

Background

QACPS employs a staff of 79 employees to maintain its 14 schools and 2 other administrative and support facilities. According to its fiscal year 2023 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to QACPS' facilities over the next five years are estimated to cost \$28.4 million.

QACPS Capital Projects Were Competitively Procured and Approved by the Board and Related Expenditures Were Properly Supported

Our review of five construction-related procurements (selected based on materiality) awarded during fiscal years 2020 to 2023 totaling \$3.9 million disclosed that the contracts were competitively procured and approved by the Board. In addition, out test of 14 invoices totaling \$1.8 million for these contracts disclosed that the invoices were properly reviewed and approved, and the amounts invoiced were in accordance with the related contract terms.

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

QACPS has processes in place to promote ongoing facility maintenance and to minimize energy costs. For example, QACPS provides scheduled maintenance of its buildings and equipment with the goal of preventing emergency repairs. In addition, QACPS participates in a consortium with other Eastern Shore area entities to purchase energy at the best possible terms for members of the consortium. QACPS also uses a vendor energy management program to monitor and control heating and air conditioning usage and a utility bill management program to monitor related costs. QACPS has written policies that include best practices that encourage both students and employees to be aware of and limit their energy use and conducts internal on-site reviews of building energy efficiency. Further, QACPS makes limited use of solar and geothermal alternative energy sources.

Conclusion

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

Transportation Services

Background

According to statistics compiled by the Maryland State Department of Education (MSDE), QACPS has approximately 7,500 students eligible to receive student transportation services. These students were transported using 73 contractor-owned buses and 19 system-owned buses. QACPS reported that 2.2 million route miles were traveled to transport students for the 2021-2022 school year.

During school year 2022-2023, QACPS had contracts with four bus contractors for student transportation. The contracts are for three-year terms subject to the Board's right to terminate the contract for various reasons (such as for cause or termination of routes to reduce or consolidate routes). According to QACPS' financial records, fiscal year 2022 transportation costs totaled \$8.5 million, of which \$6.4 million (75 percent) were payments for the contracted bus services for various costs. Payments to bus contractors consist of amounts for the purchase of a bus (known as a per-vehicle allotment or PVA, intended as reimbursement for the cost of a bus and a flat rate for return on investment), hourly reimbursements

for drivers, a per mile operation (fuel) and maintenance fee, and an administrative fee.

School Bus Safety Camera Program

As allowed by State and County law, QACPS contracted for the use of school bus safety cameras to monitor drivers who illegally pass a stopped school bus. In July 2020, the Queen Anne's County Board of Education approved a five-year sole-source contract (with a five-year renewal option) to a vendor to install and operate bus safety cameras that would be owned and maintained by the vendor on QACPS' owned and contracted school buses. The contract also provided for cameras to monitor the conduct of drivers and students inside the bus.

As of the date of the contract, vehicles that are caught on camera illegally passing a school bus are assessed a \$250 fine. The cameras take videos and still images of vehicles (and license plates) passing a bus that is operating its alternating flashing red lights. The registered owner(s) of the vehicle are identified by vendor employees. In accordance with a Queen Anne's County ordinance, the County Sheriff's Office verifies the image of the event constitutes a violation and the vendor prints and mails the citation to the registered owner(s). Citations can be paid to the vendor by credit card, electronically through the internet, or by mailing a check. The vendor is required to develop automated processes to retrieve and post all daily payment data.

The contract provides that the monthly citation revenue would be disbursed 60 percent to the vendor and 40 percent to QACPS once revenue exceeded a monthly technology fee of \$325 per bus from gross citation revenue.

Finding 14

QACPS awarded a sole source contract for a school bus safety camera system instead of conducting a competitive procurement.

Analysis

QACPS awarded a sole source contract with a vendor for a school bus camera system instead of conducting a competitive procurement. Specifically, QACPS did not solicit bids for the contract or consider other similar contracts competitively procured by other school systems. Our audits of other Maryland local education agencies (LEAs) have noted other vendors exist and at least one LEA has awarded a similar contract using a competitive bidding process. In addition, other LEAs have conducted procurements that included negotiations of the financial terms (such as revenue sharing and other fees).

QACPS management advised us that it learned about the vendor’s school bus safety camera program that was implemented in other school systems and approached this vendor to implement a similar program. QACPS management further advised that it had conversations with other LEAs that had contracts with the vendor but did not perform a documented comparison of key financial terms between those contracts and its contract. In this regard, the contract provided that the monthly citation revenue would be disbursed 60 percent to the vendor and 40 percent to QACPS after deduction of monthly technology fees of \$325 per bus from gross citation revenue. While the revenue sharing percentage was consistent with other LEAs, the monthly technology fees was the second highest of the eight LEAs we know used this vendor’s camera system which ranged from \$85 to \$400.

The lack of competitive procurement and comparison of the terms is significant, because QACPS has not received any of the approximately \$166,000 in citation revenue received for the first 27 months of the program’s operation (from February 2021 to April 2023). Since the citation revenue was not sufficient to cover the amount owed to the vendor, the outstanding balance of the technology fees due from future revenues totaled approximately \$789,000 as of April 2023.

Recommendation 14

We recommend that QACPS

- a. adhere to statutory requirements for competitive bidding, where appropriate; and**
- b. ensure the basis and reasoning for revenue sharing and technology fees are documented in future school bus safety camera contracts.**

We determined that Finding 15 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following finding, including the analysis, related recommendation(s), along with QACPS’ responses, have been redacted from this report copy.

Finding 15

Redacted cybersecurity-related finding.

Finding 16

Certain elements of bus contractor payments could not be supported, did not reflect market conditions, or did not consider available fuel tax credits.

Analysis

Certain elements used to determine payment amounts to bus contractors did not reflect market conditions, could not be supported, or did not consider available fuel tax credits. Although for fiscal year 2022, QACPS has the 12th lowest cost per rider, 13th lowest cost per bus, and 3rd lowest cost per mile among the 24 local school systems, the basis for these cost elements should be adequately documented and justified to provide assurance that the cost structure is appropriate (and costs are reasonable). Our review of the contract payments disclosed the following conditions:

- The negotiated methodology used to calculate the per-vehicle allotment (PVA) paid to its four bus contractors could not be supported and may not have been in the best interest of QACPS. A primary component of the PVA payment is the allowable return on investment (ROI). There is no generally agreed upon formula or method for determining ROI; however, a consultant hired by another school system in 2012 recommended the prime rate plus two percent.

QACPS used an ROI rate of 8.0 percent in its payment formula for the 29 buses placed into service by contractors from school year 2017 through 2022. QACPS could not document the basis for the ROI used. In this regard, if QACPS would have used the prime rate plus two percent for the ROI calculation (which ranged from 5.25 to 7.35 percent during fiscal years 2017 to 2022 at the time the buses were initially placed into service), we estimate that QACPS could have saved approximately \$805,000 over the 12-year life of those buses.

- QACPS could not support the propriety of the estimated \$2.6 million it paid to bus contractors for per-mile bus operation and maintenance costs (\$1.63 per mile) during fiscal year 2022. This rate is intended to fund the expenses incurred by the bus contractors for maintaining the bus and for fuel cost. QACPS did not review any data to ensure the propriety of amounts invoiced.
- QACPS did not document a comparison of the contractor's reported mileage to its mapping software application to ensure the amounts reported were accurate. Mileage is utilized to calculate the fuel and maintenance components of the contractor's monthly payment. Our review of six bus routes from the 2022 school year did not disclose any significant variances.

- QACPS did not exclude federal excise and State fuel taxes from payments to bus contractors. QACPS pays contractors for fuel using the operation and maintenance rate, which is adjusted when fuel costs increase or decrease based upon amounts stated in the contract. The fuel adjustments are based upon the actual fuel cost during the middle of the month. However, according to federal and State law, QACPS contractors are exempt from the federal excise tax and State fuel tax and are able to receive a credit for fuel taxes paid when they file their income tax returns. If QACPS had considered the exemption amount in its calculation, payments to the contractors would have been approximately \$139,000 lower in fiscal year 2022.

Similar conditions regarding the payment of PVA and operation and maintenance cost components were commented upon in our two preceding audit reports and a similar condition regarding fuel excise tax was commented upon in our preceding audit report. QACPS' response to our preceding report indicated that corrective actions would be implemented to address our recommendations; however, QACPS did not take the corrective actions as indicated.

Recommendation 16

We recommend that QACPS

- consider using an ROI to calculate the PVA payments to bus contractors that provides a reasonable rate of return consistent with the study from 2012 (repeat),**
- develop supportable cost estimates as the basis for per-mile bus operation and maintenance rates (repeat),**
- independently verify and retain documentation that bus contractor's mileage reported on the manifests to ensure that the payments to be made to the contractors accurately reflect the actual bus services provided, and**
- exclude fuel excise taxes from contractor payments (repeat).**

Food Services

Background

According to QACPS' audited financial statements, food services operating expenditures totaled \$3.2 million in fiscal year 2022 and were funded with federal funds totaling \$4.3 million and food sales totaling \$133,500. The federal funds are received from the United States Department of Agriculture (USDA) based on an established rate per meals served. QACPS is allowed to retain federal funds it receives in excess of its annual food service operating costs to be used to offset certain future food service operating costs. According to QACPS' audited

financial statements, the balance in QACPS' Food Services Fund totaled \$2 million as of June 30, 2022.

Similar to other Maryland local education agencies, QACPS continued to serve meals from certain schools during the COVID-19 pandemic health crisis by providing free meals for parents and students to pick up. The number of meals served increased by 94 percent from 549,304 in fiscal year 2020 to 1,063,367 in fiscal year 2022. QACPS advised us that the increase was the results of students returning to in-person classes after the COVID-19 pandemic, and because meals were provided to all students at no cost during the 2021-2022 school year.

Food Service Management Contract

QACPS had a food services management contract (FSMC) with a third-party vendor to manage its food service operations providing meal services to all 14 schools and the central office. In July 2019, QACPS entered into a one-year contract with its incumbent FSMC vendor, which included four additional one-year renewal options. These options were exercised which extended the contract through June 2024.

During fiscal years 2020 to 2023, QACPS paid the FSMC vendor approximately \$8.6 million, which included reimbursable costs related to food (\$3.2 million), labor (\$3.8 million), supplies and other miscellaneous expenses (\$800,000), and fixed management fees (\$753,000). The fixed management fee, which includes any vendor profit, was established and approved by MSDE at the beginning of each contract year in accordance with USDA guidelines. The USDA guidelines for schools contracting with food services management companies prohibit vendors from receiving payments exceeding the vendor's actual, net allowable costs, plus any fixed fee.

Finding 17

QACPS did not obtain and review support for reimbursable food and labor costs to ensure amounts invoiced by the FSMC vendor were supported and complied with USDA guidelines.

Analysis

QACPS did not obtain and review support for reimbursable food and labor costs to ensure amounts invoiced by the FSMC vendor were supported and complied with USDA guidelines. We reviewed five material FSMC vendor invoices totaling \$1.4 million (\$601,000 in reimbursable food costs, \$623,000 in labor costs, \$137,000 in miscellaneous expenses, and \$75,000 in net management fees) paid to the FSMC vendor during the 2021-2022 and 2022-2023 school years.

Our review disclosed that QACPS could not provide us with documentation to support the amounts invoiced. Rather, QACPS' verification of the labor charges was generally limited to reviewing system-wide monthly operating statements to ensure that the amounts invoiced were comparable to prior periods and consistent with staffing plans established for QACPS' schools.

This condition was caused in part because the contract with the vendor did not require the vendor to provide detailed documentation to support these charges. We requested that QACPS obtain the detailed documentation (such as payroll reports and supplier invoices) from the FSMC vendor, but as of April 2024 QACPS was unable to obtain the requested documentation.

Recommendation 17

We recommend that QACPS

- a. establish contract requirements for the FSMC vendor to provide support of reimbursable costs, and**
- b. perform a documented review of labor and food charges to ensure they are supported and allowable in accordance with USDA guidelines.**

School Board Oversight

Background

The Queen Anne's County Board of Education (the Board) is composed of five elected members and two non-voting student representatives. The Board contracted with a certified public accounting firm to conduct independent audits of the QACPS financial statements and federal programs.

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

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

In accordance with the policy, QACPS established an Ethics Panel consisting of three members appointed by the Board to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. Our review of the records for Board

members and QACPS employees required to submit financial disclosure forms for calendar year 2021 disclosed that all forms were submitted as required.

Conclusion

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

Management of Other Risks

Healthcare Background

QACPS is a member of the Eastern Shore of Maryland Consortium for employee and retiree health care. The Consortium members are self-insured for healthcare costs up to a designated stop-loss amount of \$250,000 per participant per plan year. The Consortium contracts with a third-party administrator (TPA) for health care claims processing services for employee medical (including prescription costs), dental and vision, and for stop-loss insurance coverage. The TPA bills QACPS monthly subscription charges based on the number of participants and their medical coverage. Medical providers submit claims to the TPA who pays them on behalf of QACPS. QACPS pays its TPA an administrative fee for these services.

In a year-end settlement process, the TPA compares the medical claims it paid against the monthly subscription charges paid by QACPS to determine any excess amount due from or to be reimbursed. According to the TPA's records for the plan year ended August 31, 2022, QACPS health care expenditures totaled approximately \$11 million, administrative fees totaled \$469,000, and stop-loss insurance coverage totaled \$1.1 million.

QACPS employees must submit documentation (such as birth certificates) for dependents they want added to their health plan. As of June 30, 2023, QACPS provided health insurance benefits to 3,098 enrolled employees, dependents, and retirees.

Finding 18

QACPS did not adequately monitor the performance of its third-party administrator that provides health care claims processing services.

Analysis

QACPS did not adequately monitor the performance of its third-party administrator (TPA) that provides health care claims processing services. Specifically, QACPS did not adequately verify the propriety of administrative

fees and monthly subscription fees billed by the TPA for medical coverage. Additionally, QACPS did not verify the TPA's self-reported performance measures or ensure the accuracy and propriety of the year-end settlement process.

- QACPS did not verify that administrative fees and monthly subscription fees billed by the TPA for medical coverage agreed with its payroll records for enrolled employees. In addition, the monthly rates charged for the various medical coverage categories were not verified for agreement with the related available contracts maintained on file. We were advised that the only verification performed was to ensure changes in coverage reported by the QACPS' human resources office were reflected on the monthly invoice. Our review, based on the listed participant counts on certain monthly invoices and the related contract rates, did not disclose significant variances. A similar condition was commented upon in our preceding audit report. In its response to that report, QACPS indicated that it would verify enrolled employees in the payroll system and contract rates to ensure the accuracy of TPA invoices. However, this process was not implemented and as noted above, an alternate process was implemented that was not adequate.
- QACPS did not obtain support for the 2022 annual settlement to the TPA which totaled \$550,000. Specifically, QACPS did not receive detailed claims data from the TPA to verify the propriety of the settlement amount. A similar condition was commented upon in our preceding audit report. In its response to that report, QACPS indicated that it would present the recommendation to the Consortium and support the need for a claims audit. However, the Consortium did not implement this recommendation.
- QACPS did not audit, or otherwise verify, the accuracy of TPA self-reported compliance with performance measures. The TPA health care contract included 18 performance measures relating to implementation, network maintenance, customer service, and claims processing. Additionally, the contract allowed for the assessment of penalties up to \$303,552 annually, if the TPA did not meet the performance measures. The medical TPA reported self-assessed penalties of \$16,864 in calendar year 2022 based on its reported compliance, but QACPS did not have a process to verify the TPA's reported compliance.

Recommendation 18

We recommend that QACPS

- a. compare its records of enrolled employees to TPA invoices and contract rates to determine the propriety of related administrative fees and monthly subscription fees billed (repeat);**

- b. obtain documentation to support actual claim payments and any additional information on the end of year settlement (repeat); and**
- c. establish a process to independently verify, on an annual basis, the TPA's compliance with required performance measures and assess penalties when performance goals are not met.**

Audit Scope, Objectives, and Methodology

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

We had two broad audit objectives:

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

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

The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of findings included in our preceding audit report on QACPS dated August 1, 2018, was limited to those findings that were applicable to the current audit scope for each of the 11 areas.

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

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

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by QACPS. We also interviewed personnel at QACPS and the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate). Our audit procedures included inspections of documents and records, and to the extent practicable, observations of QACPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2020 to February 28, 2023.

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

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

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

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

internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to QACPS, were considered by us during the course of this audit.

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

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

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

We conducted our fieldwork from March 2023 to October 2023. QACPS’ response to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise QACPS regarding the results of our review of its response.

APPENDIX



November 21, 2024

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

Dear Mr. Tanen,

Enclosed are the responses to the recommendations made in the Financial Management Practices Audit Report for Queen Anne's County Public Schools. This response has also been emailed to response@ola.state.md.us as requested.

If you have any questions regarding this submission, please contact me at patricia.saelens@qacps.org.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'Patricia Saelens'.

Dr. Patricia Saelens, Superintendent

Enclosures

cc: Dr. Matthew Kibler, Assistant Superintendent
Ms. Whitney Gast, Chief Financial Officer

Queen Anne's County Public Schools

Agency Response Form

Procurement and Disbursement Cycle

Finding 1

Certain requirements of State law and recognized best practices were not incorporated into QACPS policies and were not consistently used when participating in an intergovernmental cooperative purchasing agreement (ICPA).

We recommend that QACPS incorporate the aforementioned statutory requirements and other identified and acknowledged best practices into its procurement policies and ensure that the performance of the requirements and best practices are documented when evaluating and participating in ICPAs (repeat).

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 1	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	For Operations and Facilities, the regulation will be formally updated and approved by the board to the following: Projects over \$50,000 will be bid utilizing an advertised and competitive bid process. Projects over \$25,000, but less than \$50,000, will have at least three separate vendors solicited with quotes sought and provided for evaluation. In these instances, per COMAR, QACPS will select the lowest responsive, responsible bidder or quote.		

Queen Anne's County Public Schools

Agency Response Form

Finding 2

QACPS did not always prepare and approve purchase orders prior to obtaining goods or services and did not have system edits to prevent payments from exceeding contract maximums.

We recommend that QACPS

- a. ensure purchase orders are prepared and approved prior to obtaining the related goods or services,**
- b. consider revising the procurement policy to require purchase orders for all contracts consistent with its practice, and**
- c. establish controls to prevent invoice payments from exceeding the related purchase order.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	QACPS does have an approved process for non-PO purchases in addition to PO's. All Non-PO invoices are approved by a Department manager before payment. For the period of this audit, the CFO also approved Non-PO Accounts Payable batches. QACPS is working to update its policy to better clarify when the Executive Team requires a PO vs. a non-PO payment.		
Recommendation 2b	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	Although QACPS will make attempts and adjust policy to limit non-PO purchases, some instances will still take place due to the nature of the purchase.		
Recommendation 2c	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	Certain PO amounts will always be adjusted when paid, including the mentioned bus contractors. The PO captures the estimated cost, while the amount paid captures the true cost of the item. Change orders are processed for PO's if the final payment amount is known ahead of time.		

Queen Anne's County Public Schools

Agency Response Form

Auditor's Comment: QACPS agrees with the findings and recommendations but indicates that it has an approval process for paying invoices without a purchase order. Approving invoices for payment does not ensure the purchase of goods and services was properly authorized or the related controls provided by using a purchase order. As noted in the analysis, establishing purchase orders helps QACPS control invoice payments by electronically matching the approved invoice payments to the established purchase order. Therefore, we continue to believe our recommendation is both accurate and appropriate.

Queen Anne's County Public Schools

Agency Response Form

Finding 3

QACPS did not properly report vendor payments in aggregate of \$25,000 or more to the Department of Budget and Management (DBM), as required to enhance transparency of the procurement process.

We recommend that QACPS

- a. establish procedures to ensure all vendor payments in aggregate of \$25,000 or greater are reported to DBM, as required; and
- b. retroactively report the vendor payments that were not reported to DBM for fiscal year 2022.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 3a	Agree	Estimated Completion Date:	12/2024
Please provide details of corrective action or explain disagreement.	QACPS will report for FY 2024.		
Recommendation 3b	Agree	Estimated Completion Date:	12/2024
Please provide details of corrective action or explain disagreement.	QACPS will report retroactively report for FY 2022 and FY 2023.		

Queen Anne’s County Public Schools

Agency Response Form

Human Resources and Payroll

Finding 4

QACPS could not document that the Queen Anne’s County Board of Education (the Board) reviewed and approved salaries for three executive-level employees as required by State law.

We recommend that QACPS obtain Board approval for executive-level salaries, as required by State law (repeat).

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	Factually accurate for executive level members prior to FY2022 only.		
Recommendation 4	Agree	Estimated Completion Date:	N/A
Please provide details of corrective action or explain disagreement.	QACPS obtained board approval for all executive level employees, both new employees and employees given new contracts, in 2022, 2023 and 2024. In addition, QACPS will continue this process going forward.		

Queen Anne's County Public Schools

Agency Response Form

Finding 5

QACPS did not have a documented independent review and approval of other earnings payments which totaled \$595,000 during fiscal year 2022.

We recommend that QACPS perform a documented independent review and approval of other earnings payroll transactions (repeat).

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 5	Agree	Estimated Completion Date:	12/2024
Please provide details of corrective action or explain disagreement.	<p>Prior to other earnings transactions being prepared, a supervisor must sign off on all other earnings transactions. Final leave payouts, sick leave, pay, and retroactive pay are all signed by the direct supervisor and the Director of HR prior to being sent to finance to process. Independent reviews are built into multiple steps of the process of other earnings transactions.</p> <p>In addition to the supervisory approvals throughout approval of other earnings, the CFO will review and approval final transactions to ensure correctness.</p>		

Queen Anne's County Public Schools

Agency Response Form

Finding 6

QACPS did not always perform a required screening before hiring certain applicants for positions involving direct contact with minors.

We recommend that QACPS perform and document the required screening for positions involving direct contact with minors, including those noted above, in compliance with State law.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	In the very few instances found, HR had not formally approved these individuals for employment, due to pending background checks. Most of these instances were part time employees that had direct supervision while working with minors This has been addressed repeatedly with school principals to ensure this practice does not continue.		
Recommendation 6	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	QACPS performs required background investigations for all employees, including individuals with direct contract with minors. All employees require a signed contract before employment. To continue to reinforce this policy, employees are also not paid until a signed contract is in place, even if they have worked prior to the date of their contract signature.		

Queen Anne's County Public Schools

Agency Response Form

Equipment Control and Accountability

Finding 7

QACPS' equipment record keeping policies were not comprehensive, equipment records were not complete, and equipment disposals were not properly controlled.

We recommend that QACPS

- establish a policy defining sensitive equipment items that requires them to be recorded in the inventory records (repeat);
- establish requirements for conducting physical inventory counts of equipment, investigating missing items, reporting lost or stolen items and approving disposals (repeat);
- ensure that disposals are properly supported, independently approved, and that disposal records are maintained (repeat); and
- ensure inventory records are properly maintained, including recording the aforementioned laptops (repeat).

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 7a	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	QACPS does allow each school to determine what is considered sensitive and necessary to track. This allows for each school to maintain records for the items they feel are the most sensitive. Items that are sensitive at a high school level may be different from items at an elementary school. QACPS will look into creating a standard procedure that clearly lists sensitive items.		
Recommendation 7b	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	QACPS will provide a more detailed policy for conducting inventory of sensitive equipment, investigating missing items, reporting lost or stolen items, and approving disposals of non-capital assets.		
Recommendation 7c	Agree	Estimated Completion Date:	2025

Queen Anne's County Public Schools

Agency Response Form

Please provide details of corrective action or explain disagreement.	The IT department and the finance department will work together to establish a more detailed disposal procedure.		
Recommendation 7d	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	QACPS will review their fixed asset policies and procedures.		

Queen Anne's County Public Schools

Agency Response Form

Information Technology

The Office of Legislative Audits (OLA) has determined that the Information Technology section, including Findings 8 through 13 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with QACPS’ responses, have been redacted from this report copy.

Finding 8
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 9
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 10
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 11
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Queen Anne's County Public Schools

Agency Response Form

Finding 12

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 13

Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Queen Anne's County Public Schools

Agency Response Form

Transportation Services

Finding 14

QACPS awarded a sole source contract for a school bus safety camera system instead of conducting a competitive procurement.

We recommend that QACPS

- a. adhere to statutory requirements for competitive bidding, where appropriate; and
- b. ensure the basis and reasoning for revenue sharing and technology fees are documented in future school bus safety camera contracts.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 14a	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	QACPS will work to develop a standard practice for documenting piggy-backing contract documentation relate to the initial procurement.		
Recommendation 14b	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	QACPS will review and document how services fees are established to ensure they are reasonable.		

Queen Anne's County Public Schools

Agency Response Form

OLA has determined that Finding 15 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently the specifics of the finding, including the analysis, related recommendation(s), along with QACPS’ responses, have been redacted from this report copy.

Finding 15
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Queen Anne's County Public Schools

Agency Response Form

Finding 16

Certain elements of bus contractor payments could not be supported, did not reflect market conditions, or did not consider available fuel tax credits.

We recommend that QACPS

- consider using an ROI to calculate the PVA payments to bus contractors that provides a reasonable rate of return consistent with the study from 2012 (repeat),
- develop supportable cost estimates as the basis for per-mile bus operation and maintenance rates (repeat),
- independently verify and retain documentation that bus contractor's mileage reported on the manifests to ensure that the payments to be made to the contractors accurately reflect the actual bus services provided, and
- exclude fuel excise taxes from contractor payments (repeat).

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	Please see information in responses to recommendations.		
Recommendation 16a	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	QACPS will consider using ROI when developing PVA costs if able.		
Recommendation 16b	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	QACPS will work to establish formal processes to document cost estimates used in bus contracts.		
Recommendation 16c	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	QACPS automated routing software generates the actual route that each bus contractor is assigned. All manifests are then compared to the software-generated route for a comparison. QACPS recommends performing 25% ride-along audits of all contractor bus routes to assure the accuracy of the information. QACPS will work to develop procedures for supporting documentation surrounding ride-along audits. Additionally, QACPS will work to performing audits closer to 25%.		
Recommendation 16d	Agree	Estimated Completion Date:	2025

Queen Anne's County Public Schools

Agency Response Form

Please provide details of corrective action or explain disagreement.	QACPS will develop specific language in the next Contract pertaining to Federal Excise and State Fuel taxes.
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Queen Anne's County Public Schools

Agency Response Form

Food Services

Finding 17

QACPS did not obtain and review support for reimbursable food and labor costs to ensure amounts invoiced by the FSMC vendor were supported and complied with USDA guidelines.

We recommend that QACPS

- a. establish contract requirements for the FSMC vendor to provide support of reimbursable costs, and**
- b. perform a documented review of labor and food charges to ensure they are supported and allowable in accordance with USDA guidelines.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	Although QACPS did not review its invoices from its FSMC vendor to the level stated, QACPS does not believe that we are unable to ensure the amounts invoiced and paid meet the USDA guidelines.		
Recommendation 17a	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	<p>Until SY 2025, QACPS hired a contract FSMC to manage the counties resources in regards to food service labor and product cost. Weekly labor reports and vendor invoices are not reviewed but the monthly operating statement is reviewed in detail before being approved. This operating report provides a detailed breakdown of labor and product cost, as well as any discounts or rebates received. The report is reviewed and any expense in question or discrepancies in labor or product cost require the FSMC to provide documentation backing up these expenses or a written explanation for the expense in question.</p> <p>If QACPS outsources food services in the future, we will develop procedures to confirm and document reimbursable costs.</p>		
Recommendation 17b	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	<p>Until SY 2025, QACPS did not have access to the FSMC payroll systems and reports. If labor charges are in question, then a report can be requested. Our contractor runs a weekly report and adjusts staffing schedules accordingly based on this report. If labor charges are higher than prior months or labor in relation to total sales is off, then a written response supporting that increased labor is requested from the contractor prior to the approval of the monthly invoice.</p>		

Queen Anne's County Public Schools

Agency Response Form

	If QACPS outsources food services in the future, we will develop procedures to confirm all costs are allowable.
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Queen Anne's County Public Schools

Agency Response Form

Management of Other Risks

Finding 18

QACPS did not adequately monitor the performance of its third-party administrator that provides health care claims processing services.

We recommend that QACPS

- a. compare its records of enrolled employees to TPA invoices and contract rates to determine the propriety of related administrative fees and monthly subscription fees billed (repeat);**
- b. obtain documentation to support actual claim payments and any additional information on the end of year settlement (repeat); and**
- c. establish a process to independently verify, on an annual basis, the TPA's compliance with required performance measures and assess penalties when performance goals are not met.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	As a member for the Eastern Shore of Maryland Consortium (ESMEC), a consulting firm monitors the performance of its TPAs on our behalf for most transactions. QACPS did not go above the consulting firm review, as we felt their review was adequate.		
Recommendation 18a	Disagree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	This is performed by the consulting firm on our behalf.		
Recommendation 18b	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	QACPS will request additional information supporting documentation from the consulting firm in regards to end of year settlement data.		
Recommendation 18c	Agree	Estimated Completion Date:	2025
Please provide details of corrective action or explain disagreement.	Finance and HR will work with the consulting firm to establish best practices for QACPS to independently verify these items.		

Queen Anne's County Public Schools

Agency Response Form

Auditor's Comment: QACPS disagreed with our recommendation and indicated that its vendor is verifying the accuracy of TPA invoiced contract rates, administrative fees, and monthly subscription fees. However, QACPS could not provide us evidence that this occurred. In addition, the vendor is not independent of the TPA since it helps establish the TPA's billable rates. Therefore, we continue to believe our recommendation is both accurate and appropriate.

AUDIT TEAM

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