

Financial Management Practices Performance Audit Report

Talbot County Public Schools

December 2007



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

December 3, 2007

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Talbot County Public Schools (TCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. TCPS is the third smallest public school system in Maryland based on the number of students enrolled. The educational services are delivered in nine schools, with fiscal year 2006 operating expenditures of \$47.9 million. The objectives of this audit were to evaluate whether TCPS 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 report identifies several areas in which TCPS had implemented certain financial and operational best practices. Nevertheless, it also contains 18 recommendations. TCPS needs to make certain control enhancements to its existing financial management systems and processes and needs to implement adequate safeguards over procurement, payroll, and its equipment inventory. Furthermore, formal policies or procedures should be developed for a number of financial and operational areas, including those previously mentioned, and formal performance measures should be established to monitor effectiveness and efficiency of facilities maintenance and bus transportation. Also, more can be done to ensure cost-effective transportation operations, such as purchasing smaller, less costly conventional school buses and establishing a bus replacement program based on individual bus performances and specific needs. We also found a number of information technology security practices that need to be adopted.

An Executive Summary of our findings can be found on page i, immediately following this cover letter, and our audit scope, objectives, and methodology are explained on page 55. We wish to acknowledge the cooperation extended to us during our audit by TCPS.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Executive Summary

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

Revenue and Billing Cycle (see pages 7 through 9)

According to the audited June 30, 2006 TCPS financial statements, \$47.6 million in revenue was received from all sources during fiscal year 2006, the vast majority of which was received via electronic funds transfer from other governmental entities. Procedures and controls for these revenue sources and accounts receivable were found to be adequate. Procedures over student activity funds were also found to be adequate.

Federal Funds (see pages 11 through 14)

Annually, TCPS is subject to an audit of its federally-funded programs (often referred to as the Single Audit, a requirement of Circular A-133, which is issued by the U.S. Office of Management and Budget). Due to parallels between that work and the scope of our audit, we placed significant reliance on the results of the independent audit of the fiscal year 2006 grant activity, for which reported expenditures totaled \$3.5 million. The related report stated that TCPS complied, in all material respects, with the requirements applicable to its major federal programs. In addition, with respect to internal controls over compliance with and the operation of major federal programs, the auditors noted no reportable conditions and no matters considered to be material weaknesses.

Although TCPS has processes for the identification of children eligible for Medicaid-subsidized services and for recovering the related costs, additional measures can be taken to ensure complete

identification of eligible students and the timely recovery of reimbursable costs.

Procurement and Disbursement Cycle (see pages 15 through 18)

Adequate controls were in place over credit card usage and employee travel. However, TCPS should implement effective internal controls over its accounts payable and procurement systems, such as segregating employee duties and restricting employee capabilities on the procurement and disbursement system, and should establish adequate controls over wire transfers. According to TCPS records, accounts payable check disbursements totaled approximately \$19.1 million during fiscal year 2006. In addition, deficiencies were noted in procurement and contract monitoring. For example, TCPS policy allowed for the procurement of architectural and engineering services without the solicitation of competitive bids.

Human Resources and Payroll (see pages 19 through 22)

TCPS employed almost 600 employees during fiscal year 2006 with direct salary and wage costs of \$27.6 million. TCPS should address internal control deficiencies in its human resource and payroll system. We noted that five employees who processed human resource and payroll transactions had unlimited system access, allowing them to unilaterally add employees, change salaries, and process payroll checks. For example, system capabilities and job duties should be segregated and an independent review and approval process should be established.

TCPS should also expand its workforce planning to include non-instructional positions in critical operational units.

Inventory Control and Accountability (see pages 23 and 24)

TCPS has formal policies and procedures governing the purchase and disposal of textbooks. However, TCPS should develop and implement policies and procedures to ensure that accountability and effective control is maintained over all of its equipment. Our tests disclosed numerous discrepancies between property records and equipment on hand. According to its records, TCPS equipment had a June 30, 2006 net book value of \$2.3 million.

Information Technology (see pages 25 through 28)

A master technology plan, which is periodically updated to address current and future school needs, has been developed. Also, TCPS used several project management best practices when implementing its new Integrated Financial Management System. However, several areas are in need of improvement, including information technology (IT) system access and security, and computer center operations. For example, TCPS did not have a formal IT disaster recovery policy in place and was not making full use of certain IT system features designed to restrict or detect unauthorized or unnecessary access to systems and programs.

Facilities Construction, Renovation, and Maintenance (see pages 29 through 33)

TCPS employs a staff of 51 custodial and maintenance personnel to maintain its ten facilities, including nine schools. TCPS uses a comprehensive and public process to plan for school construction and renovation, and has been able to obtain alternative financing towards certain projects which serves to enhance the usefulness of its facilities to the community. Although TCPS has received or qualified for a Governor's Citation for "Superior" school maintenance for fiscal years 2005, 2006, and 2007, TCPS needs to ensure that preventive maintenance and routine inspections of all facilities are completed as required by internal policies. TCPS should also consider implementing performance measures and an automated work order system to better manage its maintenance operations and personnel.

Transportation Services (see pages 35 through 40)

TCPS operates its own fleet of 43 buses to transport all students. Transportation costs per rider are next to the lowest among its peer group of LEAs; however, its annual cost per mile is the highest. TCPS used several practices that increased the efficiency of transporting students, such as staggering school start and stop times so buses can provide multiple trips on the same day and obtaining fuel price caps through annual fuel purchase contracts. However, more can be done to ensure cost-effective operations such as using smaller, less costly conventional school buses, where appropriate, and establishing a bus replacement program based on individual bus performances and specific needs. Also, transportation performance measures and goals should be established, and a periodic cost analysis should be performed to determine whether the practice of transporting all students using its own fleet and not using any

contractor-provided transportation services is in the best interest of TCPS.

Food Services Operations (see pages 41 through 44)

TCPS currently uses a number of best practices in its self-sustaining food services operations. For example, it uses certain performance measures (such as meals per labor hour) to monitor the efficiency of its operations and participates in a nine-county purchasing cooperative. TCPS also uses available USDA commodities and has procedures in place designed to maximize participation in the national school meal programs. However, internal controls over food procurements should be improved.

School Board Operations and Oversight (see pages 45 through 49)

The seven-member elected Board has adopted policies to govern the operations of the Board and TCPS; however, additional guidance to TCPS management should be provided in a number of identified areas. While the Board had processes in place to oversee the TCPS financial operations, it did not use an internal audit function to act as an independent reviewer of TCPS operations. Finally, the Board had adopted a detailed ethics policy, but that policy should be expanded to cover senior management positions that have purchasing responsibilities. The Board should also ensure that the annual disclosure reporting requirements of the policy are enforced.

Other Financial Controls (see pages 51 through 53)

TCPS has a policy in place to govern its risk management practices; however, TCPS needs to adopt policies on cash investment and the use of long-term lease/purchase agreements and other multi-year debt.

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Background Information

Oversight

Talbot County Public Schools (TCPS) is governed by a local school board, consisting of seven elected voting members and a student representative. The vast majority of TCPS funding is provided by the Talbot County and State governments. In addition, the Maryland State Department of Education (MSDE) exercises considerable oversight through the establishment and monitoring of various financial and academic policies and regulations, in accordance with certain provisions of the Annotated Code of Maryland. MSDE also works with TCPS to comply with the requirements and mandates of the federal No Child Left Behind Act of 2001. The Talbot County government exercises oversight principally through approval of the TCPS annual operating and capital budgets.

Statistical Overview

TCPS provides the full range of school programs and services including elementary, middle, and high schools; alternative education; special education; and adult education. TCPS also provides programs for remedial and enriched education. TCPS served approximately 4,400 students as of September 2006, and its operating expenditures totaled \$47.9 million for fiscal year 2006. As of October 2006, TCPS staff in all positions totaled 592. Of these, 360 positions were classified as instructional, including those for library, guidance, and special education. The remaining 232 positions were non-instructional, which includes administrative and support staff positions for areas such as plant operation and maintenance, food services, and pupil transportation.

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

External Audit of Fiscal Year 2006 Activity

Annually, TCPS engages a certified public accounting firm to independently audit its fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of TCPS federal grant programs (as required by federal

regulations). The two resulting audit reports for the 2006 fiscal year were issued in August 2006. Student activity funds are also subject to annual audit by the firm, including a review of internal controls. None of the resultant reports included any reportable conditions or any significant findings on TCPS record keeping, processes, and controls.

Special Education Consortium

A Mid-Shore Special Education Consortium, which was not included within the scope of this audit, was organized in 1973 and comprises the Boards of Education for Talbot, Caroline, Dorchester, Kent, and Queen Anne's counties. The goal of the Consortium is to support the individual counties in serving students with disabilities in a cost-effective manner. Services provided by the Consortium include occupational and physical therapy, audiology, vision, hearing, and clinical psychology. TCPS serves as the fiscal agent for the Consortium and, according to TCPS records, the fiscal year 2007 budget was approximately \$1.3 million. The Consortium received grant funding from MSDE of \$375,000 for fiscal year 2007; the remainder of its funding was received from the five local jurisdictions. In addition to the TCPS staff noted earlier, there are 19 positions for the Consortium managed by TCPS.

Chapter 1

Revenue and Billing Cycle

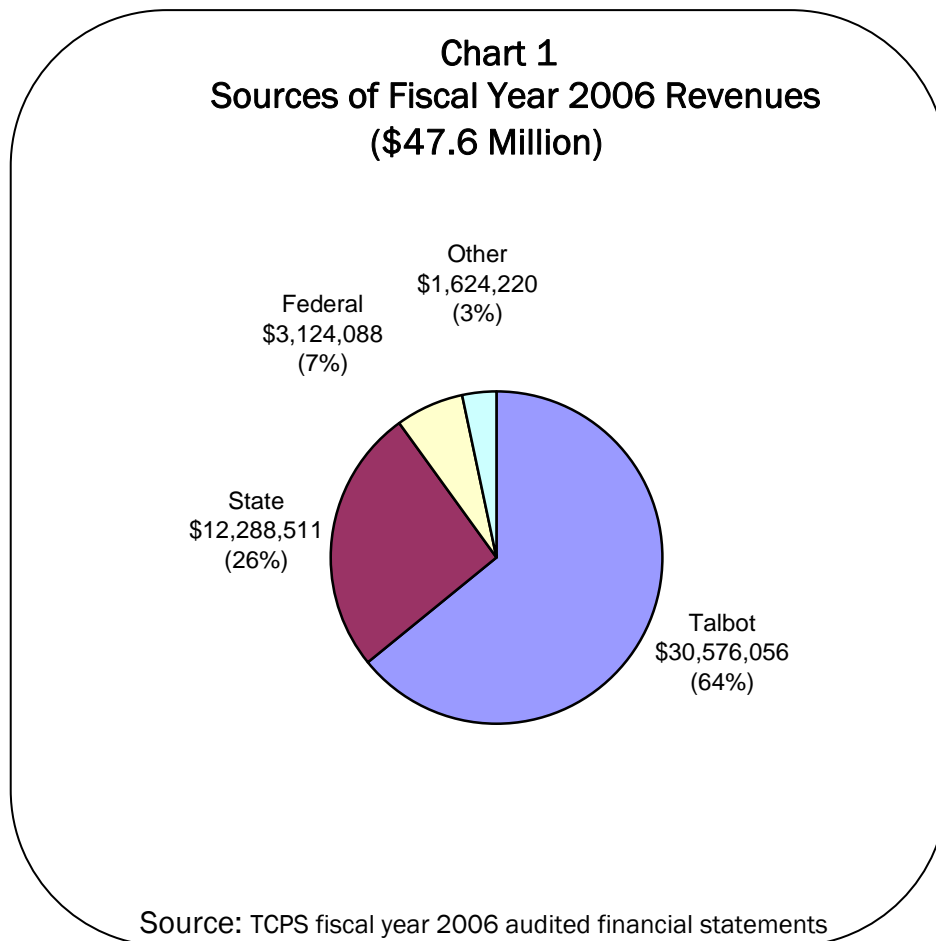
According to the TCPS audited financial statements for the fiscal year ended June 30, 2006, \$47.6 million of revenue was received by TCPS during fiscal year 2006. Due to similarities between the work of the independent certified public accounting firm that audited TCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the audit of the fiscal year 2006 financial statements for revenue transactions, including State, local, federal, and other sources of revenue (such as student activity fund¹ cash receipts of \$1.01 million) and for accounts receivable (for example, amounts due from other governments). At June 30, 2006, the receivables balance was \$593,833. The auditor's procedural review and testing disclosed no reportable conditions related to revenue and accounts receivable.

Background

TCPS revenues consist primarily of funds received from Talbot County, the State, and the federal government, the vast majority of which was received via electronic funds transfer. Other sources include receipts from the sale of food, facility use reimbursement

¹ The Board has a fiduciary responsibility to ensure that the school activity fund is used only for intended purposes by those to whom the assets belong. Receipts for the school activity fund are not included in the \$47.6 million revenue total because the Board cannot use these assets to finance its operations.

fees, and interest income. Chart 1 (below) shows TCPS fiscal year 2006 revenues of \$47.6 million by major source.



In addition to the revenues in Chart 1, schools also collected funds for various purposes, such as for student activity groups including yearbook and Future Farmers of America. These school activity funds are accounted for separately by each school and are reported in summary in the audited financial statements. According to the audited financial statements, fiscal year 2006 school activity fund revenues totaled \$1.01 million, and the June 30, 2006 balance was \$381,864.

Revenue and Billing Cycle Procedures Were Generally Adequate

Due to similarities between the work of the accounting firm that audited the TCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the independent audit of the fiscal year 2006 financial statements. The auditor's procedural review and testing disclosed no reportable conditions regarding the collection of any accounts receivable or revenues from local, State, federal, and other sources (such as food service operations), including wire transfer transactions. Student activity funds were also audited by the firm, including a review of internal controls and bank account reconciliations. The results of this work, likewise, disclosed no reportable conditions.

Recommendations

None

Chapter 2

Federal Funds

Annually, TCPS is subject to an audit of its federally-funded grant programs (often referred to as the Single Audit, and required by Circular A-133, which is issued by the U.S. Office of Management and Budget). The report on the audit of fiscal year 2006 federal grant activity was issued by the independent certified public accounting firm on August 29, 2006.

In that report, the auditor stated that TCPS complied, in all material respects, with the requirements applicable to its major federal grant programs. In addition, with respect to internal controls over compliance with and the operation of major federal programs, the auditors noted no reportable conditions² and no matters considered to be material weaknesses.³

We also noted that, while TCPS has a process in place to identify children eligible for Medicaid-subsidized⁴ services, enhancements should be made to ensure that all eligible children are identified and that the costs of eligible services are fully recovered in a timely manner.

² Reportable conditions are issues relating to significant deficiencies in the design or operation of the internal control over compliance that, in the auditor's judgment, could adversely affect the grantee's ability to administer a major federal program.

³ Material weaknesses are severe reportable conditions in which the existing internal control components might not detect, in a timely manner, a material instance of noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud.

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

Background

TCPS receives funds primarily from Talbot County, the State, and the federal government. Most funds received from Talbot County and from the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2006 expenditures of federal award funds totaled \$3.5 million.

TCPS Established Adequate Internal Controls over Federal Grants and Complied With Federal Grant Requirements

Because of the accounting firm's work on TCPS federal fund expenditures, we relied on the auditor's results. Besides expressing an opinion on TCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the fiscal year 2006 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). In its report, the firm stated that TCPS complied, in all material respects, with the requirements applicable to its major federal grant programs. In addition, with respect to internal controls over compliance with and the operation of major federal programs, the auditors noted no reportable conditions and no matters considered to be material weaknesses.

Improvements Should Be Made to Identify Students Eligible for Medicaid-Subsidized Services and to Recover Costs More Promptly

TCPS should ensure that all available methods are used to identify all students eligible for Medicaid-subsidized services and to recover related costs. According to TCPS records, as of March 2007, there were approximately 211 students deemed eligible for Medicaid-subsidized services. These records also indicate that fiscal year 2006 revenue for Medicaid-subsidized services totaled \$49,824—representing less than one-quarter of the fiscal year 2005 revenue of \$215,458.

Although TCPS had processes in place for identifying students eligible for Medicaid-subsidized services and for recovering eligible costs, more can be done. Specifically, we noted that other local

school systems in Maryland identify students who are eligible for Medicaid-subsidized services by obtaining listings of all children whose families are participating in Medicaid, as determined by the Maryland Department of Human Resources (DHR). These school systems regularly compare the DHR listings to their own student information systems to identify newly-eligible students and to verify the continued eligibility of previously identified students. Although TCPS had such a process in place, it could not demonstrate that it was using this process regularly.

TCPS also did not have an adequate process in place to ensure timely recovery of Medicaid-eligible funding. Our test of 10 students eligible to receive Medicaid-subsidized services based on their Individual Education Plans disclosed that, for all 10 as of March 2007, TCPS had not yet billed and obtained reimbursement for eligible services provided by certified service providers during December 2006. We were advised that, in many instances, the Medicaid-certified service providers had not provided all necessary documentation to TCPS that was needed to ensure proper billing and reimbursement. These services included case management, speech therapy, physical therapy, and occupational therapy.

By State regulation, TCPS has nine months after services are provided to request reimbursement for eligible Medicaid expenditures. Our test, in May 2007, of 10 students receiving services in May 2006 disclosed that Medicaid-subsidized services provided to two eligible students had not been billed for, and reimbursement for the related expenditures is now questionable. These services included case management and speech therapy. Delays in receiving documentation from service providers may have contributed to TCPS' failure to request reimbursement within the allowed timeframe.

Available Funding from the Federal E-Rate Program Was Obtained

TCPS has a detailed process in place to request and receive reimbursement for technology expenditures from the federal School and Libraries Universal Service Program (E-Rate). The E-Rate program provides funding to schools for telecommunications expenses (such as internet access). The funding is based on the level of poverty and the rural status of the school district. We noted that TCPS was approved for approximately \$96,000 in federal E-Rate funding for fiscal year 2006 and had a process in place to recover these E-Rate funds.

Recommendation

1. TCPS should enhance its efforts to ensure that all students eligible for Medicaid-subsidized services are identified and that all eligible costs for Medicaid-subsidized services are fully recovered in a timely manner.

Chapter 3

Procurement and Disbursement Cycle

The TCPS procurement and disbursement processes did not provide sufficient control and accountability to adequately protect school system funds, although adequate controls were present over credit card and travel use. Our review disclosed weaknesses in internal control over the automated TCPS accounts payable and procurement system. These weaknesses included three finance office employees who were provided system capabilities allowing them to unilaterally record and process critical accounting and procurement transactions. Certain internal control deficiencies were also found in disbursements processed through the use of wire transfers.

Furthermore, although certain procurement policies were in place, the TCPS policy for negotiating architectural and engineering services allowed the procurement of these services without the solicitation of competitive proposals. Additional deficiencies were noted in procurement and contract monitoring.

Background

TCPS used an automated system for purchasing and disbursements. Requisitions were entered by departments and schools and were subject to supervisory approval by the purchasing office. Purchase orders, contracts, solicitations, and bids were handled by the purchasing office. TCPS procurement policies generally required that purchases exceeding \$15,000 be obtained through competitive procurement and that contracts exceeding

\$25,000 be approved by the Board. The receipt of goods and services was recorded in the automated system by the receiving school or department and payments were then processed by the finance office using the automated system. According to TCPS records, accounts payable disbursements, via check, totaled approximately \$19.1 million during fiscal year 2006.

TCPS Should Strengthen Internal Controls over Its Disbursements, Procurements, and Contract Monitoring

Accounts payable and procurement system controls need to be strengthened

– Our review identified significant internal control deficiencies over the automated accounts payable and procurement system. Specifically, three finance office employees were provided system capabilities allowing them to unilaterally record and process critical accounting and procurement transactions. For example, these employees individually could add vendors, create purchase orders, process invoices, and print checks. Furthermore, authorized signatures were automatically printed on the checks by the system. In addition, there were no compensating controls, such as an independent review of system transaction reports to detect inappropriate automated procurement and disbursement activity. One of these finance office employees also had the user names and passwords for all system users and was capable of signing on as another user.

Disbursements processed through wire transfers were also poorly controlled. One employee had unlimited access to initiate and process wire payments to one particular vendor without any independent approvals. Although a bank official stated that the bank usually requires two signatures to set up a wire payment, we were informed that the current agreement with TCPS for this vendor only included the signature of the employee making the transfers. Wire payments processed by this individual between July 2006 and March 2007 totaled approximately \$7.5 million.

Due to the aforementioned internal control weaknesses, unauthorized transactions could be processed and not detected.

TCPS should seek competitive proposals for services

– TCPS did not always obtain competitive proposals for services procured. We reviewed procurements from six vendors

and, as described below, we noted two instances where competitive proposals were not obtained to help ensure that services were obtained at the lowest costs.

TCPS purchased architectural services for several of its renovation projects from one firm without always obtaining competitive proposals for the services. TCPS had worked with this firm on 10 projects from 1997 through May 2007, and our review of the most recent 5 projects, found that, while one was subjected to a competitive procurement and two were below the threshold specifically requiring competitive procurement, the other two projects, valued at \$840,000, were not competitively procured.

The Board's Purchasing Procedures state that "The Board of Education declares its intention to purchase competitively without prejudice and seek maximum educational value for every dollar." As previously mentioned, purchases exceeding \$15,000 were generally required to be obtained through competitive procurement and contracts exceeding \$25,000 are to be approved by the Board. However, another Board policy allows for the Board to decide to negotiate for architectural and engineering services with previously approved firms when, in its judgment, TCPS students, staff, and citizens will be better served. Although the Board may have had reasons to obtain certain architectural services without obtaining competitive proposals, we believe that, given the long-term nature of this relationship, and the ultimate costs of this work, obtaining competitive proposals would be a prudent step to ensure that the best value is obtained.

TCPS also obtained mentoring services from one vendor without obtaining competitive proposals for these services and without documenting its justification for a sole source procurement, as required by TCPS policy. Payments to this vendor for fiscal year 2006 totaled approximately \$71,000. TCPS management advised us that, at the time these mentoring services were procured, there was no one else known in the region that could provide these services. TCPS management also stated that procuring these services was discussed with the Board and the contract amount was in the Board-approved budget, but we found that the Board took no formal action on the specific contract.

Fuel Contract monitoring practices need to be improved –

TCPS entered into a prepaid fuel contract for \$319,600 during fiscal year 2006 to obtain fuel at discounted prices. Although TCPS received monthly invoices showing the amount of fuel purchases applied to the contract, it did not document any review of these invoices to ensure mathematical accuracy and to verify fuel usage was legitimate.

TCPS Has Established Policies and Procedures to Control the Use of Credit Cards and Travel

TCPS has established policies and procedures designed to control the use of corporate purchasing cards and employee travel. Specifically, TCPS developed procedures to help ensure that credit card usage is restricted to appropriate purchases and that these purchases are reviewed and approved by supervisory personnel. In addition, policies define the conditions under which employees may be reimbursed for travel, including the requirement that all conference travel be approved in advance by the TCPS Superintendent. According to TCPS records, credit card and travel expenditures were approximately \$41,000 and \$117,000, respectively, during fiscal year 2006.

Recommendations

2. TCPS should implement effective internal controls over its accounts payable and procurement system. Such controls should include segregating employee duties, restricting employee capabilities within the system, and establishing adequate controls over wire transfers.
3. TCPS should ensure that all contracts are procured in accordance with Board policies. With respect to architectural services, the policies should be enhanced to ensure a competitive procurement for significant projects.
4. TCPS should establish adequate procedures to ensure that fuel amounts invoiced are proper.

Chapter 4

Human Resources and Payroll

TCPS uses an automated system to maintain human resource information and to record employee time, track leave, and process payroll transactions. The hiring of new employees is initiated either directly by the school or by the human resources office. Procedures require that the related paperwork be submitted to the TCPS central office where the final approval is made and a review is conducted to ensure adequate funding prior to including the employee in the automated personnel and payroll systems.

However, numerous employees were unnecessarily given capabilities to process payroll-related transactions in the automated records. We also noted that, while TCPS had implemented elements of workforce planning, this planning did not address TCPS needs and processes for employees other than teachers and related instructional positions.

TCPS has implemented a formal School Manager program whereby a business manager is assigned to every school, relieving principals of most financial-related responsibilities and allowing them to focus on instructional leadership.

Background

According to the TCPS audited financial statements, direct salary and wage costs for fiscal year 2006 totaled \$27.6 million, and TCPS had approximately 592 FTE⁵ employees in fiscal year 2006 giving it a 1 to 7.4 employee to student ratio (see Table 1 on the next page). The TCPS automated system maintained human resources

⁵ FTE = Full-Time Equivalent. For example, two twenty-hour per week positions would equal one FTE.

information, and was used to process payroll and to track employee leave balances. Time records were prepared manually by all employees and were approved by supervisors. Time records and leave taken were entered in the automated system every two weeks by either payroll clerks at the central office or school-based clerical personnel. After various system edit checks, the system generated payroll checks and/or direct deposit advices. Leave accumulation was automatically calculated by the system.

Table 1
Comparison of Employee to Student Ratios – Fall 2006 (unaudited)

School System	Number of Students (as of September 30, 2006)	Number of Full-Time Equivalent Employees (as of October 1, 2006)	Employee to Student Ratio
Talbot County	4,398	592	1 to 7.4
Dorchester County	4,667	631	1 to 7.4
Garrett County	4,617	664	1 to 7.0
Kent County	2,356	341	1 to 6.9
Somerset County	2,941	454	1 to 6.5

Source: MSDE data as of Fall 2006

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

Human Resource and Payroll Internal Controls Need to Be Strengthened

TCPS did not establish adequate internal controls over its automated human resource and payroll system and related processes. Five employees, who routinely processed human resource and payroll transactions, had unlimited system access to certain human resource and payroll functions that allowed them to add employees to the payroll system, change salaries, change tax withholdings, and process payroll checks and direct deposits. Additionally, an independent review of accesses or transactions posted by those employees was not performed. Although, based on our tests, we found no evidence of unauthorized hiring or payments, the improper separation of duties and access to the system could be used to process unauthorized payroll payments.

Workforce Planning Should Be Expanded to Include Non-Instructional Positions

TCPS should enhance its existing workforce planning efforts to include positions other than instructional personnel. The TCPS Master Plan sets the strategic direction of the school system and provides coordination and focus for initiatives to address challenges faced by TCPS. The Plan includes a number of objectives and strategies to address human resource needs—which is evidence of workforce planning. However, it addresses only the recruitment and retention of highly qualified instructional staff (that is, teachers and certain instructional aids). The Plan does not address non-instructional personnel employed by TCPS, such as central office and critical support staff. About 39 percent⁶ of TCPS' 592 full-time equivalent employees fill non-instructional positions. These support functions also play a key role in the ultimate success of TCPS in providing quality education and, therefore, TCPS workforce planning should include them.

Table 2
Comparison of Non-instructional Staff Per 1,000 Pupils for Select Categories
Fiscal Year 2007 (Unaudited)

School System ⑤	Number of Non-instructional Positions①		Number of Non-instructional Positions Per 1,000 Pupils②		
	Professional ③	Support Staff④	Professional	Support Staff	Combined
Talbot County	77	156	17.42	35.36	52.78
Somerset County	41	93	13.94	31.55	45.49
Dorchester County	58	151	12.43	32.29	44.72
Garrett County	53	150	11.48	32.42	43.90
Kent County	22	81	9.13	34.47	43.60
Average of Comparable Systems	44	119	11.75	32.68	44.43

Source: MSDE Student/Staff Publications

① - Excludes contractual and consulting positions

② - Based on September 30, 2006 student enrollment

③ - Includes principals, vice principals, social workers, and other non-instructional administrators including, for TCPS, the school manager positions.

④ - Includes bus drivers, technicians, secretaries, clerks, and trades personnel

⑤ - School systems selected for comparison are those with student enrollments closest in number to TCPS.

⁶ (233 [77 +156] from Table 2, divided by 592 from Table 1)

TCPS Has Instituted a School Business Manager Program that Allows Principals to Focus on Instructional Leadership

In July 2002, TCPS implemented a formal School Manager program to assist principals in focusing on instructional leadership. The program provides a division of responsibilities between principals, who focus on instructional leadership, and the school managers, who concentrate on the business aspects and daily operations of TCPS schools. This type of program has been highly encouraged by MSDE, and MSDE has commended and endorsed TCPS' demonstrated commitment to the primary role of the principal being one of instructional leadership through its School Manager program.

Recommendations

5. TCPS should take the necessary corrective actions to ensure that adequate internal controls are in place over the human resource and payroll system. For example, job duties should be segregated and an independent review and approval process should be established over payroll-related changes recorded in the system.
6. TCPS should expand its workforce planning to include non-instructional positions in critical operational units.

Chapter 5

Inventory Control and Accountability

TCPS has established formal policies and procedures governing the purchase and disposal of all property, including textbooks. However, the policies and procedures governing the accounting for and safeguarding of assets other than textbooks were insufficient or non-existent.

Background

According to the TCPS audited financial statements, as of June 30, 2006, the net book value of TCPS equipment was \$2.3 million. Equipment items include computers, audio and video items, athletic equipment, and various other items. All furniture and equipment items with a cost of \$500 or more are recorded upon purchase, and items with a cost of \$1,000 or more are capitalized for financial statement reporting purposes. Generally, TCPS orders materials and supplies on an as-needed basis and does not store inventory in a centralized location.

Existing Controls over Equipment Should Be Enhanced and Formal Policies Established

TCPS did not have written policies or procedures to establish adequate accountability and control for its equipment. For example, TCPS did not have a formal written policy addressing equipment tagging, physical inventories, reporting of lost and stolen items, and

segregation of duties. While equipment items costing \$500 or more are initially recorded in the property records, they are not otherwise required to be accounted for or tracked (such as if they are transferred), and are not subject to periodic physical inventories. Consequently, our test of 20 equipment items, costing \$61,939 found discrepancies between the property records and the related physical assets on-hand. For example, we found that computer equipment items costing \$10,504, which were disposed of in September 2004 and April 2006, were still listed on the records in May 2007, and that a metal lathe, recorded in the records at a cost of \$9,499, could not be located. Of particular concern are sensitive equipment items (such as digital cameras and other electronic equipment), since these items are prone to loss or theft.

Formal Textbook Procedures Have Been Established

TCPS had established formal procedures for selecting, purchasing, distributing, controlling, and disposing of textbooks. All potential textbooks are reviewed and are submitted to the Board for its review and approval. Textbooks are inventoried within the individual schools, and can be transferred between schools. Additionally, textbooks may only be sold or disposed of in accordance with these formal procedures.

Recommendation

7. TCPS should develop and implement policies and procedures to ensure that accountability and effective control is maintained over all of its equipment, including sensitive items (for which TCPS may want to establish a lower threshold).

Chapter 6

Information Technology

TCPS maintains and administers a computer network, computer operations, and a number of information systems applications, including financial and academic applications. TCPS developed and periodically updates a written technology plan that is linked to the system's Master Plan. The plan provides a vision and mission for technology in TCPS, an assessment of technical needs, and defined goals and objectives. Also, TCPS used several best practices when implementing its new Integrated Financial Management System.

We did, however, identify deficiencies in a number of areas, including system user access and security, and computer center operations. For example, TCPS did not have a formal disaster recovery policy in place and was not making use of certain IT system features designed to restrict or detect unauthorized/unnecessary access to systems and programs. Also, a comprehensive approach to IT security had not been developed and physical access to its computer room was not strictly controlled.

Background

TCPS operates a wide area network, with Internet connectivity, which connects each individual school's local network to the computer resources located at the TCPS central office. The computer technology department at TCPS comprises seven employees for instructional and technical support of the entire

system. Several significant administrative and academic related applications exist, including applications for student information, food services point of sale, bus routing, and school energy control.

A Number of Best Practices Were in Place

Technology plans are regularly developed to address the current and future needs of TCPS – TCPS has developed a written technology plan, which includes a comprehensive assessment of the technology needs of the schools. The plan identifies each school's IT needs and the actions to be taken to address those needs. The plan also includes measurable goals and objectives. The goal of the plan is to integrate technology into all aspects of instruction and administration to enable students, teachers, staff, administrators, and parents to access, gather, analyze, evaluate, and communicate information. The plan also includes Internet safety and telecommunications policies and an inventory of current computer and media hardware and projected needs. The plan is periodically updated and monitored for implementation status of identified actions.

Industry best practices were used when implementing the Integrated Financial Management System – TCPS used several project management best practices when it implemented the new Integrated Financial Management System during fiscal year 2007. For example, TCPS chose to purchase standardized software typically used by education entities that posed fewer risks for implementation and performance. Also, TCPS hired an experienced project manager to lead the effort and had strong executive support from the Superintendent, supplemented by a project committee consisting of key accounting, human resources, and information technology staff. Additionally, TCPS identified primary user representatives with expert knowledge of the business functions to explain operations in detail to technical developers, set a clear statement of requirements, and implemented the project in modules to maintain a manageable scope during each phase of the project.

Steps Should Be Taken to Ensure Adequate Security over IT Applications

Changes should be made to existing procedures to ensure that all access is appropriate – User access to computer resources was commonly controlled through the use of individual passwords and user logon ids; however, these tools could be more effectively used. For example, certain users, including contractors, had inappropriate or unnecessary privileges and capabilities, and default system accesses were not disabled or otherwise modified. Also, automatic password expirations (requiring periodic password changes) were not enforced for all users and there was no standard as to the complexity of passwords (to make them more difficult to hack). TCPS did not fully use existing system audit software to monitor security events, access permissions, and failed attempts to access certain critical data. Finally, certain operating system security options were not properly configured, which could enable hackers to exploit vulnerabilities.

A comprehensive approach to IT security should be developed – TCPS did not have a formal information technology security policy in place. Such a policy should address key aspects of IT such as access control rules, identification of nonpublic information, workstation security, use of anti-virus software, and encryption. Also, such a policy needs to provide information technology security guidance with respect to all of an entity's computer applications and operations.

Data Processing Functions Should Be Better Safeguarded From Disruption

Physical access to the computer room was not adequately controlled as the door to the room was left open to provide ventilation (due to heat from the servers) and the building housing the computer room also contained student instructional space. In addition, critical student information system backup files were not always routinely created, and when they were, they were not stored at an appropriate off-site location to protect the information in case of catastrophic damage to the computer room.

Finally, TCPS lacked a formal, comprehensive, disaster recovery plan, which should include

- the identification of backup data centers or hot sites;⁷
- the identification and prioritization of all mission critical applications, with the related software and hardware required to accomplish recovery;
- the description of network restoration plans; and
- a listing of current emergency contact information and responsibilities for staff.

Recommendations

8. TCPS should implement appropriate security measures to safeguard its applications and data systems, and should adopt a formal information technology security policy.
9. TCPS should establish physical controls and safeguards over its computer operations, should institute appropriate backup procedures, and should develop a comprehensive disaster recovery plan.

⁷ Hot sites are locations containing equipment necessary to process information.

Chapter 7

Facilities Construction, Renovation, and Maintenance

TCPS maintains nine schools and one administrative support facility with a staff of 51 custodial and maintenance personnel. TCPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Plans are long-term, are updated annually, and reflect input from the Board. We also noted that TCPS had obtained alternative financing sources for renovation projects. TCPS has received or qualified for a Governor's Citation for "Superior" school maintenance for fiscal years 2005, 2006, and 2007.

Nevertheless, TCPS had not established performance measures, with related benchmarks and goals, for its maintenance and custodial operations. Time and cost estimates were not tracked and compared to actuals to assess program efficiency for both operations and maintenance. In addition, TCPS could not provide documentation that routine preventive maintenance had been completed at all school facilities.

Background

TCPS uses a five-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. In the fiscal year 2006 CIP and operating budget, necessary major renovations, repairs, and systemic improvements

to existing schools over the next five years were estimated to cost \$26.3 million.

The following table compares TCPS fiscal year 2006 plant costs (that is, maintenance and operational costs) with other similarly-sized school systems in Maryland. The table presents two measures used to assess plant costs: cost per student and cost per square foot. These statistics show that TCPS facilities operations and maintenance costs are generally in line with its peer group.

Table 3 Plant Cost Comparison Per Student and Per Square Foot Fiscal Year 2006 (Unaudited)					
School System	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student ❶	Per Square Foot		
Talbot County	\$4,087,123	\$920.11	\$5.66	162.62	722,358
Somerset County	3,383,932	1,181.21	5.83	202.45	580,006
Kent County	2,737,238	1,125.05	4.73	237.96	578,957
Dorchester County	4,418,285	959.25	5.05	190.02	875,210
Garrett County	4,159,219	894.07	5.16	173.40	806,676
Average of Comparable Schools	\$3,674,669	\$1,039.90	\$5.17	200.96	710,212

Sources: MSDE Selected Financial Data, School System Capital Improvement and Maintenance Plans, and School System staff.

❶ - Based on Average Daily Enrollment 2005-2006 (most recent data available)

A Number of Best Practices Were in Place

TCPS had a continuous planning process to address major facilities projects and repairs – TCPS had a continuous planning process, which includes input from various sources, to address future school construction and major renovation and repair projects. For example, TCPS uses public meetings, student demographic data, and internal sources (such as goals, objectives, and policies of the Board and formal “wish lists” from each school manager) to develop annual educational facilities master plans and capital improvement plans (CIP). The educational facilities master plan and CIP are presented to and approved by the Board.

TCPS obtained alternative source funding for part of the costs of major facilities projects –TCPS partnered with local enterprises, with the support of the Talbot County government, to obtain \$822,496 in alternative funding toward the construction of additional space at St. Michael’s Elementary School, which also can be used for community programs and a day care center. TCPS also has similar commitments toward \$979,000 of the \$1,350,000 estimated construction costs on the upcoming renovation project at the Easton Elementary School – Dobson. One of the TCPS’ goals, in concert with County government desires, is to extend opportunities for community use of all the schools in the system.

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

TCPS should develop various tools to measure and assess operational efficiency – TCPS has received or qualified for a Governor’s Citation for “Superior” school maintenance for fiscal years 2005, 2006, and 2007. Nevertheless, several tools—including an automated work order system and performance measures—should be considered that, collectively, would enhance the effectiveness and efficiency of TCPS maintenance operations and personnel.

- TCPS uses manual work orders, which include information related to the actual resources used to perform each task (including labor hours and equipment expenditures); however, because the information is maintained in a manual format, it cannot be easily accumulated and used to develop standard estimates of resources needed to perform each task, based on either past history or industry guidebooks. Consequently, completed work could not be readily evaluated for efficiency nor could it be used to assess the performance of both individual employees and the entire department. An effective automated work order system can be used to generate a variety of statistical data including employee productivity, cost reports, and facility assessments.
- TCPS had not implemented a performance measurement system to assess the efficiency of its maintenance and custodial operations, both for self-evaluation purposes and for comparisons with other systems, both in Maryland and nationally (which could identify other best practices). For

example, other states (such as Michigan and Florida) have mandated the establishment and use of measures and benchmarks (such as maintenance expenditures per square foot) to assist schools in the evaluation of costs and practices.

TCPS should maintain documentation that all required

preventive maintenance work was performed– TCPS could not provide documentation that all required preventive maintenance and school inspections were completed as scheduled by custodial and maintenance staff. TCPS had developed a comprehensive plan for preventive maintenance tasks, such as checking the operation of air conditioning units and lubricating motors and pumps on other mechanical equipment. Although supervisors conducted periodic inspections and evaluations of the work, neither the staff nor the supervisors had documented that all tasks required by the comprehensive maintenance plan had been performed. Specifically, based on our review, there were only a limited number of maintenance forms and no fully completed inspection forms on file.

Cost-Effectiveness of Energy Management Program Should be Monitored

TCPS has implemented an energy management program, as a best practice, to control energy costs. Specifically, TCPS contracted for energy management consulting services, including computer software that monitors and accounts for energy usage at all facilities, and has hired a part-time energy management program coordinator who monitors energy practices at all facilities. However, TCPS did not verify the contractor reports of energy savings. Furthermore, TCPS did not periodically quantify or validate cost-savings and assess the cost-benefit of its energy management program by comparing those cost savings with the associated program costs. According to reports we obtained from the contractor's energy management system, the school system has had energy cost avoidance totaling approximately \$285,400 for the period from November 2005 through January 2007. According to TCPS records, total energy management program costs since initiation of the program in July 2005, including the program coordinator, were approximately \$178,400.

Recommendations

10. TCPS should enhance its maintenance and custodial operations by developing a performance measurement system, coupled with an automated work order system that, together, can be used to assess the efficiency and effectiveness of the custodial operations and maintenance departments and staff members. TCPS should also ensure that all preventive maintenance and custodial tasks are performed timely and are documented.
11. TCPS should periodically obtain and verify the contractor reports of cost savings of its energy management program and determine whether it is cost-effective by comparing those cost savings with the associated program costs.

Chapter 8

Transportation Services

TCPS transports its students fewer miles than most of the other similarly-sized public school systems in Maryland. Transportation costs per rider are next to the lowest among its peer group; however, the annual cost per mile is the highest (See Table 4 below). TCPS operates its own fleet of 43 buses to transport all students. TCPS faces some obstacles in providing efficient transportation services to its students, including serving sparsely populated areas, and coping with the lack of sidewalks in certain areas to facilitate walking to schools or bus stops.

Table 4 Comparison of Transportation Costs per Rider and per Mile Fiscal Year 2006 (Unaudited)							
School System	Number of Eligible Riders		Miles (in thousands)		Expenditures (in thousands)	Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
Talbot County	2,721	15	535	30	\$1,849	\$676	\$3.27
Garrett County	4,529	36	1,072	72	3,509	769	3.06
Somerset County	2,860	57	651	102	2,048	702	2.72
Dorchester County	4,321	80	879	165	2,524	574	2.42
Kent County	2,140	52	531	99	1,502	685	2.38
Average of Comparable Schools	3,463	56	784	110	\$2,396	\$681	\$2.68

Source: MSDE 2005-2006 Fact Book (Note that this MSDE document is based on self-reported data from the 24 Maryland public school systems, and that MSDE does not warrant the comparability or completeness of the data.)

TCPS used several practices that increased the efficiency of transporting students, such as staggering school start and stop times so buses can provide multiple trips on the same day, using central pick-up points to reduce overall mileage and transportation time, and serving more than one school with a single bus trip.

Nevertheless, we noted several areas where reevaluation of transportation operations at this time would be prudent. For example, TCPS has not conducted a cost-benefit analysis of its decision to continue operating student transportation services entirely in-house, nor has it investigated the feasibility and economic benefits of using conventional full-size 66-passenger school buses on routes with lower ridership instead of the 84-passenger buses currently used. As discussed later in this chapter, the student ridership count sheets, prepared in the fall of 2006, disclosed that many elementary school routes were consistently operated at levels significantly below bus capacities. Since nine new buses are scheduled to be purchased in fiscal year 2009, and TCPS pays \$20,000 more for the larger buses than it would for conventional school buses, TCPS should analyze and consider whether certain routes can be more effectively operated by independent contractors, and whether less costly conventional school buses can be used effectively.

Furthermore, TCPS generally holds each bus for its regulated 12-year life, and had not established a formal policy for replacing school buses that considered other factors, such as early disposal of problematic buses and needed capacities at time of replacement. In addition, we noted that TCPS had not established policies regarding the expected utilization of school buses (for example, setting a target capacity percentage) and for maximum student ride times. Finally, we noted that TCPS had not developed and monitored performance measures to provide essential operational and financial information regarding student transportation services to the Board.

Background

The TCPS fiscal year 2006 student transportation costs totaled approximately \$1.8 million. Approximately 2,700 students are eligible to ride the bus each day on one of 43 buses owned and operated by TCPS that have 10 primary destinations (that is, nine schools and TCPS headquarters for alternative classrooms). Disabled students are also transported using TCPS-owned buses. Of

the 565,362 transportation miles for the 2005-2006 school year, about 5 percent was for disabled students.

Several Best Practices Were In Place to Enhance Bus Route Efficiency and to Reduce Transportation Costs

The Transportation Department used several practices to enhance bus route efficiency and/or to reduce associated costs:

- Staggering school arrival and dismissal times so buses can make multiple runs in mornings and afternoons⁸
- Using routing software to assist in developing and revising routes
- Establishing a walking distance policy to determine eligibility for transportation services
- Arranging multiple drop-off points to reduce the number of bus runs and to increase the number of students transported on each run (for example, transporting middle and high school students together)
- Using central pick-up points when appropriate (usually in concentrated housing areas) to reduce the number of stops and ride time
- Obtaining maximum fuel price caps through annual fuel purchase contracts

More Can Be Done To Ensure Cost-Effective Operations

Routing procedures should consider additional factors and should be formalized – TCPS performs extensive planning, reviewing, and revising of bus routes, and uses computer software to assist in the process. This computer software interfaces with the student information system to ensure students are transported to the appropriate schools based on residences. However, the route planning and scheduling process did not consider all relevant factors such as bus capacity, ridership levels, and student ride times when determining bus routes, and the process was not formally documented. In addition, written procedures did not exist for identifying needed route changes or when to implement the changes.

⁸ The current staggering allows TCPS buses to typically make one run to a middle-high school and one run to an elementary school each morning and afternoon.

Smaller buses should be considered if ridership on bus

routes cannot be increased – Based on actual bus utilization percentages, TCPS should consider using smaller 66-passenger conventional school buses on routes with low ridership. For example, as disclosed in Table 5 (below), the student ridership count sheets for 32 of TCPS' 35 regular use buses (excluding spares and special use buses), prepared in the fall of 2006 for the 2006-2007 school year, disclosed that many elementary school routes were consistently operated at levels significantly below bus capacities. This was true when the ridership counts were compared to the three-students per seat standard used by other school systems in Maryland and was also true based on a two-student per seat capacity.

Table 5			
Conventional School Bus Utilization (unaudited)			
Bus Capacity Used ①②	Number of Buses Reviewed		
	For Elementary School Runs		For Middle and High School Runs
	At Two Students Per Seat	At Three Students Per Seat	
> 80%	11	2	18
61% - 80%	3	5	8
41% - 60%	6	7	4
21% - 40%	6	12	2
≤ 20%	0	0	0
Total Buses	26 ③	26 ③	32

- ① Utilized bus capacity was based on average bus ridership data provided by the TCPS transportation manager for the months of September and October 2006. The sizes of the 32 buses for which data was provided were as follows: seventeen 72-passenger, ten 84-passenger, three 69-passenger, one 78-passenger, and one 57-passenger.
- ② For elementary school runs, capacities were based both on 3 students per seat (usually the bus' rated capacity) and on 2 students per seat. Middle and high school runs were based on 2 students to a seat.⁹
- ③ Six of the 32 buses did not make elementary school runs.

⁹ We have found that many school systems, to accommodate student comfort, do not attempt to run buses at manufacturers' stated capacity for middle and high school students, a practice that appears reasonable.

TCPS primarily used 84-passenger and 72-passenger buses for routine student transportation. Smaller conventional school buses (for example, 66-passenger buses) are less costly to purchase and are generally less costly to operate. For example, the purchase prices for 66-passenger buses recently purchased by other Maryland school systems have averaged approximately \$70,000, whereas 84-passenger buses purchased by TCPS in 2006 cost \$90,471 each (this will increase to \$98,089 for 84-passenger buses purchased in 2007). To achieve savings, TCPS should consider using smaller 66-passenger conventional school buses for routes where this would be appropriate. This is especially important for TCPS to consider now since it is estimated that nine buses are to be replaced in fiscal year 2009.

Bus replacement policy was based only on vehicle age – Age of the vehicle (presently 12 years) was the sole factor used by TCPS for bus replacement, without regard to the vehicle's mileage, repair history, and maintenance costs. If a school system adopts a State-approved preventive maintenance plan, including periodic inspections, it is permissible, under State law, to operate buses for up to 15 years, which is 25 percent longer than the regular statutory limit of 12 years. Accordingly, TCPS should establish a bus replacement policy that considers extending the lives of those specific buses with excellent service and safety records, and should also consider retiring buses early that have a history of problems.

The replacement policy should also consider expected ridership characteristics. We noted that TCPS routinely replaced buses with similarly-sized and equipped vehicles (for example, with lifts for disabled students) without formally evaluating its needs based on expected ridership and route scheduling.

Periodic cost-benefit analysis should be performed – TCPS had not formally reevaluated its 1997 decision to directly operate all student transportation services to determine whether this continues to be cost-beneficial. Such an evaluation should at least consider whether the most significant factors and assumptions for deciding to bring bus operation in-house are still valid. In this regard, decisions can be made on components of transportation operations separately to achieve the highest cost-efficiency and effectiveness. For example, TCPS already uses a mixture of in-house and contracted services for bus maintenance. Bus routes can be similarly operated with a mixture of in-house and contracted bus operations, as is done in several local school systems in Maryland.

Formal Performance Measures for Student Transportation Should Be Developed and the Results Reported Regularly to the Board

To monitor performance and to ensure accountability, TCPS should develop, track, and report to the Board formal performance measures and related results that provide essential operational and financial information regarding student transportation services. We were advised that the Transportation Department informally evaluated certain operating statistics, which could form the basis of a formal performance measurement system, but it had not documented these statistics. The Transportation Department also had not developed formal benchmarks against which its operational effectiveness and efficiency could be measured (for example, ridership compared to bus capacity, transportation cost per student, bus operating costs per mile). The Government Finance Officers Association (GFOA) recommends that program and service performance measures be developed and used as an important component of long-term strategic planning and decision making which should be linked to governmental budgeting.

Recommendations

12. TCPS should take action to increase the cost-effectiveness of bus operations. Specifically, TCPS should establish policies for student capacity and travel time and, because of low ridership on many bus runs, TCPS should analyze the cost/benefit of using smaller, less expensive conventional school buses on routes with fewer passengers. TCPS should also establish a bus replacement policy that defines specific criteria to identify buses that can be safely maintained in service beyond 12 years and that addresses when problem buses should be retired early. In addition, a periodic cost analysis to determine the most appropriate mix of system and vendor provided transportation services should be prepared.
13. TCPS should develop, track, and report to the Board appropriate and reliable performance measures for transportation services and related results.

Chapter 9

Food Services Operations

TCPS has implemented a number of best practices to help reduce food service costs, such as the use of performance measures, participation in the United States Department of Agriculture commodity program, and membership in a nine-county food-purchasing cooperative. TCPS also has adequate procedures in place to identify students eligible for free and reduced-price meals under the federal national school meal programs. However, TCPS needs to improve internal controls over its purchasing of food services supplies.

Table 6
Comparison of Cost per Meal
Fiscal Year 2006 (Unaudited)

School System	Total Expenditures	Meals Served			Average Cost Per Meal
		Breakfast (paid, free, and reduced)	Lunch and Snacks (paid, free, and reduced)	Total	
Talbot County	\$1,579,905	169,415	388,443	557,858	\$2.83
Garrett County	2,460,115	245,732	483,453	729,185	3.37
Dorchester County	1,979,116	242,652	503,804	746,456	2.65
Kent County	1,094,444	127,509	305,424	432,933	2.53
Somerset County	1,331,273	219,901	342,593	562,494	2.37
Average of Comparable Schools	\$1,716,237	208,949	408,819	617,767	\$2.78

Sources: MSDE 2006 Data

Background

Seven of the nine TCPS schools have cooking cafeterias. The remaining two schools receive food prepared at another school. TCPS operates a self-sustaining food services operation. For fiscal year 2006, TCPS reported that food service revenues exceeded expenditures by approximately \$57,000.

Table 7
Food Service Facts for FY 2006

Average Cost per Meal **\$ 2.83**

Number of Meals Served:

Breakfast	Paid	84,044	
	Free	70,007	
	Reduced Price	<u>15,364</u>	169,415

Lunch	Paid	226,664	
	Free	130,923	
	Reduced Price	<u>30,856</u>	388,443

Total Meals Served **557,858**

School locations served /kitchens	9/7
Full-time employees	30
Part-time employees	9

Revenues:

Federal	Cash payments	\$552,270	
	USDA Commodities	<u>82,256</u>	\$ 634,526
Sales and other sources			921,703
State aid			<u>80,854</u>

Total Revenue (all sources) **1,637,083**

Total Expenditures **1,579,905**

Excess of Revenues over Expenditures **\$57,178**

Sources: MSDE 2006 Data and TCPS FY 2006 Audited Financial Statements.

Certain Best Practices Were in Place

TCPS has implemented several practices to contain food

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

- TCPS used performance data, such as meals per labor hour and monthly financial reports, to track and monitor the operating efficiency at each of its school cafeterias.
- TCPS participated in the United States Department of Agriculture (USDA) commodities program, which is a free food program. According to TCPS records, \$82,256 in USDA commodities was received in fiscal year 2006.
- TCPS participated in a nine-county food-purchasing cooperative in order to maximize its buying power and reduce food costs.
- TCPS used standard serving sizes and recipes to economize on food purchases.
- TCPS used two schools as support schools (for food preparation) for two smaller schools. Managers of the support schools oversee staff at the smaller schools.

TCPS uses several best practices to encourage participation in its free and reduced-price meal programs

– These practices include using a family application process—instead of individual student applications—to simultaneously qualify more students for the free or reduced priced meal programs, advertising in the local newspaper, and obtaining information from the local Department of Social Services to identify eligible students. Although TCPS has some of the lowest percentages of free and reduced price meals served among Maryland public school systems¹⁰ (see Table 8 on next page), for fiscal year 2006, 79 percent of the TCPS students eligible to receive free lunches and 70 percent of the students eligible to receive reduced-price lunches actually participated in the programs, which is nearly identical to the Statewide average participations.

¹⁰ This could be because Talbot County has the second highest Local Wealth among Maryland subdivisions. Local Wealth includes adjusted real property assessment, public utility operating property, and net taxable income. Source: State Aid Calculations in the MSDE 2004-2005 Factbook.

Table 8							
Free and Reduced Meal Participation 2005 – 2006 (Unaudited)							
School System	Student Enrollment	Qualified for Free Meals	Qualified for Reduced Price Meals	Percent of Students Qualified for Free and Reduced Price Meals	Total Breakfast and Lunches Served	Total Free and Reduced Price Meals	Percent Free and Reduced Price Meals
Talbot	4,483	973	258	27%	557,858	247,150	44%
Somerset	2,902	1,421	266	58%	550,225	407,341	75%
Dorchester	4,702	1,896	458	49%	741,778	497,651	67%
Garrett	4,666	1,299	610	41%	723,697	409,532	57%
Kent	2,441	758	225	40%	401,333	220,235	55%
Peer Group	19,194	6,311	1,817	42%	2,974,891	1,781,909	60%
Statewide	859,399	212,938	62,325	32%	92,591,943	50,616,740	55%

Sources: MSDE Schedule of Free/Reduced Priced Meal Participation FY 2006, and MSDE 2006 Data.

Internal Controls over Purchasing Could Be Improved

TCPS should improve internal controls over the purchasing of food supplies – Our test of food service purchasing procedures identified internal control weaknesses that could result in unauthorized purchases being made without detection, as independent verifications were not performed to ensure that all purchases were appropriate. Specifically, 2 of the 10 invoices tested did not contain evidence of supervisory review and approval and 4 of the 10 purchases were not documented as having been actually received.

Recommendation

14. TCPS should ensure that each food supply invoice is verified as correct and supported by valid documentation establishing that goods were actually received.

Chapter 10

School Board Operations and Oversight

Detailed policies have been adopted to govern actual Board operations, and the Board meets each year with the certified public accounting firm to review the results of the annual TCPS financial statement audit and the federal Single Audit. In addition, the Board is actively involved in the development of the TCPS annual budget.

Several opportunities exist for the Board to improve operations and oversight. While the Board had developed governing policies over certain TCPS operations, policies had not been developed or needed enhancement in a number of areas, including human resources, debt management, transportation, procurement, and inventory. In addition to developing better policy guidance to TCPS departments, the Board should work toward establishing an internal audit function to act as an independent reviewer of TCPS operations for the Board and to receive confidential information about suspected waste, abuse, or fraud.

Although the Board had implemented a Code of Ethics, the requirement for filing financial disclosure statements was not actively enforced.

Background

TCPS is governed by a seven-member board elected by the voters of Talbot County. Due to its size, the Board generally acts in whole to carry out its oversight duties; the Board, however, may form standing or special committees at its discretion. To assist in

oversight, the Board contracts for independent audits of the TCPS financial statements and federal programs, and receives monthly updates from TCPS management personnel on a broad range of financial and academic topics.

The Board is ultimately accountable for the success of the TCPS in providing the children of Talbot County with a quality education, while wisely spending local, State, and federal funds. Following is the TCPS Board's stated vision and beliefs:

Vision and Beliefs

Exemplary student achievement is the first priority of the Talbot County Public Schools; we affirm that high expectations result in higher quality individual student performance.

Every child deserves a safe, respectful and caring learning environment.

A passionate commitment to lifelong learning assists staff and students to thrive in a changing society.

Strong partnerships among the home, school, and community with open and honest communication are essential to high quality learning.

Diverse, dedicated, highly qualified teachers make an important difference in the lives of students.

Although children may learn at different rates and in different ways, all children can achieve extraordinary results.

Decisions about educational programs for students must be guided by valid, reliable data, professional judgment and informed stakeholder involvement.

Source: Annual Report at <http://www.tcps.k12.md.us/>

Certain Oversight Has Been Put in Place Regarding TCPS Operations

The Board uses a number of methods to oversee the operations of TCPS. For example, the Board contracts with an independent certified public accounting firm to perform audits of its financial statements and federally-funded grant programs and annually meets with that firm to review the results. The Board is also actively involved in the development of TCPS annual budgets.

Additional Guidance or Policies Should Be Provided to TCPS Management

The Board should adopt additional guidance and enhance certain policies related to financial and support services –

The Board needs to develop, enhance, and adopt policies governing a number of areas related to financial and support services. Based on our review of the Board's Policies and our audit work in a number of audit sections, the Board should provide additional guidance or policies in numerous areas, including procurement, inventory, and transportation. We also noted that school system management needs to develop adequate administrative procedures in several of these areas.

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

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

The Board should consider establishing an internal auditor

function – TCPS does not have an internal auditor reporting to the Board. The use of an internal auditor, independent of direct management, is a recommended best practice of the Government Finance Officers Association (GFOA). The GFOA notes that internal auditors commonly assist management in monitoring the design and proper functioning of internal controls and procedures, and can

play a valuable role in conducting performance audits, special investigations, and studies. As cited in this report, our audit identified certain deficiencies in the TCPS system of internal control, such as a lack of supervisory review of payroll adjustments and lack of a physical inventory process. We also noted that a process, such as a confidential hotline, had not been implemented to enable employees and others to confidentially report operational concerns and suspected fraud, waste, and mismanagement. If such a process was established, the internal auditor position could conduct the initial investigations of information received via the hotline or could direct the information to appropriate officials, such as law enforcement.

Due to its small size, TCPS may not be able to justify an internal audit position; however, it could consider sharing a position with other local school boards.

TCPS Should Enhance and Enforce Its Code of Ethics Requirements for Filing Financial Disclosure Statements

During our review of Board Policies, we noted that all seven Board members, the three Ethics Panel members, four members of executive management, and nine principals are required to file disclosure statements; nevertheless, this requirement should be expanded to certain other staff. Specifically, the Board's Ethics Policy, originally adopted in 1997, does not require the food service, transportation, and plant operations department managers to file disclosure statements with the Ethics Panel, even though these managers are responsible for significant procurement activity in their respective departments.

Our audit also disclosed that, in calendar year 2005, 4 (2 ethics panel members, 1 board member, and 1 principal) of the 23 TCPS personnel who were required to submit disclosure statements had not done so, and in calendar year 2006, 2 (1 ethics panel member and 1 board member) of the 23 had not filed as of our testing in May 2007. Statements are required to be filed by January 31 for the preceding year. TCPS was not aware that the required financial disclosure statements had not been filed until we brought this matter to its attention.

Recommendations

15. The Board should provide increased financial and support service guidance to management by developing, enhancing, and adopting policies. In addition, the Board should ensure that related administrative procedures are developed by management as appropriate.
16. TCPS should consider the feasibility of establishing an internal audit position and a hotline for the confidential reporting of operational issues and suspected fraud, waste, and mismanagement.
17. TCPS should expand its ethics requirements for filing disclosure statements to include all management employees responsible for procuring goods and services. TCPS should also actively monitor compliance with its Code of Ethics by verifying that all required financial disclosure requirements are met.

Chapter 11

Other Financial Controls

This chapter addresses the management of cash, risk, and long-term debt, such as lease/purchase agreements entered into by TCPS, and the potential for outsourcing opportunities. While TCPS had procedures in place to govern its risk management, it needs to adopt policies governing its use of long-term debt, and enhance its policies for cash management.

Risk Management Best Practices Were in Place

For risk management, the TCPS policy is to protect itself from losses through its memberships in the Maryland Association of Boards of Education Group Insurance and Workers Compensation Pools, which provide casualty and property insurance, and workmen's compensation coverage. The notes to the fiscal year 2006 audited financial statements stated that settled claims had not exceeded coverage in any of the past three fiscal years. TCPS has also joined with the Eastern Shore of Maryland Boards of Education to form the Eastern Shore of Maryland Education Consortium Health Insurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for health insurance coverage.

TCPS Has Implemented a Consortium Buying Organization for Special Education Services

TCPS sought efficiencies through a consortium buying approach when it joined the Mid-Shore Special Education Consortium in 1988. The Consortium was organized in 1973 and comprises the Boards of Education for Caroline, Dorchester, Kent, Queen Anne's,

and Talbot Counties. The goal of the consortium is to support individual counties in serving students with disabilities in a cost-effective manner. Services provided by the consortium include occupational and physical therapy, audiology, vision, hearing, and clinical psychology. TCPS serves as the fiscal agent for the Consortium and, according to TCPS records, the fiscal year 2007 budget was approximately \$1.3 million. The consortium received grant funding from MSDE of \$375,000 for fiscal year 2007; the remainder of its funding was received from the five local jurisdictions.

The Government Finance Officers Association (GFOA) recommends consortium buying as a best practice for local government implementation. An article in the *Government Finance Review* on cooperation between governments states that consortium buying is a way to provide greater service to stakeholders at a better cost.

Formal Investment and Debt Management Policies Have Not Been Established

A deposit policy should be established to protect cash

investments – TCPS uses the State’s cash management policies and procedures for guidance on how to invest funds, but it does not have a deposit policy to address custodial credit risk. The notes to the fiscal year 2006 audited financial statements disclosed that \$632,183 of TCPS’ \$992,445 bank balance at June 30, 2006 was exposed to custodial credit risk because it was not insured by the Federal Deposit Insurance Corporation and, although fully collateralized by securities held by the pledging financial institution’s trust department, the collateral was not held in the Board’s name. Many local school systems use the Maryland Local Government Investment Pool, which is administered by the Maryland Office of the State Treasurer, for investment purposes.

Debt management policies need to be established – The TCPS

Board had not adopted formal policies governing management’s use of long-term lease/purchase agreements to finance operations, as recommended by the GFOA. TCPS is not permitted to issue bonds or other long-term debt instruments to finance capital or operational needs. However, TCPS management does use lease/purchase agreements to purchase items such as copiers. According to the TCPS 2006 audited financial statements, long-term lease/purchase agreements totaled \$219,558.

In addition, TCPS has an outstanding debt to the State Retirement and Pension System of Maryland, totaling \$341,076 at June 30, 2006, to cover an actuarially-determined unfunded pension liability. State law permits TCPS to pay the unfunded liability using a payment schedule through 2036 which also includes total interest payments for all years of \$1,895,572.

Funding for multi-year agreements is especially important as a budget consideration to TCPS due to potential limited revenues in future years. By County Charter, there is a two percent maximum annual increase in the amount of revenue that Talbot County government can raise in any fiscal year from real property taxes. This cap limits the benefit the County receives from growth of the assessable tax base for real property. Given its significant reliance on local government funding (see page 8), TCPS believes that the cap could severely restrict the County's ability to raise revenue to meet educational and service needs accompanying population growth.

Recommendation

18. TCPS should adopt a formal policy governing cash investments and a formal policy governing long-term lease/purchase debt, in accordance with GFOA best practice recommendations.

Audit Scope, Objectives, and Methodology

Scope

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Talbot County Public Schools (TCPS). We conducted this audit under the authority of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland and performed it in accordance with generally accepted government auditing standards.

Objectives

We had two broad audit objectives:

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

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit approach, including the specific objectives of our local school system audits, was approved on September 14, 2004 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. As approved, the audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. We also did not review the activities, financial or other, of any parent teacher association,

group, or funds not under the local board of education's direct control or management. Finally, we did not evaluate the TCPS Comprehensive Education Master Plan or related updates.

Methodology

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by TCPS. We also interviewed personnel at TCPS, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate¹¹). Our audit procedures included inspections of documents and records, and observations of TCPS 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, 2005 through December 31, 2006. For our audit work on revenue and federal grants, we primarily relied on the results of an independent audit of fiscal year 2006 activity; accordingly, our revenue and federal grants work was limited to this period.

In addition, we contacted a number of other state auditors' offices and legislative program evaluation agencies that had a history of conducting audits or reviews of local school systems. We interviewed those officials and inspected their work programs and resultant reports to identify specific audit techniques and operational practices at schools that could be adapted for our school system audits. Finally, we used certain statistical data—including financial and operational—compiled by the 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. For comparison purposes, information provided was generally limited to those Maryland school systems of similar sizes, based on student enrollment and/or system budget. In many cases, this information was self-reported by the school systems. The data were neither audited nor independently verified by us.

Other Independent Auditors

When developing the approach for the audits of school system financial management practices, a consideration was the reliance on the work of other independent auditors to the extent practicable to avoid unnecessary duplication of audit effort. With respect to TCPS, the results of other auditors that we considered were

¹¹ During the course of the audit it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

reported in three distinct audit reports: one related to the administration of its federal grants, another was the management letter from the audit of its financial statements audit, and the third was the independent audit of the School Activities Fund.

During the course of this audit, we relied on these results. We performed certain steps to satisfy ourselves as to the reliability of the reported results of the independent federal grants audit of the TCPS fiscal year 2006 federal financial assistance programs for compliance with federal laws and regulations and the TCPS fiscal year 2006 financial statement and School Activity Fund audits. Accordingly, we significantly reduced the scope of our work in Chapter 1 “Revenue and Billing Cycle,” and in Chapter 2 “Federal Funds.”

Limitations of Internal Control

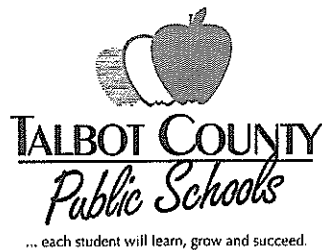
TCPS management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

In addition to the conditions included in this report, other less significant findings were communicated to TCPS that did not warrant inclusion in this report.

Fieldwork and TCPS Responses

We conducted our fieldwork from November 2006 to May 2007. The TCPS response to our findings and recommendations is included as an appendix to this report.



Karen B. Salmon, Ph.D.
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November 28, 2007

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

Dear Mr. Myers:

Enclosed are the responses to the draft performance audit report dated November 7, 2007 of Talbot County Public Schools.

If there are additional questions, do not hesitate to call.

Sincerely,

Karen B. Salmon
Superintendent

November 28, 2007

Talbot County Public Schools response to the office of Legislative Audits recommendations:

- #1 Medicaid-Subsidized Services – The cited example of ten student-eligible files applies a three-month standard to a nine-month window for billing during a period immediately following the October 2006 regulation change that required securing new parent authorization signatures for all reimbursements. The example inaccurately represents TCPS effectiveness in MA recovery. TCPS accepts the recommendation regarding more timely recovery of MA costs.
- #2 Accounts Payable and Procurement System – TCPS accepts your recommendation and will proceed accordingly. TCPS will request additional finance office staff in the FY 2009 Budget to improve the segregation of duties. The Finance Department will request the IT Department to generate reports on all unauthorized transaction attempts.
- #3 Procurement and Disbursement Cycle – TCPS accepts your recommendation and will proceed accordingly.
- #4 Procurement and Disbursement Cycle – TCPS accepts your recommendation and fuel invoices will be initialed after review by the appropriate department supervisor for payment.
- #5 Human Resources and Payroll – TCPS objects to the term “unnecessarily” in paragraph 2 of this chapter as an editorial comment. TCPS accepts your recommendation and will request additional finance and personnel office staff in the FY 2009 Budget to improve the segregation of duties.
- #6 Workforce Planning – TCPS accepts your recommendation and will proceed accordingly.
- #7 Inventory Control and Accountability – TCPS accepts your recommendation and will proceed accordingly.
- #8 Information Technology – TCPS accepts your recommendation and has already implemented certain security measures.
- #9 Information Technology – TCPS accepts your recommendation and is in the process of establishing more physical controls and safeguards. The staff is in the process of developing a comprehensive disaster recovery plan.

November 28, 2007

- #10 Facilities Construction, Renovation, and Maintenance – TCPS accepts your recommendation and will proceed accordingly. The maintenance department has been investigating the purchase of an automated work order system that will allow TCPS to track work request progress, productivity and provide statistical information.
- #11 Energy Management – TCPS accepts your recommendation and will proceed accordingly.
- #12 &
- #13 Transportation – TCPS believes recommendation number 12 is not supported by either cost or qualitative service data. Nevertheless, TCPS accepts these recommendations and will proceed accordingly.
- #14 Food Service -TCPS accepts your recommendation and in the fall of 2007 developed a checklist that will ensure items received match vendor invoices.
- #15 School Board Oversight – TCPS accepts your recommendation and will develop formal written policies and procedures over the next twelve months in conjunction with our independent auditors, Mayer Hoffman McCann .
- #16 Internal Auditor – TCPS accepts your recommendation and will request the additional staff position of internal auditor in the FY 2009 Budget.
- #17 Ethics Disclosure Reporting – TCPS accepts your recommendation and has expanded the list of staff members having contact with vendors.
- # 18 Financial Controls – TCPS accepts your recommendation and is already working with the independent auditors and custodial bank to ensure compliance with GFOA standards.

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