

Financial Management Practices Audit Report

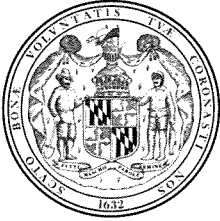
Allegany County Public Schools

January 2013



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

January 29, 2013

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Executive Director

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Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
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Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

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

Our audit disclosed that ACPS needs to enhance internal controls and accountability for certain financial operations including its procurement and vendor payment functions, payroll processing, and information system security. For example, a number of users had inappropriate access to the accounts payable system, including several non-school personnel employed by Allegany County government. ACPS did not implement steps to ensure that payments to certain contractors were correct and that the required services had been received. Also, its automated systems were not properly secured to mitigate risks from external sources.

The audit also identified certain steps ACPS could take to improve cost effectiveness. ACPS was significantly behind in processing its Medicaid reimbursement requests. As of January 2012, ACPS was still processing documentation for Medicaid-subsidized services provided to students from as far back as February 2011. We also found that ACPS did not base certain payments to its bus contractors on actual costs. For example, ACPS used a negotiated rate to pay bus contractors for maintenance and fuel costs. Consequently, it appears that the negotiated rate paid by ACPS may be significantly higher than what it would have been if the rate was based on actual maintenance and fuel costs. Using actual bus route miles and payments made to the contractor, the cost differential between the negotiated rate and our estimated rate using ACPS data for its in-house bus fleet totaled

\$888,000 for fiscal years 2010 and 2011. Finally, ACPS has experienced consistent deficits in its food services operations, with expenditures exceeding revenues in the aggregate by almost \$4 million for fiscal years 2008 to 2011. Although annual operating deficits have decreased since fiscal year 2008, personnel costs (such as food service salary and benefit costs) and productivity levels appear to be contributing factors to the deficits, and ACPS has not used certain performance measures to assist in evaluating food service operations.

ACPS also should establish comprehensive policies, or modify existing policies, to address certain procurement matters and the use of credit cards.

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

Respectfully submitted,



Thomas J. Barnickel III, CPA
Legislative Auditor

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

Executive Summary

Legislative Audit Report on the Allegany County Public Schools (ACPS) January 2013

According to data compiled by the Maryland State Department of Education, ACPS ranks 16th in student enrollment among the 24 public school systems in Maryland. In fiscal year 2011, ACPS had a total full-time regular and special education pupil population of 8,913 at its 23 schools. ACPS' operating and capital expenditures totaled \$127.8 million during that year.

The Office of Legislative Audits has conducted its second audit of ACPS' financial management practices. The results of the first audit were issued in a report dated January 5, 2007. Our current audit identified a number of opportunities for ACPS to improve internal controls, to adopt more cost-effective processes, and to enhance policy direction.

ACPS Needs To Improve Internal Controls and Accountability in Certain Financial Areas

Although proper internal controls had been established in certain financial areas, such as construction contract awards and monitoring, ACPS needs to improve internal controls and accountability in certain other financial areas. For example, ACPS needs to segregate duties by limiting authorized users' capabilities to process certain transactions in its financial and human resources/payroll automated systems. In addition, cafeteria managers essentially had complete control over food service inventories since they ordered and received goods, maintained the related records, and conducted all inventories without independent oversight.

ACPS did not adequately monitor certain contracts. For example, although ACPS received monthly invoices from one vendor for therapy services, the invoices did not contain sufficient detail to determine whether the services were actually provided, such as identifying the student who received the service. Payments to this vendor totaled \$1.3 million in fiscal year 2011. In addition, ACPS did not receive documentation (such as employee timesheets) to allow it to verify time that was billed. We also noted that the invoices for health care services were not verified to supporting documentation of actual claims activity. ACPS is self-insured for employee medical benefits and uses a third-party administrator to process related claims. Payments to the administrator totaled \$16.4 million in fiscal year 2011, including \$1 million for the administrator's fee.

Adequate security measures and monitoring procedures were not in place to protect ACPS' network and related critical devices from security risks. For example, firewall rules allowed numerous insecure and unnecessary connections to critical ACPS network devices. In addition, a number of network accounts had excessive or improper access to network resources including data files and programs.

ACPS Should Consider Implementing Certain Steps to Improve Cost Effectiveness

Although ACPS had a process to track submission of documentation used to recover Medicaid-subsidized costs for certain services, it was significantly behind in processing the documentation. As of January 12, 2012, ACPS had not completed processing documentation dating back to February 2011. ACPS management could not readily determine the value of these unprocessed claims.

ACPS did not base certain elements used to pay its bus contractors on actual costs. Specifically, payments to bus contractors for bus maintenance and fuel costs were based on a negotiated rate. Using ACPS data for its in-house bus fleet, we estimated that the negotiated rate paid by ACPS may have exceeded the actual maintenance and fuel costs. Using actual bus route miles and payments made to the contractor, the cost differential between the negotiated rate and our estimated rate equated to \$888,000 for fiscal years 2010 and 2011 in total. Also, ACPS needs to verify certain bus contractor billing information, such as bus route mileage and time.

ACPS has experienced persistent deficits in its food service operations. For fiscal years 2008 to 2011, food service operation costs, in the aggregate, have exceeded related revenues by almost \$4 million. Based on our analysis of ACPS costs, expenses for salaries and wages and productivity (in terms of meals per labor hour) appear to be contributing factors to the deficits. ACPS does not currently use performance measurement data such as comparing meals per labor hour to established benchmarks to assist in evaluating the food service operations.

ACPS Needs to Establish or Modify Certain Policies

ACPS' current procurement policy did not address procurements under \$25,000, the procurement of services, or provide guidance for the use of sole-source procurement. In addition, ACPS had not developed a policy to govern the use of its corporate purchasing cards. Expenditures using these cards totaled \$460,000 in fiscal year 2011.

Background Information

Statistical Overview

According to Maryland State Department of Education (MSDE) student enrollment records, Allegany County Public Schools (ACPS) ranks 16th in student enrollment among the 24 public school systems in Maryland. From fiscal years 2001 to 2011, the total full-time regular and special education pupil population has decreased 12.4 percent from 10,180 to 8,913. For the 2010-2011 school year, ACPS had 23 schools, consisting of 14 elementary, 4 middle, 3 high schools, 1 alternative school, and 1 technical school. According to ACPS' audited financial statements, expenditures totaled \$127.8 million in fiscal year 2011. The largest expenditure category is salaries and wages, including benefits, which accounted for 74 percent of total operating expenditures during fiscal year 2011. According to MSDE records, as of October 2011, ACPS had 1,319 full-time equivalent positions which consisted of 913 instructional and 406 non-instructional employees.

Oversight

ACPS is governed by a local school board, consisting of five elected voting members and one non-voting student member. The State and the Allegany County government provide the vast majority of ACPS funding. In addition, 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 ACPS to comply with the requirements and mandates of federal law. Allegany County government exercises authority over ACPS, primarily through review and approval of ACPS' annual operating and capital budgets.

External Audits of Fiscal Years 2011 and 2012

ACPS engages a certified public accounting firm to independently audit its annual fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of ACPS federal grant programs (as required by federal regulations). The resulting financial statement and Single Audit for fiscal year 2011 were issued in September 2011. The Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (part of the Single Audit) included one finding that was classified as

both a significant deficiency¹ and a material weakness² related to ACPS' internal control over financial reporting and compliance. Specifically, ACPS management did not have an adequate system in place to provide ongoing or separate evaluations of the effectiveness of the Board's system of internal controls, including controls over federal awards. The report indicated that ACPS did not have an employee independent of the Finance Office to monitor the system of internal controls and report to the Board. In response, the Board stated that due to budget constraints, it did not plan on implementing an independent internal audit/monitoring position.

After our fieldwork was completed, the financial statement and Single Audit reports for fiscal year 2012 were issued on October 1, 2012. Again, the Single Audit reported the same significant deficiency relating to monitoring of internal controls; however, the condition was not identified as a material weakness in the fiscal year 2012 reports.

Due to similarities between the work of the independent certified public accounting firm that audited ACPS' financial statements and conducted the Single Audit, and the risks and scope of our audit in certain areas, we relied on the results of the independent audit of the fiscal year 2011 financial statements to reduce the scope of our audit work related to revenues, accounts receivable, school activity funds and federal grant activity.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of 16 of the 27 findings contained in our preceding audit report dated January 5, 2007 (the 27 findings resulted in 17 detailed recommendations in that report). We followed up on these 16 findings based on our current assessment of significance and risk relative to the audit objectives. We determined that ACPS satisfactorily addressed five of these findings. The remaining 11 findings are repeated in 10 findings in this report.

¹ A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. With respect to Single Audit, a deficiency is a control deficiency, or combination of control deficiencies, that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

² A material weakness in internal control is a significant deficiency, or a combination of significant deficiencies, such that there is a reasonable possibility that a material misstatement of the financial statements (or, with respect to Single Audit, material noncompliance with a type of compliance requirement of a federal program) will not be prevented or detected and corrected, on a timely basis.

Findings and Recommendations

Revenue and Billing Cycle

Background

Allegany County Public Schools (ACPS) revenues consist primarily of funds received from Allegany County, the State, and the federal government. According to the ACPS audited financial statements, revenues from all sources totaled \$129 million during fiscal year 2011. In addition, ACPS maintains school activity funds that are collected to operate various student activities, clubs, and school publications. Each school maintains detail records which separately account for the activity of each group or club. Each school also maintains its own separate bank account. Because this revenue is raised through student-related activities, it is not considered school revenue. Nevertheless, ACPS has a fiduciary duty to safeguard these funds, which are reported in summary form in the audited financial statements. For fiscal year 2011, school activity fund collections totaled \$2.9 million and disbursements totaled \$2.9 million. The June 30, 2011 balance based on the audited financial statements totaled \$2 million.

External Audit Disclosed No Reportable Conditions Regarding Revenue Activities

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

Federal Funds

Background

ACPS receives funds pertaining to federal government programs that are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2011 expenditures of federal award funds totaled \$15.9 million, not including federally funded fee-for-service programs such as Medicaid reimbursement for special education services.

Single Audit Report Regarding Federal Grant Management

Due to the work performed by the independent certified public accounting firm that conducted the Single Audit of the ACPS federal grants and the objectives of our audit in this area, we relied on the auditor's work and results. Besides expressing an opinion on ACPS 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 2011 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). The related report stated that ACPS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with, and the operation of, major federal programs, the auditors identified one finding that was considered both a material weakness and a significant deficiency due to the lack of a formal system in place to monitor the adequacy and effectiveness of the Board's system of internal controls. The Board, in its response, indicated that at the current time, it did not plan to implement such a monitoring function.

Finding 1

ACPS had not processed reimbursement claims for Medicaid-subsidized services timely and was at risk that eligible claims may not be processed by established deadlines.

Analysis

Although ACPS had a process to track the submission of documentation used to recover Medicaid-subsidized costs for applicable students, ACPS had not processed the documentation timely to ensure that it received the related Medical Assistance reimbursements. As of January 12, 2012, ACPS had not completed processing documentation for reimbursable services dating back to February 2011 (a backlog of approximately 11 months). State regulations specify that Medicaid may not reimburse claims received more than 12 months after the date of service. Since the backlog consisted of a large amount of unprocessed paperwork, ACPS management could not readily determine the value of the related claims amounts.

According to ACPS records for fiscal year 2012, Federal reimbursement for Medicaid-subsidized services totaled \$945,000 and, as of March 2012, approximately 1,200 students were eligible to receive Medicaid-subsidized services.

Recommendation 1

We recommend that ACPS process Medicaid reimbursement claims in a timely manner to ensure that all eligible costs for Medicaid-subsidized services are fully recovered.

Procurement and Disbursement Cycle

Background

According to ACPS records, non-payroll related disbursements totaled \$35.5 million during fiscal year 2011. Purchase orders for goods and services are manually generated by the requesting department and must be approved by supervisory personnel (such as the respective department head). The purchase orders are transmitted to the accounts payable section where they are entered into an automated system before being sent to the vendor. Purchases of goods anticipated to cost more than \$25,000 generally require bidding, which is handled by the requesting department. Invoices submitted by vendors to the finance office are matched to the related purchase order through the automated system. The receipt of goods and services is confirmed by the requesting department before payment processing. Payments are processed by the finance department through an automated system that prints vendor checks and also posts the payment to the financial records.

ACPS Properly Bid, Approved, and Monitored Construction Contracts

Our review disclosed that ACPS had established adequate controls over the bidding, approval, and monitoring of construction contracts. Our review of ACPS' three most recent construction projects totaling \$2.5 million disclosed that ACPS properly procured contracts for the general contractors, including review and approval by the Board. In addition, our test of six invoices totaling \$617,000 for these contracts disclosed that the invoices were properly reviewed and approved, and the amounts invoiced were in accordance with the related contract terms.

Contracts for Food Services were Properly Bid and Invoices Generally Agreed to Contract Prices.

Our review of contracts for food services materials and supplies disclosed that ACPS properly procured the contracts tested and that invoice prices agreed to contracts for the items tested. According to ACPS records, expenditures for food and related supplies totaled \$1.5 million for fiscal year 2011.

Finding 2

Duties for purchasing and payment processing were not properly separated and certain transactions were not subject to independent review.

Analysis

Internal controls over procurements and disbursements were not adequate. Specifically, we found the following conditions:

- Purchase orders were entered into the automated system without being subject to independent approval. Specifically, there was no process established to require an independent employee (such as the finance officer) to verify that only properly approved purchase orders were entered into the system and sent to the appropriate vendor. A similar condition was commented upon in our preceding audit report.
- Controls over changes to vendor information were not adequate. Vendor data are entered into the automated system by the employee who records the invoice for payment. Although another employee is responsible for reviewing a report of changes to the system's vendor table which helps ensure that only authorized vendors are paid, this employee did not review source documentation to ensure the propriety of any such changes.
- ACPS did not adequately limit user duties and related capabilities on its automated system to establish effective internal control over disbursement transactions. For example, our audit disclosed that eight ACPS employees had been assigned capabilities that allowed them to perform incompatible functions pertaining to the processing of critical procurement and disbursement transactions (such as entering purchase orders and changing vendor tables). Consequently, these employees could process improper payments. Seven of these employees did not require such capabilities to perform their job duties and the remaining employee could perform required duties with fewer capabilities. Our test of purchase orders and invoice payments processed by these employees did not disclose any inappropriate or erroneous transactions for the items tested.
- Six Allegany County employees (not ACPS employees) could process certain transactions. Four of these six users could process all critical transactions, (purchase orders, invoices, and vendor table changes) without further approval. When we brought this condition to the attention of ACPS management we were advised that there was no legitimate reason access should be granted to users that were not ACPS employees.

- Although ACPS had a process in place to review all checks for propriety prior to issuance, the employees responsible for this review also had system access capabilities that allow them to process payments. Accordingly, this review was not an effective control process due to the lack of reviewer independence from the transaction processing function.

Recommendation 2

We recommend that ACPS establish appropriate procedures and controls over procurements and disbursements (repeat). Specifically, we recommend that ACPS

- ensure that an independent employee verifies that only properly approved purchase orders were recorded in the system,**
- ensure that changes to the vendor information recorded in the automated accounts payable system are verified to appropriate source documentation by an independent employee,**
- separate employee duties to eliminate incompatible procurement and disbursement processing functions,**
- assign critical system capabilities only to employees who need those capabilities to perform their job duties, and**
- ensure that an independent employee conducts a documented comparison of transactions and checks processed to the related supporting documentation.**

Finding 3

ACPS has not established comprehensive written procurement policies and procedures.

Analysis

ACPS had not established a comprehensive policy for procurement of goods and services. The Board adopted a procurement policy that requires the purchase of goods to be conducted in compliance with the Annotated Code of Maryland which requires that procurements of school buildings and improvements, supplies, and equipment exceeding \$25,000 be competitively bid and awarded to the bidder with the lowest responsible bid. However, the current policy was not comprehensive. For example, the policy did not address procurements under \$25,000, Board approval of contracts, use of and documentation requirements for sole-source procurements, or procurement methods for services. Also, ACPS had not developed detail procedures, as required by the policy. The procedures should include establishing controls to be followed to ensure compliance with Board and law requirements. Similar conditions were commented upon in our preceding audit report.

Also, ACPS did not have written policies or procedures to govern the issuance and use of its credit cards, and accountability over related purchases. A formal policy and related procedures should address controls and guidelines for use of the cards such as: a requirement for card users to sign documents accepting responsibility for the card issued to them; the types of purchases allowed; and the processes used to verify the propriety of all purchases. Procedures were established to ensure that purchased items were received before related payments were made. During fiscal year 2011, according to ACPS records, nine employees used credit cards to make a total of \$460,000 in purchases. Our test of credit card expenditures disclosed that the purchases appeared to be appropriate for school business.

Recommendation 3

We recommend that ACPS establish comprehensive policies to ensure the propriety of procurements (repeat). Specifically, we recommend that ACPS

- a. update its procurement policies to address all categories of goods and services purchases including procurement methods to be used, when contracts should be in writing, the mandatory contract provisions and the approval requirements, and when Board approval is required;**
- b. ensure that related procedures are developed to carry out the policies, including processes to ensure the policies and procedures are carried out as the Board and management intended; and**
- c. develop and implement a comprehensive written policy and related procedures for issuance and use of its credit cards, and for accountability over related purchases.**

Finding 4

ACPS did not competitively bid certain service contracts.

Analysis

ACPS did not competitively bid certain contracts for services. Specifically, we noted the following conditions:

- ACPS had not bid the contract for third-party health care administrative services since 2000 according to agency personnel. During fiscal year 2011, ACPS paid the administrative service organization \$1 million in administrative fees. We were advised by ACPS management that this provider was selected through a bidding process in fiscal year 2000, and had been retained on a year-to-year basis thereafter.

- ACPS did not bid for services for stop-loss employee medical insurance. Payments to the insurer totaled \$414,000 during fiscal year 2011. ACPS stated that its employee and benefits consultant (this consultant assists ACPS in procuring health care related contracts) conducted the procurement of this contract. However, ACPS was not able to provide any documentation that the consultant used a competitive process to ensure the lowest possible cost to ACPS for this insurance.
- ACPS did not obtain bids for two contracts for architectural and engineering (A&E) services totaling \$130,000. ACPS advised that it generally hires A&E contractors who have previously completed projects for the schools being renovated without soliciting bids from other firms.
- ACPS obtained occupational/physical therapy services from one vendor without bidding for these services or documenting a justification for the sole-source procurement. Payments to this contractor for fiscal year 2011 totaled \$1.3 million. ACPS management advised us that they believed there was no other vendor available that could provide these services but had no documentation to establish this. A similar condition was commented upon in our preceding audit.

To help ensure that the best value is obtained, bids for services should be solicited from other interested firms, and the basis for sole-source procurements should be documented.

Recommendation 4

We recommend that ACPS

- obtain competitive bids for service contracts, and**
- maintain documentation justifying the decision for sole-source procurements (repeat).**

Finding 5

ACPS did not ensure the propriety of payments for employee and retiree health care costs.

Analysis

ACPS lacked procedures and controls to ensure that amounts paid to the third-party administrator were proper. ACPS self funds all health care costs up to a stop-loss limit of \$275,000. ACPS uses a third-party administrator to pay claims on behalf of plan participants and eligible dependents. Providers submit claims to the administrator who pays them on behalf of ACPS and then obtains reimbursement from ACPS for actual costs of claims paid. ACPS pays

an administrative fee for these services. For fiscal year 2011, according to agency records, amounts paid for health care totaled \$16.4 million, including administrative fees of approximately \$1 million. Our review of ACPS's procedures and controls over the contract and related payments for medical claims and administrative fees disclosed the following conditions:

- ACPS paid for claim reimbursements invoiced by the administrator without any verification that the amounts invoiced were proper. Specifically, ACPS makes estimated payments to the administrator each week and then pays a settlement amount (or receives a credit) based on the reported actual claims paid for the month. However, ACPS did not receive detailed claims data and therefore could not verify that the amounts billed agreed to the amounts of reported claims. Furthermore, ACPS did not audit the propriety of the claims paid by the program administrator.

In addition, ACPS did not have a process to periodically verify the eligibility of enrollee dependents covered under the employee and retiree health plans. ACPS was not readily able to provide us with the number of covered dependents; however, according to the December 2011 invoice and related documentation, 887 employees and retirees selected health care coverage that included one or more dependent (that is spouse or family coverage).

Recommended practices published by the Government Finance Officers Association state that health care cost containment, which includes verification of enrolled participants, is a critical component of long-term financial planning and budgeting.

- ACPS did not adequately ensure that administrative fees invoiced and paid to the administrator were proper. ACPS pays a monthly administrative fee ranging from \$36 to \$45 per participant. Although ACPS compared the number of participants from the invoices to its payroll records, it did not follow up on any differences in participant counts. For example, in December 2011, the vendor invoiced (and ACPS paid) administrative fees based on 1,187 active employees, while ACPS payroll records indicated that there were 1,157 participants. Although ACPS noted this discrepancy, there was no evidence of a subsequent billing adjustment or other explanation for the difference.

Similar discrepancies were noted for other months we reviewed as shown in Table 1 below:

Table 1 Potential Administrative Fee Overpayment – October to December 2011 (Active Employees)				
Billing Month (2011)	Participants per Vendor	Participants per ACPS	Difference	Potential Overpayment
October	1,196	1,162	34	\$ 1,546
November	1,190	1,158	32	\$ 1,455
December	1,187	1,157	30	\$ 1,364

Source: Vendor Invoices and ACPS Payroll Records

- ACPS did not ensure that certain other contractual performance measures were met. The contract requires the administrator to obtain specific performance measures in various areas, such as customer service, enrollment, and customer satisfaction. The contract allows for assessment of penalties (up to \$96,000 for fiscal year 2012) if these measures are not met. The administrator self-reports their compliance levels with these measures; however, ACPS had no process to verify the reported levels. Penalties totaling \$1,875 were assessed as result of the administrator's self-reporting for the period July 1, 2011 through September 30, 2011, but a determination as to whether this was the proper amount was not made.
- Although ACPS has a contract for stop-loss insurance (that is, ACPS is liable to a specified amount and claims over this amount would be paid by an insurer), ACPS did not verify that claims exceeding the stop-loss limit were reimbursed by the insurer. ACPS initially reimburses the third-party administrator for all paid claims, and relies on the administrator to notify the stop-loss insurer of payments exceeding the limit. The insurer then reimburses ACPS for the excess claims amount. According to ACPS records, ACPS received \$117,000 in fiscal year 2011 related to claims exceeding the stop-loss limit. As previously commented, ACPS did not receive documentation of all claims paid by the administrator. Consequently, ACPS could not verify that reimbursements for all claims exceeding the stop-loss limit were received.
- ACPS did not ensure the administrator conducted disease management or utilization reviews as required by the contract. ACPS paid administrative fees of \$3.51 per member per month for disease management. Disease

management involves a system of coordinated care for certain patients in order to reduce healthcare costs and improve the results. Health provider utilization reviews are typically conducted to determine the necessity, appropriateness, and efficiency of medical services, procedures, facilities, and practitioners, and can be used to better manage the cost and effectiveness of the health care programs.

Recommendation 5

We recommend that ACPS implement controls to verify the amounts paid for health insurance. Specifically, we recommend that ACPS

- a. obtain documentation to support actual claim payments, and verify the propriety of the claims paid by agreeing the invoiced amounts with the related support, verifying the eligibility of enrolled health care program participants and their listed dependents, and conducting audits of the claims paid by the administrator;**
- b. determine the reasons for any differences in the amounts billed for administrative fees and take appropriate action (such as recovering any overpayments);**
- c. verify reports on contractual performance measures to supporting documentation and ensure that mandated measures were met, or if not met, resulted in penalties as specified in the contract;**
- d. use detailed claims payment data to ensure that claims paid above the stop-loss limit are reimbursed by the insurer; and**
- e. ensure that all required services are provided in accordance with the third-party administrator contract.**

Finding 6

ACPS did not adequately monitor payments made for special education services.

Analysis

ACPS did not adequately monitor payments made for special education services. For example, ACPS did not ensure that amounts paid for physical and occupational therapy services to one provider, totaling \$1.3 million during fiscal year 2011, were proper. Furthermore, ACPS did not ensure that the contractor was providing the required amount of service hours to students. Specifically, our review of this provider noted the following conditions:

- ACPS received a monthly invoice from the contractor that listed the number of hours and rate billed for each type of service provided (for example, hours worked by a licensed physical therapist). However, ACPS did not obtain sufficient detailed documentation (such as employee

timesheets) to support amounts billed. In addition, the invoices did not identify the students to whom the services were provided and, in certain cases, ACPS paid for services not provided for in the student's Individualized Education Program (IEP). In this regard, our test of payments for therapy services for six students provided during October 2011, disclosed that while all students received the minimum level of services required according to the student's IEP, we noted three instances of services provided and billed in excess of the required level. Although ACPS informed us that it periodically audited providers' invoices, ACPS was unable to provide us with documentation of any such audits.

- ACPS paid a portion of the contractor's administration fees although the contract did not include this requirement. The contractor stated that administrative time, such as certain travel and service documentation that cannot be attributed to a specific client, is billed on a prorated basis (the contractor performed work for other clients as well as ACPS). The contractor advised us that ACPS represents approximately 67 percent of their total billings, so the contractor's administrative costs are billed at this rate. Nevertheless, there was no contractual requirement for ACPS to pay the administration fee. ACPS paid the contractor a total of \$8,000 in administrative costs for October 2011.
- ACPS did not monitor time billed for indirect service hours. The contract terms provide that ACPS shall pay indirect costs such as travel time and preparation of routine documentation, but did not specify estimated or expected hours to be spent on indirect services. ACPS did not monitor this time to determine if it was reasonable in relation to the direct service time (that is, time spent with students). Our test of payments for services provided to six students during October 2011, commented on above, disclosed that the contractor billed a total of 47 hours, which included 24 hours of indirect time.

Similar conditions were commented upon in our preceding audit report.

ACPS's Special Education department prepares Individualized Education Plans (IEP) for eligible students which state specific services to be provided (for example, physical therapy and speech therapy) based on the students needs, including the frequency of those services (daily, weekly). According to ACPS records, as of October 2011 there were approximately 1,300 students receiving at least one special education service. Fiscal year 2011 special education expenditures totaled \$16.6 million (including \$5.7 million paid to approximately 30 contractors for services such as physical therapy and non-public school placements).

Recommendation 6

We recommend that ACPS

- a. obtain documentation supporting all contractor billings and compare the documentation to the related invoice to ensure the propriety of the invoices prior to payment, for example, by comparing hours billed to related timesheets (repeat);
- b. ensure that services were provided and billed in accordance with the IEP, at least on a test basis;
- c. ensure that terms and rates for payments related to administrative time are specified in the contract; and
- d. monitor the reasonableness of indirect services hours and ensure the propriety of payments made for these hours.

Human Resources and Payroll

Background

Payroll represents the largest single cost component in the ACPS budget. According to ACPS records, fiscal year 2011 salary, wage, and benefit costs totaled \$97 million. According to MSDE reports, as of October 2011, ACPS had 1,319 full-time equivalent positions, including 406 non-instructional positions. ACPS uses an automated system to maintain human resources information, process payroll, and track employee leave balances.

Payments to Employees were Properly Calculated and Supported by Appropriate Documentation

Our test of both routine (bi-weekly) and other payments (such as leave payouts) made in fiscal year 2011 disclosed that all payments made to employees that we tested agreed to supporting documentation and were properly calculated. In addition, our tests of records maintained to document employee status (such as leave balances and salary levels) found the records tested were accurate and agreed to supporting documentation.

Finding 7

User access to the automated system was not properly restricted and documentation of independent reviews of certain payroll transactions was lacking.

Analysis

Internal controls over payroll and personnel transactions were not adequate. For example, our review disclosed the following conditions:

- A number of individuals had unnecessary access that allowed them to modify critical personnel and payroll data and program files. For example, eight non-IT users, including three employees of Allegany County, had this capability.
- Although we were advised that an ACPS employee generated a report of changes made to payroll (such as the addition of new employees, additional pay for coaching stipends), the review of this report for propriety of individual changes was not documented and the reports were not retained for review or verification purposes. In addition, this employee had user capabilities that permitted modification of the automated payroll records. We also found that adjustments to employee leave records (such as correcting a previously posted erroneous leave entry) were not independently reviewed.

Recommendation 7

We recommend that ACPS

- limit access allowing modification of critical personnel and payroll data to those employees who require it to perform their job responsibilities; and**
- ensure that the review of the report of changes made to payroll is documented and retained for review and verification purposes, and adjustments to employee leave records are reviewed and approved by an employee not having the capability to modify those records.**

Inventory Control and Accountability

Background

According to ACPS audited financial statements, the undepreciated value of its capital equipment inventory totaled \$17.1 million as of June 30, 2011. ACPS uses automated records to track equipment inventory with a cost of \$1,500 or more (including items capitalized for financial statement purposes). In addition, ACPS tracks certain other equipment costing under \$1,500 deemed sensitive items that are subject to theft (such as information technology items) using automated records for control purposes.

ACPS Established Adequate Procedures and Controls Over Equipment

Our review disclosed that ACPS generally has adequate procedures and controls to ensure accountability over equipment, including written procedures and processes for ensuring that equipment was tagged and added to the automated inventory records. In addition, ACPS completed physical inventories of all locations on a two-year rotating cycle. Our tests of equipment recording and related inventory records disclosed that ACPS

properly recorded purchases of equipment in the automated inventory records, and the records properly reflected inventory on hand.

Finding 8

ACPS did not always obtain independent approval before updating records for missing equipment.

Analysis

Write-offs of equipment inventory (such as equipment that could not be located during the physical inventory process) were not always independently approved. Our test of the most recent physical inventory for four schools found that independent approval was not obtained for missing equipment write-offs totaling \$102,000 at three of these schools.

Recommendation 8

We recommend that ACPS ensure that independent supervisory approval is obtained for equipment write-offs before the property records are updated.

Information Technology

Background

ACPS' Information Technology Department (ITD) provides information system services to the Allegany County Commissioners (County Government) and ACPS. Specifically, ITD maintains and administers the ACPS computer network, computer operations, and information systems applications. ITD maintains a computer room at the headquarters location in which computer servers operate to support ACPS information system needs. Several significant administrative and academic information system applications exist, such as the finance, payroll and human resource applications, and the student management system.

ACPS operates a wide area network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at the ACPS headquarters. ACPS is a member of a regional wireless network that serves various Allegany County entities including the ACPS, local governments, non-profit community organizations and the customers of private bandwidth resellers by providing Internet connectivity and data storage services. The network is subdivided between the public governmental and non-profit customers and the private customers who subscribe through resellers of the network's service. The core portion of the network (a core switch/router and a firewall) is located within an ACPS headquarters building

computer room. The network is administered by staff from both the ACPS and the Allegany County Government, in order to share the administrative overhead of the network.

Finding 9

Security events for a critical server and database were not properly monitored.

Analysis

Security event monitoring for a critical server and database was not adequate. Specifically, we noted the following conditions:

- The log analyzer tool used to generate security event reports (containing critical security events such as changes to system security settings) for the server hosting the finance, payroll and human resource applications stopped generating these reports after an operating system upgrade. As of the date of our test work, security event reports had not been available for management's review for over 130 days.
- We were advised by ACPS personnel that when security reports had been generated for the aforementioned server, the reports were not regularly reviewed. A similar condition was commented upon in our preceding audit report.
- Critical security and audit events (for example grant privilege, stop audit) on the student management system database were not logged. As a result, an audit trail to ensure accountability of these events did not exist.
- Although the student management system database recorded failed login attempts, we were advised that these failed login attempts were not reviewed on a regular basis and there was no documentation substantiating the reviews that were performed.

As a result of these conditions, unauthorized or inappropriate activities affecting the integrity of the aforementioned server and database could occur without detection.

Recommendation 9

We recommend that ACPS

- a. take the necessary actions to generate security event reports for the server hosting the finance, payroll and human resource applications;**
- b. regularly review the security event reports for these applications (repeat);**

- c. log critical security and audit events for the student management system database, regularly review these logs, investigate unusual or questionable items and document and retain these reviews and investigations; and
- d. regularly review the failed login attempts to the student management system database, investigate unusual or questionable items and document and retain these reviews and investigations.

Finding 10

Application, network, and server account and password controls were not sufficient to properly protect critical resources.

Analysis

Application, network, and server account and password controls were not sufficient to properly protect critical resources. Specifically, we noted the following conditions:

- Password controls over the student management application were not in accordance with the best practices prescribed by the State of Maryland Department of Information Technology's *Information Security Policy* with respect to length, complexity, history, and maximum age. For example, passwords were set to never expire.
- Password controls over the ACPS network were not in accordance with the best practices prescribed by the aforementioned *Information Security Policy* with respect to password length, complexity, history, and maximum age. For example, minimum password length was zero characters. In addition, account lockout was not enforced.
- A maximum password age was not enforced for accounts on the server hosting the financial, payroll, and human resources applications. As a result, we noted 10 accounts which had passwords that never expired.

Recommendation 10

We recommend that ACPS establish appropriate application, network and server account, and password controls.

Finding 11

ACPS's disaster recovery plan and program change controls were not adequate.

Analysis

ACPS disaster recovery plan (DRP) and program change controls were not adequate. Specifically, we noted the following conditions:

- ACPS did not have a complete DRP for recovering from disaster scenarios (such as a fire). For example, the DRP did not include a detailed listing of required hardware and software components and did not adequately address restoration of network connectivity. In accordance with the best practices prescribed by State of Maryland's *IT Disaster Recovery Guidelines*, dated July 2006, a complete DRP should address, at a minimum, required hardware and software components, restoration of network connectivity, identification of recovery strategies and team designations, contact information and areas of responsibility. Without a complete DRP, a disaster could cause significant delays (for an undetermined period of time) in restoring information systems operations beyond the expected delays that would exist in a planned recovery scenario.
- Program change controls over the financial, payroll and human resources applications' computer programs did not provide for a comparison report of program changes or a technical review of changes by IT personnel. In addition, documentation of program change approvals was not maintained and the programmers who performed the changes moved the programs into production. As a result of these conditions, unauthorized or erroneous changes to production programs could occur without detection.

Similar conditions were commented upon in our preceding audit report.

Recommendation 11

We recommend that ACPS

- a. develop and implement a complete information system disaster recovery plan, in accordance with the best practices provided by the State of Maryland's *IT Disaster Recovery Guidelines* that, at a minimum, addresses the required items noted above (repeat); and
- b. implement controls over program changes to ensure that all changes to production programs are properly reviewed and approved (repeat).

Finding 12**The ACPS network was not adequately secured.****Analysis**

The ACPS network was not adequately secured. Specifically, we noted the following conditions:

- Firewall rules allowed numerous unsecure and unnecessary connections to critical network devices. For example, firewall rules were not configured to adequately secure connections into the ACPS network from the Internet and from the City of Cumberland.
- Eighteen publicly and widely accessible servers had network level access to critical servers on the internal network. These eighteen servers, which could potentially be compromised, exposed the internal network to attack from external sources.
- Untrusted regional wireless network public and non-profit customers had unnecessary network level access to critical ACPS devices (for example, ACPS servers).

Recommendation 12

We recommend that ACPS adequately secure its network. Specifically, we made detailed recommendations to ACPS which, if implemented, would help ACPS adequately secure its network.

Facilities Construction, Renovation, and Maintenance**Background**

ACPS maintains 23 schools and other administration and support offices with a staff of 120 custodial and 23 maintenance personnel. According to the fiscal year 2012 Capital Improvement Plan (CIP), planned construction, major renovations, and systemic improvements to ACPS over the next six years were estimated to cost \$106 million.

An Inclusive Process is Used to Plan for School Facility Construction, Major Renovation, and Repair Projects

ACPS uses a comprehensive process, which includes the solicitation of input from various sources, to plan for future school construction, major renovation, and repair projects. For example, ACPS uses public meetings, student demographic data, and other internal sources (such as current curriculum mandates) to develop its six-year CIP. The CIP is presented to and approved

by the Board, as well as elected local officials. In addition, the Educational Facilities Master Plan that is used to guide overall ACPS operations incorporates CIP objectives and strategies related to school facilities. Our review of the fiscal year 2012-2017 CIP disclosed that it appeared to address the needs of ACPS based on items such as student demographics and facility assessments.

Finding 13

ACPS' energy management program was not sufficiently comprehensive.

Analysis

Although ACPS implemented certain energy management procedures in order to reduce energy costs, it did not have a documented comprehensive energy management program that detailed the procedures to be conducted, expected results, and specific monitoring to be performed.

- Although changes in certain energy management practices had taken place, ACPS had not developed specific goals or strategies or implemented other practices, such as implementing a school-based incentive program (setting school-based goals and allowing schools to share in savings when goals are achieved or exceeded) or establishing recommended winter temperature settings to help control costs.
- ACPS conducts periodic site visits to monitor energy usage but did not adequately document these visits. We were advised by ACPS management that site visits are conducted approximately every two to three months and documented on checklists. However, ACPS was unable to provide a comprehensive listing of visits or actions taken or recommended as a result of the visits. In addition, results of these visits and appropriate recommendations for reducing energy usage were not summarized for reporting to management or other programmatic oversight.
- Electricity was not always obtained at the best available rates. ACPS' analysis of electric rates indicate that for the period December 2010 through August 2011 the electric rates it paid under a cooperative purchasing agreement (co-op) exceeded the rates available from the local power transmission company, resulting in excess expenditures totaling approximately \$53,000 during this period. ACPS purchases power from a co-op for a fixed price per kilowatt hour (kwh). According to ACPS calculations, (which we deemed to be reasonable) savings for the period

May 2007 through November 2010 totaled approximately \$937,000³. The savings occurred since during that period the cost per kwh paid to the co-op was less than the cost if ACPS purchased power directly from the local power transmission company. The current co-op contract provides for a fixed cost per kwh for the period November 2010 through October 2013 and provides that ACPS may leave the co-op at any time.

According to ACPS records, energy costs totaled \$2.5 million during fiscal year 2011.

Recommendation 13

We recommend that ACPS

- a. develop a comprehensive energy management program that includes specific goals and strategies;**
- b. maintain documentation of site visits, and track the recommendations made and actions taken as the basis for reporting to management; and**
- c. periodically reassess its electricity supplier and obtain the most favorable rates available.**

Finding 14

ACPS does not maintain documentation of all preventive maintenance work performed.

Analysis

ACPS had developed a comprehensive maintenance plan (CMP) that included, among other details, preventive maintenance and custodial task schedules and requirements. The CMP required that completed inspections and preventive maintenance work be performed at certain intervals. However, ACPS does not adequately document the performance of preventive maintenance to ensure that all tasks noted on the CMP were properly completed. For example, we conducted a site visit to one high school and noted that while daily boiler inspections were documented, there was no documentation that other required tasks were performed (such as daily inspections of kitchen equipment and air handlers) to ensure compliance with the CMP. A similar condition was commented upon in our preceding audit report.

³ ACPS calculated the savings by multiplying the rate per kwh from the coop agreement to the rate from the power transmission company.

Recommendation 14

We recommend that ACPS document that preventive maintenance was performed in accordance with the requirements of the comprehensive maintenance plan to ensure appropriate and timely maintenance is provided at all facilities as planned. (repeat)

Transportation Services

Background

ACPS has approximately 6,000 students eligible to receive student transportation services. These students were transported on one of 97 contractor-owned buses or 21 school system-owned buses. According to ACPS records, fiscal year 2011 transportation costs totaled \$6.1 million, with \$4.6 million (75 percent) paid to bus contractors. Of the 1.6 million reported route miles for the 2010-2011 school year, 21 percent represented miles traveled to transport disabled students. Payments to bus contractors consist of amounts for the purchase of a bus (known as a per vehicle allotment or PVA which consists of a reimbursement for the cost of the bus and a flat rate of return on investment) and for operating costs (such as driver salaries, fuel use, maintenance costs, and certain administrative costs).

ACPS Prepared a Cost/Benefit Analysis that Concluded that the Current Contractor Method was Cost Effective

ACPS prepared a cost/benefit analysis comparing the current contractor-based method for providing student transportation services to providing the transportation with ACPS-owned and operated buses. Based on the analysis, ACPS concluded that the current method of using contractors for the general student population and ACPS-owned buses to transport special education students was the most cost effective method. The primary factor in reaching this conclusion was the increased cost of providing salaries and benefits to the additional employees (drivers, mechanics and additional administrative staff) if the buses were operated by ACPS. We reviewed the analysis and found it to be reasonable.

Finding 15

Certain bus contractor payment rates were either not verified or not supported.

Analysis

Although the PVA payments made to contractors included in our tests appeared reasonable, the basis of the rates paid for certain operating costs

was not supported and certain contractor billing information was not verified by ACPS.

- ACPS payments to contractors for operating costs pertaining to bus maintenance and fuel were negotiated without obtaining actual operating cost data. Consequently, it appears that ACPS' payments to contractors may be higher than necessary to cover those contractor costs. Based on information contained in ACPS' cost/benefit analysis, we estimated that ACPS' fiscal year 2011 costs for maintenance and fuel on school system-owned buses to be \$.50 per mile. However, ACPS' contract with bus vendors paid the contractors \$.8821 per mile for those costs. Using actual bus route miles and payments made to the contractors for fiscal year 2011, we estimated the cost differential equates to \$498,000 for that year. A similar computation for fiscal year 2010 revealed an estimated cost differential of \$390,000.
- ACPS did not verify the total time and mileage driven on each route. These data are used to calculate the payments to the contractors. We were advised that ACPS verifies changes to mileage when making modifications to routes or when requested by a contractor. However, these verifications were not documented. This condition was commented upon in our preceding audit report.

Recommendation 15

We recommend that ACPS ensure that all rates and data used to determine payments to bus contractors are supported, documented, and verified.

Specifically, we recommend that ACPS

- a. use actual bus operating costs as a basis for establishing contractor rates for per mile maintenance and fuel costs; and**
- b. independently verify, at least on a test basis, the accuracy of vendor reported data to ensure that payments to contractors reflect the actual time and mileage driven (repeat); and**
- c. document the basis for the rates and the invoice verification procedures performed.**

Finding 16

ACPS did not use automated routing capabilities to develop more efficient routes.

Analysis

ACPS did not use automated bus routing software capabilities to develop more efficient routes. Although ACPS has purchased two different software

routing packages, it has never used the software to aid in the routing process. Automated routing systems have the capability to generate reports of bus routes with student ride times and average bus occupancy. In practice, ACPS uses existing bus routes and make modifications to accommodate students' school assignments without periodically reviewing all routes for efficiency on a system-wide basis. Using routing software is a recognized best practice that can reduce the time it takes to design efficient routes, reduce student ride times, and helps ensure that routes utilize existing bus capacity and minimize the number of buses needed to transport students.

In addition, ACPS had not developed comprehensive and formalized policies that defined the relevant factors for ACPS to consider when determining the most appropriate bus routes, such as busloads (that is, desired capacity) and student ride times.

The lack of a system-wide route analysis could have a potentially negative impact on route efficiency. For example, our review of ACPS' fiscal year 2011 bus manifests (which are used to record student ridership) for 187 bus runs disclosed that 112 runs were below 75 percent of ACPS' informal ridership capacity goals.⁴ On 50 of these 112 runs, student capacity was less than 50 percent of the capacity goals.

Similar conditions were commented on in our preceding audit report.

Recommendation 16

We recommend that ACPS

- a. use automated routing software to develop more efficient bus routes on a system-wide basis (repeat); and**
- b. develop formal and comprehensive policies and procedures that include guidance regarding bus capacities, student ride times and any other factors affecting bus routing decisions.**

Food Service Operations

Background

ACPS has a cooking cafeteria at 21 of its 23 schools. Food and related supplies are received and stored in each school. In fiscal year 2011, ACPS had 141 cafeteria positions. According to the audited financial statements,

⁴ ACPS does not have a documented bus capacity target. School bus capacities are lower than manufacturer-stated capacities and differ depending on the school. We were advised that ACPS uses informal bus capacity goals for high, middle, middle/elementary, and elementary schools routes at 40, 45, and 50, respectively, based on a 66 passenger bus (manufacturer-stated capacity).

food service operations expenditures exceeded revenues by \$687,000 for fiscal year 2011 prior to a transfer of \$760,000 in general operating funds to the food service fund.

Finding 17

ACPS has experienced persistent deficits in its food service operations, although certain actions have been taken to reduce the deficits.

Analysis

Although certain actions have been taken to reduce operating deficits, such as reducing staff and adjusting meal prices, ACPS food service expenditures have regularly exceeded revenues in recent years. For fiscal years 2008 to 2011, total expenditures have exceeded related revenues (exclusive of any transfers of general funds) by almost \$4 million (see Table below).

Table 2
Food Service Financial Activity
Fiscal Years 2008 to 2011

Fiscal Year	Revenue	Expenditures	Deficit
2008	\$ 4,562,488	\$ 5,739,588	\$ (1,177,100)
2009	4,460,111	5,586,680	(1,126,569)
2010	4,402,231	5,361,921	(959,690)
2011	4,665,342	5,352,161	(686,819)
Total	\$ 18,090,172	\$ 22,040,350	\$ (3,950,178)

Source: Audited Financial Statements

Based on our analysis of ACPS food service costs, it would appear that significant contributing factors to these deficits are personnel costs and low productivity in preparing meals. Regarding the personnel costs, ACPS cost per

meal related to salaries and wages and fixed charges (benefits) have increased since fiscal year 2005 as shown in the Table below.

Fiscal Year	Table 3 Comparison of Cost per Meal (by category) Fiscal Years 2005, 2008 and 2011 (Unaudited)						
	Salaries and Wages	Fixed Charges	Contracted Services	Supplies and Materials (inc. food)	Total Other Charges	Equipment	Average Cost Per Meal
2005	\$1.11	\$ 0.48	\$ 0.16	\$ 0.91	\$ 0.01	\$ 0.02	\$ 2.69
2008	1.28	0.65	0.13	1.10	0.01	0.13	3.30
2011	1.35	0.67	0.16	1.03	0.00	0.00	3.22

Source: Prior audit, MSDE Financial Reports, ACPS financial records

We were advised by ACPS management that it monitors meals per labor hour or MPLH (a common efficiency measure) and has taken actions over the past several years to reduce staffing such as reducing hours and eliminating positions where practical. However, our tests of MPLH and a review of ACPS' MPLH calculations showed that a number of schools did not meet industry guidelines. For example, for November 2011, we determined that the MPLH for 8 of the 21 schools with cafeterias were below industry guidelines by 1.3 to 4.8 MPLH. For perspective, industry guidelines call for a school that produces 701-800 meals to produce 17-19 MPLH. Per discussion with ACPS staff, although ACPS had calculated MPLH, it did not use predetermined or industry standard goals to compare against its performance and make appropriate operating adjustments. This condition was commented upon in our previous audit report.

We were advised by ACPS management that it is the intention that the food services program be self funded. Accordingly, ACPS has taken other actions to attempt to reduce the operating deficit, such as adding a la carte items with higher profits and adjusting meal pricing. For example, for fiscal year 2012, ACPS approved price increases (required to comply with new federal regulations on lunch pricing) in elementary and secondary schools from \$2.05 and \$2.25 to \$2.15 and \$2.35, respectively.

Recommendation 17

We recommend that ACPS analyze its food service operations data to identify inefficiencies (repeat). Specifically, we recommend that ACPS

- a. develop performance measures for its food services operation and establish performance benchmarks for existing performance measures (meals per labor hour), using industry standards or other accepted practices; and
- b. monitor actual performance against these benchmarks and continue to take appropriate actions to improve operating results (repeat).

Finding 18

Proper internal controls were not established over food services inventory.

Analysis

Internal controls over the food services inventory were not adequate.

- The same individuals (that is, the cafeteria managers) at each school were responsible for ordering food items and supplies, receiving the orders (either directly from the supplier or from the food services warehouse), maintaining the inventory records and inventorying the supplies without any independent oversight including supervisory review and approval of any adjustments. Consequently, there was a lack of assurance that all items purchased were necessary, received, and used at the schools. According to ACPS records, expenditures for food and related supplies totaled \$1.5 million for fiscal year 2011.
- ACPS did not have a mechanism to reconcile food sold according to its cash register system reports to the daily production logs. Cafeteria managers use the logs to track the number of meals produced; however, the logs were not compared to the cash register reports of meals sold. Based on our testing, there were frequently differences between the total meals sold per the cash register system and the daily production logs. Furthermore, the cash register system only reports the total number of lunches sold and does not identify the types of meals sold which could provide helpful data for closer monitoring.
- ACPS staff stated that they routinely substituted ingredients or modified the serving sizes of standard USDA recipes. ACPS advised that they also used different ingredients in order to reduce waste or preparation time. However, standardized recipes had not been adjusted to reflect the actual ingredients or quantities used. As a result, ACPS could not readily ensure that the quantity of food used was appropriate based on meals sold.

Recommendation 18

We recommend that ACPS

- a. segregate the duties of ordering and receiving food service items and related inventory recordkeeping to the extent practical;
- b. independently verify, at least on a test basis, physical inventory results and ensure that any adjustments to inventory records are approved by supervisory personnel;
- c. develop a mechanism to reconcile food sales according to the cash register system with production reports and consider enhancements to the cash register system for tracking meals sold; and
- d. adjust recipes to reflect actual products used and serving sizes and develop a method to compare actual product usage to expected use per the recipes.

School Board Oversight

Background

ACPS' Board of Education is composed of five elected members and one non-voting student representative. In its oversight responsibilities, the Board contracted with a certified public accounting firm for independent audits of the ACPS financial statements and federal programs.

ACPS Adopted an Ethics Policy that Met the Current Requirements of State Law

The Board has adopted a detailed ethics policy that conforms to State law and includes provisions for conflicts of interest and financial disclosure and was approved by the State Ethics Commission. Provisions of this policy are applicable to Board members as well as all ACPS employees. ACPS established an Ethics Panel consisting of five members who are not subject to the authority of the Board of Education to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. According to the ethics policy, annual financial disclosure statements are required to be filed by Board members, candidates for the Board, the Superintendent, Assistant Superintendents, and a number of other administrators (such as school principals and senior administrators) by January 31st of each year. Our test indicated that financial disclosure forms for calendar year 2011 were submitted as required.

Finding 19

The disclosure form could be improved to identify potential conflicts of interest.

Analysis

The annual financial disclosure form used by ACPS could be improved so that potential conflicts of interest can be identified. Specifically, the form did not require employees to identify and describe any possible conflicts or other relevant financial disclosures. Rather, the form used negative assurance by requiring individuals sign a statement that they did not or will not have conflicts of interest. For example, one statement on the form is:

“I do not participate on behalf of the school system in any matter which would have a direct financial impact on me, my spouse, my children, my parents(s), or my siblings(s) as distinguished from the public generally, or on any business entity with which I am affiliated.”

While this statement provides assurance that the employee is aware that they are not to engage in behavior that could be construed as a conflict of interest, the form does not require or provide for the employee to identify circumstances which could represent a potential conflict. Under State law, annual disclosure statements filed by State employees must contain information about the filer’s interests in real property, corporations (such as stock ownership), and partnerships and entities doing business with the State, as well as disclose certain other relationship. As a result, ACPS’ Ethics Panel may not be aware of all potential conflicts of interest that may exist and would not be in a position to review and rule on possible ethics violations.

Recommendation 19

We recommend that ACPS revise its financial disclosure form so that individuals filing the form are specifically required to identify potential conflicts of interest or other specific financial relationships as specified in its ethics policy.

Other Financial Controls**Health Insurance**

As previously mentioned, ACPS self funds health care costs up to a stop loss limit of \$275,000 per plan participant. ACPS uses a third-party administrator to pay claims on behalf of plan participants and authorized dependents. ACPS pays an administrative fee for these services. Our work in the “Other

Financial Controls” area was confined to determining whether ACPS had sufficient controls over its payments for employee and retiree health care costs. Our findings in this area are addressed in Finding 5 of this report.

Audit Scope, Objectives, and Methodology

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

We had two broad audit objectives:

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

In planning and conducting our audit of ACPS, we focused on 11 major financial-related areas of operations as approved on September 14, 2004 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of findings included in our preceding audit report on ACPS dated January 5, 2007, was limited to those findings that were applicable to the current audit scope for each of the 11 areas.

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

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

(MSDE), and staff at other local school systems in Maryland (as appropriate).⁵ Our audit procedures included inspections of documents and records, and observations of ACPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2010 through January 31, 2012. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits ACPS' financial statements and conducts the federal Single Audit.

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

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

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

⁵ During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

APPENDIX A



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Members of the Board of Education

Edward L. Root, Ed.D., President
Laurie P. Marchini, Vice President
Sara-Beth James
Nicholas T. Hadley
Michael A. Llewellyn, Esq.

Superintendent of Schools

David A. Cox, Ed.D.

January 11, 2013

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

Enclosed are the responses to recommendations made in the Financial Management Practices Audit Report for Allegany County Public Schools dated December 2012.

I would like to thank the legislative auditors for providing us feedback in several areas where we can become a more efficient organization.

Please do not hesitate to call me if you need any additional information regarding this submission.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Cox", written over a horizontal line.

David A. Cox, Ed.D.
Superintendent of Schools

DAC:klr
enclosure

Federal Funds

Recommendation 1

We recommend that ACPS process Medicaid reimbursement claims in a timely manner to ensure that all eligible costs for Medicaid-subsidized services are fully recovered.

Response

Agree. ACPS added additional personnel as disclosed in the audit. They have been in place since the audit and there has been improvement. There is no evidence that ACPS has not recovered all eligible costs.

Procurement and Disbursement Cycle

Recommendation 2

We recommend that ACPS establish appropriate procedures and controls over procurements and disbursements (repeat). Specifically, we recommend that ACPS

- a. ensure that an independent employee verifies that only properly approved purchase orders were recorded in the system,
- b. ensure that changes to the vendor information recorded in the automated accounts payable system are verified to appropriate source documentation by an independent employee,
- c. separate employee duties to eliminate incompatible procurement and disbursement processing functions,
- d. assign critical system capabilities only to employees who need those capabilities to perform their job duties, and
- e. ensure that an independent employee conducts a documented comparison of transactions and checks processed to the related supporting documentation.

Response

- a. Disagree. Purchase orders are input into the system by the finance office only when properly approved by an administrative manager with assigned budget authority. Budgetary printouts are distributed each month and spending levels reviewed at various levels in the organization. The department is looking at a more automated way of approving purchase orders and will try to incorporate this suggestion into any change in the process. If further automation is not possible, a procedure change will be implemented to incorporate this suggestion.*
- b. Agree. ACPS currently reviews source documentation for electronic payments. A new process will be implemented to review source documentation for new vendors and vendor address changes

*See Appendix B for related auditor comment.

- c. Agree. ACPS's finance department consists of 10.75 employees including the Chief Business Officer who serves as the director of finance and has oversight responsibilities for maintenance, transportation, operations, and food service. ACPS also accounts for two 501c3 corporations that are included as a component unit in the school system's audit. With a small staff complete segregation of duties is not always possible and cross of training of jobs is essential to carry out the responsibilities of the finance department. Individuals who serve as a back up to others may appear not to need access because of their primary job but require system access for back-up responsibilities. ACPS will review duties and eliminate incompatible functions where possible.
- d. Agree. The system operates a data processing center jointly with county government. The two entities used to share payroll packages and still share general ledger packages with each entity's data in separate libraries.
- e. Disagree. There are several controls in the payment process and there have been no concerns by external or MSDE auditors who also test internal controls. We will however implement the procedure suggested with the testing parameters recommended by your staff. The test will be performed by personnel not involved in the payment process to strengthen internal controls.*

Recommendation 3

We recommend that ACPS establish comprehensive policies to ensure the propriety of procurements (repeat). Specifically, we recommend that ACPS

- a. update its procurement policies to address all categories of goods and services purchases including procurement methods to be used, when contracts should be in writing, the mandatory contract provisions and the approval requirements, and when Board approval is required;
- b. ensure that related procedures are developed to carry out the policies, including processes to ensure the policies and procedures are carried out as the Board and management intended; and
- c. develop and implement a comprehensive written policy and related procedures for issuance and use of its credit cards, and for accountability over related purchases.

Response

- a. Disagree. ACPS believes it follows state law. ACPS will refer this recommendation to its policy committee.*
- b. Agree. ACPS will refer this matter to its policy committee.
- c. Disagree. ACPS's records indicate 3 employees and two elected board members used credit cards for purchasing totaling \$439,000. Approximately \$380,500 or 87% of the purchasing were made with a purchasing card that is known only by the finance department and used as

*See Appendix B for related auditor comment.

a payment tool. When the cards issued to individuals are used for traveling, the expense reimbursement policy applies. The system however will develop a form or agreement for cardholders to sign indicating the card is only to be used for school system purposes and the cardholder agrees to comply with the expense reimbursement policy. The agreement will stipulate the user of the card will be personally responsible for non school system charges.*

Recommendation 4

We recommend that ACPS

- a. obtain competitive bids for service contracts, and
- b. maintain documentation justifying the decision for sole-source procurements (repeat)

Response

- a. Disagree. ACPS did bid it the stop-loss employee medical insurance through a third party consultant. ACPS does bid A/E contracts in accordance with COMAR. Unfortunately, two of the projects sited in the review changed significantly in scope during the design process. It would have been costly to change the A/E consultant at that time not to mention further delaying the projects which would have also jeopardized funding. ACPS will refer this to its policy committee to jointly consider this recommendation and recommendation 3a.*
- b. Agree. Documentation should be maintained in justifying the decision for sole-source procurements.

Recommendation 5

We recommend that ACPS implement controls to verify the amounts paid for health insurance. Specifically, we recommend that ACPS

- a. obtain documentation to support actual claim payments, and verify the propriety of the claims paid by agreeing the invoiced amounts with the related support, verifying the eligibility of enrolled health care program participants and their listed dependents, and conducting audits of the claims paid by the administrator;
- b. determine the reasons for any differences in the amounts billed for administrative fees and take appropriate action (such as recovering any overpayments);
- c. verify reports on contractual performance measures to supporting documentation and ensure that mandated measures were met, or if not met, resulted in penalties as specified in the contract;
- d. use detailed claims payment data to ensure that claims paid above the stop-loss limit are reimbursed by the insurer; and
- e. ensure that all required services are provided in accordance with the third-party administrator contract.

*See Appendix B for related auditor comment.

Response

- a. Agree. A change in the monthly oversight of the healthcare reserve account has already been implemented. The summary claims data is reconciled to the detail claims data by the insurance administrator. The procedure of comparing budgeted claims to actual claims is being continued in order to provide oversight responsibility. The school system receives CareFirst's SAS 70 or SSAE16 report on control activities related to the billing platform. The procedures were performed by an independent accountant. ACPS is currently in the process of initiating a Dependent Audit with CONSOVA Company that is scheduled to take place in the spring of 2013. In addition, the human resource office is going to request that ACPS move to an online benefit enrollment system, if budget permits, which will allow more control and analysis of eligibility for participants and dependents of the health and insurance plans. This will ensure that the results of the dependent audit are maintained.
- b. Agree. There will always be differences in the billings due to COBRA participants and split contract participants. ACPS is currently working with CareFirst to recover costs on changes made to enrollment by ACPS but not captured by CareFirst. In addition, procedures with moving from manual enrollment to electronic enrollment and implementing a dependent audit and electronic enrollment could positively impact this recommendation. At issue is ACPS staffing level in order to work on projects like the recommendations presented in this report. CareFirst and CBIZ have repeatedly advised ACPS that the benefits administration function is understaffed in terms of personnel. The system has a single insurance/retirement coordinator and the benefits administrator was the Chief Business Officer. Benefits administration is being transitioned to human resources and duties are still being transitioned. CareFirst and CBIZ cannot name another employer ACPS's size that has just a single person working full-time in benefits and retirement responsibilities. A budget request for FY2014 will be made for a benefits administrator.
- c. Agree. ACPS implemented a performance contract with the third party administrator where \$96,000 is at risk based upon performance measures. The school system does receive a quarterly report on the measures. ACPS and CareFirst will investigate if this report can be prepared by the insurance consultant or by an independent party. The Chief Business Officer checked the report for reasonability.
- d. Disagree. The system does not have a full-time benefits administrator. ACPS has since the audit reassigned some benefit administration duties. ACPS will consider changes to the assignment of benefits administration responsibilities. The insurance consultant currently receives notification when a particular claim reaches the stop loss level. The consultant then follows up on the particular case. ACPS does receive summary list of claims exceeding \$50,000 and reserve account which includes all claims and reimbursement activity is analyzed by for reasonability by the Chief Business Officer.*

*See Appendix B for related auditor comment.

- e. Agree. The system implemented its disease management program on October 1, 2011. CareFirst has recently provided a utilization report that details the level of activity with the disease management program. The report details the number of covered employees that have been identified as eligible for the program and summarizes the engagement of those employees with the program. In addition, the report indicates a return on investment for the aggregate data. As of 11/27/2012 (one month of data) the program experienced a 49.6% eligibility rate with a 7.6% of all contacts being successful. The aggregate data yielded a ROI of 4.31.

Recommendation 6

We recommend that ACPS

- a. obtain documentation supporting all contractor billings and compare the documentation to the related invoice to ensure the propriety of the invoices prior to payment, for example, by comparing hours billed to related timesheets (repeat);
- b. ensure that services were provided and billed in accordance with the IEP, at least on a test basis;
- c. ensure that terms and rates for payments related to administrative time are specified in the contract; and
- d. monitor the reasonableness of indirect services hours and ensure the propriety of payments made for these hours.

Response

- a. Agree. ACPS will develop a test process. There has never been an issue in a Medicaid or medical assistance audit.
- b. Agree. ACPS will develop a test process. There has never been an issue in a Medicaid or medical assistance audit.
- c. Agree. ACPS will revisit the existing contracts to ensure the administrative terms and rates are in contracts.
- d. Agree. ACPS will develop a test process.

Human Resources and Payroll

Recommendation 7

We recommend that ACPS

- a. limit access allowing modification of critical personnel and payroll data to those employees who require it to perform their job responsibilities; and
- b. ensure that the review of the report of changes made to payroll is documented and retained for review and verification purposes, and adjustments to employee leave records are reviewed and approved by an employee not having the capability to modify those records.

Response

- a. Agree. The school system has a low per pupil administrative cost spending at just 74% of the statewide average for administration. With a small staff complete segregation of duties is not always possible and cross of training of jobs is essential to carry out the responsibilities of the finance department. Individuals who serve as a back up to others may appear not to need access because of their primary job but require system access for back-up responsibilities. ACPS will review duties and eliminate incompatible functions where possible. ACPS has been advised by the information technology department that changes have been made to remove county employees from having access.
- b. Agree. ACPS will implement a new procedure. There has never been a complaint of mistakes by employees and this has never been noted by local financial auditors, MSDE auditors, or other auditors that visited the system.

Inventory Control and Accountability

Recommendation 8

We recommend that ACPS ensure that independent supervisory approval is obtained for equipment write-offs before the property records are updated.

Response

Disagree. In some schools the principal chooses to reconcile the inventory. An administrative finance employee independent of the principal reviews the information before updating inventory due to a disposal request.*

Information Technology

Recommendation 9

We recommend that ACPS

- a. take the necessary actions to generate security event reports for the server hosting the finance, payroll and human resource applications;
- b. regularly review the security event reports for these applications (repeat);
- c. log critical security and audit events for the student management system database, regularly review these logs, investigate unusual or questionable items and document and retain these reviews and investigations; and
- d. regularly review the failed login attempts to the student management system database, investigate unusual or questionable items and document and retain these reviews and investigations.

*See Appendix B for related auditor comment.

Response

- a. Agree. Security event reports will be generated.
- b. Agree. Will regularly review the security event reports.
- c. Agree. Critical security logs and audit events for the student management system will be reviewed and documented.
- d. Agree. Failed login attempts to the student management system will be documented and retained.

Recommendation 10

We recommend that ACPS establish appropriate application, network and server account, and password controls.

Response

Agree. Will establish appropriate password controls.

Recommendation 11

We recommend that ACPS

- a. develop and implement a complete information system disaster recovery plan, in accordance with the best practices provided by the State of Maryland's *IT Disaster Recovery Guidelines* that, at a minimum, addresses the required items noted above (repeat); and
- b. implement controls over program changes to ensure that all changes to production programs are properly reviewed and approved (repeat).

Response

- a. Agree. A complete disaster recovery plan for all network systems will be developed as it fits into the Board of Education and County Government fiscal plan.
- b. Agree. As repeated previously, control systems will be requested in budgeting processes and provided as fiscally possible.

Recommendation 12

We recommend that ACPS adequately secure its network. Specifically, we made detailed recommendations to ACPS which, if implemented, would help ACPS adequately secure its network.

Response

Agree. Will establish the security controls recommended where approp

Facilities Construction, Renovation, and Maintenance

Recommendation 13

We recommend that ACPS

- a. develop a comprehensive energy management program that includes specific goals and strategies;

- b. maintain documentation of site visits, and track the recommendations made and actions taken as the basis for reporting to management; and
- c. periodically reassess its electricity supplier and obtain the most favorable rates available.

Response

- a. Agree. ACPS believes it has a comprehensive energy program generating savings of \$6.2 million or 23% savings over a nine year period. The organization has established an Energy Management Conservation Policy and the Superintendent has established Energy Conservation Guidelines. The system was awarded on April 18, 2012 the Energy Education Chairman's Sustainability Award which places the system in the top 5% of the districts in the United States. While the organization has not followed a school based incentive program, ACPS has reinvested savings back into the classroom. MSDE reports indicate ACPS spends more on a per student basis on instruction and special education and less on administration, mid-level administration, and maintenance. Spending more money on a per pupil basis on instruction and special education could not be achieved without reinvesting the energy savings. Establishing a school based program would require administrative time in establishing arbitrary goals and administering a program for 26 buildings. The impact of this on other organizational goals like having the facilities available to the public must be considered. This will require an extra person and staff will make the budget request for this in the FY2014 budget.
- b. Disagree. The Energy Manager made over 1,700 site visits in FY2011. ACPS used and still uses the Energy Audit Walk-Through when needed. Reports are left with principals if serious issues are identified and notes for building personnel are placed when computers are found left on. After nine years, ACPS has found personal interaction and discussion with principals and custodial staff yields better results. Energy savings are more likely achieved if everyone feels a part of the team. For personnel that are uncooperative, ACPS can always use the Energy Walk-Through Report designed to document improvement opportunities.*
- c. Disagree. ACPS has saved \$924,000 since joining the Frederick Area Cooperative Committee (FACPC) in March 2007. This cooperative includes the school systems of Allegany County, Carroll County, Frederick County, Garrett County, and Washington County. ACPS questions why this recommendation was not made in the September 2010 Garrett County Public Schools report and the March Carroll County Public Schools report since they are members of the same cooperative. ACPS will revisit the decision when the long-term financial benefits are not longer expected.*

Recommendation 14

We recommend that ACPS document that preventive maintenance was performed in accordance with the requirements of the comprehensive maintenance plan to ensure appropriate and timely maintenance is provided at all facilities as planned. (repeat)

*See Appendix B for related auditor comment.

Response

Agree. ACPS is 16th out of 24 jurisdictions when measuring maintenance cost per pupil. The department currently has two unfilled budget positions. Present staff levels limit the amount of preventive maintenance work performed and documented. MSDE reports indicate ACPS spends under the statewide average per pupil for maintenance and for the percentage of the budget that school systems spend on maintenance. The maintenance department has made a budget request to maintain current staffing levels and to increase the overtime budget for foreman.

Transportation Services

Recommendation 15

We recommend that ACPS ensure that all rates and data used to determine payments to bus contractors are supported, documented, and verified. Specifically, we recommend that ACPS

- a. use actual bus operating costs as a basis for establishing contractor rates for per mile maintenance and fuel costs; and
 - b. independently verify, at least on a test basis, the accuracy of vendor reported data to ensure that payments to contractors reflect the actual time and mileage driven (repeat); and
 - c. document the basis for the rates and the invoice verification procedures performed.
-
- a. Disagree. Maintenance costs are just one component of contractor compensation. Other components include PVA, drivers salary, fuel, and administrative fee. Out of a 15 county survey on counties using contractors, ACPS is 7th out of 15 counties on total cost per contract. ACPS agrees the entire contractor package must be looked at with all individual components. This is reviewed annually in the budget process.*
 - b. Agree. ACPS currently randomly tests accuracy of vendor data. The school system has tested GPS data with system owned buses. The transportation department is analyzing products to implement this recommendation and a budget request will be forthcoming once the study and analysis is completed.
 - c. Agree. ACPS does document changes in mileage. The legislative auditors worked with the Director of Transportation in their analysis of the transportation operation and that person has since retired. The new Supervisor of Transportation maintains this documentation.

Recommendation 16

We recommend that ACPS

- a. use automated routing software to develop more efficient bus routes on a system-wide basis (repeat); and

*See Appendix B for related auditor comment.

- b. develop formal and comprehensive policies and procedures that include guidance regarding bus capacities, student ride times and any other factors affecting bus routing decisions.

Response

- a. Agree to study. Allegany County's demographics are very different from other Maryland jurisdictions in that there are not many new housing projects or developments. The transportation department staff believe they have a good process in place for routing bus routes. ACPS will complete a study identifying the costs and resources needed of implementing automated routing software and potential savings by interviewing other school systems and vendors.
- b. Agree. The department has a procedure manual that was approved by the elected Board of Education. The department will try to dedicate more time to updating and documenting operating procedures. A commitment cannot be made since due to budget restrictions the Assistant Supervisor of Transportation has been reduced to a 10 month position.

Food Service Operations

Recommendation 17

We recommend that ACPS analyze its food service operations data to identify inefficiencies (repeat). Specifically, we recommend that ACPS

- a. develop performance measures for its food services operation and establish performance benchmarks for existing performance measures (meals per labor hour), using industry standards or other accepted practices; and
- b. monitor actual performance against these benchmarks and continue to take appropriate actions to improve operating results (repeat).

Response

- a. Agree. ACPS does calculate meals per labor hour and uses that information in the evaluation of its operation. Operational issues are discussed and ideas are evaluated when staff attends MSDE meetings. In some ACPS locations, there are two or three staff members.
- b. Agree. ACPS does monitor performance. The current Assistant Supervisor monitors actual performance and shares information with food service managers. The current Assistant Supervisor is leading a dramatic financial turnaround. Since being reassigned to the Chief Business Officer, specific goals are established and monthly performance is reviewed. The organization has reduced its labor through attrition and reduced the operating deficit by 42% since FY2008.

Recommendation 18

We recommend that ACPS

- a. segregate the duties of ordering and receiving food service items and related inventory recordkeeping to the extent practical;
- b. independently verify, at least on a test basis, physical inventory results and ensure that any adjustments to inventory records are approved by supervisory personnel;
- c. develop a mechanism to reconcile food sales according to the cash register system with production reports and consider enhancements to the cash register system for tracking meals sold; and
- d. adjust recipes to reflect actual products used and serving sizes and develop a method to compare actual product usage to expected use per the recipes.

Response

- a. Agree. ACPS has reduced its full-time food service staff by 12 full-time positions over the last 4 years. When a position becomes open, it is not filled or filled with a part-time position. Managers at the schools are responsible for inventory and placing orders. All schools have at least one employee in place of the manager to share some responsibility. With small staffs in place, segregation of duties is not always possible.
- b. Agree. ACPS food service office staff will spot check inventory at during site visits and annual reviews. It is the food service manager's responsibility at school locations to make adjustments to inventory. ACPS food service office staff does question certain inventory transactions. Given the present staffing levels, it is not possible to question and approve every single adjustment.
- c. Agree. ACPS will contact the POS vendor to see if the existing system can be modified and will consult with other school systems on procedures they use. After that information is gathered, ACPS will then evaluate such a modification will impact lunch serving times. The POS system may have to be modified for the new federal lunch regulations.
- d. Agree. ACPS has consulted the Maryland State Department of Education on how to adjust USDA recipes. The department will develop a reconciliation method to be used for site visits or reviews.

School Board Oversight

Recommendation 19

We recommend that ACPS revise its financial disclosure form so that individuals filing the form are specifically required to identify potential conflicts of interest or other specific financial relationships as specified in its ethics policy.

Response

Agree. The form reviewed by the Legislative Audit team was from our previous ethics policy and regulation. The current financial disclosure form is much more comprehensive.

APPENDIX B

Auditor's Comments on ACPS Response

The Allegany County Public Schools (ACPS) disagreed with certain of our comments in its response (Appendix A) to the audit report. In a number of cases, ACPS indicated disagreement with certain of the conditions presented in the audit report, but indicated that certain actions would be taken to address the related recommendations (responses related to recommendations 2a, 2e, 3c, and 13c). In other cases, ACPS indicated more substantive disagreements with conditions noted in the report and/or the related report recommendations. Auditor's comments are presented below addressing those ACPS' responses indicating substantive disagreements. In all cases, we continue to believe that the comments made in this report are valid. In accordance with State law, areas of disagreement will be addressed through separate correspondence between this Office and ACPS.

Recommendation 3a: ACPS disagreed and stated that it followed State (procurement) law. Our report noted that ACPS had adopted a procurement policy that required compliance with certain aspects of State law related to procurements exceeding \$25,000, but we recommended that ACPS should establish comprehensive procurement policies to address all procurement activities, including those that may not specifically addressed in law, in order to ensure that ACPS receives the best value and that procurements are properly controlled.

Recommendation 4a: Although ACPS's response claims that a third party consultant assisted in procuring the stop-loss employee medical insurance contract, as disclosed in the report, ACPS could not document the consultant used a competitive procurement process. Additionally, the reasons provided in the response for using certain A&E contractors were not consistent with the documentation provided during the course of the audit.

Recommendation 5d: ACPS's response states that it receives a summary list of claims and reimbursement activity, which is analyzed for reasonability by the Chief Business Officer. No evidence of this process was provided to us during the course of the audit.

Finding 8: The ACPS response states that some school principals choose to reconcile the inventory and that an administrative finance employee independent of the principal reviews the information before updating property records for equipment write-offs. Based on our review of the process, the administrative finance employee mentioned in the response is only responsible for entering the requested write-offs in the equipment records and does not exercise supervisory responsibilities to ensure the write-offs are proper.

Finding 13b: ACPS's response regarding energy usage site visits indicates that much of the work performed is done on an informal basis, which confirms that the results of visits may not be adequately documented as commented upon in the report. We continue to believe that a more formalized process, including maintaining documentation of site visits, tracking resultant recommendations made and actions taken, and reporting the results to management, would assist management in monitoring the program to ensure objectives are achieved.

Finding 15a: ACPS states that various components make up negotiated bus contractor compensation. We agree, but as noted by ACPS, these components include the PVA, driver salary, fuel, maintenance, and administrative fees. To help ensure ACPS obtains these services on the most cost effective basis, we continue to believe that the actual bus operating costs should be used as the basis for establishing contractor rates for maintenance and fuel costs even in circumstances where the rates are ultimately negotiated with the contractors.

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