

Audit Report

**Board of Public Works
Interagency Committee on School Construction**

June 2016



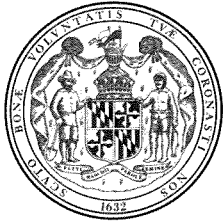
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

For further information concerning this report contact:

**Department of Legislative Services
Office of Legislative Audits**
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900
Toll Free in Maryland: 1-877-486-9964
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

June 15, 2016

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Board of Public Works – Interagency Committee on School Construction (IAC) for the period beginning February 6, 2012 and ending June 30, 2015. IAC supervises and provides funding for public school construction in Maryland, subject to the Board of Public Work's approval.

Our audit disclosed that sufficient controls were not established over IAC's automated accounting system to ensure the accuracy and validity of public school construction project costs and other data recorded in the system. For example, certain employees could record project cost information without an independent supervisory review. During fiscal year 2015, \$289 million in capital funds were disbursed for these projects.

We also found the IAC had a significant backlog of unissued public school maintenance inspection reports. As of December 2015, IAC had not finalized and formally issued the reports for approximately 72 percent of the inspections conducted during the three-year period ended June 30, 2015, including the inspection results for 8 schools for which IAC concluded the overall conditions were "not adequate." Timely issuance of inspection reports would help ensure school officials promptly address problems, such as unsanitary conditions and fire safety issues. Finally, IAC had not resolved a matter involving certain debt that was to be assumed by a local jurisdiction for a closed school.

IAC's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by IAC.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

In accordance with the provisions of the Education Article, Section 5-301 of the Annotated Code of Maryland, the State established a program to provide financial aid to the counties and Baltimore City with respect to certain public school construction projects and capital improvements, subject to the approval of the Board of Public Works (BPW). BPW has adopted regulations for the administration of the school construction program which provide for the establishment of an Interagency Committee on School Construction (IAC). IAC consists of the Secretary of the Department of Planning, the Secretary of the Department of General Services, the State Superintendent of Schools (or their respective designees), and two public members appointed by the President of the Senate and the Speaker of the House.

According to its records, during fiscal year 2015, IAC disbursed approximately \$289.2 million in capital funds for public school construction projects, and its operating expenditures totaled approximately \$1.9 million, including approximately \$1.8 million for salaries, wages, and fringe benefits.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated April 22, 2013. We determined that IAC satisfactorily addressed two of the findings. The remaining two findings are repeated in this report.

Findings and Recommendations

Public School Construction Program

Finding 1

Proper controls were not established to ensure the validity and accuracy of financial data recorded in the accounting system for public school construction projects.

Analysis

Proper controls were not established to ensure the validity and accuracy of financial data recorded in the Board of Public Works – Interagency Committee on School Construction’s (IAC) automated construction project accounting system. The project accounting system is IAC’s official record of the State’s public school construction project activity, including project requirements, project costs, and vendor information. The system serves as a critical source during the invoice approval process for ensuring that disbursements for construction projects are proper and for controlling project budget allocations.

Four employees could record critical project information in the construction project accounting system, including new contracts, change orders, and contract expenditures, without independent supervisory review and approval. Two of these employees were responsible for recording this information and the other two employees were given this access in a back-up capacity. Although monthly output reports of all financial information recorded by these employees were generated and subject to review, the review was not independent since it was performed by one of these four employees. Furthermore, the reviews included only an examination for unusual transactions and did not include an examination of source documentation to determine whether the transactions were accurate and proper. Finally, the two employees responsible for recording information in the accounting system also completed the monthly reconciliations of expenditures recorded in the system with the State’s financial records. As of September 2015, these reconciliations had not been reviewed and approved by supervisory personnel since December 2013.

As of the time of our review, no automated controls, such as on-line approvals of transactions, had been established in the construction project accounting system. However, IAC advised us that the system is capable of supporting an on-line approval function and additional system programming is planned to implement an on-line approval requirement.

According to its records, during fiscal year 2015, IAC disbursed approximately \$289.2 million in capital funds for public school construction projects. Also, during fiscal year 2015, the Board of Public Works approved 183 projects totaling approximately \$325.3 million.

Recommendation 1

We recommend that IAC

- a. ensure that an employee without the capability to process transactions in the construction project accounting system verifies the propriety of transactions recorded on system output reports to source documentation, at least on a test basis;**
- b. ensure that reconciliations between the construction project accounting system and the State's records are reviewed and approved by independent supervisory personnel as they are completed; and**
- c. pursue implementing an on-line approval function for critical transactions processed on the accounting system.**

We advised IAC on accomplishing the necessary separation of duties using existing personnel.

Public School Maintenance Inspections

Finding 2

As of December 2015, IAC had not finalized and formally issued inspection reports for approximately 72 percent of school maintenance inspections conducted during fiscal years 2013 through 2015.

Analysis

IAC had a significant backlog of school maintenance inspection results that had not been finalized and formally issued to Local Education Agencies (LEA). IAC's intended practice was to report to each LEA the inspection results for the entire year at one time, generally at the end of the fiscal year. However, as of December 31, 2015, IAC had not issued inspection reports to the applicable LEAs for 489 of the 679 maintenance inspections (approximately 72 percent) performed during fiscal years 2013, 2014, and 2015, as noted in the following table.

**Summary of Unissued Inspection Results for Fiscal Years 2013 – 2015
as of December 31, 2015**

Fiscal Year	Number of LEAs With Unissued Inspection Results	Unissued Inspection Results	Total Inspections Performed
2013	5	123	232
2014	17	170	224
2015	18	196	223
Totals		489	679

Source: IAC records

Of the remaining 190 inspection results that were issued, the reports for 114 were issued 12 to 30 months past the end of the fiscal years in which the inspections were performed.

We were advised by IAC management that findings and observations, especially those that are serious in nature, are verbally conveyed to LEA representatives during and immediately after each inspection; however, until the formal maintenance inspection results are issued to LEAs, the deficiencies identified during the inspections may not be conveyed to school officials to help ensure timely correction. According to IAC records, as of January 5, 2016, there were 1,392 public schools in Maryland.

During the aforementioned three-year period, IAC inspections concluded that the overall conditions at 25 schools in three LEAs were “not adequate,” including 8 inspections performed during the period between May 2013 and November 2014, for which the results had not been issued at the time of our review. The results of inspections of the other 17 schools, which were performed during the period between November 2012 and June 2014, were issued on December 28, 2015, representing a delay of between 18 and 30 months past the end of the applicable fiscal year. Deficiencies that could affect the health and safety of students and staff at these schools, such as unsanitary conditions and fire safety issues, were identified. For the remaining schools which had better overall performance results, the inspections frequently identified conditions that required attention and therefore should be promptly reported.

We were advised by IAC management that there were a number of factors contributing to the backlog in issuing inspection reports including a lack of personnel resources, staff training, and delays in developing and reviewing the reports prior to issuance.

State regulations require IAC to annually rate the maintenance conditions at selected public schools in each LEA. IAC has a target to perform maintenance inspections at all schools during a six-year cycle. The regulations also require that any LEA that operates a school that receives a “not adequate” rating in any inspection category must submit a corrective action plan to IAC within 30 days of receiving the inspection results. The corrective action plan must state how and when the deficiencies will be resolved. Similar conditions were commented upon in our preceding audit report.

Recommendation 2

We recommend that IAC

- a. address the noted backlog of inspection results, ensure that inspection results are finalized and issued in a timely manner, and take appropriate follow-up action to obtain corrective action plans from all applicable LEAs as required (repeat); and**
- b. evaluate the processes and resources it currently uses to finalize inspection results, and determine what enhancements could be made so that inspection reports can be issued to the respective LEAs sooner.**

Recovery of State Funds

Finding 3

IAC had not resolved a matter involving an \$890,277 debt that was to be assumed by a local jurisdiction in 2008 for a closed school.

Analysis

IAC had not resolved a matter involving an \$890,277 debt that was to be assumed by a local jurisdiction in 2008 for a school building that was no longer being used for school purposes. We were advised that the State continued the debt payments and fully satisfied the debt in 2011. Under State law, the State shall require reimbursement of outstanding debt service for a school under these circumstances.

As disclosed in our preceding audit report, a local jurisdiction closed a school in February 2007 and declared the building as surplus. On February 13, 2008, the Board of Public Works (BPW) approved the school closure and the transfer of the building to the local jurisdiction, to be used as a training facility for police and firefighters, under the condition that the local jurisdiction assume the school’s outstanding debt of \$837,820. The outstanding debt was later revised to \$890,277 but this revised amount was not presented to the BPW for its approval. In

December 2008, a representative of the local jurisdiction requested that the State waive this debt but no formal action was taken.

In response to our preceding audit report, BPW sought legal advice from the Office of Attorney General (OAG) who advised in June 2014 that BPW does not have the discretion to waive the jurisdiction's debt. We were informed by IAC management that IAC has been in discussions with the OAG and the State Treasurer's Office to determine the best method of resolving this issue, and that IAC plans to reissue a BPW agenda item later this year in an effort to recover the State funds.

State law requires that the State shall require reimbursement of outstanding debt service for a school that is no longer being used for school purposes. In this particular case, IAC funded the rewiring of the school for voice, video, and data communications through the State's Master Lease Purchase Financing Program.

Recommendation 3

We recommend that IAC take the necessary actions to resolve this matter (repeat).

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Board of Public Works – Interagency Committee on School Construction (IAC) for the period beginning February 6, 2012 and ending June 30, 2015. The audit was conducted 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine IAC's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included capital funds used to finance the cost of public school construction and renovation projects, public school maintenance inspections, construction project closeout procedures, cash receipts, and payroll. We also determined the status of the findings included in our preceding audit report.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of IAC's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from IAC's construction project accounting system and

maintenance inspection system for the purpose of testing certain areas, including capital project transactions, maintenance inspections, and IAC's monitoring efforts. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

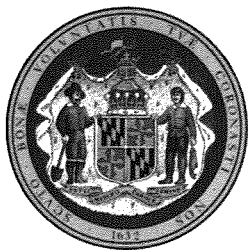
IAC's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of 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.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect IAC's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to IAC that did not warrant inclusion in this report.

IAC's 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 IAC regarding the results of our review of its response.



LARRY HOGAN
GOVERNOR

STATE OF MARYLAND
PUBLIC SCHOOL CONSTRUCTION PROGRAM
200 W. BALTIMORE STREET
BALTIMORE, MARYLAND 21201
410-767-0617

INTERAGENCY COMMITTEE ON SCHOOL CONSTRUCTION

APPENDIX

DAVID G. LEVER
EXECUTIVE DIRECTOR

KAREN SALMON, Ph.D.
ACTING - CHAIRPERSON

June 10, 2016

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

Re: Public School Construction Program Legislative Audit Findings 2015 - Response

Dear Mr. Barnickel:

We have received and reviewed the draft audit report dated May 26, 2016 pertaining to the audit of the Public School Construction Program (PSCP) for the period beginning February 6, 2012 and ending June 30, 2015.

The Legislative Auditor's recommendations to improve the operations of this agency are always welcomed and appreciated.

As requested, we are providing you with our responses to the recommendations made. A hard copy will follow. Please note a correction on page 4, under Background Information, which states, "BPW has adopted regulations for the administration of the school construction program which provide for the establishment of an Interagency Committee on School Construction." The IAC was established by statute, not by BPW regulation.

If you have any questions please contact Bob Crocetti, our Director of Finance, at (410) 767-0612 or myself at (410) 767-0610.

Sincerely,

David G. Lever, R.A., D.A.
Executive Director

cc: Karen B. Salmon, Ph.D
Ms. Joan Schaefer
Mr. Robert C. Crocetti

Public School Construction Program

Finding 1

Proper controls were not established to ensure the validity and accuracy of financial data recorded in the accounting system for public school construction projects.

Recommendation 1

We recommend that IAC

- a. ensure that an employee without the capability to process transactions in the construction project accounting system verifies the propriety of transactions recorded on system output reports to source documentation, at least on a test basis;**
- b. ensure that reconciliations between the construction project accounting system and the State's records are reviewed and approved by independent supervisory personnel as they are completed; and**
- c. pursue implementing an on-line approval function for critical transactions processed on the accounting system.**

We advised IAC on accomplishing the necessary separation of duties using existing personnel.

IAC RESPONSE:

- a. Effective March, 2016, a reviewer without the capability to process transactions in the construction project accounting system has begun to trace transactions from the monthly transaction report to the source documentation on a test basis to ensure validity and accuracy.
- b. Effective March, 2016, reconciliations between the internal accounting system and the State's financial system will be performed timely using independent personnel for supervisory review and approval.
- c. The IAC acknowledges the importance of an on-line approval function for critical transactions. The corrective programming will be prioritized to ensure implementation within three years from the date of the completion of this audit, i.e. June 30, 2018.

Public School Maintenance Inspections

Finding 2

As of December 2015, IAC had not finalized and formally issued inspection reports for approximately 72 percent of school maintenance inspections conducted during fiscal years 2013 through 2015.

Recommendation 2

We recommend that IAC

- a. address the noted backlog of inspection results, ensure that inspection results are finalized and issued in a timely manner, and take appropriate follow-up action to obtain corrective action plans from all applicable LEAs as required (repeat); and**
- b. evaluate the processes and resources it currently uses to finalize inspection results, and determine what enhancements could be made so that inspection reports can be issued to the respective LEAs sooner.**

IAC RESPONSE:

We are in general agreement with the analysis and recommendations as written above and have the following comments.

Recommendation 2:

- a. “address the noted backlog of inspection results, ensure that inspection results are finalized and issued in a timely manner:”

It is our understanding that the Analysis was written using data as of December 31, 2015. Since then, the remaining FY 2013 and FY 2014 inspection results have been delivered to the LEAs, and both the FY 2013 Annual Report, dated January 7, 2016, and the FY 2014 Annual Report, dated January 15, 2016, were completed and delivered to the Maryland General Assembly, the Governor, and the Board of Public Works. We are currently working on the FY 2015 inspection reports as well as the FY 2016 reports. Please note that the comment in the 4th paragraph of the analysis, “During the aforementioned three-year period, IAC inspections concluded that the overall conditions at 25 schools in three LEAs were ‘not adequate,’” is based on preliminary scores for the FY 2015 reports.

Implementation Target:

- FY 2015 Annual Report: Completed by mid-September 2016
- FY 2016 Annual Report: Because of current staffing shortfalls, it is likely that an extension will be requested to January 2017

While we recognize that neither State law nor IAC internal policies or procedures specify a timeframe for issuing the maintenance survey results to LEAs, after all inspections for an LEA have been concluded each inspector is expected to finalize reports within 5 to 15 working days depending on the size of the LEA, and within another 20 working days the Program Manager is to finalize surveys and compose survey results letters with personalized language if appropriate for final review and distribution. The Maintenance Program Manager and the Lead Inspector positions are currently unfilled and the ability to realize these expectations is dependent on the hiring and training of capable individuals to fill these positions.

- a-1. “take appropriate follow-up action to obtain corrective action plans from all applicable LEAs as required (repeat)”:

This action is completed. We have evaluated submitted responses to both the FY 2013 and FY 2014 reports, and have taken action to obtain all outstanding responses. Of the 24 LEAs, we have not yet received responses from two large LEAs that requested extensions of time due to the large amount of investigation and production time needed. We are actively seeking additional material or clarification of responses from four LEAs for their FY 2014 reports.

- b. As discussed with the Legislative Auditor during the audit process, we are in agreement that formal written procedures would be a considerable asset to the agency. In December 2015, the Lead Inspector was assigned the task of writing the standard operating procedures for conducting a maintenance inspection. While this first task has been completed, collaborative discussion, review and finalization is needed before they can become the first element of comprehensive written procedures for the maintenance program, which will cover the responsibilities and timeframes for issuing reports to the LEAs in a timely manner as well as to the Maryland General Assembly, the Governor, and the Board of Public Works.

However, achieving this goal is predicated on having sufficient and highly qualified staff. Due to a variety of reasons, we have not had a complete and healthy staff with all of the necessary capabilities to serve this program since its inception at this agency in 2006. While physical surveys have proceeded in each fiscal year according to schedule, the processes of writing, reviewing and fact-checking reports, preparing them for distribution to LEAs, and preparing the comprehensive annual report have been impacted by the lack of a multi-skilled and dedicated management level employee. PSCP received a new position in the FY 2015 operating budget for a Maintenance Program Manager and filled the position in March 2015. This position is again vacant; it has been advertised, candidates are under review, and we anticipate that it will be filled by mid-summer 2016. In addition, the Lead Inspector has now retired, and the agency has begun the process of filling the position. Further, the retirement of the Executive Director as of August 31, 2016 will reduce the capacity of the Maintenance Inspection Program.

Pending the hiring and training of individuals to fill these positions, the Deputy Director and the Maintenance Inspection Program Administrator will bear the responsibility for writing the FY 2015 and FY 2016 reports. The full development of the written procedures will necessarily be delayed until the new Program Manager is engaged and becomes familiar with the Maintenance Inspection Program.

Implementation:

Until the two positions noted above are filled, we cannot initiate the process of comprehensively examining the Maintenance Inspection program to determine how it can be improved. Our first priorities on filling the two positions will be training of the selected individuals, and ensuring that the FY 2017 inspections are carried out and the associated reports are produced and distributed to the LEAs. Long-term goals of establishing written procedures and identifying additional needed resources must be deferred until these immediate tasks are completed.

Recovery of State Funds

Finding 3

IAC had not resolved a matter involving an \$890,277 debt that was to be assumed by a local jurisdiction in 2008 for a closed school.

Recommendation 3

We recommend that IAC take the necessary actions to resolve this matter (repeat).

IAC RESPONSE:

The IAC, in discussion with the Office of Attorney General (OAG) and the State Treasurer's Office (STO) has determined that the first BPW approval of February, 2008 to collect \$837,820 from the City shall stand as is. At an upcoming BPW meeting in 2016, a second agenda item will be submitted reflecting the difference between the prior approved amount of \$837,820 and the correct amount of \$890,277 or \$52,457. After this action is approved, IAC staff will prepare the documentation required to collect the funds from the City in full, no later than June 30, 2017.

Implementation:

IAC action: June 15, 2016

BPW Action: July 2016

AUDIT TEAM

Bekana Edossa, CPA, CFE
Audit Manager

Adam M. Auerback
Senior Auditor