Financial Management Practices Performance Audit Report

Anne Arundel County Public Schools

September 2007

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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September 27, 2007

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

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Anne Arundel County Public Schools (AACPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. AACPS is the fifth largest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 117 schools, with fiscal year 2006 operating expenditures of $741 million. The objectives of this audit were to evaluate whether AACPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

Our report disclosed that, in many cases, AACPS had procedures and controls in place to ensure the safeguarding of assets and the efficient use of financial resources. Nevertheless, our report contains 16 recommendations to AACPS to enhance controls in its existing financial management systems and processes in areas such as procurement, payroll, and equipment inventory. For example, physical inventories were not conducted timely and inaccuracies were noted in the inventory records. AACPS should also formally address deferred maintenance needs, establish better access controls over critical information technology software and hardware, better control payments to transportation providers, and establish performance benchmarking for its maintenance operations.

An Executive Summary of our findings can be found on page i, immediately following this cover letter, and our audit scope, objectives, and methodology are explained on page 61. We wish to acknowledge the cooperation extended to us during our audit by AACPS.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Executive Summary

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

Revenue and Billing Cycle (see pages 7 through 9)

According to the audited June 30, 2006 AACPS financial statements, $836 million in revenue was received from all sources during fiscal year 2006, the vast majority of which was received via wire transfer from other governmental entities. Procedures and controls for these revenue sources and related accounts receivable were found to be adequate to ensure proper collection, accounting, and safeguarding. Procedures over other sources, such as student activity funds, were also found to be adequate.

Federal Funds (see pages 11 through 13)

Annually, AACPS is subject to an audit of its federally-funded programs (often referred to as the Single Audit, a requirement of Circular A-133, which is issued by the U.S. Office of Management and Budget). Due to parallels between that work and the scope of our audit, we placed significant reliance on the results of the independent audit of the fiscal year 2006 grant activity, for which reported expenditures totaled $43.3 million. The related report stated that AACPS complied, in all material respects, with the requirements applicable to its major federal programs. In addition, with respect to internal controls over compliance with and the operation of major federal programs, the auditors noted no reportable conditions and no matters considered to be material weaknesses.

AACPS has an adequate process for the identification of children eligible for Medicaid-subsidized services, and for recovering the related costs.

Procurement and Disbursement Cycle (see pages 15 through 19)

According to AACPS records, non-payroll disbursements totaled $149.7 million during fiscal year 2006. AACPS has a number of policies and procedures in place designed to help ensure proper procurement and payment of related invoices. However, AACPS did not always take full advantage of the controls provided by the automated system and several employees had inappropriate access to the system. In addition, AACPS did not always retain complete documentation to support the propriety of payments. With respect to AACPS-issued purchasing cards, we noted that new purchasing cards were sent directly to the employee responsible for requesting the cards, rather than to an independent employee; this condition could allow unauthorized purchases to be made on improperly obtained cards. We also noted that more than 400 of the 1,700 cards issued had not been used during a six-month period, and that purchasing card transactions were not always properly reviewed. Finally, AACPS exercised appropriate controls over travel expenditures.

Human Resources and Payroll (see pages 21 through 24)

AACPS had 8,669 full-time equivalent positions for fiscal year 2006 with associated payroll costs of $591 million. AACPS exercised position control and filled vacant positions by use of a centralized hiring process. However, AACPS should address certain deficiencies within the payroll process. For example, changes in employee pay rates and the addition of new employees to the payroll system were not independently verified. While AACPS had implemented workforce planning with respect to hiring and retaining instructional staff, this planning did not address AACPS needs and processes for other critical employees, including school principals, and did not address long-term workforce needs for the entire staff. It is estimated that about one-quarter of AACPS staff could retire within the next five years, providing some urgency to the need to attract and retain staff.

Inventory Control and Accountability (see pages 25 through 27)

AACPS has a formal policy governing the purchase and disposal of all property, including textbooks. However, AACPS should improve its internal controls over its equipment and materials and supplies inventories and the related record keeping. For example, physical inventories of equipment have not been performed on a timely basis. According to AACPS records, equipment was valued at $79.7 million as of June 2006, and materials and supplies inventories were valued at $3.2 million as of October 2006.

Information Technology (see pages 29 through 32)

AACPS maintains and administers a computer network with a number of significant administrative and academic-related applications. A master technology plan, which is periodically updated to address current and future school needs, has been developed. However, several areas are in need of improvement, including application access controls, security events monitoring, sanitation of reused or disposed media and computers, and physical access to the AACPS computer rooms. In addition, a formal, comprehensive disaster recovery plan should be developed.

Facilities Construction, Renovation, and Maintenance (see pages 33 through 40)

AACPS maintains 117 schools and various support facilities with a staff of approximately 900 custodial and maintenance personnel. AACPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Based on our tests, contracts for major projects were properly procured and the related payments were properly processed. AACPS has also instituted certain best practices, such as obtaining an independent facility assessment and has taken steps to reduce the need for additional construction. AACPS also uses a centralized energy monitoring and control system in most of its schools; however, a comprehensive energy management conservation program had not been established. Although AACPS maintains a detailed and comprehensive work order system, it did not make full use of it. For example, data from the system were not accumulated and analyzed to determine overall efficiencies or to evaluate individual performance. AACPS also needs to formally address deferred maintenance and should institute a process for periodically obtaining feedback from staff about the physical appearance and condition of schools.

Transportation Services (see pages 41 through 47)

The AACPS transportation costs per rider and per mile are generally consistent with those of similarly-sized school systems. More than 55,000 of the System's 71,000 students are eligible to ride the bus each day to school. AACPS uses vendors to provide bus transportation for the majority of its students and such contracts were awarded based on a competitive bidding process. In addition, AACPS uses various practices designed to efficiently transport students but has not established formal procedures for designing bus routes and has not implemented automated routing software, which could yield further efficiencies. We also noted that AACPS needs to better control payments to vendors. For example, it granted increases in the hourly rates paid to its contractual transportation providers that were not provided for in the related contracts, effectively undermining the benefits of the competitive process under which they were procured. We estimated that this hourly increase could cost AACPS an additional $444,000 through the remaining terms of these contracts, which generally have a 10-year term. AACPS should also document that continued outsourcing of the majority of bus services is cost-beneficial to the System. According to AACPS records, fiscal year 2006 transportation costs were $34.7 million, of which $27.1 million was paid for third-party transportation services.

Food Services Operations (see pages 49 through 53)

AACPS has a self-sustaining food services operation. For fiscal years 2005 and 2006 combined, AACPS reported that food service revenues exceeded costs by about $1.6 million. AACPS also currently uses a number of best practices in its food services operations. For example, it uses certain performance measures (such as meals per labor hour) to monitor the efficiency of its operations. AACPS also uses available United States Department of Agriculture commodities and has procedures in place designed to maximize student participation in the National School Meal Program. However, internal controls over cafeteria collections should be improved. According to AACPS records, its cafeterias collected $11.5 million during fiscal year 2006.

School Board Operations and Oversight (see pages 55 through 58)

The seven-member Board has adopted policies governing the operations of the Board and AACPS. An active internal audit unit reports directly to the Board. In addition, financial information is made available to the proper parties (including the Board, principals, and administrative supervisors) in a timely and consistent manner. The Board had adopted a detailed ethics policy that applies to Board members and to all AACPS employees and had processes in place to monitor AACPS academic performance. While the Board received timely financial information, including budget and expenditure reports, it did not receive key financial-related performance indicators as part of a formal measurement system to periodically assess operations of the System. The Board should also consider implementing a fraud hotline for the reporting and investigation of suspected fraud and misuse of assets.

Other Financial Controls (see pages 59 through 60)

AACPS has a policy in place to govern its cash and risk management practices; however, AACPS needs to adopt policies on its use of long-term lease/purchase agreements.

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Background Information

Oversight

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

Statistical Overview

According to MSDE student enrollment records, AACPS has the fifth largest student enrollment among the 24 public school systems in Maryland. From fiscal years 1996 through 2005, the average annual full-time regular and special education pupil population has increased 6 percent from 67,439 to 71,453, with MSDE projecting slight increases in the coming years (to a projected high of 72,620 in 2015). Presently, AACPS has 117 schools, consisting of 77 elementary, 19 middle, 12 high, and 9 alternative schools. A review of its budget history disclosed an increase in the AACPS total operating expenditures from $410 million in fiscal year 1996 to $741 million in fiscal year 2006.[1] The largest expense category is salaries, wages, and benefits, accounting for 78 percent, which supported about 9,600 employees, both full and part-time, as of April 2007 (5,900 instructional and 3,700 non-instructional).

Certain statistical information contained in this report was taken from unaudited reports distributed by MSDE and represents the most current comparable information available at the time of our audit. These MSDE reports are based on self-reported data from the 24 Maryland public school systems, and MSDE does not warrant the comparability or completeness of the data.

[1] The primary source for this background information is MSDE statistical data, including the annual Fact Book.

External Audit of Fiscal Year 2006 Activity

Annually, AACPS engages a certified public accounting firm to independently audit its fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of AACPS federal grant programs (as required by federal regulations). The two resulting audit reports for the 2006 fiscal year were issued in September 2006. Neither report included any reportable conditions nor any significant findings on AACPS record keeping, processes, and controls.

Chapter 1

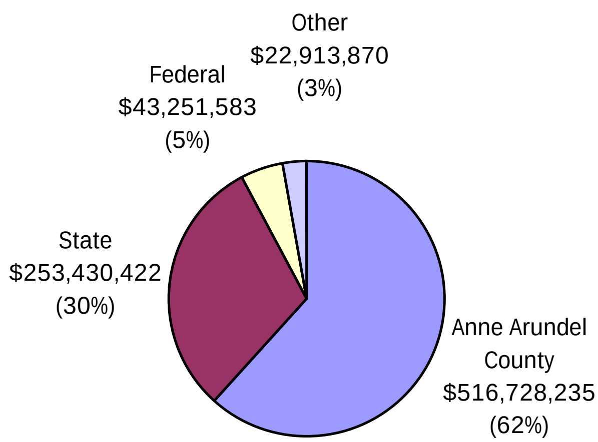
Revenue and Billing Cycle

According to the AACPS audited financial statements for the fiscal year ended June 30, 2006, $836 million in revenue was received by AACPS during fiscal year 2006. Because of similarities in the work of the certified public accounting firm in its independent audit of the AACPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the firm's audit of the fiscal year 2006 financial statements for certain revenue transactions, including State, local, and federal sources. The auditor's procedural review and testing did not disclose any findings related to the collection of revenue and related accounts receivable.

Background

AACPS revenues consist primarily of funds received from Anne Arundel County, the State, and the federal government, the vast majority of which was received via wire transfer. Other miscellaneous sources include receipts from food sales and facilities rentals. Chart 1 on the following page shows the allocation of the AACPS fiscal year 2006 revenues of $836 million by source.

Chart 1
Sources of Fiscal Year 2006 Revenue



Total of $836,324,110

Source: AACPS fiscal year 2006 audited financial statements

In addition, the schools also collect student activity funds for various purposes, such as yearbook sales and school trips. These school activity funds are accounted for separately by each school and are reported, in summary, in the audited financial statements. As of June 30, 2006, student activity fund balances totaled $6.4 million and the related fiscal year 2006 revenue totaled $14.1 million.

AACPS Revenue and Billing Cycle Activity Procedures Were Generally Adequate

Due to similarities between the work of the firm that audited the AACPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the audit of the fiscal year 2006 financial statements. The auditor's procedural review and testing disclosed no findings regarding the collection of revenues from State, local, federal, and other sources (such as student activity funds and food service receipts), and regarding the related accounts receivable. This activity included the use of wire transfers to process the related revenues.

Student activity funds were also periodically audited by the AACPS internal audit department; such audits included reviews of internal controls and tests of bank account reconciliations. The results of this work, likewise, disclosed no reportable conditions.

Recommendations

None

Chapter 2

Federal Funds

Annually, AACPS is subject to an audit of its federally-funded grant programs (often referred to as the Single Audit, a requirement of Circular A-133, which is issued by the U.S. Office of Management and Budget). The report on the audit of AACPS fiscal year 2006 federal grant activity was issued by its independent certified public accounting firm on September 22, 2006.

In that report, the auditor stated that AACPS complied, in all material respects, with the requirements applicable to its major federal grant programs. In addition, with respect to internal controls over compliance with and the operation of major federal programs, the auditors noted no reportable conditions[2] and no matters considered to be material weaknesses.[3]

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

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

We noted that AACPS had an adequate process for the identification of children eligible for Medicaid-subsidized[4] services and for recovering the related costs.

Background

AACPS receives funds primarily from Anne Arundel County, the State, and the federal government. Most funds received from Anne Arundel County and from the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2006 expenditures of federal funds totaled $43.3 million.

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

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

Processes Are in Place to Identify Students Eligible for Medicaid-Subsidized Services and to Recover Costs

To identify students who are eligible for Medicaid-subsidized services, AACPS obtains listings of all children whose families are participating in the Medicaid program, as determined by the Maryland Department of Human Resources. These listings are regularly compared to the student information system to identify

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

newly-eligible students and to verify the continued eligibility of previously identified students. In addition, AACPS engages in participation outreach to families during meetings to discuss educational services for special needs students.

Processes are in place for timely comparisons of services provided to each Medicaid-eligible student (such as speech therapy and psychological services) with the listing of eligible students and with each student's individual education plan (IEP) to determine eligible services for reimbursement. Additionally, AACPS timely submits reimbursement requests for services provided to eligible students, and safeguards are in place to ensure that these requests are only submitted for students transported for eligible services. According to its records, AACPS received approximately $3.1 million during fiscal year 2006 in reimbursements for Medicaid-eligible services.

AACPS Used Funding from the Federal E-Rate Program to the Extent Authorized

AACPS used available funding under the federal Schools and Libraries Universal Service Program (E-rate) to the extent authorized and permitted under funding commitment letters; according to its records, such funding totaled approximately $1 million during fiscal year 2006. The E-rate program provides discounts to assist schools in obtaining affordable telecommunications and Internet access. Based on our testing, expenditures charged to the program and subsequently reimbursed were for authorized purposes.

Recommendations

None

Chapter 3

Procurement and Disbursement Cycle

Although a number of policies and procedures designed to ensure proper procurements and payment of related invoices were in place, AACPS did not always comply with these policies. For example, AACPS did not always retain complete documentation to support the propriety of payments. AACPS also did not take full advantage of the controls provided by its automated purchasing and invoice processing system, and five employees had inappropriate access to the system. Additionally, policies and procedures over its purchasing card program should be enhanced. We noted that new purchasing cards were sent directly to the employee responsible for requesting the cards, rather than to an independent employee–a condition which could allow unauthorized purchases to be made on improperly obtained cards. We also noted that more than 400 cards had not been used during a six-month period and that purchasing card transactions were not always properly reviewed by supervisory personnel, as required. Finally, AACPS exercised appropriate controls over travel expenditures.

Background

AACPS generally uses an automated process for purchasing. Requisitions are prepared electronically by departments and are forwarded to the purchasing department. Requisitions must be approved by supervisory personnel within the requesting departments; the purchasing department will then solicit bids and award the contracts. Purchase orders are created in the automated system based on the vendor selected in the bid process. Purchases anticipated to cost more than $15,000 require bids from multiple vendors. Board policy requires that all contracts valued at more than $15,000 be reported to the Board and that all contracts valued at more than $100,000 be approved by the Board.

All invoices are submitted directly to the accounts payable department. The ordering departments receive the goods and indicate such receipt by signing receiving documentation or a copy of the purchase order, which functions as a receiving report. The receiving documentation is then submitted to the accounts payable department, where it is manually matched to the original approved purchase order and the invoice before payment processing. Payments are processed through an automated system, which prints vendor checks and records the payments in the financial records. Also, for all checks over $15,000, and on a test basis for smaller amounts, specified employees compare checks to the related supporting documentation prior to issuance of the checks. According to AACPS records, non-payroll related operating disbursements totaled $149.7 million (excluding $79.1 million in capital expenditures) during fiscal year 2006.

During fiscal year 2006, AACPS employees used credit cards to make $13.7 million in purchases, including textbook purchases. According to AACPS records, 670 employees have been issued approximately 1,700 credit cards for which the monthly charges are paid directly by the school system.

Controls Over Procurements, Contracts, and Credit Card Usage Could Be Improved

AACPS should fully use the controls provided by its automated purchasing and disbursement system – AACPS used an automated system to process purchases and to pay the related invoices. However, AACPS did not fully use the functions of this system to improve the efficiency and control over these processes:

- Two employees had the capability to create a purchase order, add a vendor, and enter and process an invoice for payment without independent supervisory approval. Also, one of these employees was one of the individuals responsible for manually reviewing vendor payments for propriety prior to mailing. Three other employees had the capability to create a purchase order and enter and process an invoice payment without independent supervisory approval.

- AACPS relied on manual controls rather than use the system's automated controls. The system included the capability for online approval of critical documents (such as requisitions and invoices), and the capability to perform an automated match of critical documents–such as the purchase orders, receiving documentation, and invoices–prior to processing the related payments. However, AACPS performed these functions manually.

- AACPS did not use the automated system to accumulate payments made on each contract as a means to control contractual payments. Furthermore, payments made on contracts using small procurement methods (such as purchasing cards) were not recorded in the system. Consequently, AACPS could not provide payment totals for 5 of 14 contracts we tested (the value of the 5 contracts was $7.9 million) and, accordingly, we could not readily determine whether any overspending on these contracts had occurred.

AACPS should improve its procurement and contract processes – AACPS should ensure that all procurements and related payments are properly documented and approved. Although AACPS has policies governing the procurement of goods and services and the related processing of invoices, contract files often did not contain all required documentation. Our test of 14 contracts (valued at $21.3 million) and 25 related payments, totaling $352,000, disclosed payment deficiencies relating to the contracts with 6 vendors. For example, for three contracts, there was no documentation that all goods purchased were received. Our findings for these test items are noted in Table 1 on the following page.

Table 1 Test of Contracts and Invoices				
Description	Contract Amount	Contract Date	Invoice Amount(s) Tested	Deficiencies / Problems
Textbooks	$10,000,000 (1)	May 1, 2006 (1)	$46,102	• There was no documentation that goods were received.
Office Supplies	4,500,000	February 1, 2006	1,115	• There was no pricing documentation on file.
Consulting Services – human resources	800,000	July 1, 2005	89,513	• The contract was not approved by the Board. • AACPS did not receive documentation to support the hours billed. • The invoices tested were not paid timely.
Training and Support Services	30,000	October 1, 2005	30,000	• AACPS did not receive documentation to support hours billed.
Music Textbooks	(1)	(1)	94,877	• There was no documentation that goods were received for one of the two invoices tested ($39,712).
Textbooks	(1)	(1)	28,053	• There was no documentation that goods were received for one of the two invoices tested ($12,032).

(1) All textbooks are included in a single contract approved by the Board. The contract includes a number of selected vendors and approved textbooks that schools will use over the term of the contract. Each test item above represents a different vendor.

AACPS should improve existing controls and processes for monitoring credit card usage – Although AACPS had developed policies and procedures to help ensure proper card usage, our review of controls and related testing disclosed certain deficiencies and procedural enhancements that should be made. Specifically, we noted the following conditions:

- The employee responsible for completing the process to request cards from the issuing bank also received the cards for distribution to the appropriate employees. Consequently, this employee could direct that a card be issued, obtain the card, and make unauthorized purchases, without timely detection.

- AACPS did not perform periodic evaluations of the necessity of card issuances and of card spending limits to reduce its exposure and risk of inappropriate charges. For example, 448 of the 1,700 cards issued were not used at all during the six-month period ending June 2006.

- Our testing of 15 fiscal year 2006 credit card transactions (related to 11 different cards), totaling $10,098, disclosed two violations of current AACPS credit card policies. Specifically, for 2 transactions, the related monthly activity logs were not reviewed and approved by supervisory personnel, and 4 transactions related to two purchases that appeared to have been intentionally split to avoid exceeding the employees' transaction limits.

AACPS Travel Policies Help to Control Spending

AACPS established a travel policy that has been approved by the AACPS Board. The policy adequately addresses such areas as advanced approval and documentation requirements. Our test of 20 employee travel reimbursements, which totaled $36,711, indicated that these policies were effectively complied with. According to AACPS records, travel expenditures for fiscal year 2006 totaled approximately $2.7 million.

Recommendations

1. AACPS should use make full use of the existing automated controls in its procurement and payment system, and should ensure an adequate separation of duties. In addition, AACPS should improve controls and enhance the policies over its credit card program, including ensuring an adequate separation of duties and periodic evaluations of card usage and limits.

2. AACPS should ensure that it complies with its existing policies and procedures regarding procurements and related payments, and should document such activity by preparing and maintaining properly approved contracts and receiving documents, and by obtaining sufficiently detailed vendor invoices.

Chapter 4

Human Resources and Payroll

AACPS exercises position control and uses a centralized hiring process to fill position vacancies. This helps AACPS control payroll costs, which represent the largest component of its expenditures. However, AACPS should address certain procedural deficiencies within the payroll process. For example, changes to employee rates of pay and the addition of new employees to the payroll were not subject to supervisory review. While AACPS had implemented workforce planning, such planning was not comprehensive, as it did not address the needs for employees other than teachers and related instructional positions and it did not address long-term trends; these trends show that about 25 percent of its total workforce will be eligible for retirement within five years.

Background

According to AACPS records for fiscal year 2006, salary, wage, and benefit costs totaled $591 million and, as of October 2005, AACPS had 8,669 full-time equivalent employees, of which 2,475 were non-instructional. According to MSDE statistics, the ratio of AACPS students to full-time equivalent employees (both instructional and non-instructional) is slightly higher than similarly-sized school systems (see Table 2 on the following page). Payroll costs represent the largest single cost component in the AACPS budget.

Table 2 Comparison of Student to Employee Ratios – Fall 2005 Unaudited			
School System	Number of Students (as of September 30, 2005)	Number of Full-Time Equivalent Employees (as of October 1, 2005)	Student to Employee Ratio
Anne Arundel Co.	73,565	8,669	8.5 to 1
Baltimore City	85,468	11,045	7.7 to 1
Baltimore Co.	107,043	14,087	7.6 to 1
Harford Co.	40,212	4,997	8.1 to 1
Howard Co.	48,596	6,817	7.1 to 1

Source: MSDE 2005/2006 Fact Book

Payroll processing involves automated processes. AACPS uses an automated system to maintain human resources information, to process payroll, and to track employee leave balances. The system automatically generates biweekly time records and any adjustments are processed by designated employees—known as timekeepers—at the various locations (such as schools). Time records are then processed electronically by the system. The system generates direct deposit advices and a very limited number of payroll checks. Direct deposit advices are provided to the originating locations for distribution and payroll checks are retained in the Human Resources Office for disposition (for example, employee pick-up, mailing).

The hiring of employees for new positions is initiated directly by the school or program in need; for vacancies, employees are hired by the human resources office. Position control procedures require that the related paperwork be submitted to AACPS central office staff who process all applications, ultimately approve all new hires, and add hired employees to the automated system. The Board approves the creation of all new positions as part of the annual budget process.

Payroll Internal Controls Need to Be Strengthened

AACPS should document that payroll and leave adjustments are proper and supported – Additions of new employees to the payroll system and changes to existing employee pay rates are processed by payroll clerks in the Human Resources Office. However, there was no documented supervisory review or approval of a subsequent system-generated output report of these changes to ensure that all such changes were appropriate and were properly supported. In addition, payroll clerks have the capability to process adjustments to the leave hours recorded in the payroll system; however, these adjustments were not documented.

AACPS should establish a process to ensure that salaries paid to certain federally-subsidized employees are proper – Our review of employee salaries disclosed certain discrepancies in payments made to three instructors in positions that were partially federally funded. Specifically, AACPS did not retain documentation (such as employment contracts) to support the salaries being paid to these employees, and did not have a process to verify the appropriateness of payments and subsequent federal reimbursements. From a review of available documentation, we determined that, although the appropriate federal reimbursements were received, the total salary payments of $107,000 made to these three instructors, during the period from March 1, 2006 through September 13, 2006, included $8,200 in overpayments. Because of the lack of documentation, we were unable to determine whether these employees were overpaid for prior periods. Additionally, as of April 2007, AACPS had not detected, nor taken action to correct, an erroneous federal salary reimbursement for one of these employees for the month of February 2006. Specifically, AACPS was reimbursed $29,487 rather than $2,954.

Existing Workforce Planning Should Be Expanded

AACPS should enhance its existing workforce planning efforts to include positions other than instructional personnel. The AACPS Master Plan sets the strategic direction of AACPS and provides coordination and focus for initiatives to address school system challenges. The Plan includes a number of objectives and strategies to address human resource needs—which is evidence of workforce planning. However, it addresses only the recruitment and retention of highly qualified instructional staff (that is, teachers and certain other instructional aides). The Plan does not address non-instructional personnel employed by AACPS, such as school principals, and central office and critical support staff which totaled 2,475 for fiscal year 2006 and which, collectively, represent about 29 percent of AACPS employees. These support functions also play a key role in the ultimate success of AACPS in providing quality education and, therefore, should be included in workforce planning. In addition, although the Plan contained goals, objectives, and related detailed measures, the objectives generally did not include specific benchmarks that could be used to define the overall success or failure of actions taken.

Finally, AACPS current workforce planning efforts do not consider expected long-term workforce needs for all employees. For example, based on AACPS 2007 records, approximately 1,135 employees (or 12 percent of its total workforce as of March 14, 2007) are currently eligible to retire. As of July 1, 2012, the number of employees eligible to retire rises to 2,515 employees (or 26 percent of its total workforce as of March 14, 2007). Given the increasing number of employees eligible for or approaching retirement, and the increased qualifications for teachers as required by the federal No Child Left Behind Act, AACPS could experience difficulty in hiring qualified administrative, financial, and instructional employees in the future. Workforce planning involves analyzing the existing workforce and identifying gaps between future needs and current resources and then implementing solutions to address these gaps.

Recommendations

3. AACPS should implement documented independent supervisory review and approval of payroll-related changes recorded in its automated system. In addition, AACPS should retain appropriate documentation to support amounts paid to all employees. Furthermore, AACPS should review past payments and related federal reimbursements for federally-subsidized instructors, and should appropriately address any discrepancies, including recovering employee overpayments, and returning excess federal reimbursements.

4. AACPS should expand its workforce planning to include all critical operational units and non-instructional positions, as well as measurable objectives. In addition, AACPS should address its long-term workforce needs.

Chapter 5

Inventory Control and Accountability

AACPS has a formal policy governing the purchase and disposal of all property, including textbooks; however, AACPS should improve its control over its equipment and materials and supplies inventories and the related record keeping and physical inventories should be performed on a timely basis.

Background

AACPS maintained three warehouses for its materials and supplies inventories which, according to its centralized perpetual inventory records as of October 2006, were valued at $3.2 million (excluding food items). The value of its equipment inventory, which includes computers, audio and video items, athletic equipment, and various other items, was $79.7 million as of June 30, 2006. All items with a cost of $500 and greater and all computer hardware, regardless of cost, are to be included in this centralized inventory system, which is automated; items costing more than $5,000 are capitalized for financial statement reporting purposes.

Formal Textbook Procedures Have Been Established

AACPS had established formal procedures for selecting and purchasing textbooks. All potential textbooks are reviewed and are submitted to the Board for its review and approval. While the vast majority of textbooks are purchased on a centralized basis, textbook purchases can also be made by individual schools from their discretionary funds. Inventory records for all textbooks are maintained on a centralized basis. Textbooks may be sold or disposed of centrally only under certain conditions (such as when certified as not needed by any school within AACPS).

AACPS Could Improve Internal Controls and Recordkeeping Over Inventories

AACPS should conduct periodic physical inventories of equipment and materials and supplies – Our review of AACPS controls and procedures disclosed the following deficiencies:

- AACPS had not completed a physical inventory of its property since fiscal year 2004, even though its procedures require that a physical inventory be taken annually.

- Materials and supplies that are used to maintain AACPS grounds and athletic fields (such as fertilizer and grass seed) were not inventoried on an annual basis, resulting in the potential for misuse and erroneous records. As of October 4, 2006, the automated records indicated that the total value of these inventory items was $946,724. Our test of existence of six items with a recorded inventory value of $184,058 disclosed that, based on our physical count, the value of these items on-hand was only $10,761, including one item with a stated value of $152,100 for which there was no stock on hand.

- Employees with custodial responsibilities at the operations warehouse were responsible for taking the annual physical inventory. As a result, these employees had excessive control over these supplies.

Recordkeeping practices should be enhanced to improve accuracy and controls – Our testing of the detail automated records for equipment and materials and supplies disclosed numerous discrepancies:

- Current AACPS policy does not require property to be identified as property of AACPS, which would typically be accomplished by affixing inventory tags or otherwise physically marking equipment. Although the equipment inventory system automatically assigns unique identification numbers to all equipment, AACPS relies on equipment serial numbers to identify each item in the records. However, our review of 1,377 equipment items assigned to one school disclosed that 119 items recorded in the detail records did not have serial numbers or other unique identifiers recorded in the system.

- AACPS was unable to explain the causes for materials and supplies with significant inactivity for an extended period. As of October 4, 2006, the materials and supplies perpetual inventory records included 3,485 items, with a total value of $996,000 with no issuances since June 30, 2005. Some of these items had not had issuances since 1989 and 1,369 of these items (such as tools and maintenance parts), with a recorded value of $221,000, had no withdrawal activity recorded in the system.

- There was no process to ensure correct unit prices were recorded for materials and supplies. For example, our review of 10 items, with a total recorded inventory value of $154,214, disclosed incorrect unit prices for 6 of the items. Consequently, the recorded cost of these items was $111,269 instead of the correct value of $1,321.

Recommendation

5. AACPS should conduct annual physical inventories of equipment and materials and supplies and should enhance custodial and record keeping controls. In particular, AACPS should separate critical employee duties, investigate the aforementioned discrepancies and overstocked items, and ensure that records accurately reflect inventory on hand.

Chapter 6

Information Technology

AACPS maintains and administers a computer network, computer operations, and a number of significant administrative and academic-related information system applications.

AACPS developed and periodically updates a written technology master plan that includes an assessment of technical needs and measurable goals and objectives. AACPS used a lease agreement to purchase all of its desktop and laptop equipment (and related software); however, it had not prepared an analysis to determine if this process was cost-beneficial compared with outright purchase of these items.

We also identified several areas in need of improvement; these areas include access controls and security event monitoring for the computer system, the sanitation of reused or disposed media and computers, and control of physical access to the computer rooms. In addition, a formal, comprehensive disaster recovery plan should be developed.

Background

AACPS operates a wide area network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at AACPS headquarters. The Division of Technology maintains and administers the AACPS computer network, computer operations, and instructional information systems applications. AACPS maintains several significant administrative and academic-related information system applications, including budget and finance applications. AACPS leases its desktop and laptop computers, based on a four-year replacement cycle. The current lease agreements include approximately 19,000 desktop and laptop computers. According to AACPS records, lease payments for fiscal year 2006 totaled $4.9 million.

Technology Plans Are Regularly Developed to Address Current and Future Needs of AACPS

AACPS compiled an annual written technology plan as part of its Master Plan and prepared a separate technology plan every three years. These plans establish a vision and mission for technology in AACPS and include measurable goals and objectives. These plans address various topics including student achievement, system security, hardware and software replacement and related costs, professional development, and training.

Steps Should Be Taken to Ensure Access to IT Software Applications Is Appropriate and Controlled

Our review disclosed several deficiencies in computer application security which increased the vulnerability of various AACPS automated systems, programs, and data. For example, automatic password expirations were not enabled or were set for excessive periods (when compared to industry standards), and there was no standard as to the complexity of passwords (to make them more difficult to hack). In addition, significant system security-related activities (such as account logons, and failed attempts to access certain critical data) were not always logged for review and, as a result, unauthorized or inappropriate activities affecting the integrity of critical production applications, data, and system files could occur and remain undetected. Also, certain users were granted inappropriate or unnecessary system access and capabilities. Finally, there was no process to automatically disable userids after a certain period of inactivity (such as 60 days). As of November 1, 2006, there were more than 10,000 inactive user accounts, including 9,700 accounts that had never been used, and 600 accounts that had been inactive for periods from 72 days to more than 17 months.

Data Processing Functions Should Be Better Safeguarded

Methods to remove critical data from sensitive media and equipment need to be enhanced – AACPS used reformatting to remove critical data from certain types of digital media (for example, jump drives, tapes, and diskettes) prior to reuse or disposal; however, this method is not necessarily effective because data on reformatted media can still be recovered. Therefore, the National Institute of Standards and Technology (NIST) recommends that diskettes, compact disks, tape cartridges, ribbons, and other similar items be destroyed by specified means, including shredding, incinerating, and overwriting. In addition, computers leased by AACPS were not sanitized prior to their return to the leasing company, nor did the agreement with the leasing company require the company to sanitize the returned computers. Since this agreement allowed the company to donate these computers at the conclusion of the lease period, sensitive or confidential AACPS data could be subject to public disclosure and misuse.

Physical security and environmental controls over computer rooms should be improved – Two of the five AACPS computer rooms were left unlocked and unsupervised during working hours. None of the computer rooms were equipped with smoke detectors and fire suppression systems, and four rooms did not include sensors to monitor and control humidty.

AACPS needs to implement a disaster recovery plan – AACPS did not have a formal, comprehensive and consolidated disaster recovery plan (DRP) for its computer systems. Although a draft DRP was in development, it did not include certain critical elements, such as a detailed software inventory list and information for restoring network connectivity in the event of a disaster.

Costs and Benefits of Leasing Computer Hardware and Software Need to Be Evaluated

In 2001, AACPS entered into a leasing program under a cooperative agreement with another government entity, to obtain computer equipment (and related operating system software) for system-wide use. The intent was to acquire and maintain state-of-the-art hardware and software in the most economical means available for all schools. The resultant leasing program is based on a four-year replacement cycle. AACPS signs a new four-year lease each year for the equipment being replaced annually.

Although AACPS entered into the leasing program to ensure cyclical replacement of equipment, to provide for standardized hardware and software, and to stabilize annual expenditures, these same goals could be met by purchasing computer equipment. AACPS did not formally analyze the cost/benefits of leasing, rather than purchasing, this equipment.

Recommendations

6. AACPS should enhance its IT security by establishing and enforcing stricter password requirements, should conduct documented reviews of logged system activity, should ensure that users are only given capabilities necessary for their job functions, and should establish a process to automatically disable userids after a predetermined period of inactivity.

7. AACPS should ensure that all media and equipment are properly sanitized prior to reuse or disposal. AACPS should also establish appropriate physical controls and safeguards over its computer rooms and complete the development of a formal comprehensive disaster recovery plan.

8. AACPS should ensure that the current method of leasing computers is economically beneficial.

Chapter 7

Facilities Construction, Renovation, and Maintenance

AACPS maintains 117 schools and various support facilities with a staff of approximately 900 custodial and maintenance personnel. AACPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Plans are long-term, are updated annually, and reflect input from the Board. AACPS has adopted a number of State-required guidelines and practices for the procurement of construction and renovation projects. Contracts for major projects tested were properly procured and the related payments were properly processed.

AACPS has implemented certain processes and best practices, such as obtaining an independent facility assessment, and has taken steps to reduce the need for additional construction. AACPS also put into place a centralized energy monitoring and control system for most schools; however, all of the elements of a comprehensive energy management conservation program had not yet been established, including formal goals, objectives, and measures to determine success in reducing individual school and system-wide energy use. In addition, although AACPS maintains a detailed and comprehensive work order system, it did not make full use of it. For example, data from the system were not accumulated and analyzed to determine overall efficiencies and to evaluate individual performance. AACPS also needs to formally address deferred maintenance and should institute a process for periodically obtaining feedback from staff on the physical appearance and condition of schools. Finally, AACPS is in the process of addressing comments and recommendations from a comprehensive consultant's study of AACPS facility utilization, which was requested by the AACPS School Board to address the System's long-term facility needs.

Background

AACPS uses a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. In the fiscal year 2007 CIP, necessary construction, major renovations, repairs, and systemic improvements to existing schools were estimated to cost approximately $851 million over the six-year period.

Table 3 (below) presents a comparison of AACPS fiscal year 2006 plant costs (that is, maintenance and operational costs) and square footage with those of other similar systems in Maryland. It depicts two measurements to assess plant costs: plant costs per student, and plant costs per square foot. AACPS costs are generally lower than other similarly-sized systems, although square footage per student is generally higher.

Table 3
Plant Cost Comparison Per Student and Per Square Foot
Fiscal Year 2006 (Unaudited)

School System	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student❶	Per Square Foot		
Anne Arundel Co.	$59,188,511	$811.18	$4.98	162.7	11,874,222
Baltimore Co.	94,015,905	878.55	6.07	144.8	15,491,126
Baltimore City	83,176,509	1,001.09	4.62	216.5	17,985,561
Howard Co.	44,455,079	912.07	6.52	140.0	6,822,251
Harford Co.	33,105,071	827.50	6.24	132.7	5,307,858
Average of Comparable Schools	$63,688,141	$904.80	$5.59	158.5	11,401,699

Sources: MSDE Selected Financial Data, State Board of Public Works - School Construction Program
❶ - Based on average daily enrollment 2005-2006 (most recent data available)

A Number of Best Practices Were in Place Regarding Project Planning and Monitoring

AACPS uses a comprehensive process to develop its Capital Improvement Plan – AACPS uses a comprehensive process, which includes the solicitation of input from various sources, to plan for future school construction and major renovation and repair projects. For example, AACPS uses public meetings, student demographic data, and other internal sources (such as current curriculum mandates) to develop its six-year Capital Improvement Plan (CIP). The CIP is presented to and approved by the Board, and is also approved by elected local officials. In addition, the AACPS Master Plan, which is used to guide overall AACPS operations, incorporates certain CIP objectives and strategies related to school facilities. A review of the fiscal year 2006-2011 CIP disclosed that it appeared to address the needs of AACPS based on items such as student demographics and facility assessments.

AACPS had instituted other best practices that could enhance project results and cost effectiveness. While elsewhere in this report we comment on enhancements that are needed to these best practices, AACPC has taken a proactive approach to facilities construction, maintenance, and renovation, as detailed in the following best practices:

- A comprehensive evaluation of the condition and utilization of all schools was completed by an outside consultant during the 2005-2006 school year. This evaluation was requested by the AACPS School Board. In addition, supervisory operations personnel conduct periodic inspections of facilities, documenting current conditions and needs.

- Various processes have been implemented to reduce the need for additional construction, including the use of portable classrooms and the periodic evaluation of redistricting students between schools based on capacity and usage.

- AACPS has a program in place at approximately 85 percent of its schools to manage energy usage. The program uses computers to monitor the operations of major systems (that is, heating and cooling) and controls these systems from a centralized location. The system has not been used at the remaining schools primarily because these schools are scheduled for replacement in the near future. In addition, AACPS entered into a long-term agreement for electricity needs with other school systems to ensure the availability of energy at fixed prices over the term of the agreement.

- An extensive automated work order system is used to record and track actual costs of all completed maintenance projects, to track materials and supplies inventory, and to maintain records of equipment serviced by the department (such as air conditioning units).

- AACPS periodically compares costs and staffing to national standards.

Current construction and renovation procurement and monitoring practices are adequate – AACPS uses a formal process to develop specifications for major construction and renovation projects in accordance with Board approved educational specifications. All projects are reviewed and approved by the Board. AACPS also uses an internal manual to guide the procurement and monitoring processes for all capital projects. Our review of 10 contractual procurements (valued at $13.5 million) disclosed that the awards were in accordance with policy and were properly approved. We also tested 10 related invoices (totaling $1.8 million) and noted that the invoices were accurate (for example, AACPS retained a percentage of the amount invoiced) and that each invoice evidenced documentation of approvals and formal inspection by contract personnel (such as the construction manager and architect) prior to payment.

AACPS Should Continue Efforts to Enhance Facility Usage, Maintenance, and Energy Conservation

AACPS should address the findings of a consultant study on facility utilization and condition – AACPS has not formally addressed all of the recommendations contained in a facilities study conducted by outside consultant and issued on July 3, 2006. This study, done at a cost of $489,000, provided AACPS with a comprehensive review of all schools and needs for future construction, renovation, and other possible actions to address facility needs. The study identified future building needs totaling $1.3 billion over the next 10 years, which were prioritized based on capacity and the adequacy of the existing facilities. Following are some of the consultant's recommendations:

- Perform regular and timely updating of school boundaries to address utilization needs
- Add space for target programs
- Develop standards for portable classrooms

- Consider alternative grade configurations
- Maintain a current property inventory reflecting accurate classroom inventories
- Identify alternatives for administrative facilities

AACPS has addressed some of the aforementioned issues. For example, it has redistricted students to use excess capacity and has identified future building needs in the 2008 CIP, through its regular facilities planning process. However, others still need to be formally addressed, including the addition of space for targeted programs, standards for use of portable classrooms, and consideration of changes in grade level configurations in certain school districts. A July 2006 Board meeting to discuss the report stated that public meetings and a work group would be established to review the recommendations. In this regard, we were advised that public meetings were held in April and May 2007 to further review the recommendations from the report.

AACPS should develop a formal plan to address deferred maintenance needs – AACPS has implemented a comprehensive process to plan for future construction projects, including an acknowledgement of backlogged maintenance projects (deferred maintenance), in its annual Comprehensive Maintenance Plan. While the Plan acknowledged the backlog and identified impacted projects, there had been no formal consistent process established to determine the availability of funds to address the backlog or to otherwise address the issue. To save costs, deferred maintenance is a practice of allowing infrastructure to deteriorate by postponing prudent repairs. Generally, a policy of continuing to defer maintenance will ultimately result in higher costs than if normal maintenance had occurred. According to AACPS, deferred maintenance has fluctuated between approximately $130 million and $200 million during the period from fiscal years 2001 through 2007 and, for fiscal year 2007, is estimated at $161 million. Annual fluctuations occur depending on projects that AACPS is able to obtain funding for and complete in a given year. For example, in fiscal year 2007, we noted that AACPS received $13 million from Anne Arundel County to partially address the backlog.

AACPS should implement a comprehensive energy management and conservation program – AACPS employed an energy manager and had instituted a centralized energy monitoring and control system in most of its schools. However, it lacked a formal comprehensive energy management and conservation program. Such a program is an accepted industry best practice and includes goals, strategies, and measures to determine program success (such as reducing total energy use by a stated percentage). AACPS has met with vendors regarding the analyses of energy consumption and for assistance in identifying energy-saving improvements, but had not yet implemented possible enhancements to its existing energy management initiatives. In addition, AACPS did not use school incentive programs to encourage energy conservation, even though we were advised that one had been used in the past. We found some school systems that, as an inducement to conserve, allow dollars saved by individual schools to be used by them in other areas (such as instruction).

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

AACPS should use a formal customer feedback process to solicit opinions on facilities department operations – AACPS does not use routine customer feedback (surveys) to solicit staff opinions about the physical appearance and condition of schools. We were advised that surveys may be used for specific circumstances (such as to solicit opinions on vendor performance) but that AACPS relies on unsolicited emails and periodic meetings at schools to determine staff complaints and opinions on department operations. Several other systems around the State use formal periodic surveys of school staff to assess operations and to make adjustments to department operations.

AACPS could improve its training program for maintenance employees – While custodial employees received both initial and subsequent continuous training, maintenance department employees only received training on an ad hoc basis. Specifically, a formal training program (including training schedules, certifications, and skills assessments) had not been implemented to ensure that maintenance staff maintained and improved their skills. A formal training program helps ensure that employees safely and competently perform their duties, and helps improve operational effectiveness and efficiency. AACPS advised that funding for training was very limited and that it attempts to have contractors who install major equipment items (such as a sprinkler system) provide related training.

AACPS should fully use its automated work order system's capabilities to monitor efficiency – To help it control costs and to assess employee performance, AACPS should fully use its automated work order system. We noted that information related to the estimated resources needed to perform tasks (such as time and materials) was not always recorded on the work order or in the automated system. Furthermore, when estimated resources were recorded, there was no policy requiring comparison of estimated resources to actuals. Consequently, completed work orders could not be evaluated for efficiency nor could they be used to assess the performance of both individual employees and the entire maintenance department.

Finally, while priority rankings are assigned to needed or requested repairs, this feature does not appear to be effectively used. Specifically, priority 1 and 2 are reserved for emergencies or other projects where personnel or buildings are at immediate risk, priority 3 is assigned to routine tasks, priority 4 is assigned to non-time critical repairs (including significant renovations), and priority 5 is used for everything else. However, according to AACPS personnel, approximately 95 percent of all work orders are classified as priority 3, leaving it to the maintenance supervisors to determine the order in which projects are completed. Our limited test of 10 completed “priority 3” work orders disclosed that 3 were completed within 8 days, while the other 7 took 94 to 575 days to complete. While there may be reasons for these significant differences in completion times, the current priority ranking system may not facilitate effective oversight by management to help ensure that tasks are being completed within appropriate time frames. An effective work order system can also be used to generate a variety of statistical data—including employee productivity, cost reports, and facility assessments—all of which are key pieces of a performance measurement system.

Recommendations

9. AACPS should address the comments and recommendations from the consultant’s study including, to the extent deemed necessary, obtaining public input. In addition, AACPS should develop a formal process to address deferred maintenance which includes identifying potential sources of funds. Finally, AACPS should consider developing a formal comprehensive energy management program which includes measurable goals and objectives.

10. AACPS should institute steps to enhance operations and services to facilities, including the use of periodic surveys, the development of a formal training program for maintenance staff, and the use of all capabilities of the automated work order system as a management and planning tool. The enhancements

to the work order system should include estimating project costs for significant projects, comparing actual and estimated costs, and using a more discriminating priority ranking system.

Chapter 8

Transportation Services

The AACPS transportation costs per rider and per mile are generally consistent with those of similarly-sized school systems (see Table 4 on the following page). AACPS uses vendors to provide bus transportation for the majority of its students and used competitive bidding to award these contracts. In addition, AACPS uses various practices designed to efficiently transport students, such as staggering school start and stop times so buses can provide multiple runs, but has not established formal policies for designing bus routes and has not implemented automated routing software, which could yield further efficiencies. Although AACPS used competitive bidding in an effort to achieve lower costs, it then granted increases in the hourly rates paid to its contractual transportation providers that were not provided for in the contract terms. AACPS also has not formally evaluated the costs and benefits of continued outsourcing of the majority of bus services.

Background

AACPS is the fifth largest school system in Maryland, based on student enrollment, and contracts for bus services with 26 outside vendors (operating 389 buses) to transport the majority of its students. In addition, AACPS owns and operates 78 buses (including spares) used primarily for the transportation of special needs students. Over 55,000 of its approximately 71,000 students are eligible to ride the bus each day to the System's 117 schools. AACPS operated 497 bus routes during the 2005-2006 school year. Of the 9,634,000 reported route miles for the 2005-2006 school year, 36 percent was associated with transporting disabled students. The fiscal year 2006 transportation-related expenditures totaled $34.7 million, with 78 percent (or $27.1 million) relating to payments for third-party transportation services.

Starting in fiscal year 1999, AACPS awarded contracts to vendors based on a competitive bid process instead of the mechanism used by many other systems that pays contractors based on a per vehicle allowance, hourly wage rates, and certain other costs–a mechanism that AACPS previously used.

Table 4
Comparison of Transportation Costs per Rider and per Mile
Fiscal Year 2006 (Unaudited)

School System	Number of Eligible Riders		Miles (in thousands)		Dollar Expenditures (in thousands)	Average Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
Anne Arundel Co.	53,698	1,651	6,207	3,427	$34,772	$628	$3.61
Baltimore City	23,277	3,815	283	2,115	29,993	1,107	12.51[5]
Baltimore Co.	66,998	3,108	8,843	6,072	42,407	605	2.84
Harford Co.	35,193	702	5,032	1,707	20,651	575	3.06
Howard Co.	40,117	1,213	3,569	1,766	26,999	653	5.06

Source: MSDE 2005-2006 Fact Book

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

The AACPS Transportation Department had several practices in place to help control student transportation costs:

- Periodically comparing costs and mileage data to other similarly-sized systems

[5] As noted in our January 9, 2006 report on the Baltimore City Public Schools, this System had unusually high costs due to its unique setting as an urban environment where most students walk and transportation services are provided to a limited number of students, including special needs students. We also noted that the System used arrangements such as taxis for transporting students due to special and emergency needs not experienced by other systems.

- Staggering school arrival and dismissal times to enable certain buses to perform multiple runs on the same day
- Establishing centralized collection points for transporting students to magnet schools
- Participating in a regional cooperative for fuel purchases to obtain lower than market pricing for fuel
- Monitoring the contractors' operations, including the operational mileage and hours billed for each bus route

Prior to the 1999 school year AACPS made payments to vendors based on a longstanding methodology that included a per vehicle allotment (based on bus prices increased by some specified return on investment percentage), hours of operation, and maintenance costs; a similar method is still used by a number of school systems. Since the 1999 school year, vendors have been awarded routes based on a lowest competitive bid award process. AACPS issues a request for bids for specific route groups. Prospective bidders submit proposals that specify an annual fixed rate, hourly rates for drivers and aides, and per mile maintenance and fuel rates. AACPS calculates the lowest bid for the 10-year life of the contract, based on a standard number of hours and miles contained in the request for bids, and uses this award basis to provide a standard measure to evaluate all bids received. AACPS believes that this process results in a substantial savings over the previous per vehicle allotment method. In an award made in January 2006, AACPS determined that the four route groups awarded under the competitive bid process resulted in a $1.1 million savings over the life of the contract when compared with the prior method; we did not verify this calculation.

Enhancements to Bus Route Scheduling Should Be Considered

Automated routing software should be used to assist in the bus routing process – AACPS purchased computerized routing software in 1994 and continued to pay licensing and mapping update fees through 2005, at a total cost of $305,000, even though the software was never formally used to plan bus routes. In this regard, AACPS advised that it did not find the software to be user friendly and determined that it did not meet its needs. AACPS further advised that it has since been unable to find a suitable automated routing software product. This contrasts with a number of other systems (such as Prince George's and Carroll County Public Schools) that used automated routing software to assist in the development and revision of bus routes. Specifically, computerized bus routing is intended to reduce the time it takes to design efficient routes, to better ensure that chosen routes minimize the number of buses for transporting students, and to reduce student ride times. All parties generally agree, however, that such software does not eliminate the need for human involvement and intervention.

The current AACPS process for planning bus routes is very time-consuming and relies heavily on the experience and knowledge of the AACPS transportation department staff. One benefit of routing software could be increased utilization of buses. Our test of the student rider sheets prepared in May 2006 for the 2005-2006 school year disclosed that 21 of the 68 buses tested never operated at 75 percent or more of the AACPS-determined bus capacity.[6] All of these buses were operated by private vendors under contract with AACPS. The average capacity for these 21 buses ranged from 19 percent to 69 percent for an individual run.

Policies for planning, reviewing, and revising bus routes should be enhanced – Policies governing the planning, reviewing, and revision of bus routes should be enhanced to formally consider additional elements. Current AACPS policies provide general information regarding bus transportation (such as distance from school required to ride a bus). However, those policies did not formally address other factors, such as bus loads (student capacity) and maximum student ride times, when determining the most appropriate bus routes. Moreover, the policies did not address the process to be followed for determining and implementing changes to existing bus routes.

[6] As with many school systems, AACPS does not use the manufacturer capacity for determining the number of students a bus may carry. For example, AACPS determined the bus capacity for high school students to be 44 for a conventional 66 passenger school bus.

Payments to Vendors Need to Be Better Controlled

AACPS should improve controls over changes to information in the Bus Contractor Payment System – The Bus Contractor Payment System (BCPS) is the automated system that initiates the monthly payments to the bus contractors. Contractually-established payment information is recorded in the system at the beginning of the school year. We noted that one individual had the ability to make changes, without independent review or approval, to critical payment components (such as payment rates, route mileage, and hours of operation) in the BCPS.

AACPS should ensure that payments to bus contractors are in accordance with the terms of existing contracts – In fiscal year 2002, AACPS increased the hourly rates paid to certain transportation service providers by a flat 60 cents per hour above the contract amounts; this increase was approved by the Board. This conflicted with the terms of most contracts which provided that any adjustments to hourly rates were to be based on changes in the consumer price index or, for several new contracts begun in 2002, prohibited any rate increases during the first year of the contract. We were advised that the intent of these Board-approved adjustments was to establish parity in the payments made to the various bus contractors; however, these adjustments appeared to effectively undermine the benefits of the competitive process under which they were procured. Furthermore, we could not determine if the Board was made aware of the total potential cost of the adjustments. Based on the estimated service hours contained in the original bid documentation, we estimated that this hourly increase could cost AACPS an additional $444,000 through the remaining terms of these contracts (contracts generally have a term of ten years).

AACPS should also ensure that it adequately verifies the propriety of charges for vehicle services and fuel on invoices submitted by two vendors who stored and maintained the AACPS-owned buses. Total payments to these two vendors in fiscal year 2006 were $224,000. Our review of these vendor invoices disclosed that they included fees for certain services (that is, basic vehicle services and bus washes), that were not specified in the contracts. Based on the number of buses being maintained, we estimate the vendors could have charged as much as $62,000 in fiscal year 2006 for these vehicle services. Finally, the fuel charges from both vendors were not reviewed for reasonableness.

Actions Could Be Taken to Ensure that Bus Services Are Efficiently Provided

Smaller buses should be considered for bus routes that have few passengers – AACPS should consider using smaller buses for special education routes. AACPS primarily uses 72 and 66 passenger buses for special education bus routes. After physical modifications to meet student needs, the adjusted capacities are 38 and 32, respectively. Our review of 15 buses, which made 64 trips to transport special needs students, disclosed that the trips averaged 8 passengers. Thirty-four of the trips transported 10 or fewer students. Documentation obtained from one bus manufacturer, as of March 2007, indicated that the purchase price for a modified 36 passenger bus was $4,500 less than the purchase price of a modified 72 passenger bus. In addition, smaller buses should have lower operating costs (such as fuel costs), without compromising safety or service life.

The decision to outsource transportation services should be periodically evaluated for cost benefit – Most transportation services have been outsourced since at least the 1970s. AACPS provides transportation services for its special needs students using buses it owns and operates and all other transportation services are provided by outside contractors. Although AACPS uses a competitive procurement process when contracting for transportation services, it has not assessed the costs and benefits of continuing to contract for these services rather than operate its own buses.

Recommendations

11. AACPS should continue efforts to improve the efficiency of bus utilization by investigating the use of automated routing software to assist in developing more efficient bus routes and should enhance existing policies to address factors such as desired bus loads and student ride times.

12. AACPS should ensure the appropriateness of payments to bus contractors and vendors. Changes to data impacting bus contractor payments should be reviewed and approved by supervisory personnel who do not have access to the automated system. In addition, all payments to vendors should be in accordance with contract terms and reviewed for reasonableness and propriety.

13. AACPS should consider using smaller, less expensive buses for routes with fewer students. In addition, AACPS should periodically prepare an analysis to identify the most cost-effective method of providing student bus service (that is, through the use of outside vendors, in-house operations, or a combination of the two).

Chapter 9

Food Services Operations

AACPS has implemented a number of best practices to help control food costs and to provide efficient operations, such as through the use of performance measures and participation in the United States Department of Agriculture (USDA) commodity program. AACPS also has adequate procedures to identify students eligible for free and reduced-priced meals under the federal national school meals programs. However, AACPS needs to improve its controls over the processing of cash receipts collected in its cafeterias. See Table 5 on the following page for cost per meal data, which indicates that the AACPS average meal cost is comparable to other similarly-sized school systems.

Table 5 Comparison of Cost per Meal Fiscal Year 2006 (Unaudited)					
School System	Total Expenditures	Meals Served❶			Average Cost Per Meal
		Breakfast (paid, free, and reduced)	Lunch Snack and Summer Food (paid, free, and reduced)	Total	
Anne Arundel Co.	$17,919,649	1,207,998	5,222,528	6,430,526	$2.79
Baltimore City	29,888,058	3,324,441	12,922,445	16,246,886	1.84
Baltimore Co.	33,279,329	2,517,983	9,093,683	11,611,666	2.87
Harford Co.	12,286,807	698,978	3,596,364	4,295,342	2.86
Howard Co.	11,041,316	213,976	3,467,764	3,681,740	3.00
Average of Comparable Systems	$21,623,878	1,688,845	7,270,064	8,958,909	$2.68

Sources: MSDE 2005-2006 Fact Book, MSDE 2005-2006 Selected Financial Data, Comprehensive Annual Financial Report

❶- The number of meals served does not include meals served to non-school entities.

Background

One hundred thirteen of the 117 AACPS schools have cooking cafeterias; the remaining 4 schools receive prepared food from another school. AACPS has a self-sustaining food services operation. For the combined fiscal years 2005 and 2006, AACPS reported that food service revenues exceeded expenditures by approximately $1.6 million. See Table 6 on the following page for information regarding fiscal year 2006 food services.

Table 6
Food Service Facts for Fiscal Year 2006

Average cost per meal			$2.79
Number of meals served:			
Breakfast			
Paid	443,281		
Free	636,227		
Reduced price	128,490		
		1,207,998	
Lunch			
Paid	3,430,275		
Free	1,339,058		
Reduced price	429,757		
		5,199,090	
Snacks		23,438	
Total meals served			6,430,526
Schools locations served/kitchens			117/113
Full-time employees			336
Part-time employees			27
Revenues:			
Federal			
Cash payments	$5,860,480		
USDA commodities	797,947	$6,658,427	
Sales and other sources		11,786,761	
State aid		331,934	
Total Revenue (all sources)			$18,777,122
Total Expenditures			17,919,649
Excess of Revenue over Expenditures			$857,473

Sources: Comprehensive Annual Financial Report, MSDE 2005-2006 Fact Book

Best Practices Were in Place to Reduce Certain Costs and to Maintain High Participation in Meal Programs

AACPS has implemented several best practices to contain food services costs – The following measures helped to increase operational efficiency and to reduce food supply and material costs.

- AACPS used performance data, such as meals per labor hour and monthly financial reports, to track and monitor the operating efficiency at each of its school cafeterias.

- AACPS participated in the USDA commodities program, which is a free food program, and used third parties to process USDA commodities into ready-to-serve items.
- AACPS used standard serving sizes and recipes to economize on food purchases.

When compared with other similarly-sized school systems for fiscal years 2004 and 2005 (the most recent years for which detail cost data was available), AACPS food supplies and materials costs (excluding labor) per meal are reasonable, as shown in the Table 7 below.

Table 7
Food Service Materials and Supplies Cost Per Meal (Unaudited)

School System	Fiscal Year	
	2004	2005
Anne Arundel Co.	$1.01	$1.05
Baltimore City	1.01	1.03
Baltimore Co.	1.10	1.10
Harford Co.	1.39	1.32
Howard Co.	1.14	1.14

Source: MSDE Selected Financial Data Report for FY 2004 and FY 2005

AACPS used several best practices to encourage participation in the federal free and reduced-priced meal program – These practices include (1) the use of a family application process, instead of individual student applications, to simultaneously qualify more students for the free or reduced-priced meal program, and (2) direct enrollment for children receiving services from the Maryland Department of Human Resources. According to MSDE records, approximately 21 percent of AACPS students qualify for the program. We determined that approximately 32 percent of all lunch meals served in fiscal year 2006 by AACPS were served to students participating in the program.

Internal Controls Over Cash Collections Could Be Improved

Our review of cash handling and accountability procedures at five school cafeterias identified internal control weaknesses at four schools that could result in theft of cash receipts without detection. For example, at one school, cash was often placed into a basket next to the register, which was also occasionally left unattended. At another school, the cash register drawer was left open between sales transactions. Furthermore, at four of the schools, the employee responsible for reconciling amounts collected with a daily sales report from the cash register and for making the related deposits also worked as a cashier. Finally, even though an independent employee compared the sales data from the cash registers with bank statements for all schools, these procedures were only performed on a monthly basis. While AACPS had policies regarding the processing of cafeteria cash receipts, these procedures did not address the weaknesses noted. According to AACPS records, cash sales made by all cafeterias during fiscal year 2006 totaled $11.5 million.

Recommendation

14. AACPS should establish comprehensive cash handling procedures, which ensure that all receipts are adequately safeguarded and that cash receipt and processing duties are segregated, when practical.

Chapter 10

School Board Operations and Oversight

The Board has adopted detailed policies governing the operations of the Board and AACPS. In addition, financial information is made available to the proper parties (such as the Board, principals, and administrative supervisors) in a timely and consistent manner. AACPS also has an active internal audit unit that reports directly to the Board, and has adopted a detailed ethics policy that applies to Board members and to all AACPS employees. While the Board has established key indicators to monitor academic performance, it has not established financial-related performance measures to help monitor AACPS implementation of the budget and Master Plan. In addition, the Board should implement a mechanism for reporting and investigating suspected fraud and misuse of assets.

Background

AACPS is governed by a seven-member board (not including one student representative) appointed by the Governor. By law, the members must be residents of Anne Arundel County. The Board does not use a committee structure; rather, given its limited membership, individual members are periodically informed of and become involved in all aspects of operations and governance. This audit focused on the Board's fiscal oversight responsibilities.

The Board is ultimately accountable for the success of AACPS in providing the children of Anne Arundel County with a quality education, while wisely spending local, State, and federal funds.

Vision

To have each and every student achieve his or her individual potential in a safe, positive and nurturing environment

Mission

Through effective leadership, we will efficiently and equitably dedicate all of the resources of the school system to each student achieving his or her full individual potential

System Goals

- *To accelerate achievement for all students and minimize the achievement disparities among all groups of students*
- *To create a safe learning environment that promotes accelerated achievement*
- *To establish community partnerships to promote accelerated achievement*

Source: http://www.aacps.org/html/bte/pdf/execsummary.pdf

Certain Oversight Is in Place

The Board used a number of methods to broadly oversee the operations of AACPS – The Board uses a number of methods to oversee the operations of AACPS. For example, the Board contracts annually for the audit of its Comprehensive Annual Financial Report and federal grant programs. The Board also employs an independent internal audit function that reports directly to the Board. The internal auditors perform annual audits of student fund activity at all schools and assess compliance with Board policy, regulations, and laws in a number of financial-related areas.

The Board receives and discusses detailed budget and expenditure information as part of the budget approval process. In addition, members receive a detailed expenditure report each month with comparisons to budgeted amounts. The Board also reviews and monitors key performance indicators related to academic operations of AACPS.

The Board has established and periodically updates a number of policies governing financial and support operations (such as student transportation) of AACPS. These policies cover areas such as Board governance, procurement, personnel, finance, instructional programs, student conduct, and school facilities. AACPS has developed detailed procedures manuals to implement Board policies.

A detailed ethics policy has been established – The AACPS Board has adopted a detailed ethics policy that covers Board members as well as employees, and that specifically identifies those supervisory employees required to file annual financial disclosure statements. This policy also covers conflicts of interest and generally conforms to State law. AACPS maintains an Ethics Panel (composed of five independent county citizens) to interpret ethics policies and to provide advice on policy implementation. We reviewed the financial disclosure statements for calendar year 2005 and did not note any issues of audit significance.

Additional Actions Should Be Considered to Provide Guidance to Management

The Board should implement financial performance measures to assist it in managing AACPS – The Board had not established a comprehensive financial-related performance measurement system, with attendant goals and objectives. While the Board received timely financial information, including budget and expenditure reports, without key performance information, the Board may not be able to fully evaluate the financial operations of the System. Examples of useful performance measures would include cost comparisons, such as facility cost per student and cost per meal. While certain performance measurement data were available, it was not generally provided to the Board. Additionally, the reasons for variances should be documented in order to review the effectiveness of the individual measures. When implemented correctly, performance measures can be used to assist in decision-making processes, such as allocating resources and budgeting, and to report on departmental effectiveness and efficiency. Performance measures can also be an important component of long-term strategic planning and related decision-making.

The Board should consider establishing a fraud hotline, and related processes, to help detect fraud and misuse of assets – Although AACPS has an active internal audit unit that reports directly to the Board, AACPS did not have a fraud hotline or whistleblower program that encouraged reporting of suspected fraud, waste, or abuse and that protected workers. Such a process is advocated by a number of private and public entities, including the Institute of Internal Auditors and the American Institute of Certified Public Accountants.

Recommendation

15. AACPS should use performance measures to monitor adherence to its budget and implementation of its Master Plan. Additionally, AACPS should consider the feasibility of establishing a hotline for the confidential reporting of suspected fraud.

Chapter 11

Other Financial Controls

This chapter addresses the management of cash, risk, and debt within AACPS. We found that AACPS has a policy in place to govern its cash and risk management practices; however, AACPS needs to adopt policies on its use of long-term lease/purchase agreements.

Cash and Risk Management Best Practices Were in Place

AACPS has adopted policies to govern cash and risk management. For example, the Board has formalized policies to govern investments and to protect funds, and to standardize cash collection practices in the schools. To manage its risks, the AACPS uses a combination of self-insurance and commercial insurance to protect itself from losses. AACPS maintains a risk management program that tracks and analyzes loss data.

Debt Management Policies Should Be Established

AACPS had not adopted policies to govern its use of long-term debt to finance operations, as recommended by the GFOA. AACPS is not permitted to issue bonds or other long-term debt instruments to finance capital or operational needs; however, AACPS does use lease/purchase agreements to purchase equipment items such as computers. According to the AACPS fiscal year 2006 audited financial statements, long-term liabilities related to lease/purchase agreements totaled $7 million.

Recommendation

16. AACPS should develop and implement policies addressing the use of lease/purchase agreements. For example, it should consider using the recommended practices of the GFOA.

Audit Scope, Objectives, and Methodology

Scope

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

Objectives

We had two broad audit objectives:

1. To evaluate whether the AACPS procedures and controls were effective in accounting for and safeguarding its assets

2. To evaluate whether the AACPS policies provided for the efficient use of financial resources

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

Methodology

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by AACPS. We also interviewed personnel at AACPS, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate[7]). Our audit procedures included inspections of documents and records, and observations of AACPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2005 through December 31, 2006. For our audit work on revenue and federal grants, we primarily relied on the results of an independent audit of fiscal year 2006 activity; accordingly, our revenue and federal grants work was limited to this period.

In addition, we contacted a number of other state auditors' offices and legislative program evaluation agencies that had a history of conducting audits or reviews of local school systems. We interviewed those officials and inspected their work programs and resultant reports to identify specific audit techniques and operational practices at schools that could be adapted for our school system audits. Finally, we used certain statistical data--including financial and operational--compiled by the MSDE from various informational reports submitted by the Maryland local school systems. This information was used in this audit report for

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

background or informational purposes. For comparison purposes, information provided was generally limited to those Maryland school systems of similar sizes, based on student enrollment and/or system budget. In many cases, this information was self reported by the school systems. The data was neither audited nor independently verified by us.

Other Independent Auditors

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

During the course of this audit, we relied on these results. We performed certain steps to satisfy ourselves as to the reliability of the reported results of the independent federal grants audit of the AACPS fiscal year 2005 and 2006 federal financial assistance programs for compliance with federal laws and regulations and the AACPS fiscal year 2006 financial statement audit. Accordingly, we significantly reduced the scope of our work in Chapter 1 "Revenue and Billing Cycle," and in Chapter 2 "Federal Funds."

Limitations of Internal Control

AACPS 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 AACPS that did not warrant inclusion in this report.

Fieldwork and AACPS Responses

We conducted our fieldwork from June 2006 to March 2007. The AACPS response to our findings and recommendations is included as an appendix to this report.

APPENDIX

ANNE ARUNDEL
COUNTY PUBLIC SCHOOLS

2644 Riva Road, Annapolis, MD 21401 | 410-222-5000 301-970-8644 (WASH) 410-222-5500 (TDD) | Kevin M. Maxwell, Ph.D., *Superintendent of Schools*

September 24, 2007

Bruce A. Myers, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
Maryland General Assembly
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Myers:

In accordance with State law, enclosed please find the response from Anne Arundel County Public Schools to your letter dated September 7, 2007, regarding our draft performance audit report.

If you have any questions or concerns, contact William Peacock, Supervisor of Finance, at 410-222-5200 or WPeacock@aacps.org.

Sincerely,

Kevin M. Maxwell, Ph.D.
Superintendent of Schools

KMM/WHP/dlb
Enclosure

1.

The review and potential implementation of the automated controls in the procurement and payment system is scheduled following the upgraded financial system in the spring of 2008.

Procedures have been modified with regard to the Procurement Card Program to ensure separation of duties for the employee that orders the card, from the employee that issues the card to requesting/approved staff.

2.

Two committees have been developed to evaluate program procedures, limits and usage including the use of on-line receiving, which will allow a single card per cardholder at each location rather than multiple by budget account number. To minimize the potential of human error in reporting contracts to the Board, in June 2006, approval procedures were modified. We have implemented new procedures that require the draft agenda item to be provided to the Supervisor of Purchasing with the buyer's award recommendation.

3.

Annual pay increases for the vast majority of employees result from negotiated agreements approved by the Board of Education. For unrepresented employees, annual pay increases are recommended by the Superintendent and approved by the Board of Education. Such increases are implemented electronically and an error report is reviewed by a managerial grade employee who researches and corrects any errors.

Pay increases resulting from reclassifications, promotions, demotions, change in FTE status are submitted on a Personnel Action Form and reviewed by a managerial grade employee.

Documentation to support any payment to an employee exists in several forms: A Personnel Action Form documents pay at hire, upon promotion, demotion, reclassification or change of status (such as full time to part time). Employees eligible for overtime document those hours worked on the appropriate form which is reviewed and approved by the supervisor before submission to payroll. Employees eligible for additional pay, such as for attendance at professional development workshops, similarly submit the appropriate form which is reviewed and approved by the supervisor or other authorized personnel before submission to the payroll department. Payments for tuition reimbursement are made after submission of the appropriate documentation which is reviewed and approved in the Office of Certification. Retroactive pay for employees is documented on a specially developed payroll form that is reviewed by the payroll manager or assistance manager.

Human Resources and Finance will review past payments to federally-subsidized instructors, and address any discrepancies, including recovering employee overpayments, and returning excess federal reimbursements.

4.

The Division of Human Resources is in agreement with this finding from the auditors. School districts have traditionally focused primary effort on the recruitment and retention of teachers and administrators as evidenced by the fact that the auditors have issued this same recommendation to other school districts. This effort may be driven by the fact that the largest group of employees in any district is its teaching staff. Anne Arundel County Public Schools (AACPS) has recognized the need to look at all positions within the district as they are also critical in its ultimate ability to provide students with a quality education and academic success.

The Bridge to Excellence Master Plan included objectives and strategies to address human resources needs only on the instructional side of operations. There is no dispute that AACPS needs to more broadly look at its workforce planning needs beyond the focus on instructional positions. While the majority of employees in any district are instructional, the system is dependent on the work of many other staff members.

Recently, the Board of Education adopted new Strategic Goals that represent its direction as a school system through 2011-20012. One of the goals included addresses workforce quality. As a part of developing the plan to reach that goal, specific attention will be given to address all of the personnel employed by AACPS, including instructional staff, central office staff and other support positions. The workforce planning goal will look at indicators to include staffing and retention of all employees. As we develop our milestones for meeting the goal, we will work to ensure that workforce needs are examined and that we establish a plan to address gaps between our needs and our current status.

5.

AACPS is conducting an annual physical inventory. Inventories were conducted at all secondary schools in March and May of 2007. Inventories at all elementary and special schools will be conducted in the fall of 2007.

The technical issues encountered with AACPS' conversion to the AMS Financial System have been resolved and no longer impact our ability to carry out accurate inventories. Prior inventory efforts were somewhat hampered due to the inability of our system to update and reconcile our property data with our financial system.

Effective with our last annual inventory, all physical counts were performed by staff that do not have daily access to the inventory. In addition, AACPS has purged outdated records of items that are no longer in stock or have been deleted from inventory. Written procedures to review the current inventory in order to determine if it is obsolete, overstocked or missing will be in place during FY08.

AACPS procedures have been amended to include the use of barcode labels for major fixed assets. This will give us the ability to positively identify and record property without having to rely on serial numbers for identification. The bar coding process for equipment has already been adapted and put to use by AACPS. This should help ensure that our records accurately reflect the actual inventory on hand.

6.

AACPS agrees with these recommendations. In order to comply with these recommendations, AACPS must be allowed to complete the new authentication system migration currently under way as soon as possible. The new authentication system will require users to authenticate to the AACPS network with a valid individual user ID.

7.

AACPS has purchased a degausser, located in the Test bed, to destroy all no longer used media. Processes and procedures are being developed to ensure that ALL no longer used media is destroyed and discarded properly according to NIST approved standards.

With over 5,000 desktop computers replaced annually, AACPS does not have the human resources and space to adequately perform this function. Therefore, AACPS elects to contract with Daly Computers for this service. For each desktop computer removed, AACPS receives a letter containing the assurances listed above along with serial number, make and model.

For each Refresh computer, "Daly assures Anne Arundel County Public Schools (AACPS) that all applications and all data that resided on the computers on all of the equipment lists…will be removed before the final disposition of the equipment. The media sanitization method that Daly Computers uses follows NIST guidelines found in the NIST Special Publication 800-88, Guidelines for Media Sanitization, Section 2.4, Types of Sanitization, Table 2-1".

The Chief Information Officer and Manager of Central Office Facilities will implement a new card swipe system on all AACPS Computer Rooms to ensure appropriate physical controls and audit capabilities in the future.

The Chief Information Officer will work with the AACPS Executive Team and stakeholders to formulate a comprehensive disaster recovery plan in Fiscal Year 2008. The plan will be integrated with the Continuity of Operations Plan being developed by the Office of School Security.

8.

The next opportunity to change the Technology Refresh program will be in March 2008. Prior to renewing the computer equipment lease, AACPS agrees to prepare a cost/benefit analysis, including the total cost of ownership, comparing the costs of leasing versus purchasing equipment. This will include the payoff of all current contractual obligations.

9.

AACPS has taken a significant number of steps towards implementing the recommendations proffered within the MGT of America Strategic Facilities Utilization Master Plan. Principally, the Fiscal Years 2008-2014 Capital Improvement Plan (CIP) has been comprehensively revised to reflect the school facility renovation/replacement prioritization algorithm depicted in the 10-year Master Plan study. Specifically, all of the Priority 1 and a majority of the Priority 2 renovation/replacement projects referenced within the 10-year Master Plan study have been placed within the school system's 6-year CIP. We envision the remaining projects being scheduled into the out years of the CIP as it rolls forward from year to year. Additionally, AACPS undertook a number of the program placement and redistricting recommendations identified within the Master Plan this past academic year and additional transactions are anticipated to occur this year and in the out years. Finally, the Master Plan was developed with a tremendous amount of public and constituent input. Similarly, the findings have been shared with public officials and the public at large in a number of venues. AACPS commits to continuing these outreach efforts in an attempt to engage the citizenry and key stakeholders.

The deferred maintenance issue is one that is under constant review and analysis by AACPS. Annually, our Comprehensive Maintenance Plan is produced and forwarded to the State and County as a statement of maintenance related infrastructure needs. The Capital Improvement Plan serves as a statement of financial needs required to discharge the work identified within the Comprehensive Maintenance Plan and the MGT of America Strategic Facilities Utilization Master Plan. Under Anne Arundel County's charter form of government, the funding amounts and sources remain under the purview of the County Government and the State Government. AACPS maintains an open and productive communications channel with both entities in an effort to advocate for our position as well as explore options for alternative funding mechanisms.

Finally, we agree that AACPS should embrace a more comprehensive strategy toward energy conservation. While AACPS has a number of mechanisms in place to constrain the use and costs of natural resources, more can always be done in this area. AACPS continues to build upon its automation strategies and energy sensitive building practices. AACPS also continues to explore various commodity procurement strategies in order to keep per unit costs down. Looking forward, AACPS will seek to build upon its existing efforts in energy education and human behavior in an ongoing attempt to lower consumption quantities. These efforts will be tied together through the use of refined measurable goals and objectives as we go forward on this initiative.

10.

AACPS continually strives to improve upon our ability to service, maintain and operate our facilities. That said, we agree that AACPS can expand our current customer feedback and survey practices. The information gleaned from such surveys can help us refine and better focus our efforts on behalf of the end users. Furthermore, AACPS agrees that our maintenance staff would clearly benefit from a more robust and formal training program. To date, our ability to undertake such a course of actions has been constrained by fiscal actions. We have successfully employed alternative strategies to gain valuable training opportunities by partnering with various vendors and installers. Additionally, we

stretch our available training dollars each year to ensure that all mandatory or regulatory imposed training requirements are met. We will continue to advocate for expanded opportunities in this arena.

AACPS utilizes an automated work order management system in order to facilitate and manage the predictive and documentary aspects of the maintenance function. Although the existing QBIC system is of an older vintage, it provides many of the functions and capabilities required to run a successful maintenance management program. Our current practice is to estimate the anticipated costs for all significant projects. Those projects that are competitively bid and outsourced are compared against these estimates prior to bid award. Similarly, significant projects undertaken by our in-house workforce are estimated prior to being released for material acquisition and scheduling by our project planning unit. Once such projects are completed, the actual costs are entered into the work order management system so that a history of physical plant asset based expenditures can be compiled. AACPS will continue its efforts to manage resources both effectively and efficiently through an ongoing review and assessment process. Finally, AACPS will seek to refine its existing prioritization algorithm in order to ensure that the most beneficial discriminating priority ranking system is employed.

11.

The Transportation Division continuously reviews its work practices and routing methodology to ensure that students are transported in the safest, most cost-effective manner possible. A component of this continuum is the review and evaluation of tools provided by automation companies to assist and further streamline efforts to provide efficient bus routing solutions as they become available. A part of this analysis will determine additional staff necessary to implement and maintain any prospective software solution.

12.

Transportation, Finance and Technology have reviewed software utilized by other county school systems including discussions with the proposed vendor. Contract and statement of work documents are being finalized and the process of implementing this software should begin this fall. The Transportation Division is drafting a revised policy and procedure document during the 2007/2008 school year.

13.

As we tier and stack multiple bus service commitments for maximum effective use with a limited fleet, we find that smaller buses limit our flexibility to provide regular route and special program services in that they are limited as to what population of students may be transported. In addition, while use of smaller buses is legally recognized by State and Federal agencies, it should be noted that there is a reduced level of student safety in the Type 2 buses.

We continually review the most cost-effective methods for the provision of student transport services. Our in-house transportation system utilizes a limited fleet for providing services to special needs students. In order to consider an agency owned fleet, it would be necessary to procure or lease land, facilities, equipment and staff to maintain the current service levels. This issue has been reviewed, and does not appear feasible. During routing processes, we review, analyze, and assess scheduling and work performance as it relates to in-house versus contractor-owned resources.

14.

- **Cash Control procedures have been revised for 2007-08 school year to include the securing of cash receipts during meal service. Procedures to secure cash receipts before and after meal service were already in place.**
- **Managers in secondary schools are instructed to cashier only during staffing shortages. Managers and Food Service Worker (production assistants) at these locations are not assigned to these duties on a routine basis.**

- **Elementary schools have limited staffing. Managers are encouraged to separate the cashier function from managerial accounting and depositing responsibilities. This is being addressed through additional training of staff at these locations. Training has already begun and is on-going.**
- **In addition, all schools maintain Production Records. These records independently verify sales and are maintained by separate employees. The records and the handling of cash receipts are also monitored by FNS Area Specialists.**

15.

The OLA recommendation includes examples of performance measures such as facility cost per student and cost per meal. As a component of approving the annual Food & Nutrition Services budget, program expenses are reviewed and student meal prices are established.

During the budget presentations for the implementation of the Full Day Kindergarten, AVID, International Baccalaureate, Advanced Placement and Talent Development programs, the Board was presented with the total program costs, projected number of students and an estimated per student cost. New initiatives now include a per student cost.

The FY09 budget process will include per student or per staff information where possible. Additionally the FY09 Budget Book will include program budgets with relevant "per" information as can be obtained.

The school system is currently using a vendor (The Network) for the Student Safety Hotline, an anonymous hotline that allows persons to communication their concerns about individuals and situations in a manner that is anonymous. This vendor has the ability to operate an ethics/fraud hotline. The school system will investigate the programs and costs for a budget request during the FY09 budget process.

16.

The Board of Education is currently reviewing, revising and updating policies. A policy regarding long-term leases will be considered during this process.

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