

Financial Management Practices Performance Audit Report

Baltimore City Public School System

January 2006



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

January 9, 2006

Delegate Charles E. Barkley, 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 Baltimore City Public School System (BCPSS) in accordance with the requirements of the State Government Article, Section 2-1220(f) of the Annotated Code of Maryland. BCPSS is the fourth largest public school system in Maryland, based on student enrollment. The educational services are delivered in approximately 170 schools, with an annual budget of approximately \$1 billion. The objectives of this audit were to evaluate whether BCPSS 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 contains 23 recommendations covering virtually every financial management area reviewed. The areas where more significant problems were identified included procurement, facilities, inventory control, transportation services and payroll/human resources. BCPSS management must develop a plan and related strategies for addressing these audit issues, including mechanisms to monitor the progress of implementing corrective actions. Also included in this report are instances of processes and best practices to help ensure the efficient use of financial resources that we found to be in place in BCPSS.

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 87. We wish to acknowledge the cooperation extended to us during our audit by BCPSS.

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 Baltimore City Public School System (BCPSS) in accordance with the State Government Article, Section 2-1220(f) of the Annotated Code of Maryland. State law requires the Office to ultimately 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 process in September 2004. The approved process included 11 functional areas. The following are summaries of the findings in those areas disclosed during our audit of BCPSS.

Revenue and Billing Cycle (see pages 11 through 12)

According to the BCPSS audited financial statements for the fiscal year ended June 30, 2004, \$957 million of revenue was received during fiscal year 2004. Due to similarities between the work of the independent auditor that audited the BCPSS financial statements and the scope of our audit in this area, we placed significance reliance on the results of the independent audit of the fiscal year 2004 financial statements. The auditor's procedural review and testing disclosed that collection activity for revenue, the majority of which was received via wire transfer from other government entities, was adequate. Our review of miscellaneous revenues collected in the form of cash was limited to those collected from food services. As noted in Chapter 9, cash handling procedures were generally adequate to safeguard food services collections at the schools visited.

Grants (see pages 13 through 16)

Annually, BCPSS is subject to an audit of its federally funded programs. 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 2004 grant activity (reported federal grant expenditures totaled \$95.8 million in fiscal year 2004). In June 2005, BCPSS independent auditor issued a report containing 12 specific deficiencies in the design or operation of the internal control affecting grant accounting and compliance (for example, not properly documenting employee time charged to grant work).

Procurement and Disbursement Cycle (see pages 17 through 23)

According to BCPSS records, for \$25 million of the \$184 million in purchases during fiscal year 2004, BCPSS used a “requisition only” process that did not lead to the creation of a purchase order or an encumbrance in the accounting records. This made tracking of purchase commitments difficult, which in turn could have led to overspending budgets.¹ This “requisition only” process is to be replaced with an internet-based procurement system that will identify purchase commitments timely; however, assurances had not been obtained regarding the adequacy of the new system’s security. Other procurement controls were found lacking. For example, in BCPSS automated accounts payable system, five employees were assigned incompatible capabilities over payment processing. We also noted contract monitoring problems, including a failure to ensure that all services billed were received and were consistent with the terms of the related contracts. BCPSS also needs to modify its employee ethics policy to provide for timely receipt of annual disclosure statements. We did however find several best practices in use, such as employee travel restrictions and attempts to increase procurement efficiency by participation in regional buying consortiums.

¹ This period coincided with the highly publicized BCPSS budget deficit and cash shortage.

Human Resources and Payroll (see pages 25 through 35)

BCPSS employs the fourth largest number of regular full-time employees among the 24 public school systems in Maryland. According to BCPSS records, the total payroll cost for all employees was \$645 million in fiscal year 2005. We noted several policy issues that should be addressed. For example, BCPSS personnel policies were not comprehensive and a formal personnel system had not been established as required by State law. In cases where the Board had not approved its own policies, by default, City of Baltimore personnel policies were still being followed. Formal workforce planning should be expanded to cover administrative and maintenance personnel instead of just teachers, and should address long-range planning considerations for employee retention and replacement beyond the currently used one-year timeframe.

From a control and accountability perspective, we noted that sufficiently detailed payroll records were generally unavailable for periods prior to May 2004 (that is, before BCPSS implemented its new human resources system). Payroll registers and personnel files were stored in a haphazard manner, which hampered our testing of payroll transactions for that period. Regarding the new system, the accuracy of the critical data entered in human resources and payroll records should be independently verified, as we found several cases of either invalid or incorrectly recorded social security numbers in employee records. During our procedural reviews and testing, we noted a number of opportunities for strengthening the controls over the current payroll process, including the need to establish processes to document supervisory approval of salary adjustments and supervisory review of questionable transactions identified by system edit reports. Also, employee access to the automated human resources management system needs to be periodically assessed for propriety. From our limited testing of certain payroll data, we found one executive-level employee had improperly earned and received payment for unused compensatory leave and another management employee had approved their own grant stipend, but documentation was not available to support the payments.

Inventory Control and Accountability (see pages 37 through 40)

BCPSS record keeping and control needs to be improved for both equipment and non-dietary materials and supplies. According to BCPSS records, as of June 30, 2004, the book value of BCPSS equipment was \$31 million, with fiscal year 2004 purchases of \$10.5 million. BCPSS had not implemented comprehensive policies, procedures and methods that would provide for reasonable accountability and control over equipment and non-food service² materials and supplies or safeguard such assets from theft, waste or abuse. Although BCPSS had an equipment capitalization policy for financial statement reporting purposes, no detailed records were maintained for any equipment items and a related inventory control policy had not been established. Since 2001, annual physical inventories were only taken for textbooks, and this was only done at the end of the school year to help plan purchases and distributions of textbooks for the coming year, not as a control process to account for all textbooks. The lack of inventory records and other controls makes equipment and textbooks more susceptible to undetected theft or loss, which in turn, can result in increased expenditures to replace items or having to make due without them. Finally, although non-food materials and supplies were ordered on an as-needed basis by principals and certain administrators, which mitigated the need for formal inventory records, there was no periodic analysis of re-order tracking and other stock management procedures. Also, BCPSS had not developed comprehensive, formal written policies and procedures to guide the control and use of materials and supplies.

Information Technology (IT) Issues (see pages 41 through 46)

Certain best practices were in place over IT application development, although we did note the opportunity for BCPSS to improve its system development practices. We also identified a number of necessary improvements that BCPSS should implement in the areas of IT systems access and security and computer

² Any audit issues related to food services are disclosed in Chapter 9 – Food Services.

center operations. Examples of the suggested improvements include making fuller use of available IT system features to restrict or detect unauthorized or unnecessary employee access and prevent unauthorized or erroneous program code changes. BCPSS should develop a comprehensive disaster recovery plan for its data operations center. Finally, BCPSS should address certain physical security improvements and water seepage issues at the center.

Facilities Construction and Maintenance

(see pages 47 through 56)

One of the most significant issues facing BCPSS is its declining student enrollment and the resultant need to close some of its 169 school buildings. Although the necessity of closing schools is recognized by most stakeholders, BCPSS has been slow to respond to the challenge, closing only seven schools over the past four years, while still operating a number of schools well below their student capacities. BCPSS capital planning has been impacted by the slow reaction to closures and will need to be reassessed after the future closure decisions are finalized. For example, we noted that the fiscal year 2005 and 2006 approved capital projects included projects at eight schools recommended for closure in a 2001 consultant's study. To enhance capital project management, BCPSS should automate its capital budget tracking system and include a formal ranking process to prioritize projects, as well as develop building status and inspection reports to document conclusions related to capital projects.

BCPSS also needs to develop a comprehensive maintenance program for its facilities. This program should include implementing a formal inspection process, making better use of its automated work order system to schedule and monitor work, developing cost and time estimates for maintenance and repairs, and establishing a measurement system to monitor the performance of its approximately 800 maintenance and custodial employees. Furthermore, our test of four construction and maintenance contracts valued at \$10.3 million disclosed missing key documents, including signed contracts, vendor proposals and the related BCPSS bid evaluations. We also frequently noted monitoring issues, including a vendor starting construction work prior to Board approval of the related contract, failure to verify

the quality of vendor work, and the payment of vendor bills before comparing the charged costs to the related contract.

Transportation (see pages 57 through 70)

Of the five largest public school systems in Maryland, BCPSS provided transportation services to the fewest number of students, and at the highest per mile and per student cost, spending over \$29 million during the 2003/2004 school year according to BCPSS records. Although many middle and high school students were given public transit passes, which collectively cost almost \$7 million, the high per student costs generally related to transportation services provided to disabled students, for which BCPSS relied primarily on contractors (bus operators and taxicabs). Our review disclosed a number of problems, starting with the need for BCPSS to establish a formal process to periodically measure and assess the operational effectiveness and efficiency of its transportation services and consider enhancements to more fully use features in its automated route scheduling software. The contract bidding and award processes were poorly documented and, in practice, often contrary to existing BCPSS policies. Key terms including fees and rates were often unclear or, when defined, were disregarded at the time of payment. BCPSS needs to establish a process to ensure that it is receiving the best value from its transportation contracts.

Numerous overpayments or failures to recover costs were noted. BCPSS did not recover up to \$400,000 in transportation services provided to a for-profit vendor operating certain City schools and, for one year, a bus vendor was paid \$319,000 in excess of the fees provided for in contract documents. Furthermore, taxicab operators, which received \$2.4 million in fiscal year 2004, were paid a flat rate in violation of State Public Service Commission regulations. We noted rates paid which were over 50 percent higher than the contractually stipulated rates. Additionally, BCPSS lacked procedures to effectively verify that taxicab billings and payments were made only for students documented as being eligible for taxicab services. Generally, the controls over the process for qualifying students for transportation services needed enhancement, and accountability had not been established over student tickets for use on Maryland Transit Administration

systems. Finally, federal reimbursements totaling approximately \$1.5 million for fiscal years 2004 and 2005 for certain transportation service costs might be higher if BCPSS increased its participation in several initiatives to identify Medicaid-eligible students and if it improved the level of documentation supporting the delivery of services to qualified students.

Food Services (see pages 71 through 76)

According to MSDE data, of the 24 public school systems, BCPSS served the second largest number of meals during fiscal year 2004, and had the lowest per meal cost among the 5 largest systems, while spending over \$26 million. BCPSS had instituted a number of best practices to control costs and improve operational efficiency. We noted one area requiring enhancement, and that dealt with the processing of student applications for participation in the federal school meal programs. Specifically, BCPSS should institute supervisory reviews over application processing or consider using an application scanning process to minimize the chance for human error.

School Board Operations and Oversight (see pages 77 through 81)

Our audit disclosed several areas for enhancement of Baltimore City Board of School Commissioners (the Board) oversight that we believe would increase operational accountability and help ensure that the Board's policies are appropriately implemented. Some of these would build on the framework already in place, such as the Internal Audit staff that reported to the Board, adherence to existing rules and policies, and the monitoring of selective financial indicators. Specific enhancements include establishing a mechanism to measure efficiency and performance of various units in meeting their operational goals, increasing oversight of internal and external audit functions and ensuring that audit findings are adequately resolved, establishing a formal fraud reporting and follow-up process (with whistleblower protection) and reestablishing use of a committee structure for the Board.

Other Financial Controls (see pages 83 through 86)

BCPSS lacked a formal comprehensive accounting manual incorporating current policies and procedures approved by the Board. We did find that BCPSS had policies in place to govern its cash and debt management practices. However, it needs to expand and strengthen its risk management evaluation practices. Additionally, we found that comprehensive reconciliations between various bank accounts and BCPSS financial records were not conducted on a timely basis, with unresolved differences as high as \$4.8 million, nor was responsibility established over reconciliation preparation and approval.

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Background Information

Oversight

The Baltimore City Public School System (BCPSS) is governed by the Baltimore City Board of School Commissioners, established by law with members appointed jointly by the Governor and Mayor of Baltimore City. The Maryland State Department of Education (MSDE) exercises considerable oversight, and the State and Baltimore City government account for the majority of BCPSS funding. MSDE oversight includes establishing and monitoring various financial and academic policies and regulations in accordance with various provisions of the Annotated Code of Maryland. MSDE also works with the local school systems to comply with the requirements and mandates of the federal No Child Left Behind Act of 2001. Due in part to the highly publicized financial difficulties faced by BCPSS over the last several years, Baltimore City government has become more engaged in oversight of BCPSS operations.³

In addition to the aforementioned oversight, BCPSS has been under longstanding judicial oversight by both the State and federal courts related to various issues, including the adequacy of funding and the delivery of academic and related services to disabled students. In August 2005, a federal judge gave MSDE control over key operational areas directly and indirectly impacting service delivery to BCPSS 15,000 disabled students, including academics, transportation, human resources, and finance. This control, which could last for up to 5 years, is to be exercised by nine administrators appointed by MSDE, who will oversee and

³ In addition to the City's approval of the BCPSS annual operational and capital budgets.

collaborate with the BCPSS administration. The annual cost of this oversight, which is to be borne by BCPSS, is estimated to range from \$1.4 million to \$3 million. MSDE control was implemented subsequent to our field work and may impact how BCPSS implements our recommendations in certain areas such as transportation.

Statistical Overview

According to MSDE student enrollment records, BCPSS is the fourth largest system in Maryland. From fiscal year 1995 to fiscal year 2004 the total full-time regular and special education pupil population has decreased 17 percent from 109,980 to 90,870⁴ (with fiscal years 2005 and 2006 projected enrollments of 88,594 and 86,307, respectively). A comparison of the fiscal year 2005 and 2006 budgets disclosed a 5 percent increase from \$964 million to \$1.015 billion. The largest expense category is salaries and wages (including fringe benefits), accounting for almost 70 percent of the fiscal year budget, which will support approximately 11,000 budgeted full-time positions in fiscal years 2005 and 2006.⁵

Certain statistical information contained in this report was taken from reports distributed by MSDE and represents the most current comparable information available at the time of our audit. For example, Chapter 7 references plant operations cost data from fiscal year 2003 because subsequent fiscal year information was not available. The lack of more current data was caused, in large part, by another system's delay in submitting its audited fiscal year 2004 financial statements to MSDE.

⁴ Includes 2,276 City students enrolled in the Edison Schools, which are three Baltimore City elementary schools operated by a private firm under contract with MSDE since July 1, 2000. At the beginning of the 2005/2006 school year, a number of charter schools have begun operation in the City.

⁵ The primary source for this background data is the BCPSS fiscal year 2006 operating budget.

Observations on the Separation of BCPSS from City Government in Fiscal Year 1998 and Its Continuing Impact on Operations

BCPSS was separated from Baltimore City government at the beginning of fiscal year 1998 without a transition period and with very little established support structure for such basic areas as accounting, payroll, human resources, receivables, payables, procurement, etc. to properly manage the organization. Eight years later, BCPSS is still to some degree experiencing the impact of that initial lack of vital infrastructure. Furthermore, since separation, BCPSS has experienced significant turnover in senior and mid-level management, its governing Board, and financial office staff, losing important institutional knowledge along the way. For example, during the period of our audit fieldwork, the Chief Operating Officer was replaced, and after the conclusion of our fieldwork, the Chief Financial Officer, who had significant responsibility in establishing necessary controls and processes and reducing the deficit, resigned.

In addition, BCPSS is under close scrutiny from many entities: the Mayor and Baltimore City Council, federal and State courts, MSDE, the General Assembly of Maryland, and numerous advocacy groups and organizations. This scrutiny has highlighted the BCPSS problems and difficulties, both academic and financial.

Although all of the outside entities demand improvement and express a desire for BCPSS to be successful, BCPSS management will be challenged in prioritizing resources and in implementing timely corrective action. Furthermore, BCPSS is facing the continued challenge of establishing adequate management structures and information system capabilities for each of its many areas of responsibility to address historical problems.

The Work of Other Auditors and Consultants

External audit of fiscal year 2004 activity

Annually, BCPSS engages an independent auditor to audit its fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of BCPSS federal grant programs (as required by federal regulations). The two resultant audit reports for the 2004 fiscal year were issued in October 2004. Both reports included findings on BCPSS record keeping, processes and controls. The Single Audit report contained 12 significant findings (including 9 findings repeated from the 2003 audit) and is commented upon in Chapter 2.

Report of MSDE panel on BCPSS finances

During fiscal year 2004, it was disclosed that BCPSS was facing a cumulative budget deficit of approximately \$58 million. In response to this situation, the City of Baltimore and BCPSS negotiated a short-term loan of \$42 million in March 2004 to fund most of the shortfall, with BCPSS agreeing to additional City oversight of its financial operations. Of this \$42 million loan, \$34 million was repaid to the City in August 2004, with the remaining \$8 million to be repaid by June 30, 2006. Also to address the deficit situation, BCPSS decided to terminate approximately 1,000 employees (about half from its North Avenue headquarters).

In response to the disclosure of BCPSS financial condition, MSDE in February 2004, appointed a three-person panel to investigate BCPSS financial practices and budget deficit. On July 20, 2004, the panel issued the results of its investigation, concluding that it found no indication that criminal misconduct contributed in any significant way to the deficit. A MSDE summarization of the problems highlighted in the report included the following conditions:

- Severe breakdowns in communications within BCPSS as well as between BCPSS staff and the Board with respect to the most important aspects of budget priorities.
- A lack of overall structure, discipline and accountability within BCPSS, particularly at the management level.

- A lack of communication among various parties to the City-State “Partnership.”⁶
- Inadequate attention within the 1997 State legislation (SB 795) to the practical aspects of transitioning BCPSS from a city agency to an independent school system, and a perception among many stakeholders that the transition was temporary.
- A failure both within BCPSS and externally to respond with urgency to the various alarms that were raised over the course of several years about the financial situation.

It should be noted that as the then incoming BCPSS executive management team (including the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer) was being put in place, the deficit situation was coming to light, compelling them to deal with this important issue. Due to BCPSS efforts, according to the audited fiscal year 2005 financial statements, the cumulative deficit had been eliminated.

⁶ This alludes to an agreement between the State and City in 1997 that led to passage of Senate Bill 795 creating the New Baltimore City Board of School Commissioners. This legislation identified new responsibilities for BCPSS, including an operational independence from local government similar to that exercised by other school systems in Maryland.

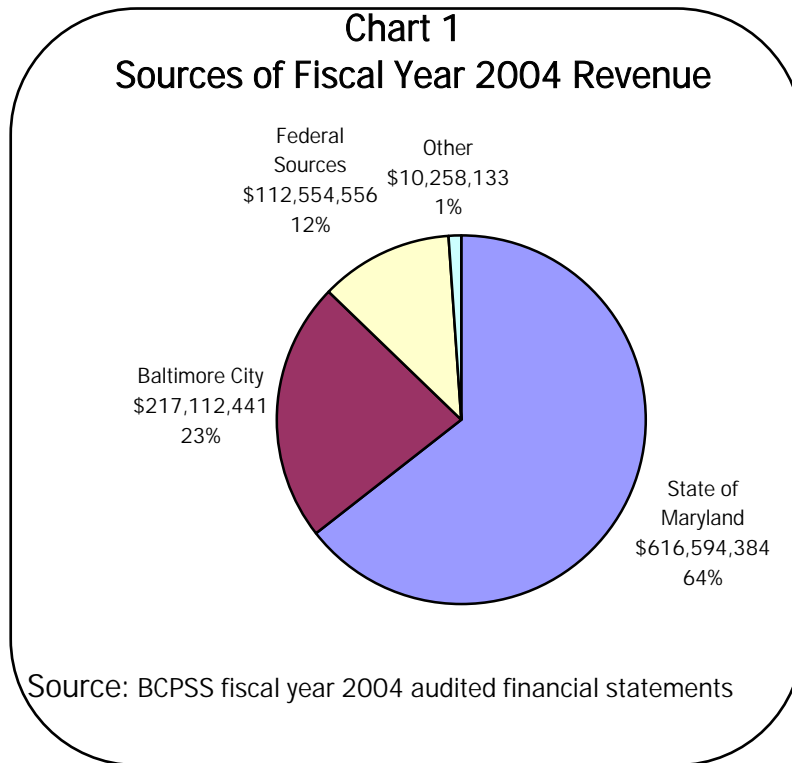
Chapter 1

Revenue and Billing Cycle

According to the BCPSS audited financial statements for the fiscal year ended June 30, 2004, \$957 million of revenue was received during fiscal year 2004. Due to similarities between the work of the independent auditor that audited the BCPSS financial statements and the scope of our audit in this area, we placed significance reliance on the results of the independent audit of the fiscal year 2004 financial statements. The auditor's procedural review and testing disclosed that collection activity for revenue, the majority of which was received via wire transfer from other government entities, was adequate. Our limited review of miscellaneous revenues collected in the form of cash disclosed that cash handling procedures were generally adequate to safeguard those collections tested.

Background

BCPSS revenues consist primarily of funds received from the State, the City of Baltimore, and the federal government. Other sources include receipts from the sale of food, interest income, and other miscellaneous sources. Revenues from all sources for fiscal year 2004 totaled \$957 million according to the audited financial statements.



BCPSS Revenue and Billing Cycle Activity Was Generally Adequate

Due to similarities between the work of the independent auditor that audited the BCPSS financial statements and the scope of our audit in this area, we placed significance reliance on the results of the independent audit of the fiscal year 2004 financial statements. The auditor's procedural review and testing disclosed that collection activity for revenue, the majority of which was received via wire transfer from other government entities, was adequate. Our review of miscellaneous revenues collected in the form of cash was limited to those collected from food services, which is the most significant source of such cash collections. As noted in Chapter 9, cash handling procedures were generally adequate to safeguard food services collections at the schools visited.

Chapter 2

Grants

Annually, BCPSS is subject to an audit of its federally funded programs (often referred to as the Single Audit, required by Circular A-133 issued by the United States Office of Management and Budget). This audit is conducted on a fiscal year basis; the report on the audit of fiscal year 2004 federal grant activity was issued by the BCPSS external auditor in a report dated October 29, 2004. As of October 31, 2005, the audit of the 2005 federal grant activity had not been issued.

In the 2004 report, the auditor expressed a qualified opinion on BCPSS compliance with numerous requirements related to major federal programs. A qualified opinion means that the auditor detected material instances of noncompliance with major program requirements. The auditor issued a report containing 12 findings. These findings included 8 reportable conditions⁷, 3 material weaknesses⁸, and 1 other instance of material noncompliance. One of the findings disclosed a potential liability of \$18 million (originally noted in an audit report previously issued by MSDE on Title I and IDEA funds⁹) for expenditures charged by BCPSS to one federal grant program.

Two of the material weakness related to a lack of documentation to support certain transactions. Specifically, these two material weaknesses related to allocation of personnel costs to the various

⁷ **Reportable conditions** are issues relating to a significant deficiency 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.

⁸ **Material weaknesses**, which are more severe problems, are reportable conditions where the existing internal control components might not detect a material instance of noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud on a timely basis.

⁹ **Title I grants** are distributed to school districts with disproportionate amounts of low income students to ensure that all students receive a high quality education and achieve academic proficiency. **IDEA** (Individuals with Disabilities Education Act) is the federal special education law.

federal awards, whereby BCPSS could not document certain grant expenditures to justify federal reimbursements.

Background

BCPSS receives funds primarily from the State, Baltimore City and federal government. The majority of funds received from the State and Baltimore City are unrestricted; however, federal funds are generally restricted to use for a certain specified program (such as School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2004 expenditures of federal award funds totaled \$95.8 million¹⁰.

As permitted by Government Auditing Standards, we relied on the external auditor's results in this area. Besides expressing an opinion on BCPSS 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 2004 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures).

BCPSS Should Ensure That It Complies With All Grant Requirements

The Single Audit report on fiscal year 2004 federal grant activity disclosed that 9 findings were repeated in whole or in part from the fiscal year 2003 Single Audit report. Uncorrected findings can lead to federal sanctions including loss of federal award income. Generally, BCPSS has made progress to correct the finding conditions, but was not far enough along in the process for us to conclude that the findings had been fully resolved. As previously mentioned, the severity of the findings differs between "reportable conditions" and "material weaknesses" (the more severe of the two). The following table contains a summary of the external auditor's findings. BCPSS generally concurred with the auditor's findings.

¹⁰ This total does not include \$13.1 million of federal medical assistance payments received by BCPSS for Medicaid qualified students and \$3.7 million related to certain other federal programs.

Table 1
Independent Auditor's Fiscal Year 2004
Single Audit Findings

page 1 of 2

Finding	Condition	Grant Program or Financial Area	Material Weakness	Reportable Condition
Monitoring Expenditures ®	BCPSS did not report the results of its fiscal year 2004 audit timely and allowed expenditures to exceed revenues. These were identified as items of material noncompliance with Maryland law.	Reporting and Budgeting		
Budget Process	BCPSS budget was not based on actual salary costs; staff was not adequately trained on how to use BCPSS budgeting software; the budgeting office was not adequately staffed; and the budget was not effectively monitored during the year.	Budgeting		X
Treasury Management Controls ®	Bank reconciliations were not performed timely. Outstanding checks were not periodically researched and written off.	Accounting		X
Lack of Fixed Assets Management System ®	BCPSS did not track fixed assets including disposals and transfers. Inventory counts were not conducted and reconciled with records. Written procedures governing fixed assets were not formalized and implemented.	Fixed Asset Management		X
Position Control	BCPSS did not utilize system controls that are designed to prevent over-hiring.	Human Resources		X
Noncompliance with Grant Requirements ®	BCPSS did not meet Title I Part A comparability requirements and assurance was lacking that personnel expenses were charged to appropriate grants resulting in a potential liability of \$18 million.	Grants Management	X	
Noncompliance with OMB Circular A-87 ®	BCPSS did not comply with federal award requirements by documenting employee certifications or by maintaining personnel activity reports.	Federal Awards	X	
Noncompliance with Requirements for Nonexpendable Personal Property Records – Equipment and Real Property Management ®	BCPSS did not maintain adequate inventory records of nonexpendable personal property and thus did not comply with federal rules governing nonexpendable personal property.	Federal Awards		X

® - Condition repeated from the fiscal year 2003 Single Audit report.

Table 1
Independent Auditor's Fiscal Year 2004
Single Audit Findings

page 2 of 2

Finding	Condition	Grant Program or Financial Area	Material Weakness	Reportable Condition
Noncompliance with Eligibility Requirements in Accordance with the Common Rule ®	BCPSS did not maintain adequate records as required to support some students receiving food service assistance.	Federal Awards		X
Noncompliance with Comparability Requirements – Special Tests and Provisions ®	BCPSS reported that 25 schools were not in compliance with federal comparability requirements.	Federal Awards	X	
Noncompliance with Requirements for Special Tests and Provisions (Highly Qualified Teachers and Paraprofessionals)	BCPSS was not in compliance with and did not have procedures in place to ensure compliance with federal requirements (i.e. highly qualified teachers and paraprofessionals).	Federal Awards		X
Noncompliance with Requirements for Allocation of Administrative Expenditures – Allowable Costs ®	BCPSS allocation of federal funds for salaries and wages to federal funds exceeded the approved rate.	Federal Awards		X

® - Condition repeated from the fiscal year 2003 Single Audit report.

Recommendation

1. BCPSS should ensure that corrective action is completed as soon as possible to address all of the findings of the fiscal year 2004 Single Audit. In addition, once the fiscal year 2005 Single Audit is issued, BCPSS should take the necessary corrective actions to address all findings.

Chapter 3

Procurement and Disbursement Cycle

For \$25 million of the \$184 million in purchases during fiscal year 2004, BCPSS personnel used a decentralized “requisition only” process for purchases of \$5,000 or less that did not lead to the creation of a purchase order or an encumbrance in the accounting records.¹¹ This made tracking of purchase commitments difficult, which in turn may have led to overspending budgets.¹² In the Fall of 2005, BCPSS plans to replace this “requisition only” process with an internet-based procurement system that will identify purchase commitments timely. This system will be operated by BCPSS using a contractor-owned network and software; however, BCPSS had not obtained sufficient assurances that the contractor’s system provides adequate security over purchasing activity (such as bids). Other procurement controls were also found lacking. For example, in BCPSS automated accounts payable system, five employees could each initiate and approve payments and add vendors to the system, thus allowing them to generate disbursements without oversight approvals.

We also noted problems related to contract monitoring. Our review of several fiscal year 2004 contracts related to security and special education services disclosed that monitoring procedures need to be established to ensure that all services billed were received and were consistent with the terms (including price) of the related contracts. Additionally, BCPSS could not document that its use of various special education vendors was consistent with its policy of using the lowest cost providers when possible. Furthermore, BCPSS needs to modify its employee ethics policy to provide for timely receipt of annual disclosure statements.

¹¹ This “requisition only” process was in accordance with Board procurement policies but is considered a poor accounting practice for the reasons noted.

¹² This period coincided with the highly publicized BCPSS budget deficit and cash shortage.

We found a few best practices in use such as employee travel restrictions and attempts to increase procurement efficiency by participation in regional buying consortiums.

Background

BCPSS uses an Enterprise Resource Planning (ERP) system to process and track its procurement and accounts payable transactions. According to BCPSS records, non-payroll disbursements processed through the system during fiscal year 2004 totaled \$184 million. BCPSS maintained a central procurement office that was responsible for ensuring that all individual purchases of goods and services greater than \$5,000 were made in compliance with the Board's procurement policies. Those policies required that requisitions and purchase orders be approved, with related commitments and payments monitored on a continual basis. Procurement evaluations and decisions were also made by specialists from various departments such as facilities, transportation and food services.

Principally to address past problems with purchases of \$5,000 or less, BCPSS was in the process of implementing a new internet-based procurement system that will automate the soliciting of vendors, the bidding and awarding of contracts, the requisitioning of services and supplies, and the creation of purchase orders. The transaction information created on this system will be uploaded into BCPSS existing ERP accounting system. This new procurement system is scheduled to be operational in the Fall of 2005. During the period under review, requisition and invoice tracking for purchases of \$5,000 or less were decentralized manual processes controlled at the unit level.

Requisition and Procurement Procedures Need to Be Improved

Manual requisition process led to a lack of accountability over procurements – During fiscal year 2004, purchases of less than \$5,000 were made for a wide variety of goods and

services using a manual requisition process that was not linked to the BCPSS automated budget tracking and accounts payable systems. According to BCPSS records, such purchases totaled over \$25 million during the fiscal year. Although this process required that requisitions be approved, neither purchase orders nor encumbrances were created, and the expenditure was not recognized until the related payment was made. Accordingly, the use of this procurement method could have impacted the BCPSS budget deficit during fiscal year 2004 since not encumbering budgets for initiated purchases resulted in incorrect information on funding availability in the BCPSS monthly financial reports. We were advised by BCPSS that this process will be discontinued with the advent of a new internet-based procurement system that will encumber funds for all requisitions and link with the existing automated payable system and financial record keeping systems.

Security over several procurement-related processes

needs to be reassessed or reevaluated – We noted several security issues, both automated and physical, that should be addressed to improve accountability and control over the procurement process. Existing BCPSS controls over access to its current automated procurement and accounts payable system were inadequate. Specifically, five BCPSS employees had capabilities that allowed them to each initiate and approve payment transactions and add vendors to the system. Also, the physical security over vendor bids and proposals should be improved, as these documents were not stored in a secure location prior to their opening. According to BCPSS records, during fiscal year 2004 the value of transactions subject to a bid or proposal selection process totaled \$159 million.

Regarding the soon to be implemented internet-based procurement system, essentially all procurement processes and the related procurement data including solicitations, bids, and purchases will reside on a computer system owned by a contractor. The system will be accessed by BCPSS personnel to initiate a purchase through the internet and by potential vendors responding to BCPSS solicitations. BCPSS management could not support its representation to us that the contractor had appropriate security measures in place and that the contractor's

system was subject to a security audit. The BCPSS Internal Auditor advised us that his review of the system's controls was anticipated to occur after the system was put into use by BCPSS.

BCPSS Needs to Improve the Effectiveness of Its Contract Monitoring

BCPSS need to develop a formal process to ensure that contractual services are obtained at the best price – We noted as a general system-wide rule that contract extensions were exercised without formally determining if re-bidding the service would be more beneficial. This was observed in all procurement areas, such as special education, transportation, and security services.

Also, several departments entered into multiple contracts to obtain the necessary volume of services needed, but there was no assurance that the lowest cost vendors were used first when multiple vendors had been awarded contracts. For example, to make up for temporary shortfalls in special education service staff (such as special education aides, speech therapists, and special education long-term substitute teachers), BCPSS contracts with a number of vendors within related service categories. Since an individual vendor may not be able to meet all BCPSS personnel demands, the vendors are ranked from lowest to highest priced within each category. Although we were advised it was BCPSS policy, when a demand for services exist, to utilize the lowest priced vendors first, BCPSS did not have a process in place to monitor compliance with this policy.

Contract monitoring procedures need to be enhanced to ensure that all services were received at the correct price – Contracts were not always monitored to ensure that agreed-upon services were delivered at the appropriate price. These included a security contract and certain special education contracts, whereby the services billed did not appear to be in accordance with the related contract terms. For a security contract that was originally procured in January 2003 for an 18-month period for \$440,000, the scope of the billed work subsequently changed from only providing security at the

administration building and patrolling school grounds after hours, to also providing security in high schools during the school day. This increased the cost over the life of the contract to approximately \$1 million. Although prior change orders were approved by the Board, the Board did not approve the final change order totaling \$320,000, which was processed after the conclusion of the contract in July 2004. Also, the amounts paid during the contract period were based on the hours shown on the contractor's invoices, yet BCPSS did not verify the time charges to any supporting documentation.

Similar monitoring issues were noted for certain special education contracts that according to BCPSS records cost \$7.75 million during fiscal year 2004, including \$3.5 million paid to speech therapists. Specifically, BCPSS was billed for certain undocumented administrative duties (such as parental consultations) at the higher direct student service rates instead of the lower rates negotiated for such services. For example, for one contractor the direct rate was \$78 per hour while the administrative rate was \$70 per hour. Also, time charges for many special education services were not independently verified to adequate supporting documentation to ensure the propriety of hours claimed. For example, BCPSS relied on the vendors' employees' assertions of time charged or work completed, rather than reviewing evidence of the successful completion of work, such as progress notes or completed student assessment forms.

Compliance with ethics policy needs to be better

monitored – BCPSS approved a code of ethics in 1984, which was revised in 2001. Although the ethics policy requires certain administrative employees (including principals) to file annual financial disclosure statements, we identified several necessary enhancements. A policy requiring timely follow-up for delinquent filers needs to be established, as well as a policy requiring sooner filing of statements at the time of employment by new hires (as is required by the State), rather than by the next November 1st as required by the current policy.¹³ As of March 3, 2005, 211 of the 473 employees who were required to submit financial disclosure statements for fiscal year 2004 by November 1, 2004, had not

¹³ For example, State law requires officials to file a financial disclosure statement within 30 days after appointment and within 60 days after leaving office (State Government Article §§ 15-604 and 15-604).

done so. BCPSS had not conducted any follow-up to obtain compliance.

Furthermore, during our review of payroll records we noted one past BCPSS employee who, in fiscal year 2003, submitted a bid to provide contractual psychological services to BCPSS while still employed. The BCPSS Code of Ethics prohibits employees from being employed by or owning an interest in an entity "negotiating" a contract of \$5,000 or more with BCPSS. The employee did resign after being awarded a two-year contract for fiscal years 2004 and 2005 valued at \$35,000. The contract renewal for fiscal year 2006 is valued at \$95,300.

Certain Best Practices Are In Place

Employee travel policies are in place to control costs –

Policies have been established defining the conditions under which employees may be reimbursed for travel, including advanced approval and documentation requirements. We found these requirements were complied with in those travel reimbursements tested.

BCPSS leverages its purchasing power – BCPSS participates in a regional buying consortium with other Baltimore metropolitan area local governments and nearby county school systems such as Anne Arundel, Baltimore, Carroll, Harford and Howard for such goods as gasoline, heating oil, instructional supplies and office furniture. It also utilizes pre-existing Baltimore City and State of Maryland government contracts, as appropriate, to take advantage of already negotiated favorable terms.

Recommendations¹⁴

2. BCPSS should improve procurement-related controls by ensuring that adequate security/safeguards are in place in the new internet-based procurement system, segregating employee capabilities to initiate and approve payments and securing vendor bid documents.

¹⁴ Recommendations are numbered consecutively 1 through 23 through the entire report.

3. BCPSS should develop a formal process to ensure that all services are obtained at the best price and that monitoring procedures are adequate to ensure that all services are in accordance with key contract provisions.
4. BCPSS should consider requiring new employees to file financial disclosure statements upon their hiring and should ensure that statements for all designated employees are filed timely.

Chapter 4

Human Resources and Payroll

BCPSS employs the fourth largest number of regular full-time employees among the 24 public school systems in Maryland. According to BCPSS records, total payroll costs for all employees were \$645 million in fiscal year 2005.

BCPSS did have certain personnel and payroll policies and practices, but these were not comprehensive and had not been promulgated by the Board into a formal personnel system as required by State law. We also noted that a formal workforce plan should be developed to include all critical employees and consider long-range issues affecting employee retention and replacement.

Record retention policies and standards were not developed to ensure that critical personnel and payroll information was maintained for a reasonable period of time and in an orderly manner. For periods prior to May 2004 (that is, before BCPSS implemented its new human resources system), we noted a lack of detail in automated employee payroll information and unorganized record storage for personnel files and payroll registers. Regarding the new system, the accuracy of the critical data in human resources and payroll records should be verified. Our match of key employee information to federal records disclosed several cases of both invalid social security numbers and BCPSS having incorrectly recorded employee social security numbers in its files.

During our procedural reviews and testing, we noted a number of opportunities for strengthening the controls over payroll processing. We believe that these controls, if properly implemented, will help ensure the propriety and accuracy of payroll transactions and payments. These controls include establishing a process to document supervisory review and approval of salary adjustments and to document the results of its investigation of questionable transactions identified by system edit reports. Also, employee access to the automated human resources management

system was not periodically assessed for propriety. At one of two schools reviewed, proper accountability over system access had not been established as the three employees responsible for separate payroll actions shared user access and a logon-id. We also conducted testing of payroll payments that exceeded employees' base salaries during calendar year 2004. We judgmentally selected eight employees who in the aggregate were paid \$265,000 over their base salaries. We found one executive-level employee had improperly earned and received payment for unused compensatory leave totaling \$16,000, and another management employee had approved their own grant stipend payments totaling \$20,000 and records were not retained to support the payments. We were also unable to determine the propriety of \$20,400 in certain earnings prior to May 2004 because detailed payroll transaction records were not maintained in an orderly manner.

Background

Payroll costs represent the largest single cost component in the BCPSS budget. According to BCPSS records, salary, wage and benefit costs paid totaled \$645 million for fiscal year 2005. According to MSDE records, the System had 12,600 permanent full or part-time employees as of June 2005.

Table 2
Comparison of Employee to Student Ratios – Fall 2003

School System	Number of Full-Time Equivalent Employees	Number of Students	Employee to Student Ratio
Baltimore City	11,914	91,738	1 to 7.7
Anne Arundel Co.	8,353	74,508	1 to 8.9
Prince George's Co.	16,103	137,285	1 to 8.5
Baltimore Co.	13,941	108,523	1 to 7.8
Montgomery Co.	18,557	139,201	1 to 7.5

Source: MSDE 2003/2004 Fact Book

BCPSS uses an automated system to maintain human resources information, process payrolls and record and track employee hours worked and leave balances. The Human Resources Management System (HRMS) was implemented in May 2004 and prior to that date, BCPSS payroll (excluding the human resources component) was processed by the City of Baltimore. The current system automatically generates biweekly time records and any adjustments are processed by timekeepers at the various locations (such as schools). Time records are approved on-line by supervisors and then processed electronically by the system. After various system edit checks, the system generates payroll checks and direct deposit advices which are returned to the originating location and distributed. The system also maintains leave records. Leave accumulation is automatically calculated whereas leave taken is posted by numerous timekeepers as part of the timekeeping process. Hiring of new employees is generally the responsibility of the school or program adding the employee.

Certain Policies Should Be Implemented, Revised and/or Enforced to Ensure the Propriety of Transactions

Formal comprehensive personnel policies should be put in place as required by State law – The State laws governing the Baltimore City Board of School Commissioners required that the Board establish a personnel system, and empowered the Board to establish terms of employment, benefits and leave policies, among other things. Although the Board adopted emergency personnel rules on July 29, 1997, a final and complete version had not been adopted by the Board as of September 29, 2005. Furthermore, the emergency personnel rules are not sufficiently comprehensive. For example, they do not address salaries and benefits of the approximately 260 (as of June 30, 2005) non-affiliated (non-union) employees. Additionally, the emergency personnel rules do not address the payment of accumulated leave upon resignation or retirement. Lacking comprehensive policies, we were advised that BCPSS often applied the policies of the Baltimore City government, where the BCPSS payroll was formerly processed, for guidance on how to process certain payroll transactions such as payouts upon the retirement of non-affiliated employees.

We also noted that in June 2003 BCPSS developed a detailed manual for managers in handling human resource and employee benefit issues and record keeping and payroll processing, but it was never adopted by the Board. Furthermore, although the manual had been distributed to all of the schools, reviews were not periodically performed by BCPSS management personnel or the Internal Audit Office to verify compliance with related policies or procedures to help ensure proper internal controls were in effect (for example, that the required separation of time sheet data entry and approval functions was in place).

Employees should not be allowed to carry negative leave

balances – Employees were routinely allowed to use leave in excess of the amounts earned, as the automated system did not include an edit to prevent employees from taking leave that had not been earned or otherwise inform timekeepers of the situation. Based on a BCPSS report generated at our request (which we did not verify), as of June 10, 2005, 135 employees had accrued negative leave balances totaling 8,248 hours (or 1,031 days). Although a report was generated after each pay period that identified employees taking leave in excess of available balances, there was no documented review of this report. We noted one ex-employee had accrued negative sick leave valued at \$21,000 at the time the employee ceased working for BCPSS. When we brought this situation to its attention, BCPSS advised us that prompt changes would be made to the automated system to prevent employees from using leave in excess of leave earned. We were also advised that there would likely be no attempt by BCPSS to recoup payments from this employee or other past employees who left with negative leave balances. BCPSS responded that current employees with negative leave balances will have their future leave accruals applied against the negative balances.

Formal workforce planning should be instituted¹⁵ – BCPSS has implemented a number of retention and recruiting initiatives to address its current workforce needs for its academic functions, but

¹⁵ Workforce planning represents the strategic alignment of an organization's human capital with its business direction. It includes processes such as analyzing the current workforce, determining workforce needs, identifying gaps in the workforce and implementing necessary solutions.

has not extended that to future years or other areas of operations. Formal workforce planning should be made more comprehensive to include projected future needs, plus other areas of operations and non-academic functions. These other functions (such as central office and critical support staff) also play a key support role in the ultimate success of BCPSS in providing a quality education and any workforce planning should include them. A further consideration in workforce planning should be the extent of reliance to be placed on contractors and consultants (such as special education professionals).

Payroll and Human Resource Record Keeping Needs to Be Improved

Record keeping and data retention policies should be developed – BCPSS had not developed formal record retention policies for payroll and human resources information. We noted that expected documentation in personnel files supporting employee salaries was often missing. Human resources change forms used to add new employees or change salaries on HRMS were not included in the personnel files. Furthermore, promotion letters or other documentation supporting such changes was usually not present. Additionally, HRMS computer screens detailing the employee's salary history were not included. Occasionally, the entire personnel file could not be found.

Past instances of poor record keeping had impacted the efficiency of BCPSS operations. For example, paper records such as check registers and leave reports generated by the City payroll system¹⁶ were not maintained in an orderly manner. The registers were not bound, were piled on the floor, and were not filed chronologically. Additionally, certain payroll information processed by the City prior to the implementation of the BCPSS HRMS in May 2004 was not readily available due to either data-file limitations and/or disorganized manual records. As a result, BCPSS was unable to

¹⁶ Prior to the implementation of HRMS, BCPSS payroll was processed and maintained by the City. When HRMS was implemented in May 2004, in order to be able to compile complete annual account information, BCPSS loaded available categorical balance information from the City system to HRMS. In that regard, we were advised that detailed transaction information was not available on the City system due to transactions being continually overwritten when new transactions were processed.

respond timely to our information requests and we were unable to readily verify the propriety of certain payroll transactions that were processed for BCPSS on the City payroll system. (HRMS is designed to eliminate the need to maintain most paper payroll records.)

Controls Over Payroll-Related Procedures Need to Be Strengthened

Enhancements are needed to a number of payroll and human resource-related procedures to ensure adequate controls are in place – We noted a number of areas where internal controls over the recording and processing of critical data on the HRMS need to be implemented or enhanced. Specifically, we noted the following conditions:

- The verification and approval of various salary adjustments recorded on the HRMS were either not performed or not adequately documented. For example, reviews by Human Resources (HR) personnel verifying the accuracy of certain salary increases recorded on the HRMS, such as increments based on union contract provisions, were not adequately documented. Additionally, the same employee who entered salary adjustments for individual employees on HRMS also approved the adjustments on-line, thus increasing the risk of errors or improprieties.
- Information from HR Action Forms entered on HRMS to add new employees to the payroll or to make individual employee salary adjustments were not compared to output reports to verify they were accurately recorded. Furthermore, reports of these critical changes were not periodically generated and compared to source documentation by independent supervisory personnel to verify their propriety.
- The follow-up of questionable payroll transactions identified by system edit reports was not adequately documented. HRMS generates a series of reports that identifies questionable payroll transactions, such as employees who worked more than 20 hours in a 24 hour day or employees who were paid for both 8 hours of sick leave and regular earnings the same day.

Although we were advised that supervisory personnel correct the transactions on-line, records of the corrections were not maintained. Consequently, assurance was lacking that all questionable transactions were corrected and that actions were taken to prevent the recurrence of the problems.

- Although we were advised that reviews were conducted of central office HR employee access to HRMS every 90 days, such reviews were not documented. Also, we were advised that no reviews were conducted of the capabilities of almost 900 other BCPSS employees with HRMS access.
- Three employees responsible for payroll processing at one of two schools reviewed shared the same logon-id and password. Therefore, the same employee could initiate and approve improper payroll transactions, without prompt detection and responsibility for transactions could not be readily affixed.

Unsubstantiated payments to employees - We performed several automated tests of payroll payments and found that BCPSS needs to improve the oversight of payroll actions. Deceased employees were not always cut off from the payroll timely, with payments continuing for up to four months after death for 2 of the 11 deceased employees tested. Although BCPSS had previously identified some of these employees, it still had not recovered \$617 of the \$4,858 in improper payments made for 4 of these deceased employees; the unrecovered amounts have been outstanding for periods of up to one year. We also found a case of a person who apparently never worked¹⁷ for BCPSS, yet received direct deposits totaling \$2,500 over several pay periods spanning two fiscal years before action was taken to terminate the payments.

Our electronic analysis of BCPSS financial records of employees who received more than \$10,000 above their base salaries during fiscal year 2004, disclosed that BCPSS paid 327 salaried employees \$5.2 million more than their combined specified salaries of \$19.7 million. There are legitimate reasons why an

¹⁷ A review of the related personnel folder found a copy of an accepted employment offer. After acceptance, the school was divided into two separate schools, and staff at each of the separate schools could not provide us with any documentation, such as timesheets, that the employee performed any duties. The termination information in the HR system included no clarifying information.

employee's compensation would have exceeded the base salary (such as stipends for working on grant programs on evenings and weekends, and payment for unused leave upon separation from BCPSS service). However, our tests found that payments exceeding salaries were not always supported. We judgmentally selected calendar year 2004 payroll payments made to eight salaried employees totaling \$902,000, \$265,000 of which were above their authorized regular salaries. Our review disclosed the following conditions:

- In violation of a Board policy dating from July 17, 2001, a current executive-level employee was permitted to earn compensatory leave valued at \$9,900 during calendar year 2004. Also in violation of the policy, this executive was paid \$16,000 for a December 31, 2004 unused compensatory leave balance that had accumulated during several years of employment. The Board approved policy prohibited executive-level positions from earning compensatory leave after August 1, 2001 and required that existing compensatory leave balances be used or lost by August 1, 2004. Cash payments were to be made only upon separation and with the written approval of the Chief Executive Officer. However, this employee's August 1, 2001 compensatory leave balance of 356 hours was carried forward, and the employee was allowed to earn additional compensatory leave during calendar year 2004. The unused portion of the leave was paid without the Board's knowledge or approval.

A further issue is that the Board policy stated that any payments for unused compensatory leave to an executive-level employee upon separation from BCPSS on or before August 1, 2004, were to be calculated based on the employee's daily rate of compensation as of August 1, 2001. However, the payment for the 302.5 hours of unused compensatory leave was calculated based upon the employee's daily rate of compensation as of December 3, 2004. Consequently, even if approval had been obtained to make this payment, the amount paid should have been \$14,300 instead of \$16,000 (a difference of \$1,700).

- During 2004, a management employee approved their own grant stipend payments of \$20,000 related to educational services, and did not maintain biweekly time records to support the hours submitted for payment.
- We were unable to readily determine the nature of \$20,400 of the \$265,000 of the payments in excess of base salary made to two of the eight salaried employees selected for review, due to poor record keeping. Additionally, BCPSS could not provide the rationale for these payments.

Accuracy of key employee identification information

should be verified - We performed an automated comparison of BCPSS human resources and Social Security Administration (SSA) data files, which disclosed 15 cases of disagreement between social security numbers or birth dates. Our follow-up discussions with SSA personnel and a review of personnel files and other records disclosed that 4 of the 15 employees had not been issued the social security number on file at BCPSS. This condition had remained undetected because BCPSS did not routinely verify the validity of employee-supplied social security numbers with the Social Security Administration. BCPSS also could not find personnel files for 5 of the 15 employees (including the 4 with invalid social security numbers). Ultimately, we were able to determine that two of the five were valid employees. Of the remaining three employees, one received no payments, the second received a total of \$140, and the third was paid \$10,400 during calendar year 2003.

Based on our review of the manual records, we subsequently determined that for 10 of the employees (not counting the four with invalid numbers) that accurate identification information (four social security numbers and six birth dates) had been provided by the employees to BCPSS, but that it had not been accurately recorded on the automated payroll system. The inaccurate recordation of this critical identification information had not been detected because BCPSS had not established adequate input and output verification controls. One of the impacts of these conditions is that BCPSS issued W2 wage information containing inaccurate social security numbers for some of these employees.

Recommendations

5. BCPSS should implement a comprehensive personnel system incorporating appropriate policies as required by State law, as well as a monitoring system to ensure compliance with all policies. BCPSS should ensure that negative leave balances are offset against future leave earnings and that employees are no longer allowed to take leave in excess of that earned. It also should pursue recovery from prior employees. Formal workforce planning should be instituted that includes all critical positions (academic and non-academic) and considers future workforce issues in addition to meeting current workforce needs.
6. BCPSS needs to develop human resource document retention policies. Additionally, paper records, such as personnel folders and payroll records should be maintained in a neat and orderly fashion.
7. BCPSS should establish adequate controls over various aspects of payroll processing to ensure the propriety of payroll transactions and payments to employees. Specifically, BCPSS should take the following actions:
 - ensure that controls over critical data entry functions to the HRMS, such as salary adjustments, new employee information and research of questionable transactions are adequate
 - periodically assess employee access to HRMS to ensure continued necessity
 - design controls to ensure that employee compensation is consistent with Board approved policies and intent
 - implement a policy requiring the verification of new employee social security numbers with the Social Security Administration to ensure accuracy

- investigate unsubstantiated payments to employees and recover any inappropriate amounts paid to current and past employees both for the cases cited above and for any additional inappropriate payments identified during its own reviews of payroll processing controls
- review payments made to individuals above their base salaries to ensure that all payments were appropriate and recover any inappropriate payments

Chapter 5

Inventory Control and Accountability

BCPSS had not implemented comprehensive policies, procedures and methods that would provide for reasonable accountability and control over equipment and non-food service¹⁸ materials and supplies or safeguard such assets from theft, waste or abuse. None of the controls over such assets that would be typically expected were found at BCPSS and very little record keeping of control significance was maintained. Under these circumstances, equipment and other inventory, such as textbooks, are more susceptible to theft or loss, which in turn, can result in increased expenditures to replace items or having to make due without them.

Although BCPSS has an equipment capitalization policy for equipment costing at least \$5,000, this was only for financial statement purposes. This policy also applied to all computers, textbooks, and library books regardless of cost if the acquisition was financed through borrowing. However, detailed equipment records reflecting such information as acquisition cost, identifying numbers, and location were not maintained for any equipment items and a related inventory control policy had not been established. Since 2001, annual physical inventories were only taken for textbooks, and this was only done at the end of the school year to help plan purchases and distributions of textbooks for the coming year, not as a control process to account for all textbooks. Finally, although non-food service materials and supplies were ordered on an as-needed basis by principals and certain administrators mitigating the need for formal inventory records, there was no periodic analysis of re-order tracking and other stock management procedures or comprehensive, formal written policies and procedures to guide the control and use of materials and supplies.

¹⁸ Any audit issues related to food services are disclosed in Chapter 9 – Food Services.

Background

According to BCPSS audited financial statements, the net book value of capital assets, excluding building improvements (buildings are owned by the City), at June 30, 2004 totaled \$31,280,676 as shown in the table below. Fiscal year 2004 purchases of furniture/equipment and textbooks totaled \$1,652,328 and \$8,887,878, respectively, with no retirements recorded during fiscal year 2004. Equipment includes computers, audio and video items, and athletic equipment.

Inventory Type	Cost	Accumulated Depreciation	Net Book Value
Furniture & equipment	\$47,349,227	\$38,100,414	\$9,248,813
Textbooks	\$64,522,767	\$42,490,904	\$22,031,863
Totals	\$111,871,994	\$80,591,318	\$31,280,676

Source: BCPSS 2004 audited financial statements

Materials and supplies (excluding food services) consist of two categories: 1) general and instructional-related items, such as custodial, office, stationery, and specialized forms and documents, and 2) building and vehicle maintenance supplies. General use and instructional-related supplies and building and vehicle maintenance supplies are ordered as needed and comprehensive inventory records are not maintained. According to BCPSS records, purchases for these two categories during fiscal year 2004 totaled \$5,543,063 and \$2,279,862, respectively.

Record Keeping and Physical Inventory Processes Need to Be Implemented to Properly Account For and Safeguard Equipment

Equipment control policy and detailed records should be established – BCPSS had not established a comprehensive policy to control and safeguard equipment¹⁹. Such a policy would include issues such as record keeping, accounting for additions, transfers and deletions, and the timing, conduct and reconciliation of physical inventories.

Record keeping requirements should include maintaining detailed descriptions of equipment such as inventory identification number, cost, fund source, date of acquisition, and location. Under the present conditions, accountability for specific property assets could not be fixed, compliance with certain grant requirements could not be established, and management lacked competent information necessary to conduct prudent planning.

Physical inventories should be periodically conducted and results reconciled to equipment records – BCPSS did not have a formal policy requiring periodic physical inventories of equipment items (with the exception of textbooks) and had not conducted a physical inventory of equipment since 2001. Textbooks inventories were conducted at the end of each school year for the sole purpose of determining the available inventory for the next school year. However, an analysis was not performed comparing the current year-end inventory results to the preceding year's inventory results after accounting for purchases and known disposals during the year to identify losses and shrinkage. Significant losses and shrinkage should be investigated to determine the cause(s) and to seek remedies to abate future losses and shrinkage.

¹⁹ A capitalization policy for financial statement reporting purposes only was in place requiring all equipment over \$5,000 to be capitalized, as well as all computers, library books and textbooks regardless of cost if the acquisitions are financed by debt.

Use of Materials and Supplies Inventory Could Be Enhanced

Controls should be established to ensure the efficient use of materials and supplies

– Comprehensive, formal written policies and procedures were lacking to guide the control and use of non-food service materials and supplies by individual departments. The current process is decentralized with these supplies ordered on an as-needed basis by principals and certain administrators. If properly implemented, this process could be more cost beneficial than maintaining a central warehouse. Nevertheless, certain controls should be implemented to ensure efficiency. These would include a periodic analysis of re-order tracking and other stock management procedures to evaluate usage, potential waste, stockpiling, and obsolescence.

Recommendations

8. BCPSS needs to implement comprehensive systems, policies and procedures to control and account for equipment and textbooks, including the ability to track and provide accurate reports of additions, disposals and transfers. Furthermore, periodic physical inventories should be conducted and reconciled to the detailed inventory records, with differences being documented and investigated, and with all adjustments to the detailed records for missing, lost or stolen property being approved by designated management personnel.
9. BCPSS should establish guidelines, policies and procedures to assist in evaluating and controlling expenditures for non-food service materials and supplies, including conducting a periodic formal evaluation of the purchase and use of, and accountability for, materials and supplies in the individual units.

Chapter 6

Information Technology Issues

BCPSS operates an extensive computer system including a number of financial and academic related applications. Since 2000, BCPSS has implemented significant financial and human resources Information Technology (IT) systems. We noted that BCPSS has a number of industry accepted IT application development best practices in place. However, we did note that if additional best practices had been used, significant development delays in the human resources system might have been avoided.

We also identified a number of conditions in need of improvement in the areas of IT systems' access and security and data center operations. Specifically, BCPSS is not making full use of certain IT system features designed to restrict or detect unauthorized or unnecessary employee access to systems and programs and prevent unauthorized or erroneous program code changes. Also, a comprehensive approach to IT security had not been developed.

BCPSS did not have a formal system-wide disaster recovery plan in place in case of catastrophic failure at its data operations center. We also found that physical access was not strictly controlled, fire suppression systems were not periodically inspected and the sub-flooring of the center was prone to water seepage.

Background

The BCPSS Information Technology (IT) Department maintains and administers the BCPSS computer network, computer operations and information systems applications. BCPSS operates a wide area network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at BCPSS headquarters. The IT Department maintains a data operations center at the headquarters location in which a mainframe computer and assorted computer servers operate to support BCPSS information systems applications.

Several significant administrative and academic related information system applications exist. For example, an Enterprise Resource Planning (ERP) application supports a broad range of BCPSS administrative functions including, but not limited to, finance and human resources. Key modules within the ERP application include: general ledger, accounts payable, purchasing, human resources and payroll. Examples of academic related applications are the School Admin Student Information (SASI) application and the Special Education Tracking System (SETS).

The BCPSS Human Resources Management System (HRMS) and Financial Resources Management System (FRMS) were to be implemented in 2000. FRMS was implemented while HRMS was not implemented as the initial implementation project failed. In July 2001, a second project to implement HRMS was begun and was eventually successful in making HRMS operational. The budget for the second attempt was \$16.5 million with a scheduled completion date of July 2003. According to BCPSS records, the cost of the system ranged from \$16.1 million to \$19.4 million. Due to inadequate project accounting records, we were unable to determine the final costs of the project.

**Table 4
HRMS Project Information**

Project Description	Human Resources Management System (HRMS) is an integrated personnel, benefits and payroll information system.
Purpose & Justification	To provide BCPSS with the tools to manage personnel effectively and produce its own payroll.
Current Status	All HRMS modules have been implemented.
Project Start Date	July 2001
Planned Implementation Date	July 2003
Implementation Date	July 2003 – Human Resources and Benefits Modules May 2004 – Payroll Module
Original Project Budget	\$16.5 million
Final Project Costs	We were provided with figures that range from \$16.1 million to \$19.4 million.

Source: BCPSS records

Certain IT Development Best Practices Were In Place

A number of system development best practices were in place, but use could be expanded – BCPSS, in implementing the ERP system, made use of a number of best practices²⁰ including: dedicating an experienced project manager to the project, developing clear business objectives, adopting standard software infrastructure, and specifying a formal project management methodology. Because the implementation of HRMS initially failed, we specifically reviewed its implementation and noted problems with the related application of IT development best practices.

A lack of consistent and continuous senior management support and oversight by an executive trained and knowledgeable about IT development practices appeared to significantly contribute to HRMS not being implemented within the time allocated. For example, planned timeframes appeared to have been arbitrarily shortened by almost 50 percent at the outset (with experience showing the revised number to be unrealistic); certain scope changes were accepted diverting focus from the initial objectives; and user acceptance problems and accountability gaps significantly delayed the payroll module. Turnover of executive personnel appeared to contribute to break-downs in this best practice area. The implementation of the payroll module was delayed by 10 months, causing BCPSS to pay \$630,000 to the City of Baltimore to continue processing its payroll during the delay.

There was also inadequate project accounting. BCPSS personnel informed us that the project was completed within the \$16.5 million budget. However, due to incomplete accounting records, BCPSS was unable to determine the final costs of the project. BCPSS provided us with cost figures and some incomplete records that showed project costs may have totaled anywhere from \$16.1 million to \$19.4 million. Finally, Board meeting minutes indicated that members felt that the status of the HRMS implementation budget was not clearly presented.

²⁰ The most widely accepted best practices in IT application development have been disseminated by the Standish Group International, Inc., a private industry leader in collecting and analyzing data on IT projects. These best practices are referred to as the Chaos 10.

Steps Should Be Taken to Ensure Adequate Security Over IT Applications

Changes should be made to existing procedures to ensure all access is appropriate – User access to computer resources is commonly controlled through the use of individual passwords and user logon ids; however, BCPSS could use these tools more effectively in its ERP application. For example, automatic password expiration (requiring periodic password changes) was not required of every user, there was no rule over the necessary complexity of passwords (making them potentially easier to hack) and users were not locked out after repeated unsuccessful access attempts.

Two of the three system administrators shared system userids to gain access to critical IT resources, making it difficult to establish accountability over resultant activity. Additionally, due to inadequate firewall security, unauthorized access could be gained to the internal network and key ERP applications from certain locations both within and from outside BCPSS. Finally, various log files recording certain security events affecting access to the network firewall and ERP applications were either not periodically reviewed or the reviews to detect unauthorized activity were not documented.

Changes affecting critical programs should be reviewed for propriety – BCPSS did not make use of existing security software that would aid in the review of programming changes. Unauthorized or erroneous program code could be introduced into the ERP operating environment, because BCPSS did not require a technical review of the differences between original and modified source code. Software was available to BCPSS to aid in such a review. Furthermore, after modified or new programs were approved by users and IT personnel, they remained in the responsible programmer's library before being put into production, making them susceptible to subsequent unauthorized changes.

A comprehensive approach to IT security should be

developed – BCPSS did not have a formal information security policy in place. Such a policy should address key aspects of IT such as, access control rules, identification of nonpublic information, workstation security settings and the use of file encryption. BCPSS did provide us with a draft IT control publication that was prepared in June 2002, but it only applied to the human resources ERP applications. Also, security awareness training had not been given to BCPSS staff, as required by the BCPSS October 2002 IT Resource Policy.²¹

Data Processing Functions Should Be Better Safeguarded From Disruption

Access and environmental controls for the data

operations center need to be enhanced – Physical access to the operations center was not controlled, with over 20 employees given either unnecessary or unjustified access through security cards, and visitors were not required to sign in or out. We also noted that the center's portable fire extinguishers and room-wide fire suppression system had not been inspected for 15 months, even though related State Fire Marshall regulations require inspections at one year and six month intervals, respectively. Due to poor building drainage, the sub-floor under the center (which is located in the basement of a building) was susceptible to water seepage during heavy rains. On two occasions we observed approximately two inches of water in the sub-floor space under the raised floor panels. This space was used for communications wiring and electric cables.

Also affecting BCPSS operations was a lack of a formal comprehensive disaster recovery plan. Some disaster recovery procedures had been prepared (primarily to address the human resources components of its ERP applications); however, the existing plan did not:

- identify backup data center(s) or hot-sites

²¹ This policy addressed issues affecting successful implementation of IT from an administrative and instruction perspective.

- identify and prioritize all mission critical applications, with the related software and hardware required to accomplish recovery
- describe network restoration plans if the headquarters building were unavailable
- list current emergency contact information and responsibilities for staff

Recommendations

10. BCPSS should adhere to all industry accepted best practices for future IT development projects, including exhibiting continuous key executive management support. In addition, BCPSS should establish accurate project accounting practices.
11. BCPSS should implement appropriate security measures to ensure that only authorized users have access to data systems, that changes to critical programs are proper, that a comprehensive information security policy is developed and implemented, and that IT staff are properly trained regarding security awareness.
12. BCPSS should establish physical controls and safeguards over its data operations center (including fire suppression systems), address data center environmental hazards, and develop a comprehensive disaster recovery plan.

Chapter 7

Facilities Construction and Maintenance

BCPSS Facilities Department and Facilities Maintenance Department are collectively responsible for construction, renovation and maintenance of the 169 schools and 5 other facilities (such as the administrative and support offices), and has approximately 800 maintenance and custodial employees. The buildings are actually owned by the Baltimore City government; however, BCPSS is responsible for building maintenance. One of the most significant issues facing BCPSS is its declining student enrollment and the resultant need to close schools operating far below established capacity levels. Although the need to close schools is widely recognized, BCPSS has been slow to respond to the challenge, closing seven schools over the past four years, while still operating a number of schools well below student capacity.

BCPSS capital planning has been impacted by the school closure issue. We noted that BCPSS has a number of previously approved capital projects that have not been started, in some cases pending resolution of the closure issue. For example, fiscal year 2005 and 2006 approved capital projects include projects for eight schools recommended for closure in a 2001 consultant's study. BCPSS needs to reassess its capital projects after resolving the school closure issue. Additionally, BCPSS should automate its capital budget tracking system and include a formal ranking process to prioritize projects, and develop building status and inspection reports to support the consideration of capital projects.

BCPSS also needs to develop a comprehensive maintenance program for its facilities such as adopting a formal inspection process, making better use of its automated work order system to schedule and monitor work, developing cost and time estimates for maintenance and repairs, and establishing a measurement system to monitor performance.

Finally, our test of four construction and maintenance contracts valued at \$10.3 million disclosed that BCPSS needs to retain key documents supporting procurement decisions, including signed contracts, vendor proposals and the related BCPSS bid evaluations. We noted various documentation problems with all four contracts, and for three of the contracts, we also noted monitoring issues. Problems noted included a vendor starting construction work and billing BCPSS prior to Board approval of the contract, inadequate monitoring of janitorial services to verify quality of work, and paying for work without verifying prices to the related contract.

Background

According to BCPSS records, during fiscal year 2005 BCPSS budgeted \$30 million on capital projects. BCPSS also estimates that the cost of existing needed major repairs, replacements and renovations to existing facilities totals \$1 billion. The maintenance budget for 2006 is \$68 million (of which \$23 million is related to employee salaries and benefits and \$18 million for contractual work). Table 5 on the next page²² provides a comparison of BCPSS 2003 maintenance and custodial costs with other similar school systems in Maryland. BCPSS high per student plant costs and per student square footage are results of the underutilization of facilities. That is, excess and unneeded facility capacity exists and must be maintained even though student enrollment has been declining.

²² The table includes fiscal year 2003 statistics, the most current available from MSDE at the time of our audit.

**Table 5
Plant Costs Comparison Per Student and Per Square Foot
Fiscal Year 2003 (Unaudited)**

School System	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student ①	Per Square Foot		
Baltimore City	\$ 76,022,114	\$813.56	\$4.00	203.31	18,998,073
Prince George's Co.	94,997,003	706.59	5.29	133.53	17,952,053
Montgomery Co.	105,941,979	783.11	5.42	144.60	19,561,542
Anne Arundel Co.	54,107,333	757.26	4.56	165.91	11,854,368
Baltimore Co.	77,568,642	735.79	5.09	144.54	15,237,863
Average of Comparable Schools	\$ 81,727,414	\$756.67	\$4.89	154.80	16,720,780

Source: MSDE Selected Financial Data, LEA Capital Improvement and Maintenance Plans, LEA Staff

① - Based on Average Daily Membership (most recent data available)

As of March 2005, BCPSS 169 schools had an approximate 123,000 seat / student capacity (based on State standards) compared to an actual student enrollment of approximately 88,000 students. The difference is an estimated excess capacity of approximately 35,000 seats. A trend of declining enrollment has been occurring for several years and is predicted by BCPSS to continue into the foreseeable future. From 1998 to 2005 student enrollment decreased by approximately 18,000 students; BCPSS has projected additional declines in student enrollment totaling 6,400 students by 2013.

Excess Student Capacity Issues Should Be Resolved to Reduce Costs and to Aid In Future Renovation Planning

BCPSS should consolidate or close unneeded schools –

Student enrollment has dropped to the point that, during the 2004/2005 school year, 61 percent of the BCPSS schools had

excess student capacity beyond recommendations of the Maryland Public School Construction Program’s square footage funding guidelines. The guidelines establish a recommended standard square footage per student based on the type of school, ranging from 131 square feet per elementary school to 170 square feet for high schools. Overall, using March 2005 enrollment data, we calculated that 104 BCPSS schools of all types exceeded the higher 170 square feet allowance. When state-rated building capacity (square footage per student) is matched to enrollment for specific types of schools, the occurrence of significant underutilization is as follows:

Table 6 Select BCPSS School Utilization Data (as of March 2005)		
Percent of Capacity Underutilized	Number of Schools	Percent of Schools
Over 40%	48	28%
31 – 40%	29	17%
21 – 30%	27	16%

BCPSS management has long been aware of the need to consolidate and close schools to address this excess capacity issue but has been slow to react. In 2001, BCPSS hired a consultant under a \$1.2 million contract to conduct a facility utilization study.

The consultant identified 18 schools that it recommended for closure; however, BCPSS only closed 7 of those schools.²³ As noted in the background to this chapter, BCPSS student enrollment has declined significantly in the past several years, and the decline is projected to continue over the next several years (although at a lower rate). In addition to a capacity issue, this

²³ The consultant’s report prefaced its recommendations with the following statement: “The excess capacity and resulting inefficiency is an unjustifiable drain on the system’s precious resources. The longer it remains, the more suffering the school system, and the school children, will endure. Lost opportunities and deferred improvement are the byproduct of delay.”

underutilization adversely affects maintenance and operational costs, can lead to a deferral of necessary renovations (due to the uncertainty of a specific school's continuing operation), and makes future capital planning difficult. We were advised that the Board does plan on initiating closures in the summer of 2006, based on the results of an updated utilization study commissioned in July 2005.

Although a lack of readily available data did not permit us to reasonably estimate the economic impact of the excess capacity, the magnitude of potential savings from closures can be derived from the aforementioned study and recent data from the Maryland Interagency Committee for Public School Construction. This information suggests that \$10 million in annual operating costs could be saved by reducing capacity by 15,000 seats (the equivalent of closing 20 schools). Furthermore, the 2001 study estimated that for 10 of the schools recommended for closure (but which remain open), \$38 million in renovations and repairs were at that time needed to maintain functionality.

Capital projects should be reassessed after consideration of the effect of excess capacity on school closures –

Although BCPSS has routinely initiated and/or completed capital projects, a number of previously approved capital projects have not been started. We were advised that one of the factors contributing to the delays has been the indecision over which schools will ultimately be closed. BCPSS is hesitant to spend capital funds without an assurance of receiving an appropriate long-term benefit.

As of April 2005, \$56.5 million in State funds had been approved for BCPSS projects, with approximately one-half having been approved in fiscal years 2001 or 2002. Examples of delayed or deferred projects included 78 projects (most of which relate to wiring for computers) that were approved by the Board during fiscal year 2001, but had not been started as of October 2004. One specific project had been deferred for five years due to potential closure of the school. We also noted capital projects approved for fiscal years 2005 and 2006 related to eight of the schools recommended for closure in the aforementioned 2001 consultant's study.

The process to plan, budget for and track capital projects

should be enhanced– During fiscal year 2005, BCPSS implemented a manual spreadsheet-based tracking system to monitor its capital budget, but additional enhancements are needed. This manual system is reconciled with the BCPSS financial management system, State records and City records and is used to monitor appropriated and available capital funds, plus revenues and expenditures. Automation of this system could greatly improve timeliness in the monitoring process by eliminating the need for manual updating of the records. Further improvements are needed because BCPSS does not use a formal ranking process to objectively prioritize projects on a system-wide basis, nor does it incorporate facility assessment results to support the consideration/approval of a capital project.

BCPSS needs to implement significant changes to improve and enhance its facilities maintenance program

– BCPSS lacks a comprehensive maintenance program for effectively maintaining the facilities. BCPSS is facing the challenge of significant underutilization of building space due to declining student enrollment, which is resulting in overall high plant costs per student. This conclusion is consistent with BCPSS own internal assessment of its facilities maintenance program. Although BCPSS has taken initial steps to develop a preventive maintenance program such as developing inspection checklists, much more needs to be done.

We reviewed maintenance practices from other states and found certain best practices that were not used by BCPSS.²⁴ Detailed findings were communicated to BCPSS during the audit, in summary, we noted the following:

Best Practice: Framework for Preventive Maintenance Program, Building Inventory, and Assessment – BCPSS has begun to implement components of a building inventory and assessment process. BCPSS was in the process of developing standardized checklists to inspect various building components. In the spring of

²⁴ We utilized the categories in the Minnesota Office of the Legislative Auditor's, "A Best Practices Review, Preventive Maintenance for Local Government Buildings", April 2000, which our research into best practices indicated were comprehensive.

2005, BCPSS conducted an in-house evaluation of its buildings and developed a rating system to rank the status of each building. However, BCPSS still needs to develop formal inspection procedures and inspection schedules, plus ensure that the inspections are completed timely and documented with a reporting/tracking process that continuously updates the status of each building based upon the results of each inspection.

Best Practice: Evaluation of Costs – BCPSS has estimated that it has at least \$1 billion in deferred maintenance needs, but lacks an adequate system of estimating, tracking and evaluating costs (including accurate labor and material costs of BCPSS maintenance employees and contractors). A reliable cost estimating process would help BCPSS decide whether to replace or repair building components. BCPSS needs to capture accurate cost data in its work order system and develop time estimates for repairs and maintenance to be used to allocate resources and assess employee performance.

Best Practice: Short and Long-Term Planning – Effective short and long-term planning is hindered by the lack of an adequate information system for facilities. Due to the deficiencies identified with maintaining data on the current status of building inventories and the lack of adequate cost data, BCPSS has not been able to develop realistic and meaningful short and long-term maintenance plans. Further hampering adequate planning is that BCPSS does not have any established performance measures in place to monitor employee performance or to measure job completion times. Therefore, BCPSS cannot adequately plan and allocate its resources since it does not know what the resources can accomplish.

Best Practice: Training Maintenance Workers and Managers – BCPSS currently provides training to its maintenance employees on an ad hoc basis, without a plan or schedule (although supervisory personnel did attend management courses). However, it does not provide periodic job-specific training and/or establish certification requirements in appropriate areas for its maintenance workers and managers. BCPSS also has not conducted an analysis to determine under what circumstances it would be most beneficial to outsource each category of maintenance service, nor identify strategies for enhancing internal maintenance capacity

where it is needed. BCPSS advised that it used contractual vendors to provide about a quarter of the maintenance related services due to the limited capacity and/or skills of its staff (typically for plumbing, HVAC and roofing).

Best Practice: Use of Tools to Optimize Performance – BCPSS uses an automated work order system to record and track the status of work orders. However, as previously mentioned, cost estimation data in the system has not been updated and actual costs are not always recorded, the system is not used to develop time estimates for job completion, nor is it used as a tool to evaluate and monitor employees.

Procurement and Monitoring Practices For Construction and Maintenance Contracts Need Improvement

Key procurement decisions need to be documented and approved

– We tested four contracts²⁵ valued at \$10.3 million and generally found that BCPSS could not locate either key procurement or bid documentation. For one painting contract valued at \$2.2 million, BCPSS could not locate a signed copy of the contract, which was supposed to contain agreed upon labor rates and material costs. For two contracts, other critical documents, such as vendor proposals and/or BCPSS evaluations could not be located. And for the fourth contract, BCPSS could not document that it properly evaluated bidder proposals and justifications for changes in contract scope could not be documented. In this case, bid evaluations were to be based on both technical merits and costs per BCPSS request for proposals. However, the award was decided by BCPSS solely on technical merits and the cost was subsequently negotiated at \$2 million, which was \$600,000 more than the awarded contractor's cost proposal of \$1.4 million and without any identifiable additional benefits to BCPSS. Immediately after this award, BCPSS requested additional services valued at \$1 million beyond the \$2 million, treating this as a contract modification. However, this

²⁵ Two construction contracts were tested that had a combined value of \$2.8 million and two maintenance contracts (janitorial and painting) with a combined value of \$7.5 million.

modification was not approved by the Board as required. BCPSS had not documented and could not explain why these services were not considered in the original request for proposals.

BCPSS has acknowledged that it has had problems developing realistic cost estimates and ensuring that planned expenditures are adequately funded. We noted one of the construction projects having multiple contractors and with an original estimated cost of \$17.6 million is now estimated to cost \$26.5 million. As of August 2005, BCPSS had secured \$24 million in funding and committed \$17 million for this project, which had an estimated completion date of January 2007. BCPSS advised us that if additional funding cannot be obtained, there would be a reduction in the scope of the planned work.

Contract monitoring practices need to be improved – For three of the four aforementioned contracts we noted problems, of varying degrees, with the level of monitoring by BCPSS.

- One vendor commenced construction work and billed BCPSS prior to the contract being approved by the Board.
- The janitorial services vendor did not provide cleaning schedules and daily performance reports as required by the contract, nor were required school principal satisfaction surveys conducted. Furthermore, the vendor was paid without verifying the adequacy of services. In some cases, schools went up to six months without an evaluation by BCPSS of the adequacy of services rendered.
- Time and material charges totaling \$440,000 on painting invoices were paid without any attempt to compare the invoiced rates to the contract rates. Furthermore, BCPSS could not provide us with a copy of the contract that identified the proper rates.

BCPSS also identified the need for better contract monitoring. In an internal assessment dated February 2005 (conducted by the CEO's Chief of Staff), it was concluded that BCPSS allocated few resources to oversee contracts. We were informed that BCPSS had added a new position in the fiscal year 2006 budget for project supervision.

Recommendations

13. BCPSS should take action to ensure the efficient use of resources from a capital planning and maintenance perspective. This should include identifying excess capacity and closing unneeded schools. After closures are finalized, all capital projects should be reassessed to determine continuing justification as well as priorities. Also, BCPSS needs to automate and enhance its capital project tracking capabilities, as well as implement significant changes to its facilities maintenance program. The program should address these issues: preventive maintenance, cost estimates, planning, and staff training and performance.
14. Contract procurement and monitoring practices need improvement. All key contract documents should be retained and related decisions documented. Bid evaluations, contract awards, and contract modifications should be handled in accordance with bid request representations and Board procurement policies. Project management best practices should be instituted to ensure that scope, design, and cost issues are better planned during the procurement process. The subsequent monitoring of contractors needs to be enhanced by verifying compliance with contract terms, monitoring performance, and ensuring that payments are made only for authorized and acceptable work.

Chapter 8

Transportation Services

Of the five largest public school systems in Maryland, BCPSS provided transportation services to the fewest number of students, and at the highest per mile and per student cost. Most BCPSS students provide their own means of getting to school. High school and middle school students requiring transportation are generally given public transit passes. More traditional in-house and contractual bus services were also provided, but only to a limited population of elementary and special needs (disabled) students. BCPSS has placed significant reliance on the use of taxicab services to address unique transportation needs and emergencies.

Table 7
Comparison of Transportation Costs per Rider and per Mile
Fiscal Year 2003 (Unaudited)

School System	Number of Riders		Miles (in thousands)		Expenditures (in thousands)		Annual Cost Per	
	Non Disabled	Disabled	Non Disabled	Disabled	In-House	Contracted	Rider	Mile
Baltimore City	20,245	4,010	572	3,008	\$3,721	\$23,515	\$1,123	\$7.61
Prince George's Co.	90,470	4,841	13,546	7,129	45,392	23,061	718	3.31
Montgomery Co.	88,753	8,086	9,861	9,014	59,688	858	625	3.21
Anne Arundel Co.	53,443	1,728	6,241	3,481	5,574	25,356	561	3.18
Baltimore Co.	75,727	3,114	7,311	6,023	30,579	5,129	453	2.68
Statewide	593,746	27,252	85,514	40,051	\$175,728	\$182,299	\$577	\$2.85

Source: MSDE

Given the urban setting, varied available service delivery options (including a limited in-house capability), and the high proportion of disabled students receiving transportation services, BCPSS faces

significant issues that require close attention. Foremost, is the need to track operational data and develop a formal process for evaluating the performance of its transportation operations (including comparisons to other similar systems). Both transportation expenditures and various operational statistics (such as the average number of students transported on each route, the number of taxicab miles driven, and student taxicab riders) were not adequately tracked.

BCPSS should establish a process to periodically assess the operational effectiveness and efficiency of its individual transportation service providers (as well as in-house services), and consider enhancements to more fully use features in its automated route scheduling software. Bidding and contract award procedures need better, more comprehensive documentation, and all terms including fees and rates should be defined and clarified prior to formally awarding a contract. BCPSS policies and State laws should be complied with at all times. All procurements should attempt to minimize costs and financial risks to BCPSS to the extent possible.

BCPSS estimated that it did not recover up to \$400,000 in transportation services provided to a for-profit vendor operating certain City schools. Certain bus and taxicab vendors were paid at rates in excess of those specified in their respective contracts. A bus vendor during a recent one-year period was paid \$319,000 in excess of the fees provided for in contract documents. Taxicab operators were paid a flat rate per trip without State approval. Our tests indicate that paying on that basis could be over 50 percent higher than using the proper metered rates. Additionally, BCPSS lacked procedures to effectively verify taxicab billings, and payments were made for students not documented as being eligible for transportation services (including five students residing with BCPSS employees). Controls over the BCPSS process for qualifying students for transportation services need to be enhanced. We were advised by BCPSS management that they were in the process of drafting new taxicab contracts, developing new computerized invoice submission requirements, and developing new invoice verification procedures that would address a number of the audit issues noted.

Accountability was not established over student tickets for use on Maryland Transit Administration systems, and the monitoring of related costs needs to be improved. For many disabled students, BCPSS obtained federal Medicaid reimbursement for certain transportation expenses, which totaled almost \$1.5 million for fiscal years 2004 and 2005 combined. Several areas for improvement were noted including the need to keep more comprehensive records of Medicaid-eligible services, to file for federal reimbursements more frequently, and to take more timely action to identify all students eligible for Medicaid-related transportation reimbursement.

Background

BCPSS transportation services were performed in an urban environment that was unique when compared to the other local school systems in Maryland. Due to this urban setting, most of the students enrolled in the BCPSS provided their own means of transport to school (including walking), while the opposite is true for the other school systems in Maryland. Most of the students who were provided with transportation services received it through a contractual arrangement with the Maryland Transit Administration (MTA), whereby students received monthly pass books to ride regular MTA buses, light rail or Metro.²⁶ Use of MTA is an option that was either not available to or not viable for other local school systems. Traditional in-house and contractual yellow bus services were also provided, but only to a limited population of elementary and special needs students. These services consisted of a BCPSS-owned and operated fleet of less than 50 buses and an extensive network of private bus operators. BCPSS has placed significant reliance on the use of taxicab services to address unique transportation needs and emergencies. During the 2003/2004 school year, according to its records, BCPSS spent \$29.4 million on all transportation services for students. The BCPSS Department of Student Transportation had procured transportation contracts which, due to their large values, require Board approval.

²⁶ MTA passes are given to middle and high-school students who live beyond the established walking distance to school.

BCPSS Should Monitor Transportation Operations For Opportunities to Increase Effectiveness and Efficiency

BCPSS should formally track operational data and adopt statistical benchmarks for evaluating program performance

– BCPSS had not established performance indicators nor did it formally track various operational data for comparison with other similar systems (that is, urban school systems in other states) as an aid in identifying possible improvement. We were advised that several informal analyses had been conducted comparing BCPSS transportation statistics to other school systems, and the use of Maryland Department of Transportation's Mobility Program to assist in the transport of disabled students was considered, but these were not documented. Data such as the number of taxicab riders or miles driven were not tracked and average bus ridership tallies and the size of buses used for each particular route were unknown.

Enhancements to bus route scheduling process should be pursued

- Although BCPSS used computerized routing software to plan the routes of contractors and its own buses and adjust them for student enrollment changes, there were some areas where improvements could be made.

- BCPSS had not used the automated routing features of its transportation software to automatically link individual bus routes. This process may permit more efficient route combinations for the same bus. We were advised that BCPSS had experimented with the use of this feature, and found the results unsatisfactory, but this was not documented. Currently, routes are linked manually after considering potential mitigating factors such as differences in the types of routes and buses needed (for example, wheelchair) and student demographics.
- BCPSS had not developed performance measures (for example, cost per mile) to periodically assess the efficiency of its bus routes.
- We were advised that an internal review of the benefits of staggered school start/stop (bell) times was conducted

during the 2003/2004 school year, but a formal report was not prepared. However, BCPSS did begin using selective staggered bell times for the 2004/2005 school year so that some buses could run two routes in the morning and afternoon. Nevertheless, some Maryland school systems stagger school start/stop times so that their buses can run three routes (elementary, middle and high school) in the morning and afternoon. BCPSS advised us that additional modification may be possible, but cautioned that some issues, such as the availability of special wheelchair lift equipment, may lessen the extent of these changes.

BCPSS Oversight of Transportation Procurement Was Generally Lax

BCPSS needs to improve bus and taxicab contract award

documentation – BCPSS did not always adhere to its written procurement procedures and documentation requirements when procuring transportation services. We reviewed the solicitation and award of Board-approved contracts for bus transportation services (\$16 million for fiscal year 2004) and taxicab services (\$1.9 million for fiscal year 2004) in effect for the 2002/2003 through 2004/2005 school years and noted the following conditions:

- The basis for awards or reasons why certain bidders were not selected was not documented in the bid file as required. Seventeen vendors were selected to provide bus services out of 20 original bidders. However, the reasons for the awards were not always evident. For example, there was no explanation as to why the 17 winning bidders for one bus route category²⁷, with prices ranging from \$153 to \$525 per route, were selected while another qualified bidder submitting a bid of \$358 was not. Awards were generally supposed to go to the low bidders.

²⁷ The four route categories used by BCPSS were curb-to-curb, corner-to-corner, wheelchair lift-gate, and outside city limits (to obtain certain special education services).

- The written proposals with specific rates could not be located for 3 of the aforementioned 17 bus vendors and the resultant contracts did not include the rates. Consequently, the rates paid by BCPSS could not be verified. BCPSS made payments to these vendors during the period of July 1, 2002 to September 30, 2004 totaling approximately \$1.1 million.
- Subsequently, the 3 losing bidders from the original 20 were also awarded contracts for the 2003/2004 school year. However, when presented for Board approval, two of the bus contracts were incorrectly described as renewals to existing contracts.
- There was no documentation that three of four winning taxicab vendors were sent a required notice of intent to award. Only one letter was on file and that was sent to the fourth vendor (the incumbent) who had been previously servicing most of the routes. This vendor subsequently protested the awarding of contracts totaling \$155,000 to two new vendors. These contracts were later cancelled after only \$19,865 had been paid; however, there was no documentation on file explaining the reason for the protest or why the contracts were cancelled.
- BCPSS did not execute formal contracts with its two current taxicab vendors, who were paid \$2.4 million for their services during the period of July 1, 2002 to September 30, 2004. In these cases, BCPSS relied on the related request for proposal and vendor's response to govern the business dealings between the parties.

BCPSS should implement a process to ensure that contracted transportation services represent the best value - BCPSS did not formally reassess its transportation services contracts to ensure that it continued to receive the best value. Such periodic re-assessment could be beneficial given the wide range in rates paid to vendors, and would consider such issues as the availability of new potential vendors or increased capacity from existing vendors. For example, the rates from contracts bid in 2002 that were paid to vendors during the

2003/2004 school year for curb-to-curb service ranged from \$188 to \$301 per route, with an average of \$237 per route. During the 2003/2004 school year, approximately 5,400 students received contracted bus services at a cost of approximately \$16 million.

BCPSS did recognize the desirability of procuring new bus contracts and initiated a procurement process in February 2005, which was intended to improve service delivery, achieve greater efficiencies, increase contractor accountability and promote lower costs. Although the procurement was competitively bid, various factors ultimately led to BCPSS canceling the procurement. For example, local government and trade group concerns led to retroactive modifications to the bid specifications to make them more favorable to small local vendors. Also, BCPSS misinterpreted the low bid submitted by a national transportation firm that was to receive almost 50 percent of the service routes (the bid price did not include aides to ride on the buses).

After rejecting the results of the entire solicitation, BCPSS did take some action in an attempt to improve the accountability of existing vendors. Specifically, BCPSS renewed all existing transportation contracts with an 11 percent price increase. In return, the existing vendors were required to sign a contract amendment that would make it a breach of contract if they failed to provide the minimum number of buses required to service their routes. BCPSS considered this important, since in previous years when the vendors failed to meet their route commitments, BCPSS had to use more expensive taxicabs to fill the void. Even after the above amendment, we were advised by BCPSS that it is limited in its ability to take action against contractors for non-compliance without further exacerbating bus availability. We were also advised that BCPSS intends to rebid all of these contracts for the 2006/2007 school year.

Monitoring of Bus and Taxicab Vendors Should Be Improved

The cost of transportation services provided to certain privately run schools needs to be recovered – Under the contract between BCPSS and a for-profit company hired to operate

three schools under State reconstitution,²⁸ BCPSS provided student transportation services for two of the schools. However, BCPSS had not obtained reimbursement as allowed by the contract for the cost of providing these services. BCPSS estimated these costs to be approximately \$400,000 for the contract period of July 1, 2000 to June 30, 2005. After our initial inquiry into this issue, on June 1, 2005 BCPSS sent its first bill to the company for \$64,710 covering the 2004/2005 school year; however, the bill remained unpaid as of September 1, 2005. Although, BCPSS had not determined the actual prior years' costs, we were advised that it intended to bill for all prior services as soon as the necessary records could be located and assembled.

Invoices for bus services need to be reviewed to ensure

propriety of rates billed - BCPSS had not established adequate procedures for the verification of bus transportation invoices. Our review of invoices from one bus vendor disclosed that the rate paid (\$290 per route) was significantly higher than the rate specified in the competitively procured contract (\$117 per route). During the period of July 1, 2003 to September 30, 2004, BCPSS paid this vendor \$614,000 using the higher rate, resulting in a \$319,000 overpayment. BCPSS advised us that the contract was renegotiated with the higher rate, because the vendor refused to provide the originally contracted for service at the lower rate. Although BCPSS claims that the rate paid to the vendor in question had been renegotiated and was properly authorized, during the course of our audit documentation could not be provided to substantiate this assertion or Board approval.

Student use of taxicab service needs to be verified –

BCPSS had not established adequate taxicab invoice payment verification procedures, including a verification of student eligibility for transportation services or school attendance for the dates taxi services were billed. Although the related request for proposal (RFP) required that invoices be submitted with supporting trip tickets, it was silent on how this voluminous documentation should be presented (for example, a typed listing of trips for each student or that tickets for each student be batched in chronological order), complicating the payment verification process. For example, one

²⁸ Reconstitution is the State process to reorganize management and oversight of certain schools with a history of continued poor academic performance.

vendor routinely submitted a handwritten monthly summary of ticket totals by date with the related 6,000 tickets in a bag.

We tested \$21,700 in payments to two vendors for 40 students who received September 2004 taxicab services. We found:

- Missing transportation eligibility forms²⁹ for 35 students for whom payments were made totaling \$15,000.
- Payments made for dates when students did not attend school. Sixty-two of 306 dates billed by one vendor for 19 students (\$14,500) were not consistent with BCPSS student enrollment and attendance records, resulting in overpayments of \$1,400 relating to 9 of the 19 students.
- Numerous missing trip tickets and duplicate charges applicable to these 19 students that had not been previously detected by existing BCPSS procedures, representing additional overpayments of \$2,300.

Finally, our automated comparison of the BCPSS November 2004 authorized taxicab rider lists and human resources data files disclosed 23 student riders apparently residing with BCPSS employees.³⁰ Our subsequent investigation disclosed that 5 of these 23 students did not appear to be authorized for taxicab services. Specifically, for four of the five students appropriate documentation was not on file authorizing the service. For the fifth student, the files indicated that, although there was documentation of a temporary medical condition, authorization for transportation services had expired on May 3, 2004. Our review of the September 2004 invoice for taxicab service disclosed that BCPSS had paid \$2,178 on behalf of the five aforementioned students for that month.

Taxicab rates paid were not in accordance with the contracts or State regulations - Taxicab vendors billed BCPSS based on fixed trip fees without the required approval of the Public

²⁹ To qualify for regular taxicab service, a student's individual education plan would establish this need for various reasons (e.g., disability, homelessness).

³⁰ Each student's morning pick-up and afternoon drop-off addresses listed on the authorized cab rider lists were the same as an employee's home address per the human resources data files.

Service Commission (PSC) and contrary to the terms of the existing contractual documents. This practice generally resulted in higher payment amounts. State law stipulates that the taximeter shall be the exclusive means of measuring charges for taxicab services; although fixed trip fees may be used in certain instances, they must be approved by the PSC. Additionally, the BCPSS request for proposals for taxicab services and the proposals from the taxi vendors stated that all services were to be billed at PSC approved taximeter rates.

Our analysis of September 2004 flat rate taxicab trip charges for 27 students totaling \$15,900 disclosed that BCPSS would have only paid \$10,400 using PSC approved taximeter rates. Thus, BCPSS overpaid by \$5,500 or 53 percent for these taxi rides. We further noted that the trip tickets on file supporting the charges listed only a fixed fee or no fee at all rather than taximeter charges. Therefore, BCPSS had no way to even know what the correct charge should have been. Upon inquiry, a BCPSS official advised us that BCPSS had agreed to the use of a pre-established fixed fee schedule suggested by the vendors after the contract awards in order to simplify the billing process. As previously mentioned, BCPSS did not execute formal contracts; therefore, the use of fixed fees or the use of rates without PSC approval was not addressed.

BCPSS should establish a procedure for ensuring the propriety of student eligibility determinations for bus and taxicab services – There was a lack of assurance that transportation service requests were proper. Most students receiving bus and taxicab services were special needs students, whose eligibility was to be documented on a transportation request form (TRF). The TRF is prepared by a member of the team that prepared the student’s individual education plan (IEP).³¹ The TRF must be approved by Special Education Coordinators before being submitted to the BCPSS Department of Student Transportation (DST) for further processing. However, DST did not verify that the TRF received was prepared and approved by authorized personnel. For example, no listing was maintained of employees who could prepare and approve the forms. We were advised by DST management personnel that they had implemented a

³¹ The IEP describes all the special services needed by the student, including transportation, if necessary.

computerized transportation request system effective June 2005, which will be used to expedite the processing of transportation requests and control who can prepare and approve the TRF.

Accountability Over MTA Daily Ride Tickets Needs to Be Established

According to BCPSS records, during fiscal year 2004, BCPSS spent \$6.7 million on Maryland Transit Administration (MTA) tickets. However, adequate controls had not been established over the ordering, storage, use, and invoicing of MTA ticket books.

- The same employee that ordered MTA ticket books each month, also received the tickets from the printer, distributed tickets to the schools, and was custodian of unused extra tickets ordered. Furthermore, undistributed tickets were stored in a room that was accessible to other employees.
- During the 2004/2005 school year, BCPSS paid for the printing of 19.3 million tickets at a cost of \$149,500, but MTA only billed for the use of 5.6 million tickets (29 percent). Students present tickets to MTA operators and these used tickets are the basis for monthly MTA billings. Thus, unnecessary printing costs were being incurred.
- Periodic field reviews were not conducted of either the custodian's or the schools' procedures and controls for storing, issuing, and accounting for unused tickets, nor had a formal policy and procedures manual been prepared addressing such issues.

In January 2004, BCPSS and MTA signed an agreement regarding the use of a new electronic transportation card (in lieu of paper tickets); however, scheduled implementation has been delayed until January 2006.

Improved Oversight of Medicaid-Related Transportation Services Is Needed to Ensure the Recovery of All Eligible Costs

More frequent action should be taken to identify all students eligible for Medicaid reimbursement of transportation costs

– To recover costs, it was necessary to identify students who were transported by BCPSS to locations where they received Medicaid approved services. For fiscal years 2004 and 2005 combined, there were approximately 117,000 Medicaid-eligible trips and almost \$1.5 million in transportation costs were recovered from the federal Medicaid Program. BCPSS had processes in place to identify students eligible for Medicaid transportation reimbursement including participation in two inter-agency initiatives, one with the Baltimore City Health Department (BCHD) and the other being a consortium of various local and State agencies serving the Medicaid population. However, BCPSS was not taking full advantage of these initiatives. Certain information files were not transmitted timely to these entities for subsequent data analysis to ultimately identify Medicaid eligible students based on their or their families' receipt of other Medicaid services. Although the protocol was for annual submissions to BCHD, as of August 30, 2005, the last submission was 15 months prior. Also certain relevant information which could potentially assist in identifying additional eligible students was not included by BCPSS (such as all students receiving special education services that did not have a medical assistance number, the population from which Medicaid recipients were likely to be found). Similarly, the data exchange process with the local consortium of agencies provided for quarterly submissions, yet BCPSS only submitted data twice a year.

Documentation requirements need to be improved to recover all eligible federal funding

– Although BCPSS recovered almost \$1.5 million in transportation costs during fiscal years 2004 and 2005, certain conditions could impact the attainment of additional reimbursement. In this regard, we found that BCPSS did not prepare annual management reports evaluating the performance of its Office of Third Party Billing (OTPB), which was primarily responsible for Medicaid recoveries.

As of September 2005, the period covered by the most recently issued report was fiscal year 2003. We also noted that BCPSS needs to develop procedures to provide for adequate documentation to support Medicaid reimbursement requests. BCPSS based reimbursement requests on certain electronic records; however, the underlying hard copy documentation often times did not support the electronic data. A September 2004 Maryland State Department of Education audit noted that 11 of 15 claims tested from November 2003 were not adequately supported. For example, transportation logs were missing or attendance records did not support the claim for services. We were advised that in fiscal year 2006, BCPSS intended to have the necessary corrective actions in place.

We also noted that concerns over the impact of this documentation problem delayed the submission of subsequent reimbursement claims. BCPSS did not submit any reimbursement claims during the period from June 26, 2004 to June 12, 2005. After assurances were provided by the BCPSS Department of Student Transportation, OTPB submitted the delayed request, which totaled \$1.8 million. Besides delaying the reimbursement of expenditures, this situation also contributed to a loss of investment interest income by requiring a cash outlay for the services without a prompt recovery of funds. To maximize reimbursements, documentation of expenditures must be provided on a timely basis. Even though federal Medicaid regulations permit providers to submit reimbursement claims for up to two years after the dates of service, the State Department of Health and Mental Hygiene (DHMH) has established a more stringent nine-month claim submission deadline. (All Maryland providers must submit Medicaid claims to DHMH for processing and subsequent submission to the federal government).

Recommendations

15. BCPSS should establish operational benchmarks, formally track key operational data, and optimize the use of automated bus routing software.
16. BCPSS should institute procedures and controls to ensure compliance with its own procurement rules and regulations,

and continue its recent efforts to ensure that contract safeguards are included in procurements. These procedures and controls should include documenting all key decisions and obtaining and retaining all bid and contract documents. It should also periodically reassess the effectiveness of its transportation services, both globally and by service area or type.

17. BCPSS must improve its contract monitoring and hold vendors accountable to all terms and conditions. Contracts and invoices should be reviewed to prevent improper payments, and any prior overpayments should be identified and recovered. Also, the propriety of service delivery, including student eligibility, should be verified prior to payment. Given the nature of and lack of documentation available related to a number of our findings, the BCPSS internal auditor unit should investigate these payments and transactions (including the contract award processes) to determine if any of the circumstances should be referred to law enforcement officials.
18. BCPSS should establish accountability over MTA tickets and ensure that adequate policies and procedures are established for the new electronic transportation card system.
19. BCPSS should develop a process to ensure that all appropriate reimbursements for Medicaid-eligible children and for homeless children are obtained. This should include identifying all Medicaid-eligible children transported and retaining appropriate documentation of trips. Additionally, BCPSS should pursue, with DHMH, the collection of all unreimbursed Medicaid-eligible costs that are less than two years old.

Chapter 9

Food Services Operations

According to MSDE data, of the 24 public school systems, BCPSS served the second largest number of meals during fiscal year 2004, and had the lowest per meal cost among the 5 largest systems. BCPSS had instituted a number of best practices to control costs and improve operational efficiency. We also reviewed BCPSS written cash handling procedures for food sales, observed the implementation of these procedures at several schools, and generally found them to be adequate.

We only found one area requiring enhancement, and that dealt with the processing of student applications for participation in the federal school meal programs³². BCPSS needs to establish a supervisory review process to ensure that all data input into the applicable system is correct. Another alternative is to implement a scanning process for the applications to minimize the chance for human error.

³² The United States Department of Agriculture's National School Lunch Program, School Breakfast Program, After School Snack Program, and Summer Meals Program.

Background

BCPSS provides paid, free, and reduced price meals, including breakfast and lunch to a majority of its students. As previously noted, BCPSS has the second largest food services operation in the State in terms of the number of meals served. We were advised that it is BCPSS intent to at least breakeven in its food operations (revenues from food sales and other related sources cover operating costs).

Table 8
Comparison of Cost per Meal
Fiscal Year 2004 (Unaudited)

School System	Total Expenditures	Meals Served			Average Cost Per Meal
		Breakfast (paid, free, and reduced)	Lunch and Snacks (paid, free, and reduced)	Total	
Baltimore City	\$26,224,586	3,113,620	8,790,062	11,903,682	\$2.20
Montgomery Co.	36,314,414	2,352,550	8,580,285	10,932,835	3.32
Prince George's Co.	49,349,681	3,998,796	13,233,927	17,232,723	2.86
Baltimore Co.	30,115,052	2,495,152	8,947,425	11,442,577	2.63
Anne Arundel Co.	15,620,489	1,036,387	5,090,139	6,126,526	2.55
Consolidated Totals	\$157,624,222	12,996,505	44,641,838	57,638,343	\$2.73

Sources: Expenditures from each school system's respective 2004 CAFR.
 "Meals Served" from MSDE Blue Book Summary July 2003-June 2004

In fiscal year 2004, BCPSS food services operations served about 12 million meals, resulting in a profit of \$2 million. A significant portion of this profit reflects the increased efficiency of BCPSS food service operations as a result of the use of cost containment best practices. During fiscal year 2004, BCPSS average cost per meal of \$2.20 was lowest of the five largest public school systems. Although complete data were not available at the conclusion of our audit, BCPSS advised us that in fiscal year 2005, it expected a loss of approximately \$500,000. BCPSS has indicated that it will take action to minimize the occurrence of future losses.

Table 9

Food Service Facts for Fiscal Year 2004

Average cost per meal			\$2.20
Number of meals served			
Breakfast			
Paid	260,028		
Free	2,620,346		
Reduced price	<u>233,246</u>		
		3,113,620	
Lunch			
Paid	715,592		
Free	7,138,699		
Reduced price	<u>736,061</u>		
		8,590,352	
Snacks		<u>199,710</u>	
Total meals served			11,903,682
Locations served			
Full-time employees			196
Part-time employees			133
			472
Revenues			
Federal			
Cash payments	\$22,713,579		
USDA Commodities	<u>872,231</u>		
		\$23,585,810	
Sales and other sources		4,149,956	
State aid		<u>929,314</u>	
Total Revenue (all sources)			\$28,665,080
Total Expenditures			<u>\$26,224,586</u>
Excess of Revenues over Expenditures			\$2,440,494

Sources: BCPSS records and MSDE Blue Book Summary

Certain Best Practices Have Been Put In Place to Control Costs and Enhance Revenue Attainment

A number of practices are in place to increase

operational efficiency – BCPSS has a number of practices in place to control and monitor costs, simplify meal preparation, minimize waste, and increase participation in the federal school meal programs. An indication of the success of such measures is

a \$3.5 million reduction in labor costs from fiscal year 2002 to fiscal year 2004 and an increase of 1,100 student participating in the federal school meal programs during the same period (even though overall student enrollment declined 4 percent during this period). Examples, of the actions taken by BCPSS include the following practices:

- Use of statistical analysis to track costs and other operational data. For example, staffing levels and labor costs were monitored using a meal per labor hour performance measure. Projected costs per meal were prepared comparing costs using certain free commodity foods received from the United States Department of Agriculture (USDA) versus costs when similar foods were purchased from food service contractors, and actual food service expenditures were regularly compared to budgeted numbers to identify issues needing corrective action.
- Use of USDA commodities was maximized, including entering into contracts with food processing companies to convert the commodities into “heat and serve” items (like pizza). Menus have been streamlined to include food children will eat, thereby reducing waste and cutting down on storage costs by reducing the variety of foods to be stored.
- Use of a majority of “heat and serve” and pre-prepared items, which reduces labor costs by minimizing scratch cooking.

BCPSS attempts to maximize participation in the federally-funded meal program

– BCPSS has several processes in place to maximize student participation in the federal school meal programs, which has the dual benefit of increasing federal funding to offset food service costs and ensuring many children receive nutritious meals during the school day. According to MSDE records as of October 2004, 73 percent of BCPSS students were receiving free or reduced price meals. One step BCPSS took was to implement a process that eliminates the stigma of receiving free or reduced price meal tickets by requiring all students to enter a PIN number when purchasing food. Another was using a family application for participation in the meal

program, which qualified older family members on younger siblings' enrollment forms. Since middle and high school students tended not to participate in the program, this increased the participation of older siblings.

Cash handling procedures were generally adequate – BCPSS had established written procedures for handling and processing cash receipts for food sales. Our review, which included visits to four schools, disclosed that cash handling procedures were generally adequate to safeguard collections.

Certain Steps Should Be Taken to Improve the Accuracy of the Free and Reduced Meal Application Process

Applications for student participation in the federal school meal programs were manually input into the BCPSS computer system, without the benefit of independent review to ensure the information input was accurate, complete, or proper. Depending on the significance of any input errors, BCPSS could have federal reimbursement requests denied or sanctions imposed. While an independent review or comparison of input and output data could detect errors, another available corrective measure would be to develop a process to scan applications into the system. Such a recommendation was made by a consultant hired by BCPSS in a report dated October 2003. The consultant suggested that, besides reducing the likelihood of input errors, scanning the applications could reduce the number of staff assigned to the input process. The consultant noted that 15 temporary employees were assigned to this process and believed that this could be reduced to 5 employees if scanning were used. BCPSS personnel informed us that they intended to implement a pilot program for application scanning in fiscal year 2006 and, if successful, fully implement the program in fiscal year 2007.

Recommendations

20. BCPSS should establish appropriate controls over the federal school meal programs application process to ensure the accuracy of the data entered into the system. Appropriate

independent review comparing input and output data should be instituted and BCPSS should continue its efforts with a pilot program for the scanning of application data.

Chapter 10

School Board Operations and Oversight

Our audit disclosed several areas for enhancement of the Baltimore City Board of School Commissioners' (the Board) oversight that we believe would increase operational accountability and help ensure that the Board's policies are appropriately implemented. Some of these enhancements would build on the framework already in place, such as the internal audit staff reporting to the Board, the "Board Rules" and "Guiding Principles"³³ and the Board's monitoring of selective financial indicators.

Specific enhancements include establishing a mechanism to measure BCPSS efficiency and performance in meeting various units' operational goals (including periodically reviewing administrative staffing levels for adequacy), increasing oversight of audit functions, ensuring that internal and external audit findings are adequately resolved, establishing a formal fraud reporting and follow-up process (with protection for whistleblowers) and considering re-adopting a committee structure for the Board.

Background

BCPSS is governed by a nine-member Board appointed jointly by the Governor of Maryland and the Mayor of Baltimore. Although several workgroups analyzed specific issues, the Board did not use a committee structure to carry out its duties, unlike many of its contemporaries in the State.

Over the past two years there has been significant progress in financial reporting and the budgetary process enabling the Board

³³ "Board Rules" are the general policies of the BCPSS and cover such areas as Board governance, procurement, personnel, instructional programs, and student conduct. The "Guiding Principles" were issued in December 2004 and assign management responsibility for achieving the goals of the BCPSS Education Master Plan.

to better monitor BCPSS operations. For example, financial data were being captured timely and reported monthly to the Board and the budget process being used provided the Board with more realistic assumptions and estimates. BCPSS has an independent internal audit unit that reports directly to the Board. This internal audit unit conducted 12 audits and 19 special reviews and investigations from April 2002 to October 2004 with essentially only two of four authorized auditor positions filled. In addition to the Board's fiscal and academic oversight responsibilities (fiscal oversight being our area of focus), it is ultimately accountable for the success of the BCPSS in achieving the goal of providing the children of Baltimore City with a quality education, while wisely spending local, State, and federal funds. In its own words:

Baltimore City Board of School Commissioners

The mission of the BCPSS, in concert with students, families, and the broader community, is to prepare all students to be responsible citizens and afford them the opportunity to acquire the skills, knowledge, and abilities necessary to make informed decisions that lead to meaningful and productive lives. To this end, the Board believes that all children can learn and achieve, when given the proper resources and that high standards and expectations must be maintained through a system of accountability for all students, staff and schools. School readiness is critical to success, as is the engagement of parents and families, and business and community members. Each child should be entitled to a high quality education in the least restrictive environment. Respect must be shown to all individuals and to the varied cultures and ethnic groups that make up the BCPSS community.

The BCPSS has defined two overarching goals of the Board, and of the Baltimore City Public School System-improving student achievement and establishing effective management systems in support of quality instruction.

Source: www.bcps.k12.md.us

Enhancements Should Be Made to Ensure That Board Oversight Is More Effective and Timely

A process should be put in place to measure efficiency and achievement of operational goals – At present, there is no formal process in place to gauge the efficiency and effectiveness of each department within BCPSS in meeting its

goals and objectives, particularly in relation to their respective contribution to successfully implementing the BCPSS Master Plan. Such a measurement and reporting process would aid the Board in its oversight role. For example, it could aid in assessing the success or impact of actions taken in response to issues raised in other chapters, such as workforce planning, transportation expenses and maintenance costs, as well as the adequacy of administrative staffing levels. In the past (fiscal year 2003 and prior³⁴), BCPSS had the highest per pupil administrative cost in Maryland (based on MSDE collected data), more than double the cost of each of the other 4 largest public school systems in Maryland. Currently, BCPSS attempts to maintain its administrative staffing levels at the fiscal year 2004 post-layoff level, with any suggested additions to the administrative staffing being subject to review by the Chief Executive Officer, Chief Financial Officer and Board during the budget process. However, there is no formal analysis of staffing or comparison made to other school systems' administrative costs to ensure that BCPSS administrative functions are staffed appropriately.

Board oversight of internal and external audit activities

should be enhanced – The Board had not established a formal process to regularly oversee, provide guidance on, and ensure proper implementation of responses to recommendations from both internal and external auditors. BCPSS had an independent internal audit unit that reports directly to the Board; however, the Board met infrequently with the internal auditor to review findings and until recently did not effectively support the effort by requiring timely responses to the audits. For example, we noted that for 5 of the 6 internal audit reports on administrative units issued between February 2003 and July 2004, the responses from the units were not received until 8 to 18 months after the related report issuance, diminishing the value of the audit results.

We also noted that in the past the Board had not routinely met with its external auditor. A meeting in December 2004 to discuss the results of the fiscal year 2004 financial statement audit issued in October 2004 was the first such meeting since at least 2000. Although in January 2005, the BCPSS Chief Financial Officer provided the Board with a presentation explaining the status of

³⁴ Most current comparative information available from MSDE during our audit.

follow-up actions on reportable conditions from that audit, the Board was not briefed on the status of conditions reported in the fiscal year 2004 federal Single Audit and related follow-up activities. Furthermore, the Board had not established a process to verify that corrective actions were implemented and were effective in remedying the reported conditions. We did note that the Board had recently become more attentive to audit issues. In addition to meeting with the external auditors in December 2004, the Board authorized an increase to 6 positions for the internal audit unit in the fiscal year 2006 budget, and adopted a policy in December 2004 that requires BCPSS management to respond to internal audit findings and recommendations within 10 business days.

The Board should establish a formal process, including a fraud hotline, to help detect fraud and the misuse of assets – We were advised that BCPSS occasionally received tips of suspected fraud, waste, or abuse from the Baltimore City fraud hotline and other sources. However, BCPSS did not have an established procedure requiring evaluation and follow-up on such notices when received. BCPSS also did not have its own hotline or whistleblower program that encouraged reporting and protected workers.

The Board should consider re-establishing a committee structure to aid in effective oversight – During our audit, the Board did not utilize formal committees (for example, Budget and Finance, Audit, Technology, Personnel, Instruction, or Planning) to aid it in carrying out its duties. The use of committees, with the resultant distribution of workload, should enable a more thorough review of various issues. The Boards of the two largest school systems in Maryland make use of a committee structure. We were advised that the Board in the past had made use of a committee structure, but discontinued the practice, due to what Board members perceived to be ineffectiveness.

Recommendation

21. Action should be taken to enhance Board oversight, including establishing a process to measure efficiency and attainment

of operational goals of various departments. The Board should also take a more active role in the internal and external audit functions and results to ensure timely corrective actions are taken, create a fraud hotline (with formal follow-up procedures) and draft an employee whistleblower protection policy. Finally, the Board should consider the use of a committee structure within the Board to aid it in governing the BCPSS.

Chapter 11

Other Financial Controls

This audit section covers a limited number of financial-related areas not addressed in other audit sections, specifically: the management of cash, debt and risk, and the control over bank accounts. We found that BCPSS has policies in place to govern its cash and debt management practices, while it needs to reevaluate its risk management practices. Furthermore, reconciliations of bank accounts to BCPSS financial records were not comprehensive or completed timely.

Cash and Debt Management Practices

BCPSS has established policies addressing its investment and debt management practices. Investment management policies and practices are in accordance with State law. BCPSS policy requires the collateralization of cash accounts and lists the type of permissible investments and the conditions under which investments may be made. As of June 30, 2004, it was reported in the BCPSS audited financial statements that all cash accounts were adequately collateralized and that of BCPSS \$70.2 million in investments, 77 percent was in the Maryland Local Government Investment Pool administered by the Maryland Office of the State Treasurer.

Regarding debt management, BCPSS adopted a formal policy in September 2002, which it has adhered to since inception. The policy met the legal requirements of the Annotated Code of Maryland and incorporated many of the recommended practices from the Government Finance Officers Association's *Recommended Practice for Debt Management Policy*. BCPSS audited fiscal year 2004 financial statements reported \$73.7 million in bonds payable and \$37.3 million in capital leases, both of which are solely the obligations of the BCPSS.

Risk Management Policy Should Be Reevaluated

Risk management processes at BCPSS are fragmented with little coordination, oversight and communication between the parties performing these functions within BCPSS. Although a risk management committee was established in November 2004 by the Board to review BCPSS workers compensation claims and other insurance activity, we were advised that the committee has met infrequently and lacked clear direction. BCPSS also has not developed any formal risk management policies and procedures. An analysis performed in January 2005 by an outside consultant of BCPSS workers compensation processes disclosed that, in order to reduce losses, BCPSS needed to develop and implement formal workers compensation and work safety policies and programs, a task which, as of August 2005, had not been undertaken. Also, BCPSS had not conducted an analysis to determine if the continued use of the Baltimore City Risk Management Fund (a self-insurance fund covering City agencies and BCPSS) as its primary insurer was in its best financial interest. The Fund services all insurance claims (except employee health insurance) for BCPSS, and participation predates the separation of the BCPSS from City government in 1997. According to BCPSS audited financial statements, payments to the Fund in fiscal year 2004 totaled \$4.2 million.

Bank Account Reconciliation Process Needs Improvement

BCPSS maintains a number of bank accounts for most transaction categories such as payroll checks, payroll withholding, and vendor payments. Our review disclosed that comprehensive reconciliations were not completed. When attempted, reconciliations were often untimely and there was a general lack of accountability over the preparation and approval of reconciliations. Examples of issues identified include the following conditions:

- The May 2005 reconciliation of the bank account used for vendor payments included \$126 million in unresolved differences from prior fiscal years, and unresolved fiscal year 2005 debit and credit reconciling items of \$205 million each.

Although some of these reconciling items may ultimately offset, none of the reconciling items had been researched. As of July 2005, BCPSS staff advised us that they were researching these items, but had been delayed due to staff turnover and by not dedicating specific employees to the task.

- As of June 2005 the most recent reconciliation for the payroll withholding account was August 2004, which included a \$4.8 million unresolved difference. Subsequent to our inquiry, in July 2005 reconciliations were prepared through May 2005, with that month's reconciliation including a cumulative unresolved difference of \$38 million.
- Although the reconciliation of the payroll account was timelier than the other accounts – the April 2005 reconciliation was the most recent attempted as of July 29, 2005 – the reconciliation included unidentified adjustments of \$1 million dating back to July 2004 that need resolution. It also contained \$1 million in outstanding checks, some over two years old, including \$185,000 issued from bank accounts that are no longer used.
- Bank reconciliations were not prepared for certain other bank accounts with balances totaling \$63 million as of June 30, 2005 (for example, capital projects and debt service funds). Furthermore, these accounts were not recorded on the BCPSS general ledger; rather, they were maintained manually on spreadsheets.
- None of the bank account reconciliations attempted were subject to a documented supervisory review and approval, and the preparers did not initial the reconciliations attempted.

Recommendations

22. BCPSS should review its overall risk management structure and processes (including participation in the Baltimore City Risk Management Fund) to ensure that comprehensive coverage has been obtained.
23. Bank account reconciliations should be prepared on a timely basis for all accounts, reconciling or unidentified items

should be investigated and resolved, and accountability should be established by the preparer and a supervisor approving each reconciliation. In addition, to improve accountability and record keeping, all financial activity for all accounts should be recorded in the BCPSS general ledger.

Audit Scope, Objectives, and Methodology

Scope

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Baltimore City Public School System (BCPSS). We conducted this audit under the authority of the State Government Article, Section 2-1220(f) 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 BCPSS procedures and controls were effective in accounting for and safeguarding its assets.
2. To evaluate whether BCPSS 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 or 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 BCPSS Comprehensive Education Master Plan or related updates. Also,

subsequent to our fieldwork, the Maryland State Department of Education (MSDE), under orders from a federal judge, implemented certain control activities over special education related operations at BCPSS. The impact of these activities has not been considered in our scope.

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 BCPSS. We also interviewed personnel at BCPSS, MSDE, and staff at other local school systems in Maryland (as appropriate³⁵). Our audit procedures included inspections of documents and records, and observations of BCPSS 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, 2003 through December 31, 2004. For our audit work on federal grants, we relied on the results of an independent audit of fiscal year 2004 activity; accordingly, our 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, 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. We also used statistical information from other states to a lesser extent. Finally, we used certain statistical data - including financial and operational - compiled by the MSDE from various informational reports submitted by the Maryland local school systems. This information was used in this audit report for background or informational purposes, and was deemed reasonable. For comparison purposes, information provided was generally limited to the five Maryland school systems with the largest student enrollment. In many cases, due to the self-reporting nature of the information, the data were neither audited nor independently verified by us.

³⁵ During the course of the audit it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

Other Independent Auditors

When developing the approach for the audits of school systems 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 BCPSS, 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 BCPSS fiscal year 2004 federal financial assistance programs for compliance with federal laws and regulations and the BCPSS fiscal year 2004 financial statement audit. Accordingly, we significantly reduced the scope of our work in Chapter 1 "Revenue and Billing Cycle", and in Chapter 2 "Grants" where we included a summary of the reportable conditions and questioned costs noted by the independent auditor.

Limitations of Internal Control

BCPSS 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.

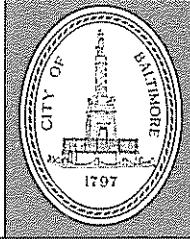
In addition to the conditions included in this report, other less significant findings were communicated to BCPSS that did not warrant inclusion in this report.

Fieldwork and BCPSS Responses

We conducted our fieldwork from November 2004 to August 2005. The BCPSS response to our findings and recommendations is included as an appendix to this report.

CITY OF BALTIMORE

MARTIN O MALLEY Mayor



BALTIMORE CITY PUBLIC SCHOOL SYSTEM

OFFICE OF THE CHIEF FINANCIAL OFFICER
200 East North Avenue
Baltimore, Maryland 21202

January 6, 2006

Bruce A. Myers, CPA
Legislative Auditor
301 West Preston Street
Room 1202
Baltimore, Maryland 21201

Dear Mr. Myers,

Enclosed are the Baltimore City Public School System's responses to each of the recommendations included in the financial management audit report prepared by the Office of Legislative Audits.

If you have any questions regarding this submission, please do not hesitate to call me.

Sincerely,

A handwritten signature in black ink that reads "John T. Walker, III".

John T Walker, III
Interim Chief Financial Officer

Enclosure

cc: **Bonnie S. Copeland, Ph.D.**
Brian D. Morris



Baltimore City Public School System Responses to Legislative Audit Recommendations

1. BCPSS has taken corrective action on all the findings of the fiscal year 2004 Single Audit. Any findings from the fiscal year 2005 Single Audit will be addressed and corrective action will be taken expeditiously.
2. Automated controls and access over the BCPSS procurement system are reviewed regularly and revised based on current business practices.
3. BCPSS awards bids to the lowest responsive responsible bidder. However, there are unique circumstances and specifically special education therapists where the labor pool is such that it precludes a supplier from providing staff given the current labor market. Additionally, BCPSS has added a contract monitor position, and a performance monitoring process will be established.
4. BCPSS has instituted procedures in which new employees are required to file financial disclosure statements upon hiring. Procedures are in place to ensure that financial disclosure statements for those employees required to file those statements are completed in a timely manner.
5. Although there are Board approved personnel policies in place, BCPSS is in the process of reviewing and updating personnel policies for the organization. As policies are reviewed, additional monitoring procedures to ensure compliance with new or updated policies will also be developed. Corrective action for negative leave balances had been initiated prior to the start of this audit. Currently, employees who have negative leave balances are having accruals applied against the negative balances. BCPSS devotes a great deal of time and effort to workforce planning for administrative and education-related positions. Less effort has been devoted in the past to other fields such as maintenance, due to funding limitations. However, BCPSS is in the process of improving workforce planning in these areas.
6. BCPSS has document retention policies for payroll records since the implementation of its own payroll system in May, 2004. Prior to that time, BCPSS payroll was processed by the City of Baltimore, and official payroll records for BCPSS employees are maintained by the City.
7. BCPSS has developed controls over payroll processing to ensure accuracy. However, due to system start-up and implementation issues during the period covered by this audit, these controls and procedures were not properly monitored by BCPSS. Monitoring of payroll processing controls is now done on a regular basis. Unsubstantiated payments to employees are being investigated and appropriate action will be taken as necessary.

8. BCPSS has procured a consultant to perform a physical inventory of all assets of the System. Additionally, a fixed asset management system is being implemented with a projected implementation date of July 1, 2006.
9. BCPSS is reviewing policies and procedures for the control of non-food materials and supplies and will implement additional controls as necessary, where implementation is cost effective.
10. BCPSS is implementing procedures based on industry accepted best practices for all future IT development projects. Additionally, procedures are being implemented to more accurately track project budgets and expenditures.
11. The IT Department is moving forward with updating the June, 2002 IT controls publication to include a comprehensive information security program for all BCPSS information systems and operations. Our goal is to complete the comprehensive information security program update by June 30, 2006.
12. BCPSS has already limited the access to the computer room / Data center to essential IT staff only. IT requires all employees to sign-in upon entry to the main entrance and all visitors are now required to sign in. To verify compliance and monitor individuals who enter as well as exit the data center, IT plans to install security cameras on all the data center entrances. Our goal is to have security cameras in place by July 2006. The computer room's portable fire extinguishers and the room-wide fire extinguishing system were inspected in April 2005 by the Fireline Corp. The portable fire extinguishers were replaced and the room-wide fire extinguishing system has been recharged. In accordance with State of Maryland Fire Marshal's Office regulations the next inspection of the fire suppression equipment will be in April 2006. The IT department contracted an electrical engineer to raise electrical cabling and data cabling under the elevated floor as an interim solution to avoid water damage. The IT department has requested a remedial plan from the Facilities department to address the inadequate building drainage and water accumulation in the IT data center operations room.
13. BCPSS has recognized the need to reduce the current number of underutilized facilities and has taken steps to commence this process. In May 2004, the BCPSS Board of School Commissioners approved a contract to hire a consultant to generate a plan for the creation of a Comprehensive Educational Facilities Master Plan. A draft of this plan was submitted to the State Interagency Committee of the Maryland Public School Construction Program on 1 July 2005. This draft included the need to assess the discrepancy between capacity and projected enrollments. As a catalyst to this ambitious initiative, the BCPSS School Board also approved a contract with a nationally recognized consultant firm in educational facilities planning, to undertake a facility solutions process to address the imbalance between capacity and enrollment, facility condition, square footage

per pupil, operating cost per school, cost of future repairs and other pertinent information in order to make school closure recommendations. These recommendations will be made with the extensive input of community leaders, parents and educators through the holding of approximately 64 community meeting and dialogues. Recommendations for school closure will be made to the Board of School Commissioners by the end of March 2006 so that schools may be closed by September 2006. As part of the facility solutions process, the School Board, on 3 October 2005, voted in support of reducing the existing school building capacity by 15 percent over the next three school years. Consequently, although primary recommendations will be made in March 2006, it is anticipated that additional recommendations will be made in the following years to continue the reduction in excess capacity. An internal process will be created to continue the analysis of the aforementioned factors for school closure recommendations.

14. BCPSS has made significant strides and improvements with regards to procurement processes and procedures. Professional staff have been retained, formal job descriptions exist and processes are in place that track all major procurements, RFP's and bids.
15. BCPSS is currently using the "auto routing" feature of our Trapeze software program where it is feasible. However, in many scenarios it does not take into consideration constructions, street closings and configuration of certain buses. We have many dynamics to consider when assigning students to buses: such as age, disability, previous history of discipline, etc., an auto program will not recognize these dynamics. In any routing system, manual intervention is required and necessary. We have tested this process on a number of schools, using both the auto and manual process, we have found in all examples the manual routing provided us a more customized and efficient result. We continually evaluate the student ridership, planned day and total mileage of our routes to assess the efficiency of the route. Additional benchmarking and performance measures will be introduced to provide further optimization of our routes. It should be noted that the improvements made to date in our routing process has reduced our school bus costs by 20 percent. BCPSS school bus expense for SY 2002-2003 was \$16.6 million dollars and for the SY 2004-2005 our school bus cost was \$13.4 million. A comprehensive study of the bell schedule was completed in 2003 and recommended changes were presented and voted favorably on by the New BCPSS School Board of Commissioners in May of 2004. The changes went into affect for the SY 2004-2005, these changes resulted in an FY 2005 cost savings of \$800,000. An additional 12 schools had bell time changes made for SY 2005-2006. The bell schedule will continue to be evaluated and reviewed with additional changes planned for SY 2006-2007.
16. In the Fall of 2004, the BCPSS Procurement Department made several personnel changes and instituted a system to document delivery and storage of proposals in a locked storage closet with access limited. BCPSS now maintains a log of delivered proposals. Beginning in April, 2005, BCPSS began issuing bids and

RFP's electronically through eSchoolMall. This eliminates paper proposals requiring secure storage and limits proposal viewing until the pre-scheduled bid opening. The Procurement review Committee, which reviews all contracts seeking Board approval, now requires greater specificity, accuracy and ensures that all pertinent contract information is provided to the Board (past performance, past spending, number of renewals, etc.)

17. BCPSS has implanted controls to monitor contractor performance and invoice verification. Also, BCPSS has implemented improved student eligibility verification procedures. Any overpayments identified as a result of our review will be recovered from the vendor.
18. BCPSS is in agreement with the auditors findings and at the beginning of SY 2004-2005, improved controls, audit practices and student eligibility were implemented. A meeting was held with the MTA in October 2005 after an audit of their BCPSS student ticket count process. It was requested at this meeting that all MTA invoicing to BCPSS include the number of tickets used each day for both the commuter bus and light rail service. Beginning in September 2004, this was part of the invoice and the Director of the DST reviews each invoice for accuracy in both usage frequency and days of service. The recommendation for these procedures to be documented in a manual will be followed. BCPSS DST will increase the security of these tickets within their department and field visits will be increased. We have identified a secure place that will be restricted and under lock and key. The contract with the printer of these MTA tickets expired in June of 2005. The contract initiated in 2001, was for the printing of 40,000 tickets per month, this total was determined to be necessary for the 37,000 students eligible for MTA transportation. With the expiration of this contract, the delay of the student fare card until the spring of 2006 and a reduction of total students eligible for MTA transportation. In April 2004, the department of Materials Management at the direction of the DST completed an Information for Bid (IFB) for a one year ticket printing contract of 35,000 tickets per month. The existing vendor was chosen to continue printing these tickets based on their lowest bid, agreement to work with a month to month contract and the flexibility to adjust monthly ticket printing based on enrollment needs. Until BCPSS converts to an electronic fare card (January 2006) monthly ticket ordering will be adjusted based on usage and reviewed as enrollment continues to decline in the BCPSS school system. DST will work out a process to account for tickets issued to schools and the return of unused tickets to DST and its subsequent disposal.
19. BCPSS Third Party Billing (TPB) ensures that all data is maintained in the most accurate and timely manner possible, and applies very strict internal controls. TPB fully participates in data sharing opportunities with the State, and also provides annual support and outreach for the Baltimore City unit that is responsible for the Baltimore component of the Maryland Children's Health Program. TPB maximizes allowable transportation recovery in compliance with state and federal regulations.

20. BCPSS has implemented improved procedures for the monitoring of data in the food service school meal process. Food service Technology examines an error log before the scanned data is imported into the application determination software. The error log identifies conflict information on the application, and identified errors are corrected by staff. The original error log is maintained along with a corrected error log.
21. The Board is committed to ensuring that it continues to remain attentive to audit issues. As evidence of the commitment, the Office of Internal Audits is expanding the number of auditors over the next two fiscal years (2 auditors per year). The increased audit staff will enable the office to conduct more audits and to ensure compliance with implementation of responses to recommendations from both internal and external auditors. Additionally, in December 2004, the Board also adopted a policy that all staff must respond to audits within 10 days. The Board will develop, in consultation with the Internal Auditor, a briefing schedule to verify that corrective actions are being implemented. Through the work of the newly established Board committee structure, the Board will be able to better monitor the effectiveness of each department within the BCPSS. The committee structure will allow better oversight to ensure that each department's goals and objectives are met and that the goals and objectives of the Master Plan are being implemented effectively and timely. The introduction of a fraud hotline will be examined by the school board with the Internal Auditor and the CEO to determine the viability and processes needed in order to ensure that the hotline provides anonymity and proper follow up. In September 2005, the Baltimore City Board of School commissioners formally adopted a committee structure. The committee's consist of Personnel and Employment Evaluation, Finance, Special Education, Parent and Community, Quality of Instruction, and Facilities. Generally, the committees meet on an as needed basis. However, the Personnel Committee meets the Monday evening prior to every public board meeting. The committees are charged with meeting with staff and providing direction, as need, on issues of importance. Additionally, the committees receive detailed information and make recommendations to the full Board.
22. Officials from BCPSS, in conjunction with officials from the City of Baltimore have created a task force committee to review Risk Management practices. The use of the Baltimore City Risk Management Fund as the BCPSS primary insurer is also being reviewed as part of this process.
23. Bank reconciliations are now completed and reviewed on a monthly basis. Additional staff has been retained to perform this function. All reconciling items are identified and investigated. Completed bank reconciliations are reviewed by Finance management. All BCPSS financial activity is recorded in the BCPSS general ledger.

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