

Financial Management Practices Performance Audit Report

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Calvert County Public Schools

July 2009

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**OFFICE OF LEGISLATIVE AUDITS**  
**DEPARTMENT OF LEGISLATIVE SERVICES**  
**MARYLAND GENERAL ASSEMBLY**

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**DEPARTMENT OF LEGISLATIVE SERVICES**  
**OFFICE OF LEGISLATIVE AUDITS**  
**MARYLAND GENERAL ASSEMBLY**

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Legislative Auditor

July 1, 2009

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee  
Senator Verna L. Jones, 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 Calvert County Public Schools (CCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. CCPS is the 12th largest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 24 schools, with fiscal year 2008 expenditures of \$222 million. The objectives of this audit were to evaluate whether CCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

In many cases, CCPS had procedures and controls in place to ensure the safeguarding of assets and the efficient use of financial resources. Nevertheless, our report contains 19 recommendations to enhance controls in its existing financial management systems and processes in areas such as procurement, payroll, and student transportation. For example, CCPS needs to enhance certain procurement policies and procedures and should institute better security controls over its payroll and disbursement automated systems. CCPS should also establish comprehensive bus routing procedures, and evaluate whether its existing routing software can be fully used or should be replaced. We identified certain components of the formula used to establish bus transportation vendor reimbursement rates that should be reevaluated, as they appear to result in unnecessarily high reimbursements, which could cost CCPS approximately \$4.2 million over the life of the new buses put into service since 1998. Other issues to be addressed include increasing participation in the free and reduced-price meal program, establishing better controls over sensitive equipment, and ensuring the propriety of health care cost payments.

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 67. We wish to acknowledge the cooperation extended to us during our audit by CCPS.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor

# Executive Summary

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The Office of Legislative Audits has conducted an audit to evaluate the effectiveness and efficiency of the financial management practices of the Calvert County Public Schools (CCPS) in accordance with the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. State law requires the Office to conduct such an audit of each of the 24 public school systems in Maryland and provides that the related audit process be approved by the Joint Audit Committee. Since the Committee approved the audit process in September 2004, we have issued audit reports related to 15 school systems; CCPS represents the sixteenth to date. The approved process included 11 areas to be audited at each system. The following are summaries of the findings in these areas at CCPS.

## Revenue and Billing Cycle (see pages 7 through 9)

According to the audited CCPS financial statements, \$223 million in revenue was received from all sources during fiscal year 2008, the vast majority of which was received via electronic fund transfers from other governmental entities. Procedures and controls for these revenue sources and accounts receivable were generally found to be adequate.

## Federal Funds (see pages 11 through 13)

Annually, CCPS is subject to an audit of its federally-funded programs (often referred to as the Single Audit, and required by Circular A-133, which is issued by the U.S. Office of Management and Budget). Due to parallels between that work and the scope of our audit, we placed significant reliance on the results of the independent audits of the fiscal year 2008 grant activity. The related report stated that CCPS complied, in all material respects, with the requirements applicable to its major federal programs. In addition, with respect to internal controls over compliance with and the operation of major federal programs, the firm noted no matters considered to be material weaknesses. The firm noted one significant deficiency in that CCPS did not have written procedures

to establish the reported matching funds for one program with grant expenditures totaling \$260,000. The CCPS response to this finding stated that it would develop written procedures to be used to document matching funds. Reported federal fund expenditures totaled \$7.1 million during fiscal year 2008.

CCPS had an adequate process for the identification of children eligible for Medicaid-subsidized services, and for recovering the related costs. CCPS also participated in the E-Rate program to the extent authorized.

## Procurement and Disbursement Cycle (see pages 15 through 19)

Non-payroll disbursements totaled \$50 million during fiscal year 2008. The audit disclosed that, although CCPS established processes to enhance the cost effectiveness of procurements (such as “piggybacking” on the contracts of other entities), it needs to improve policies and procedures governing procurements. Specifically, the use of piggyback contracts for significant purchases was exempted from the Board’s review and approval process. In addition, adequate controls were not established over procurements and disbursements, and documentation was not maintained to support certain payments to vendors.

## Human Resources and Payroll (see pages 21 through 24)

CCPS employed 2,229 full-time equivalent employees as of May 2008 and payroll and benefit costs during fiscal year 2008 totaled approximately \$172 million. Internal controls over critical human resources and payroll functions need to be strengthened because certain employees had unnecessary and/or inappropriate computer system access capabilities without any compensating controls. CCPS had implemented workforce planning measures for all staff.

## Inventory Control and Accountability (see pages 25 through 28)

CCPS had policies to control equipment, which totaled \$7.7 million as of June 2008, but these policies were not comprehensive. We found that policies did not address sensitive equipment items valued at less than \$5,000 (such as computers) and the official

inventory records did not include these items. In addition, these items were not subject to periodic physical inventories. Also, CCPS had not established formal policies to enhance textbook accountability.

## Information Technology Services (see pages 29 through 31)

CCPS maintains and administers a computer network, computer operations, and a number of significant financial and academic information system applications. CCPS had developed and periodically updated its written technology plans. However, improved security over access to computer resources is needed, as well as a comprehensive disaster recovery plan, to adequately safeguard applications and data systems.

## Facilities Construction, Renovation, and Maintenance (see pages 33 through 38)

CCPS maintains 24 schools and several other facilities (such as administration and support offices) with a staff of 199 custodial and maintenance personnel. CCPS has implemented several best practices to help reduce construction and maintenance costs for its facilities. However, we found that certain contracts were not reported to the Board for review and approval and energy management efforts should be enhanced. In addition, CCPS should use available information to ensure that all preventive maintenance is performance, and should establish a performance measurement system for maintenance and custodial operations.

## Transportation Services (see pages 39 through 47)

CCPS is responsible for the safe transportation of over 13,300 eligible students, of which two percent are disabled. CCPS used a number of recognized best practices to increase student transportation efficiency, such as staggering school arrival and dismissal times to enable certain buses to perform multiple runs. However, CCPS had not documented its routing procedures and did not fully use its automated software to assist in the route scheduling process. In addition, CCPS had not conducted a recent analysis of its decision to outsource transportation services nor of

the reasonableness of the rates paid to bus contractors. Furthermore, the cost reimbursement component of the rates paid to bus contractors resulted in reimbursement of 150 percent of the bus cost, and CCPS did not periodically adjust certain rates based on market conditions that were used to provide the bus contractors with a return on their initial investment of funds to purchase buses. Consequently, CCPS may end up paying \$4.2 million more than necessary over a 12-year period. CCPS paid contractors for certain costs in excess of those provided for in contract documents and did not ensure that certain data used to make payments to or on behalf of the contractors were reasonable.

### Food Services Operations (see pages 49 through 55)

CCPS has implemented a number of best practices to help reduce food service costs, such as by participating in a food purchasing cooperative, and by using available USDA commodities. CCPS has adequate procedures in place to identify students eligible for free meals and reduced-price meals under the federal national school meals programs. However, CCPS should analyze whether barriers exist that have resulted in actual participation in these programs, especially breakfast, being significantly below that of similarly-sized school systems. CCPS should also improve controls over certain financial activities and develop performance data. Finally, the food service operation, which is intended to be self-sufficient, does not account for all costs of operations.

### School Board Operations and Oversight (see pages 57 through 61)

Oversight of CCPS operations included the five-member Board receiving financial updates, such as monthly budget variances to assist it in monitoring the use of funds. The Board is also actively involved in the budgeting process. CCPS has a detailed ethics policy and had established a process to independently investigate ethics issues and complaints. Nevertheless, the Board could improve oversight of operations by expanding the role of its internal auditor and by requiring the internal auditor to report directly to the Board. Finally, the Board should also consider establishing a confidential hotline for employees and others to report operational concerns and suspected fraud and waste.

## Other Financial Controls (see pages 63 through 65)

While CCPS had certain policies and procedures in place to govern its risk and cash management, it should also develop written policies governing its use of long-term liabilities, such as financing agreements, and establish sufficient controls to ensure the propriety of health care costs.



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# Background Information

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## Oversight

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

## Statistical Overview

According to MSDE student enrollment records, CCPS ranks 12th in student enrollment among the 24 public school systems in Maryland. From fiscal year 1998 through 2008, the total full-time regular and special education pupil population has increased 18 percent from 14,736 to 17,394, with further projected increases to 18,490 by 2017. For the 2007–2008 school year, CCPS had 24 schools, consisting of 13 elementary, 6 middle, 4 high and 1 alternative school. According to its audited financial statements, CCPS expenditures were \$222 million in fiscal year 2008. The largest expenditure category is salaries and wages, including benefits, which accounted for approximately 78 percent of total expenditures during fiscal year 2008. CCPS budgeted full-time positions in fiscal year 2008 totaled 2,229, which consisted of 1,599 instructional and 630 non-instructional employees.

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

are based on self-reported data from the 24 public school systems, and MSDE does not warrant the comparability or completeness of the data.

## External Audit of Fiscal Year 2008 Activity

Annually, CCPS engages a certified public accounting firm to independently audit its fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of CCPS federal grant programs (as required by federal regulations). The resulting audit reports for the 2008 fiscal year were issued in September and December 2008, respectively. Neither report included any material weaknesses in CCPS record keeping, processes, and controls. See chapters 1 (Revenue and Billing Cycle) and 2 (Federal Funds) for additional information.

# Chapter 1

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## Revenue and Billing Cycle

According to the CCPS audited financial statements, \$223 million of revenue was received by CCPS during fiscal year 2008. Due to similarities between the work of the independent certified public accounting firm that audited the CCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of those audits for revenues and accounts receivable (for example, amounts due from other governments). The auditor's procedural review and testing disclosed no material weaknesses. Such testing included the most significant revenue types—the majority of which related to electronic fund transfers from other government entities, as well as school activity fund and food service cash receipts.

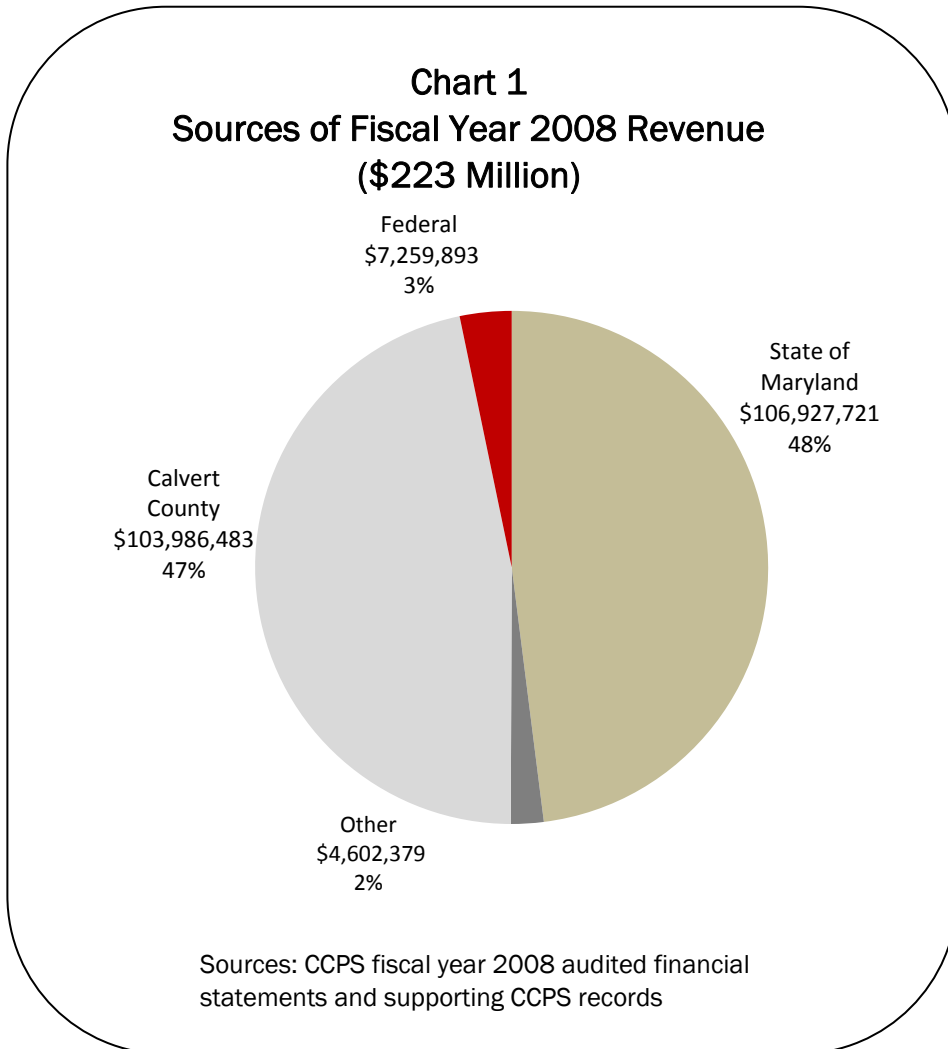
CCPS also conducts reviews of school activity funds.<sup>1</sup> Those reviews identified some control weaknesses at certain schools. These control weaknesses did not appear to be prevalent and were addressed by school management.

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<sup>1</sup> The Board has a fiduciary responsibility to ensure that school activity funds are used only for intended purposes by those to whom the assets belong. Receipts for the school activity funds, which totaled \$5.7 million during fiscal year 2008, are not included in the \$223 million revenue total because the Board cannot use these assets to finance CCPS operations.

## Background

CCPS revenues consist primarily of funds received from Calvert County and the State. Other sources include federal grant funds, receipts from the sale of food, interest income, and other miscellaneous sources. Chart 1 (below) shows CCPS fiscal year 2008 revenues of \$223 million by major source.



In addition to the revenues in Chart 1, schools also collect funds for various purposes, such as yearbook and band. These school activity funds are accounted for separately by each school and are reported, in summary, in the audited financial statements. According to the audited financial statements, fiscal year 2008 school activity fund revenues totaled \$5.7 million, and the June 30, 2008 balance was \$1.7 million.

## Revenue and Billing Cycle Activities Were Generally Adequate for Significant Revenue Types

Due to similarities between the work of the independent certified public accounting firm that audited the CCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the financial statement audits. The firm's September 2008 audit report disclosed no significant deficiencies<sup>2</sup> or material weaknesses<sup>3</sup> regarding significant revenue types and related accounts receivable. The majority of this revenue was received via wire transfer from other government entities.

## Recommendations

None

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<sup>2</sup> A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

<sup>3</sup> A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by an entity's internal control.



# Chapter 2

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## Federal Funds

Annually, CCPS is subject to an audit of its federally-funded grant programs (often referred to as the Single Audit, and required by Circular A-133 issued by the U.S. Office of Management and Budget). The report on the audit of fiscal year 2008 federal grant activity was issued by the CCPS external auditor on December 22, 2008, except for the report on the Schedule of Expenditures of Federal Awards, which was issued September 29, 2008.

Based on the reports, CCPS complied, in all material respects, with the requirements applicable to each of its major federal programs for the year ended June 30, 2008. With respect to internal controls over compliance with and the operation of major federal programs, the auditors disclosed no material weaknesses, but did identify a significant deficiency in the internal control over compliance. In response, CCPS stated that it would develop written procedures to correct this significant weakness.

CCPS had an adequate process for the identification of children eligible for Medicaid-subsidized<sup>4</sup> services, and for recovering the related costs. In addition, CCPS participated in the federally-funded E-Rate program to the extent authorized. This program provides discounts for school systems related to telecommunications and Internet access.

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

## Background

CCPS receives funds primarily from Calvert County, the State, and the federal government. Most funds received from Calvert County and the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2008 expenditures of federal award funds totaled \$7.1 million.

According to CCPS records, CCPS also received an additional \$740,000 of federal fee-for-service payments during fiscal year 2008 for Medicaid-subsidized services for qualified students.

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

In the report on the audit of fiscal year 2008 federal grant activity issued by the CCPS external auditor on December 22, 2008, the auditor stated that CCPS complied, in all material respects, with the requirements applicable to each of its major federal programs for the year ended June 30, 2008. With respect to internal controls over compliance with and the operation of major federal programs, no material weaknesses were noted; however, the auditors identified a significant deficiency in the internal control over compliance, commenting that CCPS did not have written procedures for the rationale and determination of reported matching funds for one program with grant expenditures totaling \$260,000. The auditors stated that questioned costs could not be determined from the data provided. In its corrective action plan, CCPS stated that it would develop written procedures to be used to document matching funds for this program.

## Processes Were in Place to Identify Students Eligible for Medicaid Services and to Obtain Federal Cost Reimbursements

Our review of Medicaid-subsidized services disclosed that CCPS has adequate processes in place to identify students eligible for Medicaid services and to recover the related costs. Specifically, CCPS manually reviews Medical Assistance records for all students receiving special education services to determine if the students are eligible for Medicaid-subsidized services. In addition, CCPS ensures that all services provided are billed.

## CCPS Participated in the Federal E-Rate Program to the Extent Authorized

CCPS has a process in place to request and receive reimbursement for technology expenditures from the federal School and Libraries Universal Service Program (E-Rate). The E-Rate program provides funding to schools for telecommunications expenses (such as Internet access). The funding is based on the level of poverty and the rural status of the school district. CCPS received approximately \$112,000 of E-Rate funds for funding year 2006 (the most recent year for which expenditures had been reimbursed).

## Recommendations

None



# Chapter 3

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## Procurement and Disbursement Cycle

CCPS used certain best practices in procuring goods and services, such as purchasing items through contracts already procured by other jurisdictions (referred to as “piggybacking”), when it was beneficial to do so. In addition, CCPS has adequate travel policies and the related expenditures we tested were made in accordance with those policies. However, CCPS needs to improve its controls over procurements and disbursements. For example, certain users of the automated payment system had the ability to add vendors to the system, process invoices for payments, and print the related checks, and were thus able to issue payments without an independent review for propriety. In addition, CCPS should enhance existing policies to ensure that all significant contracts are reported to the Board.

## Background

Requisitions are prepared and approved in the schools or departments. Purchase orders, contracts, solicitations, and bids are generally managed by the purchasing office. CCPS procurement regulations are similar to State regulations in that purchases over \$25,000 typically are required to be formally bid and approved by the Board. The receipt of goods and services is verified by the receiving school or department and payments are then processed by the finance office. Vendor payments are processed using the automated system. Non-payroll disbursements totaled \$50 million during fiscal year 2008.

## CCPS Used Certain Best Practices to Address its Procurement and Disbursement Needs

CCPS had instituted certain best practices that should enhance the cost effectiveness of its procurement and disbursement transactions.

- When it is beneficial to do so, CCPS “piggybacks” onto contracts already procured by the State and other local governments. This practice saves CCPS certain costs associated with the procurement of the contracts and may provide larger discounts as a result of the combined purchasing power of multiple entities.
- CCPS participates in purchasing consortiums with other government entities (such as Calvert County government and other school systems) for items such as energy, fuel supplies, instructional supplies, and food.
- CCPS maintains travel reimbursement policies for Board members and employees. These policies include requirements for pre-approval of all overnight travel, proper documentation of all related expenses, and review and approval of expense reports by supervisory personnel. Our test of related disbursements disclosed that payments were made in accordance with these established policies.

## Board Policies for Certain Procurements Should Be Reevaluated

CCPS frequently piggybacked on various contracts (noted previously as a best practice); and CCPS did not require Board review or approval of these procurement awards. Board policy requires that procurements of \$25,000 or more be competitively bid and approved by the Board. However, piggybacked contracts were specifically exempted from this policy, even though these piggybacked procurements could represent large commitments. Our test of 10 procurements totaling \$1.3 million disclosed that none of the 5 procurements (for items such as a copier and

computer hardware and software) that were made using piggybacked contracts, which totaled \$890,000, was presented to the Board for its review or approval.

## CCPS Should Strengthen Internal Controls Over Its Procurements and Disbursements

### **Procurement and disbursement controls need to be**

**strengthened** – Access to the automated system used to prepare requisitions and process invoice payments needs to be restricted to improve internal control. Specifically, we noted that 41 user IDs, assigned to 16 CCPS employees, had been granted access to menus in the automated accounts payable system that allowed them to perform incompatible functions. For example, these employees could initiate and approve payments, print checks, and add vendors to the system, effectively allowing them to generate disbursements without independent approvals. Also, 3 of these 16 employees had the ability to enter requisitions and initiate purchase orders. In addition, 25 of the user IDs belonged to employees who did not require such access to the automated system to perform their routine job duties, including 2 that belonged to a former employee. While many of these employees required access to certain components of the menus to perform their jobs, CCPS had not developed a process to periodically evaluate employee duties, determine the capabilities needed to perform the related functions, and restrict the assigned capabilities to achieve proper control.

CCPS personnel did not perform an independent review of payments to the related supporting documentation (such as invoices and receiving reports). We were advised that the review performed was only to ensure that the amount of the check agreed to the supporting invoice, and was not designed to ensure that the payments were proper and properly supported. Furthermore, the person responsible for the review of invoice payments did not review the numerical continuity of issued checks as a means to ensure that all checks were received for review. Finally, this employee also had the ability to process payments and, therefore, was not independent.

**Contract pricing information needs to be maintained** – Our test of 10 contracts and 20 related invoices (the invoices totaled \$786,000) processed in fiscal years 2007 and 2008 disclosed the following conditions:

- CCPS could not provide documentation (such as price lists) to support the amounts charged on 12 invoices totaling \$382,000, including 8 invoices related to piggyback contracts awarded by other entities. As a result, there was a lack of assurance that CCPS paid the correct prices as agreed upon in the contracts.
- CCPS could not provide documentation (copies of the executed contracts with pricing) for two contracts with fiscal year 2008 expenditures totaling \$122,700. For one of these contracts, CCPS had a letter indicating it received a 20 percent discount that was negotiated in December 2001, but there was no executed agreement to indicate that the 20 percent discount was still in force and that the discount was actually received.

In addition, a separate test of 11 disbursement transactions totaling \$116,000 paid in fiscal years 2008 and 2009 disclosed 4 instances where CCPS purchased items without prior approval. Specifically, the invoice was received before the requisition was created and, therefore, the expenditure was not approved in advance as required by CCPS procedures. The related invoices totaling \$32,000 were not paid until the approved requisitions had been received by the finance office.

## Recommendations

1. CCPS should reevaluate its existing procurement policies to determine if contract awards resulting from the use of other agency contracts should be reported to and approved by the Board when the awards exceed a predetermined dollar value (such as \$25,000).
2. CCPS should improve its controls over purchasing and the invoice payment process by separating incompatible functions and by restricting access to critical system functions to only those who need those capabilities to perform their job duties. In addition, CCPS should establish a process to ensure and that a proper and independent review of all disbursement checks is

performed. CCPS should also maintain contract pricing information on file, including the applicable contracts, and verify the accuracy of vendor billings. Finally, CCPS should ensure that requisitions are properly approved prior to procuring the related goods or services.



# Chapter 4

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## Human Resources and Payroll

CCPS has taken steps to address workforce planning for all employees of the System. However, CCPS should address certain procedural and control deficiencies with respect to human resources and payroll functions. These deficiencies include unnecessary and inappropriate access capabilities that were given to certain personnel on the CCPS human resource and payroll system and a lack of supervisory review of certain human resource and payroll transactions.

### Background

Payroll expense represents the largest single cost component in the CCPS budget. For fiscal year 2008, salary, wage, and benefit costs totaled approximately \$172 million. As of October 2007, CCPS had 2,229 full-time equivalent employees, of which 630 (28 percent) were non-instructional. The 7.8 to 1 ratio of CCPS students to full-time equivalent employees (both instructional and non-instructional) is reasonable when compared with similarly-sized school systems (see Table 1 on the next page).

CCPS uses an automated integrated human resources and payroll system to maintain human resources information, record employee time, and track leave usage. The system automatically generates biweekly time records and any adjustments are processed by central payroll personnel. The system generates payroll checks and direct deposit advices. Payroll processing involves both automated

processes (such as compiling leave and running edit reports) and manual processes (such as data entry of new employee information).

**Table 1**  
**Comparison of Employee to Student Ratios – Fall 2007**  
**(Unaudited)**

| <b>School System</b> | <b>Number of Students</b><br><small>(as of September 30, 2007)</small> | <b>Number of Full-Time Equivalent Employees</b><br><small>(as of October 1, 2007)</small> | <b>Student to Employee Ratio</b> |
|----------------------|--|---|----------------------------------|
| Calvert County       | 17,394   | 2,229   | 7.8 to 1                         |
| St. Mary's County    | 16,890   | 2,033   | 8.3 to 1                         |
| Charles County       | 26,676   | 3,293   | 8.1 to 1                         |
| Washington County    | 21,703   | 2,800   | 7.8 to 1                         |
| Cecil County         | 16,290   | 2,276   | 7.2 to 1                         |

Source: MSDE 2007-2008 Fact Book

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

## Workforce Planning Addressed Future Critical Needs

CCPS has established a number of methods to identify and address workforce needs. For example, CCPS annually projects employees eligible for retirement based on age and years of service, including non-instructional personnel, to determine the impact on hiring decisions. In addition, the CCPS Master Plan sets the strategic direction of the school system and provides coordination and focus for initiatives to address challenges faced by CCPS. The Plan includes a number of objectives and strategies to address human resource needs—which is evidence of workforce planning. It addresses the recruitment and retention of highly qualified instructional staff (that is, teachers and certain instructional aides).

CCPS has established a number of programs to develop its professional staff. For example, CCPS uses the “Grow-Our-Own Program” to assist individuals in preparing to step into school leadership positions through a combination of instruction and mentoring.

## Human Resource and Payroll Internal Controls Need to Be Strengthened

CCPS did not establish adequate internal control over its automated human resource and payroll system and related processes.

- The automated human resource and payroll system is menu driven and each user with access to a particular menu will have access to all functions within that menu. However, CCPS could not provide us with information that detailed what each menu in the system allowed users to do. By conducting our own detailed review of the menu functions and capabilities, we were able to identify 40 user IDs with system access to human resource and payroll functions that allowed the users to add and update a variety of employee and salary information. In addition, our review of one employee’s capabilities showed that the employee could change employees’ addresses and bank account information in the automated system for direct deposit payees and could independently process payroll. Because of the lack of details regarding menu functionality and reports of user assigned capabilities, we could not readily determine how many users had incompatible access capabilities; however, given the small number of employees (three payroll staff, for example) actually responsible for processing human resource and payroll transactions as compared to the number of active user IDs, it is likely that many user IDs had access to capabilities that were not needed for routine job duties.
- The same employee who reviewed payroll adjustments also had the capability to process such adjustments. In addition, payroll adjustments (such as overtime or leave without pay) were initially recorded on certain reports, including time sheets and other manual records, and then recorded in the automated system. However, there was no independent supervisory review or approval of these changes to ensure that amounts were appropriate and properly supported. Similarly, final payout

calculations for unused annual and sick leave for terminated employees were not independently verified for accuracy and propriety.

Although we found no evidence of unauthorized additions to the payroll or unauthorized payments for the items tested, the improper separation of duties and access to the system could be used to process unauthorized payroll payments.

## Recommendation

3. CCPS should improve internal controls over its automated human resource and payroll system. Specifically, CCPS should review and document system menu functions and security, and ensure that assigned functions and capabilities are consistent with employee job duties and job duties are adequately segregated. In addition, CCPS should ensure that all biweekly payroll-related changes recorded in the system are reviewed and approved, at least on a test basis, by an employee independent of the payroll processing function.

# Chapter 5

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## Inventory Control and Accountability

Our audit disclosed that CCPS has a formal policy governing the purchase and disposal of all property costing \$5,000 or greater; however, CCPS could improve its control over its equipment inventories and the related record keeping. For example, sensitive equipment items costing less than \$5,000 are not tracked either centrally or by the individual schools, are not tagged for identification purposes, and are not subject to periodic physical inventories. Finally, CCPS does not have a policy to govern how textbooks are selected and approved by the Board for purchase and did not establish adequate procedures for accounting for textbook inventories.

### Background

According to the audited financial statements, the undepreciated value of CCPS' capital equipment inventory totaled \$7.7 million as of June 30, 2008. CCPS uses an automated system to track its equipment inventory for items valued at \$5,000 or greater. Certain individuals are responsible for the property at each location (such as each school and the central offices). CCPS has delegated responsibility for its textbooks to the individual school locations, which are responsible for tracking their inventories. According to CCPS records, purchases of textbooks totaled approximately \$1.1 million during fiscal year 2008.

## Policies, Controls, and Record Keeping Over Equipment Need Improvement

Our review disclosed that CCPS should strengthen its controls and procedures to improve accountability over equipment, especially sensitive items costing less than \$5,000. Specifically, the audit disclosed the following conditions:

- CCPS policies and procedures did not address sensitive items (such as computers and other electronic equipment) costing less than \$5,000 and susceptible to theft. For example, the policies did not require the recording of all such equipment, define what is considered sensitive, nor require periodic physical inventories of sensitive, non-capital equipment. This information is necessary to ensure proper control and accountability over sensitive items.
- Although certain computer equipment costing less than the mandated \$5,000 threshold was recorded in a separate database maintained by the Department of Instructional and Information Technology (DIIT) for its equipment, these records were not comprehensive since only items connected to the CCPS network were included. Furthermore, CCPS advised that computers not connected to the network for 30 days were dropped from the database. In addition, the DIIT database did not assign an inventory number or include an acquisition date and related item cost. Our test of 36 computers (desktops and laptop) purchased during July through October 2008, costing \$19,560, disclosed that 21 computers, costing \$11,200, were not recorded in the DIIT database as of February 2009. We were advised by a DIIT employee that these items may not have been recorded because they had not yet been placed on the network (that is, not set up).
- While CCPS policy requires all capital fixed assets recorded in the system be assigned an inventory number, the policy does not require that items be tagged or otherwise marked as CCPS property.

## CCPS Should Enhance Textbook Procedures

While CCPS had established a process for selecting, purchasing, and inventorying textbooks, related policies and procedures had not been formalized and the process for controlling the inventory of textbooks needs improvement. The textbook approval process included curriculum team recommendations, public comment periods, and Board approvals; however, the Board had not adopted a policy to formalize these practices.

CCPS had no centralized process for monitoring textbook inventory. Individual schools are authorized to purchase approved textbooks as needed and are responsible for monitoring their own textbook budgets and inventories. Although we were advised that all schools take periodic physical inventories of textbooks, the inventories were used only to justify new textbook purchases; the inventory results were not aggregated and reviewed centrally so that they could be used to make more efficient decisions to purchase or redistribute textbooks between schools. We were advised that each school is assigned an annual budget amount for purchasing textbooks that acts as a control to limit individual school spending on textbooks and that CCPS does not question textbook expenditures that are within annual budgeted amounts. However, CCPS could establish best practices in this area similar to other Maryland LEAs where the periodic physical inventories and inventory records are used to control and centrally account for textbooks, make purchasing decisions, and maximize the redistribution of excess books to other schools, when possible, instead of making new purchases. According to CCPS records, textbook expenditures totaled \$1.1 million during fiscal year 2008.

## Recommendations

4. CCPS should enhance existing accountability for its equipment by developing and enforcing written policies and procedures to govern the accounting and safeguarding of the System's property that includes tagging fixed assets, and tracking and periodically inventorying sensitive equipment items prone to theft costing less than \$5,000.

5. CCPS should establish formal policies and procedures that enhance accountability over textbooks. CCPS should consider using a comprehensive, centralized inventory record keeping system and using the results of textbook physical inventories to enhance purchasing decisions.

# Chapter 6

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## Information Technology Services

CCPS maintains and administers a computer network, computer operations, and a number of significant financial and academic information system applications. CCPS developed and periodically updates a written technology plan that is linked to the school system's Master Plan.

However, we identified several areas in need of improvement, including the strengthening of policies over passwords and accounts, the safeguarding of data upon disposal of computers, the strengthening of procedures for the backup of data, the monitoring of security over critical servers, and the development of a comprehensive disaster recovery plan.

## Background

CCPS operates a wide area network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at the CCPS headquarters. The Department of Instructional and Informational Technology (DIIT) maintains a computer room at the headquarters location in which numerous computer servers operate to support CCPS Information System applications. Several significant administrative and academic-related information system applications exist. For example, the finance application includes modules for payroll, human resources, accounts payable, fixed assets, and purchasing.

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

CCPS prepared an annual technology plan as part of the school system's Master Plan and prepared a separate, more extensive technology plan every three years. These plans establish a vision and mission for technology in CCPS and have defined goals. These plans address various topics including student achievement, system security, hardware and software replacement, replacement cost schedules, professional development, and training.

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

Our review disclosed several deficiencies in computer application security which increased the vulnerability of various CCPS automated systems, programs, and data. Enhancements should be made to existing procedures to ensure that all access to computer resources is appropriate. For example, automatic password expirations were not enabled and there was no established minimum password length (to make them more difficult to hack). In addition, system security reports were either not routinely reviewed or any reviews performed were not documented. Finally, certain system users were granted inappropriate or unnecessary system access and capabilities—such as to the student information system database tables—which could be used to bypass normal security controls.

## Data Processing Functions Should Be Better Safeguarded

**Methods to remove critical data from hard drives need to be enhanced** – CCPS did not document the actual activities performed to sanitize computer hard drives (such as overwriting or destroying) when disposing of the drives. Although CCPS procedures call for the sanitation of hard drives scheduled for disposal by erasing the critical data, CCPS was unable to provide us with documentation to substantiate what procedures were actually

performed, including who performed the procedures and when and where they were performed.

### **Procedures for the backup of critical servers need**

**improvement** – Backup tapes of certain critical servers were stored in an unsecure location that was in the same vicinity as the original data location. Accordingly, if a disaster occurred, it is uncertain if all critical information could be readily recreated.

**CCPS needs to implement a disaster recovery plan** – CCPS did not have a formal, comprehensive and consolidated disaster recovery plan (DRP) for its computer systems. Specifically, CCPS had made no provision for the following critical elements of a DRP:

- Identification of an alternate site for computer operations in the event of a disaster
- Applications prioritized for recovery
- Team designations and areas of responsibility
- Testing of the DRP
- Restoration of network connectivity

## **Recommendations**

6. CCPS should enhance its IT security by establishing and enforcing stricter password requirements, should conduct documented reviews of logged system activity, and should ensure that users are only given capabilities necessary for their job functions.
7. CCPS should document the activities performed to sanitize computer hard drives upon disposal. CCPS should also establish and implement procedures for the appropriate offsite storage of backup copies of data from critical servers and establish a formal, comprehensive disaster recovery plan.



# Chapter 7

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## Facilities Construction, Renovation, and Maintenance

CCPS used a number of best practices in its capital planning process, as well as to control costs. These include (1) the development of six-year Capital Improvement Plan based on a comprehensive and public process, (2) formal specifications for construction and major renovation projects, (3) participation in energy cooperatives to reduce the cost of purchasing fuel and electricity, and (4) adoption of an energy conservation plan.

However, architectural and engineering (A/E) contracts were not approved by the Board, as required. With respect to its maintenance and custodial operations, CCPS had not established a customer feedback program, nor formal performance measures and related benchmarks, and did not establish estimated time and cost amounts to assess program efficiency for both custodial and maintenance operations. In addition, CCPS could not document the performance of routine preventive maintenance at all school facilities.

### Background

CCPS maintains 24 schools and several other facilities (such as administration and support offices) with a staff of approximately 157 custodial personnel and 42 maintenance personnel.

CCPS used a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. The annual CIP was developed using student demographic data and input from various sources, including public meetings, and was approved by the Board. In the fiscal year 2009 CIP (prepared in fiscal year 2007), necessary major renovations, repairs, and systemic improvements to existing schools over the next six years were estimated to cost \$136 million.

Table 2 compares CCPS fiscal year 2007 plant costs (that is, maintenance and operational costs) with other similarly-sized school systems in Maryland. The table presents two cost measures used to assess plant costs: cost per student and cost per square foot. These statistics show that CCPS facilities operation and maintenance costs are in line with its peer group.

| <b>Table 2</b>   |                    |                         |                        |                                   |                                   |
|--|--------------------|-------------------------|------------------------|-----------------------------------|-----------------------------------|
| <b>Plant Cost Comparison Per Student and Per Square Foot</b> |                    |                         |                        |                                   |                                   |
| <b>Fiscal Year 2007 (Unaudited)</b>                          |                    |                         |                        |                                   |                                   |
| <b>School System</b>   | <b>Plant Costs</b> |                         |                        | <b>Square Footage Per Student</b> | <b>Total Gross Square Footage</b> |
|  | <b>Total</b>       | <b>Per Student</b><br>① | <b>Per Square Foot</b> |                                   |                                   |
| Calvert County   | \$16,907,198       | \$970.56                | \$7.78                 | 124.67                            | 2,171,819                         |
| Washington County  | 23,876,768         | 1,109.46                | 7.90                   | 140.46                            | 3,022,921                         |
| Charles County   | 25,973,720         | 979.48                  | 8.95                   | 109.45                            | 2,902,294                         |
| Cecil County   | 15,116,584         | 927.06                  | 7.40                   | 125.29                            | 2,043,028                         |
| St. Mary's County  | 14,682,221         | 883.83                  | 6.91                   | 127.88                            | 2,124,422                         |
| Average of Comparable Schools                                | \$19,912,323       | \$974.96                | \$7.79                 | 125.77                            | 2,523,166                         |

Sources: MSDE Financial Data, MSDE Fact Book, Maryland Public School Construction Square Footage Data

① - Based on Average Daily Enrollment 2006-2007

## Certain Best Practices Were in Place to Enhance the Efficiency and Effectiveness of the CCPS Facility Construction and Maintenance Department

CCPS has a continuous planning process, which includes input from various sources, to address future school construction and major renovation and repair projects. For example, CCPS uses public meetings, student demographic data, and other internal sources (such as goals, objectives, and policies of the Board and formal school manager “wish lists”) to develop annual educational facilities master plans and capital improvement plans (CIP). Both the educational facilities master plan and the CIP are presented to and approved by the Board. Furthermore, CCPS uses a formal process to develop specifications for major construction and renovation projects. Specifically, we noted that CCPS has written policies and procedures for developing specifications of major construction and renovation projects that address educational program components, program goals, technology needs, adaptability to future changes, and spatial relationships.

CCPS also participates in two purchasing cooperatives in an effort to reduce costs. Specifically, for fuel purchases, CCPS is a member of the Southern Maryland Cooperative Purchasing Committee, along with the surrounding counties and boards' of education. For electric supply purchases, CCPS is a member of the Southern Maryland Electric Cooperative.

Finally, CCPS adopted an energy conservation plan in December 2008, which includes a goal of reducing energy consumption by 15 percent by the year 2015.

## Contract Awards Should Be Approved by the Board

Although CCPS Board policies and procedures related to Architectural and Engineering (A/E) contracts require the Board to approve the recommended A/E awards and negotiated fees, our review disclosed that the Board was not provided with these contracts for its approval. Our review of the Board minutes for the period from January 2007 to December 2008 disclosed that no A/E projects were presented to the Board for its review and approval. CCPS awarded eight A/E projects, each valued at \$25,000 or more,

totaling \$3.9 million during this period. We were informed that the administration was not aware that A/E contracts were required to be provided to the Board for approval.

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

**CCPS had not implemented a performance measurement system and had not used available information to assess current productivity or future needs** – CCPS did not measure and assess the efficiency of its maintenance and custodial operations, both for internal self-evaluation purposes and for comparisons with other systems, which could identify other best practices. Comparability with other systems in Maryland could not necessarily be done unilaterally since there would need to be a consensus on the measures and methodology; however, other states (for example, Michigan and Florida) have mandated the establishment and use of measures and benchmarks to assist schools in the evaluation of costs and practices.

We also noted that CCPS did not use a staffing formula to periodically determine the number of maintenance employees required to efficiently meet its needs. Our comparison disclosed that CCPS maintenance and custodial staffing levels are higher than the national medians, as reported by *American School and University Magazine*. The national medians specify one maintenance employee per 107,439 square feet of building maintained and one custodial employee per 26,786 square feet. Using current staffing and square footage for CCPS facilities, we calculated that CCPS had one maintenance employee per 62,713 square feet of building maintained and one custodial employee per 17,316 square feet. Although numerous factors could influence this staffing formula, such as the age of buildings and the use of contractual services, this comparison suggests that the size of the Department's staff should be evaluated.

We also found that, although all maintenance work orders are logged, along with information related to the actual resources used to perform the tasks (including labor hours and equipment expenditures), no information is recorded indicating the resources

expected to be used to perform each task, based on either past history or industry guidebooks. As a result, completed work orders are not used to assess the performance of both individual employees and the entire department or to determine budgets for future needs. An effective work order system can be used to generate a variety of statistical data including employee productivity, cost reports, and facility assessments, all of which are key pieces of a performance measurement system.

**CCPS could not provide us with documentation that all required preventive maintenance work had been performed** – CCPS had developed a comprehensive maintenance plan that included, among other details, preventive maintenance and custodial task schedules and requirements. Specifically, maintenance staff responsible for preventive maintenance and custodial staff informed us that individual job assignments are provided on a daily basis. While periodic inspections and evaluations of preventive maintenance and custodial work are required to be documented when conducted, our review disclosed that documentation was not available to prove that all preventive maintenance required by the comprehensive maintenance plan had been performed. For example, our test of four types of preventive inspections at five schools (such as emergency generator checks) to be conducted during the period from January to June 2008 disclosed that only 22 percent of required maintenance work was documented as being completed.

**CCPS should consider implementing a formal customer feedback program for facilities operations and maintenance** – CCPS does not use a formal customer feedback program. A survey conducted in fiscal year 2007 provided only minimal feedback as it was conducted as part of a larger survey of all support services. A formal feedback program can be an effective tool to gauge how well the departments are serving their customers and to make needed adjustments to improve service.

## Recommendations

8. CCPS should ensure that all A/E contract awards are submitted for Board approval.
  
9. CCPS should develop a performance assessment system for maintenance and custodial operations and include in its work order system a comparison of actual to budgeted resources. This assessment should include a periodic evaluation of the department's staff size. CCPS should also document that preventive maintenance was performed to ensure appropriate and timely maintenance is provided to all facilities. Finally, CCPS should consider implementing a formal customer feedback program for facilities operations and maintenance to assist in evaluating performance and improving operations.

# Chapter 8

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## Transportation Services

CCPS used a number of recognized best practices to increase student transportation efficiency, such as staggering school arrival and dismissal times to enable certain buses to perform multiple runs on the same route. CCPS transportation costs on a per-mile and per-student basis were higher than comparably-sized school systems and, in several areas, improvements could be made. For example, CCPS did not use automated routing software to help efficiently plan bus routes and had not developed formal performance measures to monitor and evaluate the efficiency and effectiveness of transportation services. Also, CCPS had not conducted a recent documented cost benefit analysis of its decisions to continue contracting student transportation services. Finally, CCPS may end up paying \$4.2 million more than necessary over a 12-year period for the cost of contractors' buses because of certain reimbursement rates it used.

## Background

CCPS is the 12th largest public school system in Maryland, based on student enrollment. CCPS is responsible for the safe transportation of over 13,300 eligible students, including two percent who are disabled. In fiscal year 2008, the majority of CCPS students were transported on one of 143 buses owned by 27 bus contractors hired by the school system. CCPS fiscal year 2008 pupil

transportation operating costs totaled approximately \$10.5 million. Of the 3,200,117 reported route miles for the 2007–2008 school year, 23 percent were for transporting disabled students.

As seen in Table 3 below, CCPS' cost per rider is higher than the four comparably-sized school systems and the cost per mile is higher than all but one of the other four comparable school systems.

**Table 3**  
**Comparison of Transportation Costs per Rider and per Mile**  
**Fiscal Year 2008 (Unaudited)**

| School System                 | Number of Eligible Riders |          | Miles (in thousands) |          | Expenditures (in thousands) | Average Annual Cost per |        |
|-------------------------------|---------------------------|----------|----------------------|----------|-----------------------------|-------------------------|--------|
|                               | Non-Disabled              | Disabled | Non-Disabled         | Disabled |                             | Rider                   | Mile   |
| Calvert County                | 13,039                    | 300      | 2,478                | 722      | \$10,544                    | \$790                   | \$3.30 |
| Cecil County                  | 14,927                    | 219      | 2,043                | 422      | 8,657                       | 572                     | 3.51   |
| Washington County             | 18,568                    | 370      | 2,276                | 655      | 9,107                       | 481                     | 3.11   |
| Charles County                | 23,923                    | 446      | 4,837                | 1,316    | 18,890                      | 775                     | 3.07   |
| St. Mary's County             | 16,370                    | 378      | 3,139                | 833      | 11,732                      | 701                     | 2.95   |
| Average of Comparable Schools | 18,447                    | 353      | 3,074                | 807      | \$12,097                    | \$632                   | \$3.16 |

Sources: MSDE 2007-2008 Fact Book

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

The CCPS transportation department had several practices in place to help improve route efficiency and reduce student transportation costs:

- Staggering school arrival and dismissal times to enable certain buses to perform multiple runs, thereby reducing the need for CCPS to obtain additional buses through bus contractors or purchase.
- Combining middle and high school bus runs to take advantage of the close proximity of the schools and to avoid sending multiple buses on these longer runs.

- Considering deadhead miles (the distance traveled by buses when not transporting students) or bus starting points when awarding bus contracts and assigning bus routes.

## Routing Procedures Should Be Enhanced and Routing Software Should Be Fully Used or Evaluated for Replacement

### **Bus routing procedures should be better documented –**

Although CCPS has an informal process for planning, reviewing, and revising bus routes, it has not documented all policies and practices used to determine bus routes. For example, CCPS has not documented that the process considers all relevant factors, such as busloads (that is, desired capacity) and student ride times, when determining the most appropriate bus routes. In addition, CCPS has not documented that the process addresses determining and implementing changes to existing bus routes.

**CCPS should fully use or evaluate the need to replace its automated routing software –** CCPS did not adequately use automated bus routing software. For example, bus contractors determine bus routes and CCPS did not use the routing software to ensure that the most efficient route was used (in terms of maximum student ridership and minimum time/mileage). In addition, we were advised that the routing software was antiquated and could not interface with automated student information records to transfer student demographic information (such as addresses).

Automated routing software should enable staff to complete its planning, reviewing, and revising of bus routes in a more efficient and effective manner by providing student data quickly and bus routes in a visual format. For example, we noted that, for fiscal year 2009, 23 of 118 buses (not including special needs buses) operated at levels significantly below capacities. Specifically, according to driver manifests, none of the established runs for these buses exceeded 75 percent of the CCPS capacities.<sup>5</sup>

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<sup>5</sup> CCPS capacities are lower than the manufacturer stated capacity and differ depending on the school. For example, the capacity for high, middle, and elementary school routes is 44, 52, and 60 students, respectively based on 64-passenger buses (manufacturer stated capacity).

We were advised by another school system that a concerted effort to maximize the use of routing software (along with manual processes) for the 2008-2009 school year allowed it to eliminate 13 percent of existing bus stops, eliminate 6 buses due to route consolidation, and avoid the purchase of 10 new buses. This other system provides transportation services to a larger population using in-house resources, therefore, the extent of CCPS' potential efficiencies may not be comparable.

## The Cost Benefits of Outsourcing the Bus Services Should Be Determined

**CCPS should determine the cost benefits of outsourcing regular bus services** – CCPS has not periodically evaluated the cost benefits of contracting out its transportation services rather than directly owning and operating the buses. An independent cost benefit study conducted for CCPS in 1998 found that full school ownership of all buses would yield the most cost savings. CCPS had not performed or contracted for any subsequent analysis, nor changed its practice as a result.

Under current arrangements with bus contractors, CCPS assumes nearly all of the risks for bus operations while essentially guaranteeing a profit to the contractors each year for the expected 12-year<sup>6</sup> life of each bus. Specifically, contractors are paid a “per vehicle allotment” (PVA) which is supposed to cover the full acquisition cost of the bus over 12 years with the assumption that there is no residual value. (Additional comments on the PVA calculation are made in the following report comment.) The PVA also provides an additional annual payment as a return on investment (ROI) to the contractors, which is established when a bus is purchased and remains fixed over the life of each bus. The ROI component of the PVA paid by CCPS was 7 percent annually of the original bus cost.<sup>7</sup> Bus contractors are also paid a per-mile rate for operating and maintenance costs, a driver per-hour allotment to cover the contractor’s labor costs, certain contractor employee

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<sup>6</sup> Conventional school buses in Maryland have a useful life of 12 years as established by Maryland law. Under prescribed maintenance and inspection conditions, the State Superintendent of Schools can grant approval to operate a conventional school bus beyond 12 years.

<sup>7</sup> We analyze and explain the PVA payment more fully in the next comment.

benefit costs, an annual administrative cost allotment, and reimbursement for fuel at market rates. Additionally, CCPS pays for the liability insurance, including personal injury and property damage, for all buses, including contractor buses. According to a transportation cost comparison for fiscal year 2008 prepared by another school system (that we did not verify), CCPS had the third highest cost, considering all payment components, of the 16 systems in the State that use this payment method.

CCPS maintains agreements with 27 contractors who provide student bus services. These contracts are not competitively procured. Available routes are awarded after circulating notice to existing bus contractors and to other persons who have indicated an interest in becoming bus contractors. Contractors for each route are selected based principally on past performance and geographic area. CCPS sets the rates to be paid to the contractors each year and submits these to the contractors. Contracts are awarded on an annual basis and renew automatically, typically for the 12-year life of the bus.

CCPS advised that it believes that contracting out for these services benefits the school system since it does not require an up-front capital outlay for buses or certain ongoing costs for all health care benefits, taxes and other personnel-related costs for drivers, and additional maintenance and administrative personnel that may be required. However, without proper study and analysis, this conclusion is not substantiated. Furthermore, as previously stated, a 1998 study concluded that, at that time, cost savings would be achieved if full school ownership of all buses was established.

### **Annual payments to bus contractors should be adjusted –**

CCPS pays contractors an annual per vehicle allotment (PVA) for each bus. The PVA formula includes reimbursement for the cost of the bus and a flat rate of return on the investment (ROI). CCPS contractors receive the annual PVA payment for the life of the bus or a maximum of 12 years. However, CCPS' cost reimbursement component of the PVA is calculated to provide full reimbursement of the cost of the bus within the first 8 years. Thus, bus contractors are paid 150 percent of the bus cost over the life of each bus (12.5 percent of the cost each year for 12 years). In addition to paying 150 percent of the bus cost, CCPS contractors are paid a flat ROI rate of 7 percent annually based on the purchase price of the bus. Specifically, when new buses are purchased, CCPS does not change

its ROI to reflect the market interest rate conditions at the acquisition dates. The rate set in the year of acquisition is used to pay the ROI over the life of the bus.

To estimate the financial impact to CCPS of paying 150 percent of the bus cost and using the 7 percent ROI over the life of a bus, we calculated the PVA for each of the past 12 years (1998 to 2009) using a 12-year cost reimbursement rate and the prime interest rate<sup>8</sup> as the ROI. Compared to our PVA results, over the 12-year life of the 139 new buses put into service by contractors since 1998, we estimate that CCPS will pay out approximately \$4.2 million more than if the prime rate and a 12-year cost reimbursement rate had been used. Of the \$4.2 million, \$1.7 million will have already been paid by the end of fiscal year 2009 and, unless changes are implemented, the remaining \$2.5 million will be paid out during fiscal years 2010 to 2020. This analysis does not include the effects for any new bus purchases that may be made after fiscal year 2009 and the lost interest income that could have been earned by CCPS on the excess amounts paid.

## Payments to Bus Contractors Should Be Based On Documented Criteria and Controls Over Payments Should Be Enhanced

**Payments to or on behalf of bus contractors for certain components were not adequately documented or supported** – Our audit disclosed the following conditions with respect to CCPS payments made to or on behalf of its bus contractors:

- The contracts with the bus contractors require that these contractors participate in all benefit packages approved by the Board and by the contractors' association. However, CCPS paid for certain contractor costs without any supporting documentation. Although CCPS is contractually obligated (via the annual bus contracts) to pay certain health care costs, the related payments were made to a third party with whom CCPS

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<sup>8</sup> We used the prime rate since this rate was recommended in a November 1999 study commissioned by another Maryland school system. Also, in 1975 an MSDE study recommended the prime rate as a reasonable prevailing interest rate.

had no contractual relationship. CCPS did not have any documentation to support that the amounts paid were appropriate (such as based on actual health care costs or estimated premiums) and that the required services were actually being provided. In addition, CCPS payments exceeded the stated amount in its contracts with the bus contractors. Specifically, the contracts provided for payment of \$1,800 per bus route. However, CCPS paid higher rates for each route — \$2,029 and \$2,170 for fiscal years 2008 and 2009, respectively — which, we were advised, were based on negotiated verbal agreements with the bus contractors. For fiscal years 2008 and 2009, CCPS paid the third party \$294,200 and \$314,600, respectively, for health care costs. In addition, these payments were not presented to the Board for its review and approval.

- While CCPS has a policy that provides for payment to bus contractors for layover time, as applicable, the policy contains no explanation as to what criteria must be met for these payments. Our test of 17 fiscal year 2009 routes disclosed that CCPS routinely paid for layover time between the morning and afternoon runs for 7 routes. We estimated that CCPS will pay these contractors \$20,000 for layover hours in fiscal year 2009 for these 7 routes.
- Payments to bus contractors for field trips (such as athletic and music trips) were often not adequately supported. Individual schools contacted vendors interested in providing field trip services and completed a confirmation form to document the services provided. The form also served as the invoice for vendor payment. Our review of 58 field trip invoices paid (based on completed forms) during fiscal year 2008, totaling \$28,200 from two bus contractors, disclosed that there was no support for the amounts charged on 51 invoices totaling \$21,300. Specifically, the invoices did not include support for per-hour, mileage, or rental rates, and often simply reflected the total amount to be paid for the trip. As a result, CCPS has no assurance that amounts invoiced are reasonable. According to CCPS records, expenditures paid to bus contractors for field and athletic trips totaled \$545,000 during fiscal year 2008.

**CCPS should ensure the accuracy of data used to compute certain payments to the bus contractors** – CCPS did not ensure the accuracy of certain payments to the bus contractors. At the beginning of each school year, the contractors’ drivers complete a manifest, which includes the total time and miles driven on each route. CCPS uses the data recorded on these manifests to calculate the payments to the contractors. However, CCPS did not independently ensure the accuracy of amounts reported by the contractors, such as by performing ride-alongs or by using mapping software to verify reported time and mileage data. Under current procedures, CCPS merely verifies the mathematical accuracy of the calculations included on the manifests. Our test of two detailed bus routes did not disclose any significant variances between contractor-reported mileage and time, and our calculations using automated maps.

## Performance Should Be Measured

CCPS did not have a formal performance measurement system for its transportation services. Performance measures that could be considered include targets for average bus occupancy, annual operational cost per student, vehicle breakdowns per 100,000 miles, and the percentage of students delivered within established ride times. Performance measures would serve as a tool that management and the Board could use to monitor performance and to ensure accountability.

## Recommendations

10. CCPS should establish formal, comprehensive bus routing procedures and evaluate whether its existing automated routing software can be fully used to help plan more efficient services, or whether the system should be replaced.
11. CCPS should periodically prepare a documented analysis to determine whether continued use of outside vendors to provide student bus services is cost beneficial for the school system. This analysis should include an evaluation of each pay element (including the ROI component of the PVA) of the

current bus contracts to determine whether the rates are reasonable and necessary.

12. CCPS should reevaluate the appropriateness of all amounts paid to or on behalf of bus contractors. In addition, CCPS should ensure that all payments made are reasonable, properly authorized, and used for the purposes intended. With respect to any third party arrangements, CCPS should evaluate the appropriateness of the arrangements, and if deemed appropriate, should enter into an agreement with the third parties to document the basis of the payments. CCPS should obtain appropriate supporting documentation from the contractors and independently verify, at least on a test basis, the accuracy of vendor reported data to ensure that payments to contractors reflect the actual services provided.
13. CCPS should establish a performance measurement system for its transportation services.



# Chapter 9

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## Food Services Operations

CCPS has implemented a number of best practices, including participation in the United States Department of Agriculture (USDA) commodity program, and membership in a food-purchasing cooperative. CCPS also has adequate procedures in place to identify students eligible for the federal national school meals programs. However, CCPS should seek to increase the number of students participating in these meal programs, especially the breakfast program. In addition, CCPS could improve its operations by enhancing internal controls over voided sales transactions and the procurement of food supplies, and by establishing a performance measurement system. CCPS should also properly reflect all costs in determining its food service department operating costs.

## Background

CCPS has 8 cooking cafeterias for its 24 schools. Food and related supplies are maintained in a central warehouse and items are shipped to cafeteria storerooms as needed. CCPS has 86 full-time and 25 part-time cafeteria employees as of May 2008. Fiscal year 2008 food service sales totaled \$4.4 million. CCPS reported that food service revenues exceeded expenditures by \$4,368 for fiscal year 2008. As noted in Table 4 on the next page, the fiscal year 2008 cost per meal for CCPS was comparable to other similarly-sized LEAs in Maryland. See Table 5 on page 51 for information regarding fiscal year 2008 food services.

**Table 4**  
**Comparison of Cost per Meal**  
**Fiscal Year 2008 (Unaudited)**

| School System     | Total Expenditures | Meals Served |           |            |           | Cost per Meal |
|-------------------|--------------------|--------------|-----------|------------|-----------|---------------|
|                   |                    | Breakfast    | Lunch     | A La Carte | Total     |               |
| Calvert County    | \$ 5,720,787       | 102,249      | 963,858   | 1,089,546  | 2,155,653 | \$ 2.65       |
| Cecil County      | \$ 6,267,402       | 405,749      | 1,420,400 | 521,769    | 2,347,918 | \$ 2.67       |
| Charles County    | \$ 9,570,448       | 304,295      | 2,567,534 | 654,434    | 3,526,263 | \$ 2.68       |
| St. Mary's County | \$ 5,841,694       | 335,830      | 1,563,821 | 320,138    | 2,219,789 | \$ 2.63       |
| Washington County | \$ 9,262,915       | 785,899      | 2,217,536 | 566,442    | 3,569,877 | \$ 2.59       |

Note: Breakfast and ala carte sales represent meal equivalents based on actual meals and sales using National Food Service Management Institute guidelines.

Sources: Local Education Agencies

## Certain Best Practices Were in Place

### **CCPS implemented several practices to contain food services costs**

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

- CCPS participated in the USDA commodities free food program. Per CCPS records, \$212,000 in USDA commodities was received in fiscal year 2008.
- CCPS participated in a food purchasing cooperative to maximize its buying power and to reduce food costs. According to CCPS records, payments to the cooperative-selected wholesale vendor totaled \$781,000 during fiscal year 2008.
- Various methods were used to reduce waste, such as reevaluating menus based on student food choices.

### **CCPS used several best practices to encourage participation in the federal free and reduced-price meal programs**

– These practices include the use of a family application process — instead of individual student applications — to simultaneously qualify more students for the programs, and the

use of a keypad system in cafeterias to eliminate the easy identification (and any perceived stigma) of students in the free and reduced-price meal programs. For fiscal year 2008, 70 percent of CCPS students eligible to receive free lunches and 62 percent of the students eligible to receive reduced-price lunches actually participated in the programs, which (as discussed further on page 54) was somewhat below the averages of similarly-sized school systems.

**Table 5**  
**Food Service Facts for Fiscal Year 2008**

|   |                  |             |                         |
|---|------------------|-------------|-------------------------|
| <b>Average Cost per Meal</b>                |                  | \$          | 2.65                    |
| <b>Number of Meals Served:</b>              |                  |             |                         |
| Breakfast                                   | Paid             | 37,103      |                         |
|   | Free             | 54,818      |                         |
|   | Reduced Price    | 10,328      | 102,249                 |
| Lunch                                       | Paid             | 665,364     |                         |
|   | Free             | 224,239     |                         |
|   | Reduced Price    | 74,255      | 963,858                 |
| Meal Equivalents                            |                  |             |                         |
| Ala Carte Sales                             |                  |             | 1,089,546               |
| <b>Total Meals Served</b>                   |                  |             | <u><u>2,155,653</u></u> |
| <b>Schools</b>                              |                  |             |                         |
|   |                  |             | 24                      |
| Full Kitchens                               |                  |             |                         |
|   |                  |             | 8                       |
| Satellite Kitchens                          |                  |             |                         |
|   |                  |             | 16                      |
| Full-time employees                         |                  |             |                         |
|   |                  |             | 86                      |
| Part-time employees                         |                  |             |                         |
|   |                  |             | 25                      |
| <b>Revenues:</b>                            |                  |             |                         |
| Federal                                     | Cash payments    | \$1,008,534 |                         |
|   | USDA Commodities | 212,000     | \$1,220,534             |
| Sales and other sources                     |                  |             | 4,470,950               |
| State aid                                   |                  |             | 33,671                  |
| <b>Total Revenue (all sources)</b>          |                  |             | \$5,725,155             |
| <b>Total Expenditures</b>                   |                  |             | 5,720,787               |
| <b>Excess of Revenues over Expenditures</b> |                  |             | <u><u>\$ 4,368</u></u>  |

Sources: CCPS Food Service Reports and Fiscal Year 2008 Audited Financial Statements

## CCPS Needs to Improve Controls Over Sales Transactions, Contracts, and Ordering

### **CCPS should enhance its controls over certain sales**

**transactions for food services** – Cafeteria cashiers were not required to obtain supervisory review for voided sales transactions. We were advised that a void is typically processed when a student has inadequate credit or cash to purchase a meal. The cash register system and current practices require that the cashier finish processing the transaction (that is, record the sale) and then void the transaction. This process allows cafeteria staff to void any transaction recorded on a given day prior to closing out the register. According to CCPS records, 53,685 voided transactions were processed during fiscal year 2008. (We could not readily determine the related dollar value of the voided transactions.) Our review of cash register manufacturer documentation disclosed that an alternate method to clear sales transactions related to inadequate student credit or cash without first recording the sale was available to the cafeteria staff and would greatly reduce the number of voided transactions. This would enable CCPS to place appropriate controls, such as supervisory review, over cash register voided transactions without significantly impeding food service efficiency.

### **CCPS should strengthen its internal controls over the purchasing of food supplies** – Our test of 20 fiscal year 2008 purchases from 10 vendors disclosed the following deficiencies:

- Purchases from six vendors were not covered by an approved contract even though CCPS expenditures for each vendor exceeded \$25,000 for the year. CCPS policy requires that a formal contract process, which includes a formal bidding process, be used for all purchases of \$25,000 or more. Purchases from these six vendors in fiscal year 2008 totaled \$707,481. There was a lack of assurance that the related goods were obtained at the best possible prices.
- For 14 of the 20 invoices tested, the purchases were made without prior independent supervisory approval, and the employee responsible for making the purchases also signed the related receiving documents. Consequently, there was no

assurance that the purchased goods were necessary and were used for school operations.

## Food Service Operations Should Recognize All Applicable Costs and Performance Measures Should Be Developed to Assess Efficiency

### **All applicable expenditures for food service operations**

**were not recognized** – Although CCPS management stated that its food service department was designed to be self-funded, CCPS general funds have been used to cover the costs for certain food service related expenses. For example, the CCPS food service department did not pay for the cafeterias' share of utility and custodian costs at CCPS schools; rather, these were funded by general funds. CCPS did not include these and other indirect costs in the annual budget prepared for food service operations. According to documentation prepared by MSDE for CCPS, estimated indirect costs totaled \$930,000 for the food service department for fiscal year 2007 (the most recent year for which such costs were determined). If these indirect costs had been included as a cost of food service operations, the operation would have incurred a \$925,000 deficit instead of a small surplus for fiscal year 2008.

### **CCPS had not established a performance measurement system to assess the efficiency of its food service**

**operations** – Best practice models recommend the use of benchmarks and goals to help school districts identify ways to increase efficiency and reduce costs. Such a system should include realistic, justifiable standards and goals, with a process for periodic measurement and analysis of results. Examples for standards could include achievable labor and materials costs per meal, desired meal participation rates, and expected ratios for meals prepared to meals served.

Although CCPS calculated meals per labor hour, the process was not completed every month and did not include all schools. Furthermore, there was no indication that the results, when available, were used in any meaningful way to improve food service operations. In addition, CCPS did not have other comprehensive performance and cost-efficiency measures (such

as cost per meal and free or reduced price meal participation) in place to provide management with information to evaluate the entire food service program.

## CCPS Should Analyze Whether Barriers Exist to Participation in the Free and Reduced-Price Meal Programs

CCPS should take specific steps to determine what barriers exist to participation in its meals programs and to increase participation in the federal free and reduced price meal programs. Specifically, as shown in Table 6 below, we found that participation in both the lunch and breakfast programs was below the average participation of similarly-sized school systems, especially for breakfast.

| <b>Table 6</b>  |   |                |   |                |  |
|---|---|----------------|---|----------------|--|
| <b>Fiscal Year 2008 Lunch and Breakfast Participation Rates (Unaudited)</b> |   |                |   |                |  |
| <b>(based on students eligible to receive free and reduced price meals)</b> |   |                |   |                |  |
| <b>School System <sup>3</sup></b>   | <b>Lunch Participation <sup>1</sup></b> |                | <b>Breakfast Participation <sup>2</sup></b> |                |  |
|   | <b>Free</b>                             | <b>Reduced</b> | <b>Free</b>                                 | <b>Reduced</b> | <b>Overall Breakfast Participation</b> |
| Calvert County  | 69.5%                                   | 61.6%          | 37.1%                                       | 21.1%          | 33.1%                                  |
| Cecil County  | 80.4%                                   | 73.0%          | 57.6%                                       | 45.7%          | 55.1%                                  |
| Charles County  | 79.7%                                   | 73.3%          | 36.4%                                       | 21.7%          | 32.7%                                  |
| St. Mary's County   | 69.7%                                   | 54.3%          | 58.5%                                       | 45.5%          | 55.4%                                  |
| Washington County   | 77.3%                                   | 74.0%          | 68.3%                                       | 61.1%          | 66.6%                                  |
| Average of Comparable Schools   | 77.1%                                   | 69.3%          | 56.2%                                       | 44.4%          | 53.4%                                  |

Notes: <sup>1</sup> Lunch participation is based on the total number of students eligible for participation in the Free and Reduced Price Meal Program. In fiscal year 2008, 15 percent of CCPS students were eligible to participate.

<sup>2</sup> Breakfast participation is based on the number of students who participate in the lunch program.

<sup>3</sup> All school systems in the comparison group have multiple schools participating in the State-funded Maryland Meals for Achievement program, which provides free breakfast to all students in the participating schools. CCPS has no schools that qualify for the program, which could contribute to its lower participation rate.

Sources: 2007-2008 MSDE Fact Book, School Systems, MSDE School and Community Nutrition Program

We noted certain practices that could impede participation in the meals program. For example, CCPS does not serve breakfast in its high schools. Additionally, we noted that CCPS provides a number of ala carte choices for meals and ala carte sales were almost twice that of the next highest amount among the school systems included in Table 6. While ala carte items may generate additional revenue, school systems generally cannot obtain federal reimbursement for these ala carte sales unless items are grouped together to form a “meal” and meet federal nutritional requirements.

## Recommendations

14. CCPS should develop formal procedures to reduce the number of voided sales transactions, and ensure that voided transactions are reviewed and approved by supervisors for propriety. CCPS should also enter into formal, competitively bid, and Board-approved contracts with significant suppliers of food service items, in accordance with CCPS policies, and should segregate the duties of ordering and receiving food service items. CCPS should also ensure that purchases receive prior approval by independent supervisory personnel.
15. CCPS should identify all food service department costs, including utility and custodian costs, to properly reflect the department’s full operating costs. In addition, CCPS should establish a performance measurement system to assist in monitoring the efficiency of food service operations.
16. CCPS should review participation in the free and reduced-price meals program to determine if barriers exist that reduce participation. If CCPS identifies potential barriers, it should work with the schools to address the identified issues.



# Chapter 10

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## School Board Operations and Oversight

Oversight of CCPS operations includes a comprehensive budget process. The Board also receives regular financial updates, including monthly budget variances, to assist it in monitoring the efficient use of funds. The Board also meets with the CCPS certified public accounting firm to review the results of the annual financial statement audit and the federal Single Audit and to review reports issued by the CCPS internal auditor. In addition, CCPS has a detailed ethics policy and had established a process to independently investigate ethics issues and complaints.

Nevertheless, several opportunities exist for the Board to improve operations and oversight. For example, the Board should consider requiring the CCPS internal auditor to report directly to the Board, rather than to the CCPS Director of Finance, and should consider expanding the role of the internal auditor to include areas other than school activity funds. Also, consideration should be given to establishing a confidential hotline to enable employees and others to report operational concerns and suspected fraud, waste, and mismanagement.

## Background

CCPS is governed by a five-member board (not including a student representative) elected by the voters of Calvert County. By law, the members must be residents and registered voters of Calvert County. The Board does not have an established committee

structure due to its size and generally acts in whole to carry out its oversight duties. In its oversight responsibilities, the Board contracts with a certified public accounting firm for independent audits of the CCPS financial statements and federal grant programs.

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

Following is the CCPS stated policy on educational philosophy, according to the CCPS website:

### **Vision for the Calvert County Public Schools**

#### **People**

1. We have a school environment and culture that creates enthusiasm for learning, where all students embrace the value of learning for its own sake.
2. We reach out to ensure that our families and community have access and open communication at every level of the educational system.
3. We have teachers and staff who are empowered to:
  - adapt to students' individual needs;
  - create improved and innovative learning environments; and
  - require the highest standards of work and discipline.
4. We have students, teachers and staff who are:
  - recognized for their dedication and excellence;
  - respected and valued for their input and creativity; and
  - tolerant and sensitive to ethnic, cultural and individual differences.
5. We have safe and orderly schools where we share accountability among students, parents, teachers, support staff, administrators and board members for academic excellence and consistently enforced standards of conduct.
6. We have partnerships with families, government, businesses, churches and community organizations to promote superior academic and extra-curricular activities placing children first.
7. We have mechanisms for honest and effective communication among students, families, teachers, support staff, administrators and board members.

#### **Systems**

1. We have learning systems that integrate technology to achieve better instruction.
2. We fully and creatively utilize facilities to support education, recreation and community activities.
3. We have an objective employment process that is aware of the need to hire highly qualified people of diverse backgrounds.

4. We provide creative and effective use of funding that is appropriate to accommodate student growth, quality standards and equitable educational opportunities.
5. We have effective methods of ongoing evaluation of all aspects of the school system.
6. We have schools that reflect the highest standards of work, discipline and values.

**Standards, Practices, and Outcomes**

1. We have educational opportunities that are diverse, rigorous, challenging and fair.
2. We aspire to standards of our students' educational achievement that are second to none.
3. We graduate responsible and productive citizens

**Board of Education Goals**

**Goal 1: Learning** -- Achievement will increase for all students and gaps in achievement will close.

**Goal 2: Teaching** -- All teachers will be "highly qualified", highly skilled, and highly effective.

**Goal 3: Infrastructure** -- Policy, procedure, processes, and budget will be aligned to support teaching and learning.

## Certain Oversight Has Been Put in Place Regarding CCPS Operations

The CCPS Board uses a number of methods to oversee the operations of CCPS.

- The Board is actively involved in the development of the budget.
- The Board receives monthly expenditure data, including budget variances.
- The Board hires an independent certified public accounting firm to perform audits of its financial statements and federally-funded grant programs, and annually meets with that firm to review the results.
- The Board adopted a detailed conflict of interest and ethics policy to cover Board members and appropriate CCPS employees. The policy requires annual financial disclosure statements and establishes an independent process to interpret policy and investigate any complaints.

## The Board Could Take Additional Steps to Assist It in Governing CCPS

### **The internal auditor function was not sufficiently independent and the scope was limited to student activity funds**

– Although CCPS has an internal auditor (which is deemed a best practice), the internal auditor was organizationally part of, and reported directly to, the Director of Finance instead of to the Board for both administrative purposes and review and oversight of audit findings and the audit reports. As a result, the unit could be subject to management influence that could diminish independence in its audit activities.

In addition, the auditor's work was limited exclusively to audits of student activity funds. Although there are unique risks associated with student activity funds, which are not subject to review by other auditors, the dollar amounts involved are not as significant as with other CCPS operations. As noted elsewhere in this report, there are other significant operational areas (such as transportation and procurement) which should be considered for review. Student activity fund expenditures totaled \$5.7 million per the CCPS records for fiscal year 2008, while CCPS expenditures totaled \$222 million for fiscal year 2008.

### **The CCPS Board should consider establishing a**

**confidential hotline** – We noted that a process, such as a confidential hotline, had not been implemented to enable employees and others to confidentially report operational concerns and suspected fraud, waste, and mismanagement. In addition, a whistleblower policy had not been established. Typically, such confidential mechanisms bring to light matters and issues previously unknown and unsuspected by organizational managers. If such a process was established, in conjunction with the establishment of a whistleblower policy and an internal audit function, the internal auditor could conduct the initial reviews of information received via the hotline or direct the information to other appropriate officials, such as law enforcement.

## Recommendation

17. The Board should enhance its oversight of CCPS operations by allocating more internal auditor resources towards significant financial areas other than student activity funds and should consider requiring the auditor to report directly to the Board. The Board should also consider establishing, a confidential hotline, with formal follow-up procedures, and an employee whistleblower protection policy.



# Chapter 11

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## Other Financial Controls

This chapter addresses the management of risk, cash, and debt (for example, long-term lease-leaseback agreements) within CCPS. While CCPS had procedures in place to govern its risk and cash management, it did not have written policies governing its use of long-term liabilities, such as financing agreements, nor did it establish sufficient controls to ensure the propriety of health care costs.

## Risk and Cash Management Best Practices Were in Place

CCPS used a combination of commercial insurance and self-insurance to manage its risks. CCPS insured its liability, property, and workers' compensation coverage through participation in the Maryland Association of Boards of Education (MABE) Group Insurance Pool and the Workmen's Compensation Self Insurance Fund. The notes to the fiscal year 2008 audited financial statements stated that settled claims had not exceeded coverage in any of the past three fiscal years.

To control workers' compensation costs, CCPS used a variety of methods, such as an informal return to work program, employee assistance and wellness programs, and staff training on employee safety.

With respect to cash management, CCPS invested its cash in the Maryland Local Government Investment Pool (MLGIP). According to the CCPS audited financial statements, all cash and investments, which totaled \$13.4 million as of June 30, 2008, were covered by federal depository insurance or fully collateralized with underlying securities held by the custodian in CCPS' name.

## CCPS Needs to Establish Capital Lease and Financing Policies

CCPS had not adopted a policy to govern its use of long-term lease obligations to finance operations, as recommended by the Government Finance Officers Association (GFOA). Long-term liability levels and their related annual costs are important obligations that must be managed within available resources. An effective policy should provide guidelines to ensure CCPS manages its long-term liabilities accordingly. By law, CCPS is not authorized to issue bonds or similar debt instruments to finance capital or operational needs. However, CCPS used a financing agreement to purchase equipment items, such as computers. According to CCPS audited financial statements, capital lease payments through 2011 had a present value of \$465,000 at June 30, 2008, with \$179,300 due within one year.

## CCPS Should Take Steps to Ensure the Propriety of Health Care Costs

CCPS did not verify the authenticity of health care program participants and their listed dependents or audit the propriety of related claims paid by program administrators. CCPS provides health benefit coverage to active and retired employees through a modified billing arrangement with a commercial insurance carrier. CCPS pays a monthly premium and, at the end of each annual coverage period, settles with the carrier for the difference between billed premiums and actual claims and expenses. CCPS is responsible for any underpayment and receives a refund for any overpayment. For fiscal year 2008, according to the settlement report, CCPS paid premiums and fees totaling \$23 million and was eligible for a refund of \$2.7 million.

According to recommended practices published by the Government Finance Officer's Association (GFOA), health care cost containment is a critical component of long-term financial planning and budgeting. The GFOA recommends the establishment of a cost containment program that includes managing health care vendors.

## Recommendations

18. CCPS should adopt a formal policy governing long-term obligations.
19. CCPS should institute processes to verify the authenticity of health care program participants and their listed dependents and to verify the propriety of related claims paid by health program administrators.



# Audit Scope, Objectives, and Methodology

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## Scope

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

## Objectives

We had two broad audit objectives:

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

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit approach, including the specific

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

## Methodology

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by CCPS. We also interviewed personnel at CCPS, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate).<sup>9</sup> Our audit procedures included inspections of documents and records, and observations of CCPS 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, 2007 through December 31, 2008. For our audit work on revenue and federal grants, we primarily relied on the results of independent audits of fiscal year 2008 activity.

In addition, we contacted a number of other state auditors' offices and legislative program evaluation agencies that had a history of conducting audits or reviews of local school systems. We interviewed those officials and inspected their work programs and resultant reports to identify specific audit techniques and operational practices at schools that could be adapted for our school system audits. We also used certain statistical data—including financial and operational—compiled by MSDE from various informational reports submitted by the Maryland local school systems. This information was used in this audit report for background or informational purposes, and was deemed reasonable. For comparison purposes, information provided in this report was generally limited to those Maryland school systems of similar sizes, based on student enrollment and/or system

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<sup>9</sup> During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

budget. In many cases, this information was self-reported by the school systems. The data were neither audited nor independently verified by us. Finally, information provided in this report was obtained from various reports readily available during our fieldwork.

### **Other Independent Auditors**

When developing the approach for the audits of school system financial management practices, a consideration was the reliance on the work of other independent auditors to the extent practicable to avoid unnecessary duplication of audit effort. With respect to CCPS, 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 audits of the CCPS federal financial assistance programs for the evaluation of internal controls and for compliance with federal laws and regulations and of the CCPS financial statement audits. Accordingly, we significantly reduced the scope of our work in Chapter 1 “Revenue and Billing Cycle,” and in Chapter 2 “Federal Funds.”

### **Limitations of Internal Control**

CCPS 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 CCPS that did not warrant inclusion in this report.

## Fieldwork and CCPS Responses

We conducted our fieldwork from July 2008 to February 2009. The CCPS response to our findings and recommendations is included as an appendix to this report.

# Calvert County Public Schools

## APPENDIX

Jack R. Smith, Ph.D., Superintendent of Schools

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June 25, 2009

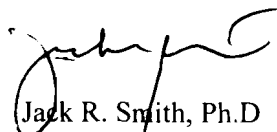
Bruce A. Myers, CPA  
Legislative Auditor  
Department of Legislative Services  
Office of Legislative Audits  
301 West Preston Street, Room 1202  
Baltimore, Maryland 21201

Dear Mr. Myers:

Enclosed, please find the responses to recommendations made in the Financial Management Practices Audit Report that was issued to Calvert County Public Schools in June 2009.

As requested, an electronic copy was sent to [response@ola.state.md.us](mailto:response@ola.state.md.us) on June 25, 2009. Please do not hesitate to contact Mrs. Tammy McCourt, Chief Budget and Business Officer, at 410-535-7270 if you have any questions or need additional information regarding this submission.

Respectfully,



Jack R. Smith, Ph.D.  
Superintendent of Schools

JRS:cdj

Enclosure

Copy to:  
Members of the Board of Education  
Tammy McCourt

## **Legislative Audit**

### **Recommendation 1**

CCPS should reevaluate its existing procurement policies to determine if contract awards resulting from the use of other agency contracts should be reported to and approved by the Board when the awards exceed a predetermined dollar value (such as \$25,000).

### ***Management's Response***

We concur with this recommendation. We did not deem it necessary to obtain approval from the Board to use other agency contracts because the purpose of utilizing these contracts is to save time and money by avoiding the formal bid process while reaping the benefit of obtaining the best products at the lowest prices. We revised our procurement procedures effective April 2009 to stipulate that Board approval will be needed before the awarding of contract which exceed \$25,000.

### **Recommendation 2**

CCPS should improve its controls over purchasing and the invoice payment process by separating incompatible functions and by restricting access to critical system functions to only those who need those capabilities to perform their job duties. In addition, CCPS should establish a process to ensure that a proper and independent review of all disbursement checks is performed. CCPS should also maintain contract pricing information on file, including the applicable contracts, and verify the accuracy of vendor billings. Finally, CCPS should ensure that requisitions are properly approved prior to procuring the related goods or services.

### ***Management's Response***

We concur with this recommendation. We have investigated and determined that some employees have access to functions that they do not utilize. Consequently, we implemented changes in March 2009 to restrict access to various functions so that system capabilities are consistent with employee job duties. Effective April 2009, the internal auditor performs a test of the weekly accounts payable check run to ensure that checks agree to the related supporting documentation (including proper approvals).

Currently, accounts payable employees provide the Supervisor of Purchasing invoices to investigate when there is a discrepancy between an invoice and the related purchase order. We will increase our level of monitoring in an effort to ensure that all contracts are properly procured. We will also increase efforts to retain all necessary contract documentation and confirm that the amount paid reflects the amount agreed upon in the contract.

CCPS will amend procedures to Policy #5510 (which pertains to procurement) to require the execution of a properly approved purchase requisition prior to the purchase of goods. We will amend this procedure no later than September 30, 2009.

### **Recommendation 3**

CCPS should improve internal controls over its automated human resource and payroll system. Specifically, CCPS should review and document system menu functions and security, and ensure that assigned functions and capabilities are consistent with employee job duties and job duties are adequately segregated. In addition, CCPS should ensure that all biweekly payroll-related changes

recorded in the system are reviewed and approved, at least on a test basis, by an employee independent of the payroll processing function.

***Management's Response***

We concur with the recommendation that we take the necessary corrective actions to ensure that adequate internal controls are in place over the human resource and payroll system and transactions. We have reviewed system menus and modified user access so that capabilities are consistent with employee job duties. In March 2009, we implemented changes to restrict system access to those functions which are required by each employee to perform his/her job duties. This will more properly align the segregation of abilities within the system to the segregation of duties which exist in practice. We have established cross-training of duties so that there are two employees in each area (accounts payable, payroll, and accounting) who have the ability to perform critical functions. It is essential to have proper backup so that all critical tasks are completed in the absence of the employee who is primarily responsible for a given task.

We also concur with the recommendation that we ensure that all bi-weekly payroll-related changes recorded in the system are reviewed and approved, at least on a test basis, by an employee independent of the payroll processing function. We will have the internal auditor perform a test of the bi-weekly payroll data as an independent review of the changes recorded in the system to ensure reasonableness and to mitigate the risk of improprieties.

**Recommendation 4**

CCPS should enhance existing accountability for its equipment by developing and enforcing written policies and procedures to govern the accounting and safeguarding of the System's property that includes tagging fixed assets, and tracking and periodically inventorying sensitive equipment items prone to theft costing less than \$5,000.

***Management's Response***

We concur with the recommendation that CCPS should improve accountability for our equipment by developing and enforcing written policies and procedures to govern the accounting and safeguarding of our property. The Department of Finance will work with the Department of Instructional and Informational Technology (DIIT) to create written procedures to maintain an accurate list of computer equipment. These departments will work on creating procedures that allow for DIIT to receive serial numbers and/or specific information for each newly acquired computer system for each CCPS facility. With the ability to track the newer computer equipment, the control and inventory of computers will improve.

**Recommendation 5**

CCPS should establish formal policies and procedures that enhance accountability over textbooks. CCPS should consider using a comprehensive, centralized inventory record keeping system and using the results of textbook physical inventories to enhance purchasing decisions.

***Management's Response***

We concur with the recommendation that CCPS should document its policy and practices governing textbook accountability. We will evaluate implementing an inventory control process for textbooks.

**Recommendation 6**

CCPS should enhance its IT security by establishing and enforcing stricter password requirements, should conduct documented reviews of logged system activity, and should ensure that users are only given capabilities necessary for their job functions.

***Management's Response***

CCPS agrees with the recommendation and will attempt to address this concern. CCPS will work with our vendor of our financial and personnel management software package, Quintessential School Systems (QSS), to explore options in automating controls to meet the State of Maryland Department of Information Technology (DOit) Access Control Standards. The limitation set forth by our vendor (QSS) may restrict our ability to automate controls to ensure that these standards are followed. As of April 2009, CCPS had changed the default passwords to the default accounts.

The Student Plus system was replaced at the end of the school year. The replacement system (eSchoolPlus) is Windows-based and relies on Active Directory Security. We will investigate our ability to automate password controls through Active Directory Security. The vendor (SunGard) that we have worked with for Student Plus will continue to be our vendor for eSchoolPlus. They will and must continue to have access to the new system as they are contractually obligated to install new versions of the applications. Once eSchoolPlus is up and running following our last conversion, we will investigate how we may be able to limit vendor access

CCPS agrees with the recommendation regarding the documentation of reviews of logged system activity. We will create a log to document the review of the security reports. This log will show dates/time/initials of the staff member that prints and checks the report. All questionable items will be identified and investigated. The results of the investigations will be noted on the log. All notes, reports, and conclusion of the investigation will be maintained for a period not to exceed two years.

**Recommendation 7**

CCPS should document the activities performed to sanitize computer hard drives upon disposal. CCPS should also establish and implement procedures for the appropriate offsite storage of backup copies of data from critical servers and establish a formal, comprehensive disaster recovery plan.

***Management's Response***

CCPS agrees with the recommendation regarding the sanitization of hard drives upon disposal and will address the recommendation as follows:

CCPS will use one of the following methods of sanitation.

- 1) CCPS has purchased a drill press that will be used for the destruction of computer hard drives.
- 2) CCPS will use the Image MASter 4800i utility.
- 3) CCPS will use the Novell ZENWorks imaging utility. If the Novell ZENWorks imaging utility is not NIST approved, then CCPS will use a different product that is NIST approved

All of these methods will be documented and logs will be retained showing a record of the sanitation of the drives. The log will contain the name, date, action performed, and a witness signature.

CCPS agrees with the recommendation regarding establishing and implementing procedures for the offsite storage of backup data and is addressing this concern.

Both the QSS and SunGard/Pentamation systems will have their tapes collected and stored in an “off-site” facility. We will be creating a log of the pick-up of these back-up tapes (HP3000 and SCO UnixWare). These logs will show dates/times/initials of each pickup. Since February 2009, the tapes have been stored in a secure (locked) desk in the CCPS Technology trailer. We will be moving the location of the tape to a destination away from the Central Office.

Finally, CCPS agrees with the recommendation to write a formal, comprehensive disaster recovery plan

### **Recommendation 8**

CCPS should ensure that all A/E contract awards are submitted for Board approval.

#### ***Management’s Response***

We concur with the recommendation that we follow existing policy and submit contract awards for architectural and engineering contracts to the Board for its approval. We will submit A/E contract awards to the Board for approval in the future.

### **Recommendation 9**

CCPS should develop a performance assessment system for maintenance and custodial operations and include in its work order system a comparison of actual to budgeted resources. This assessment should include a periodic evaluation of the department’s staff size. CCPS should also document that preventive maintenance was performed to ensure appropriate and timely maintenance is provided to all facilities. Finally, CCPS should consider implementing a formal customer feedback program for facilities operations and maintenance to assist in evaluating performance and improving operations.

#### ***Management’s Response***

We concur with the recommendation that CCPS should establish a formal performance measurement system to assist in periodically analyzing the efficiency of our custodial and maintenance operations. We implemented a performance measurement system in March 2009. Each daytime head custodian completes evaluation sheets for his/her crew and submits the sheets to the operations department on a monthly basis. Additionally, an operations supervisor completes evaluation sheets for each head custodian on a monthly basis. This process is instrumental in monitoring the performance of custodial operations staff on a regular basis.

We concur with the recommendation that CCPS expand its use of the automated work order system to include additional information for significant tasks or projects. We also agree that we should obtain and analyze reports from the system to assist in evaluating the upkeep costs for facilities and the performance of the maintenance department and maintenance staff. School Facilities will investigate the additional program options which are available through our existing work order system and weigh the benefits versus the costs of the additional programs. Outside contractors are utilized to help evaluate large projects and to provide staff with budgetary cost estimates. These services are normally provided to CCPS free of charge.

We also concur with the recommendation that CCPS periodically analyze staffing to identify personnel needs to avoid either under or over staffing in the custodial and maintenance areas. We measure the performance of maintenance staff and analyze the staffing needs based upon information obtained from the work order system. By reviewing the data regarding the number of work orders submitted, the number of work orders completed, and the time lapse between the submission and completion of work orders, we are able to assess performance of current staff as well as assess staffing needs.

We concur with the recommendation that CCPS should document all preventive maintenance performed and maintain such documentation in accordance with the requirements of the comprehensive maintenance plan. School Facilities has made a renewed effort to maintain preventive maintenance documentation through our current work order system. School based operations staff has also been required to maintain better records and their efforts are now validated by supervisory observation reports.

Finally, we concur with the recommendation that we consider developing and implementing a formal customer feedback program. The School Facilities department of CCPS will be contacting other LEAs for information on their customer feedback programs and will then develop a program for CCPS. Implementation is expected to occur sometime during the upcoming 2009-2010 school year.

**Recommendation 10**

CCPS should establish formal, comprehensive bus routing procedures and evaluate whether its existing automated routing software can be fully used to help plan more efficient services, or whether the system should be replaced.

***Management's Response***

We concur with this recommendation. We will develop more formal guidelines to ensure that an adequate level of efficiencies is in place. CCPS currently utilizes an automated routing software package. As a result of utilizing this routing software, CCPS consolidated its first tier school buses stops in FY 2009, with a plan to consolidate second tier school buses stops for FY 2010, and consolidate third tier school buses stops for FY 2011. As previously noted, the department recognized an estimated savings of \$206,000 by reorganizing 49% of the bus routes for FY2009. However, we realize that the software has additional capabilities that we are currently not utilizing and we will explore expanding them.

**Recommendation 11**

CCPS should periodically prepare a documented analysis to determine whether continued use of outside vendors to provide student bus services is cost beneficial for the school system. This analysis should include an evaluation of each pay element (including the ROI component of the PVA) of the current bus contracts to determine whether the rates are reasonable and necessary.

***Management's Response***

We concur with this recommendation. The outside professional analysis was conducted in 1998. At the time it was determined to be of greater benefit to contract this service, reducing the level of personnel management oversight and time associated with union relations. As presented in the MSDE transportation analysis of 2007, page 29, we will evaluate the suggestion of pursuing a competitive bid process in lieu of the current negotiated process to determine CCPS bus contractors.

We are currently reviewing the financial component of the contracts in great detail and are analyzing these comments closely in discussions with the Board of Education. It should be noted, however, that the PVA has historically been intended to encompass not only the cost of the bus, but also the contractors' overhead costs (to include the contractor's cost of management oversight.)

**Recommendation 12**

CCPS should reevaluate the appropriateness of all amounts paid to or on behalf of bus contractors. In addition, CCPS should ensure that all payments made are reasonable, properly authorized, and used for the purposes intended. With respect to any third party arrangements, CCPS should evaluate the appropriateness of the arrangements, and if deemed appropriate, should enter into an agreement with the third parties to document the basis of the payments. CCPS should obtain appropriate supporting documentation from the contractors and independently verify, at least on a test basis, the accuracy of vendor reported data to ensure that payments to contractors reflect the actual services provided.

***Management's Response***

We concur with this recommendation. In November 2008, Transportation began using GPS units to verify bus contractor manifests. These GPS units are portable, so they can be used on different buses. We will implement a process to periodically verify bus contractor manifests to ensure accuracy of time and miles reported effective the beginning of the 2009/10 school year.

We concur with this recommendation. There are standards that have been adhered to, which we will begin to document. For example, If after finishing the morning's three tiered routes a driver is going to spend less than one (1) hour driving back to the contractor's lot and only be off of the bus before starting a midday run, then the driver is paid one (1) hour for a layover instead. If the time is longer than one hour the driver is not paid for a one (1) hour layover.

The Director of Transportation has traditionally worked with the vendor each year to negotiate cost of a Health Benefit Trust based on the total number of bus contracts. As a result of our recent finance/transportation contract discussions with the Board, we will put in place a practice to ensure that either Board or Superintendent approval of these health benefits/third party payments is/are documented. Furthermore, the Director of Transportation and/or Chief Budget and Business Officer will maintain a relationship directly with the bus contractors or the Calvert County School Bus Contractors Association with clear contractual documentation addressing the health care benefits for the school bus drivers employed by the individual contractors.

Procedures are in place for quotes to be obtained by the school administrators on all field trips. This provides the schools additional negotiating powers, often times with consideration of price reductions taken into consideration by the bus contractors.

**Recommendation 13**

CCPS should establish a performance measurement system for its transportation services.

***Management's Response***

We concur with this recommendation. We are collaborating with other school systems' Transportation Directors, in addition to consulting with MSDE to determine what best practices should be implemented and put in place at CCPS. Additionally, we are utilizing the National Association for Pupil Transportation as a resource.

**Recommendation 14**

CCPS should develop formal procedures to reduce the number of voided sales transactions, and ensure that voided transactions are reviewed and approved by supervisors for propriety. CCPS should also enter into formal, competitively bid, and Board-approved contracts with significant suppliers of food service items, in accordance with CCPS policies, and should segregate the duties of ordering and receiving food service items. CCPS should also ensure that purchases receive prior approval by independent supervisory personnel.

***Management's Response***

We concur with the recommendation to develop formal procedures to reduce the number of voided transactions. We will explore and implement appropriate internal control processes prior to the start of next school year.

We concur with portions of the recommendation for entering into formal, competitive bids with suppliers of food service items. We have not had any contracts for sole source items, only direct pricing. We have provided for a level of internal control by requiring that managers receive prior approval from the Food Services Office before ordering any items not currently on the order guide. Additionally, invoices are first verified by managers and then by the food service office staff prior to payment. Inventories are taken monthly and then compared by base school.

**Recommendation 15**

CCPS should identify all food service department costs, including utility and custodian costs, to properly reflect the department's full operating costs. In addition, CCPS should establish a performance measurement system to assist in monitoring the efficiency of food service operations.

***Management's Response***

We concur with this recommendation. Indirect costs of utilities and maintenance are not included in the food services operations, however indirect costs associated with the costs of personnel (healthcare, social security, etc.) are included. Additionally, we contacted the counties that we are compared to within the background comparison table and they all indicated that indirect costs were not part of their total expenditures.

We concur with the recommendation regarding the establishment of a performance measurement system to assist in monitoring the efficiency of food service operations. Meals and labor are observed monthly allowing for a basis for labor to be adjusted through substitutions, redistricting, attrition or major program changes. We will review the most recent guidelines available by the National Food Service Management Institute in an effort further develop and implement additional performance measures. Examples of benchmarks currently used by CCPS include:

- Break Even Point Analysis
- Food cost less than 40%
- 1/3 of RDA (recommended daily allowance) calories for elementary and secondary lunches
- Less than 30% calories from fat, less than 10% from saturated fat on elementary and secondary menus
- Ala-carte food cost is doubled to establish selling price
- Marketing – increase breakfast participation through promotions during National School breakfast week by 10%
- Food cost for lunch less than \$1.25 averaged over the week
- Food cost for breakfast less than \$1.00 averaged over the week

**Recommendation 16**

CCPS should review participation in the free and reduced-price meals program to determine if barriers exist that reduce participation. If CCPS identifies potential barriers, it should work with the schools to address the identified issues.

***Management's Response***

Federal reimbursement does not cover the cost of the meal as indicated in your report. CCPS has one of the lowest FARMS (Free and Reduced Meal Status) eligibility rates by enrollment in the

state, currently sixteen percent. The additional revenue generated through à la carte sales helps to keep the cost of “paid” meals more affordable. Most importantly, CCPS does not have any schools that qualify for MMFA (Maryland Meals for Achievement) where all students are provided breakfast at no cost. Having breakfast available at no cost, skews the breakfast participation rates making comparisons to the counties listed more difficult.

Additionally, barriers are monitored as indicated in the report. For example,

- a National School Meals Program application is sent home to each family,
- recognizing that the continuing implications of the economy are providing a financial strain to many families, we have recently added 1) the application to our website and have included wording in the school newsletters making families aware that they may apply for this program at any point in time during the school year and 2) put in place a breakfast program at one of our high schools.
- we provide a pin number to students, reducing the stigma associated with receiving free or reduced meals, since all students use pin numbers at the cafeteria register.

Please note that the recently modified high school lunch program to serve all students in a single period began with one high school last year, with a second high school brought on in FY 2009, therefore 50% of the high schools are not currently participating. Although, this may have attributed to the drop in the number of meals being provided, we have found an increased number of children bringing meals from home at these schools. The one hour lunch pilot program has been very successful, as it provides an opportunity for students to obtain additional educational assistance from their teachers while eating their lunch.

### **Recommendation 17**

The Board should enhance its oversight of CCPS operations by allocating more internal auditor resources towards significant financial areas other than student activity funds and should consider requiring the auditor to report directly to the Board. The Board should also consider establishing, a confidential hotline, with formal follow-up procedures, and an employee whistleblower protection policy.

### ***Management’s Response***

We concur with the recommendation that the internal audit function should be enhanced by periodically allocating available audit resources toward other significant financial areas. We will expand the scope of the internal auditor’s work to extend beyond auditing school activity funds and to include auditing various aspects of our financial system. This would include auditing personnel/payroll and accounts payable processes; auditing restricted programs; and conducting physical inventories at sites throughout the school system. The internal auditor’s reports would be presented to the Board for review.

We do not concur with the recommendation that CCPS establish the independence of the internal audit function by requiring the internal auditor to report directly to the Board. It would not be practical to have the internal auditor report directly to the Board. The position has responsibilities outside of auditing that must be managed on a daily basis. The Board meets two times per month; therefore the Board is not in a position to satisfy the need for daily management of this position. Additionally, the internal auditor was not intended to be independent in the manner that external auditors are expected and required to be. We will consider having the internal auditor’s work reviewed by independent auditors on a periodic basis.

With respect to establishing a confidential hotline and an employee whistleblower policy, we are considering this recommendation but are not prepared to consent without further investigation.

**Recommendation 18**

CCPS should adopt a formal policy governing long-term obligations.

***Management's Response***

We concur with this recommendation. CCPS does not anticipate entering into a long-term lease/purchase agreement in the near future. However, if circumstances arise in which we find that we have a need to enter into another lease purchase agreement; we will develop a policy and procedures to govern this.

**Recommendation 19**

CCPS should institute processes to verify the authenticity of health care program participants and their listed dependents and to verify the propriety of related claims paid by health program administrators.

***Management's Response***

We concur with portions of this recommendation. There are additional measures that can be put in place to enhance the control of healthcare costs. However, cost sharing measures have been implemented between Calvert County Public Schools and Calvert County Government. To enable us to take advantage of economies of scale, we entered into a joint umbrella healthcare insurance policy several years ago with our insurance carrier.

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