

Financial Management Practices Performance Audit Report

Carroll County Public Schools

January 2007



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

Bruce A. Myers, CPA
Legislative Auditor

January 5, 2007

Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Delegate Charles E. Barkley, 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 Carroll County Public Schools (CCPS) in accordance with the requirements of the State Government Article, Section 2-1220(f) of the Annotated Code of Maryland. CCPS is the ninth largest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 41 schools, with annual expenditures of \$289 million. The objectives of this audit were to evaluate whether the 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.

Our report contains 22 recommendations covering most of the financial management areas reviewed. However there are some areas needing immediate attention including the system-wide implementation of effective internal controls, the oversight of student fund activity, credit card expenditures, procurement and monitoring of contracts. Student activity funds especially require greater oversight as CCPS reported two employee thefts in this area totaling at least \$240,000. We also found that additional monitoring and controls should be established over student transportation services. For example, payments to bus contractors for certain costs attributable to bus purchases were not being paid in accordance with Board policy. As a result, CCPS could potentially make excess payments totaling \$4 million during the period from 2003 to 2017. The Board should also establish formal policies over critical areas such as cash receipts, student funds, credit cards, and inventory. Finally, included in this report are instances of processes and best practices that we found to be in place in CCPS that help ensure the efficient use of financial resources.

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

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Executive Summary

The Office of Legislative Audits has conducted an audit to evaluate the effectiveness and efficiency of the financial management practices of the Carroll County Public Schools (CCPS) in accordance with the State Government Article, Section 2-1220(f) 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, provided that the related audit process is approved by the Joint Audit Committee. The Committee approved the audit process in September 2004. The approved process included 11 functional areas to be audited at each system. The following are summaries of the findings in these areas at CCPS.

Revenue and Billing Cycle (see pages 7 through 10)

CCPS is subject to an annual, independent audit of its financial statements by a certified public accounting firm, which includes procedural reviews and testing of significant revenues and accounts receivable. As a result of parallels between that work and the scope of our audit, we were able to place significant reliance on the results of the independent audit of the fiscal year 2005 financial statements, which included coverage of certain revenue processes and controls that were deemed adequate (such as wire transfers). In other areas, we identified significant internal control weaknesses over CCPS' school activity funds. CCPS disclosed two instances of school activity fund thefts totaling \$240,000.

Federal Funds (see pages 11 through 13)

CCPS is subject to an annual audit of its federally-funded grant programs. Due to parallels between that work and the scope of our audit, we placed significant reliance on the results of the independent audit of the fiscal year 2005 grant activity, for which reported expenditures totaled \$11.9 million. That report, which excluded Medicaid-funded programs, did not disclose any material weaknesses, reportable conditions, or questionable costs. CCPS

should enhance its reimbursement procedures to ensure that all eligible Medicaid-subsidized services are billed and recovered. Medicaid reimbursements totaled \$1.7 million for fiscal year 2005.

Procurement and Disbursement Cycle (see pages 15 through 22)

CCPS lacked adequate internal controls and procedures over contract procurements, contract monitoring, and credit cards. For example, our review of eight contracts valued at \$462,000 identified six contracts (for \$287,000) that were not subject to a competitive procurement process and five contracts that were not adequately monitored. Furthermore, we identified two contracts that were awarded to employees without obtaining advice from the Board's ethics panel. Internal control deficiencies were also identified in the CCPS procurement and disbursement system, which was responsible for processing non-payroll disbursements totaling \$84 million in fiscal year 2005. These included unnecessary employee access to system functions and lack of independent review of wire disbursements.

CCPS needs to establish a comprehensive policy for credit card issuance, use, and transaction review and approval. Credit cards had been issued to 480 CCPS employees (15 percent of the workforce) and fiscal year 2005 credit card purchases totaled \$3.7 million.

The CCPS travel policy needs to be reviewed and updated to provide for better control of costs.

Human Resources and Payroll (see pages 23 through 25)

CCPS had 3,200 budgeted positions for fiscal year 2005 with associated payroll cost of \$191 million. CCPS used a central automated information system to process human resource and payroll transactions. However, we noted significant internal control deficiencies over the automated system, including user access to critical functions granted to employees whose duties did not require such blanket access privileges. We also identified that workforce planning efforts should be expanded to include analyses of future workforce needs.

Inventory Control and Accountability (see pages 27 through 28)

CCPS' recordkeeping and control needs to be improved for equipment which, according to the audited financial statements, had a value of \$30.1 million at June 30, 2005. Necessary actions include the establishment and enforcement of formal policies addressing such issues as recordkeeping, physical inventory procedures, sensitive items, and equipment disposals.

Information Technology (see pages 29 through 32)

CCPS had developed technology plans to address current and future needs. CCPS also had an adequate process in place to receive reimbursement from the federal E-rate program for certain technology expenditures. Finally, we found that overall the CCPS had a comprehensive and well-prepared disaster recovery plan in place for its information technology operations.

We noted that certain aspects of CCPS' information technology operations can be improved. Specifically, improvement is needed in the areas of controls over critical financial applications, program change procedures and database security. For example, employees' access capabilities on the CCPS accounting information system were not segregated to establish effective internal control. We also noted that CCPS did not have adequate procedures in place to prevent or detect unauthorized program changes, including financial and human resource-related computer applications. Also, CCPS did not fully use certain IT system features to monitor for unauthorized access to its academic application database.

Facilities Construction, Renovation, and Maintenance (see pages 33 through 37)

CCPS uses a staff of 347 custodial and maintenance personnel to maintain its 44 facilities, including 41 schools. We identified several best practices that CCPS has put in place to assist in facilities construction, maintenance, and operation. These best practices include the preparation of a six-year Capital Improvement Plan (CIP), the following of State guidelines and laws regarding facilities-related procurement, the close monitoring of major school

construction and renovation projects, and the use of a comprehensive energy management program. We also identified other practices that could increase operational efficiency further. These practices include establishing a customer feedback program, use of performance measures, increasing use of its automated work order system, and documenting preventive maintenance efforts.

Transportation Services (see pages 39 through 50)

CCPS used a fleet of 335 buses (primarily contractors) to transport approximately 28,000 students at a cost of approximately \$15 million in fiscal year 2005. CCPS uses a number of best practices, such as staggered school start and stop times so buses can provide multiple trips on the same day. Having noted that, we identified a number of issues for review by CCPS that could further improve efficiency and cost effectiveness. CCPS had not conducted a cost benefit analysis of its decision to outsource transportation services, investigated the benefits of using smaller buses on certain routes, nor evaluated its relationship with bus contractors to ensure compliance with Internal Revenue Service regulations.

Furthermore, CCPS deviated from the Board-approved payment methodology for paying bus contractors for certain costs attributable to bus purchases. Under the Board policy, a certain payment amount was to be based on the prime interest rate. However, for fiscal years 2003 through 2006, CCPS made higher payments than what was required if the prime rates had been used. Not complying with the Board's policy could result in excessive payments totaling approximately \$4 million over the lives of the 122 buses purchased during those years.

CCPS did not formally track and use performance measures to monitor transportation effectiveness and efficiency and its transportation costs might be high when compared to similarly sized school systems. Finally, CCPS should strengthen internal controls over bus contractor procurements and payments.

Food Services Operations (see pages 51 through 55)

CCPS uses several best practices to help reduce the costs of its food supplies and materials. For example, CCPS uses performance measures and monthly financial reporting, participates in the USDA commodity program, and has membership in a 12-county food purchasing cooperative. CCPS also has adequate procedures in place to identify students eligible for the national school meals programs. However, we did note that internal controls could be improved over cafeteria cash collection and reconciliation duties.

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

CCPS is governed by a five member elected Board. Our review identified that Board policies had not been adopted in a number of areas related to financial operations. Also, the Board does not typically receive certain useful data (such as performance measures in non-academic areas) that can be used to effectively make decisions and monitor the operations of school system departments. The Board should also be more involved with the external audit process and consider establishing an internal audit function under its direction to act as an independent reviewer of CCPS operations.

Other Financial Controls (see pages 63 through 64)

CCPS has practices in place to control the various risks associated with operating a school system. For example, for fiscal year 2005 CCPS had sufficient collateral to cover its bank deposits and had sufficient insurance to cover its settlements. However, CCPS had not developed formal debt policies for long-term leases.

Table of Contents

Executive Summary	i
Background Information	5
Chapter 1: Revenue and Billing Cycle	7
Background	8
CCPS Revenue and Billing Cycle Activity Was Generally Adequate	9
CCPS School Activity Funds Should Be Adequately Controlled	9
Recommendation	10
Chapter 2: Federal Funds	11
Background	12
CCPS Established Adequate Internal Control Over Federal Grants and Complied With Federal Grant Requirements	12
Processes Are In Place to Generally Identify Students Eligible for Medicaid-Subsidized Services	12
Improvement is Needed to Ensure that Costs for All Medicaid-Subsidized Services are Recovered	13
Recommendation	13
Chapter 3: Procurement and Disbursement Cycle	15
Background	15
CCPS Should Strengthen Internal Controls Over Its Disbursements, Procurements, and Contract Monitoring	16
Significant Improvement is Needed to Control Credit Card Purchasing	18
CCPS Should Reevaluate Its Travel Reimbursement Policy	21
Recommendations	22

Table of Contents

Chapter 4: Human Resources and Payroll	23
Background	23
Human Resource and Payroll Internal Controls Need to Be Strengthened	24
Existing Workforce Planning Should be Expanded to Include Future Critical Needs	25
Recommendations	25
Chapter 5: Inventory Control and Accountability	27
Background	27
Existing Controls Over Equipment Should be Enhanced and Formal Policies Established	27
Recommendation	28
Chapter 6: Information Technology	29
Background	29
Technology Plans Are Regularly Developed to Address Current and Future Needs of CCPS and a Disaster Recovery Plan Was in Place	30
Steps Should be Taken to Ensure Access to IT Software Applications is Appropriate and Periodically Evaluated	30
Available Federal Funding for Technology is Obtained	31
Recommendations	32

Table of Contents

Chapter 7: Facilities Construction, Renovation, and Maintenance	33
Background	33
A Number of Best Practices Were in Place Regarding Major Projects and Energy Management	35
Certain Processes Should be Implemented to Increase the Effectiveness of Maintenance and Custodial Operations	35
Recommendations	37
Chapter 8: Transportation Services	39
Background	39
Several Best Practices Were in Place to Enhance Bus Route Efficiency and Safety	40
Formal Performance Measures on Student Transportation Should be Developed and Reported Regularly to the Board	41
Outsourcing of Transportation Services Has Not Been Established as Cost Beneficial	43
More Can Be Done to Ensure Cost-Effective Operation	46
Internal Control Over Payment and Procurement for Transportation Services Should Be Improved	49
Recommendations	49

Table of Contents

Chapter 9: Food Services Operations	51
Background	52
Certain Best Practices Were in Place Regarding Food Service Cost and Participation in the Free and Reduced Price Meal Programs	53
Internal Controls Over Cash Operations Could Be Improved	54
Recommendation	55
Chapter 10: School Board Operations and Oversight	57
Background	57
Additional Actions Should Be Taken To Oversee Management of the School System	59
Better Use of Audit Functions Could Improve Board Oversight	60
Recommendations	61
Chapter 11: Other Financial Controls	63
Risk Management Best Practices	63
Debt Management and Investment Policies Need to Be Established	63
Recommendation	64
Audit Scope, Objectives, and Methodology	65
Response of Carroll County Public Schools	Appendix A
Auditor's Comments on Agency Response	Appendix B

Background Information

Oversight

Carroll County Public Schools (CCPS) is governed by a five-member elected local school board. The vast majority of CCPS funding is provided by the State and the Carroll County governments. 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 Carroll 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 9th in student enrollment among the 24 public school systems in Maryland. From 1999 to 2004 the total full-time regular and special education pupil population has increased 4.8 percent from 27,472 to 28,792, with projected further increases to 30,200 by 2014. Presently, CCPS has 41 schools, consisting of 22 elementary, 9 middle, 8 high, and 2 alternative schools. A review of the budget history from fiscal year 2003 to 2005 disclosed an increase in the CCPS total expenditures from \$232 million in fiscal year 2003 to \$289 million in fiscal year 2005. The largest expense category is salaries and wages, accounting for almost 79 percent, which supported approximately 3,200 budgeted full-time positions in fiscal year 2005, consisting of 2,237 instructional and 969 non-instructional employees.¹

¹ MSDE provided the primary source for this background data including the annual Fact Book.

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

External Audit of Fiscal Year 2005 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 two resulting audit reports for the 2005 fiscal year were issued in September 2005. Neither report included any reportable conditions nor material findings on CCPS record keeping, processes, or controls.

Other Issues

This is the only local education agency audit initiated to date (of the nine completed or in progress) for which the school system volunteered to be scheduled for audit. The Superintendent requested the audit from a desire to identify any methods or issues that should be considered to improve the system's financial management practices. The audit recognizes that the CCPS has a dedicated workforce, although this report does contain findings that highlight the need for management to put controls and processes in place to help ensure its policies and goals are implemented as intended.

Chapter 1

Revenue and Billing Cycle

According to the CCPS audited financial statements for the fiscal year ended June 30, 2005, \$282.8 million of revenue was received by CCPS during fiscal year 2005. Because of similarities in the work of the certified public accounting firm in its independent audit of the CCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the firm's audit of the fiscal year 2005 financial statements for certain revenue transactions, including State, local, and federal sources. The auditor's procedural review and testing disclosed no reportable conditions related to the collection of the aforementioned revenue sources and related accounts receivable (the June 30, 2005 year-end receivables balance was \$448,000).

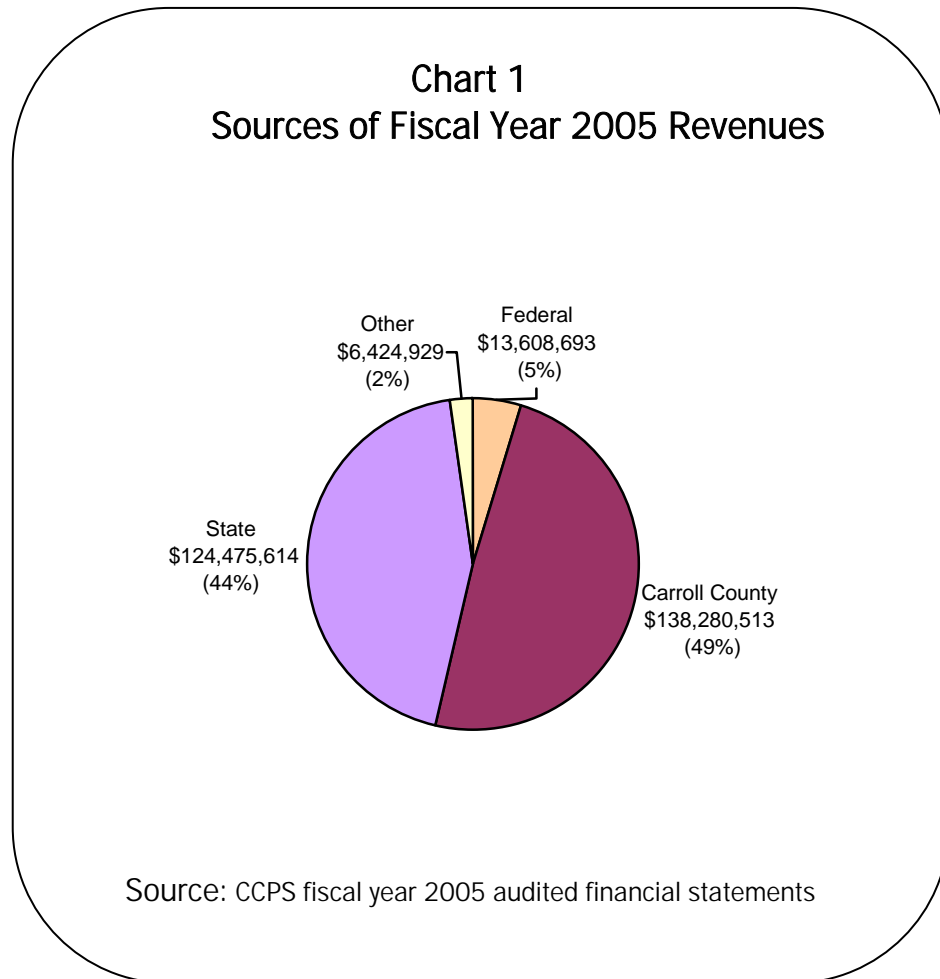
As of June 30, 2005, school activity fund² balances totaled \$1.7 million. CCPS disclosed two occurrences of theft of school activity funds totaling \$240,000.³ Both of these incidents had been referred to police for investigation and prosecution. Our review of CCPS procedures over school activity funds disclosed that effective internal controls were not in place to ensure that related revenues were collected, processed, recorded, and promptly deposited, and that all disbursements were properly authorized and supported.

² The Board has a fiduciary responsibility to ensure that the school activity funds are used only for intended purposes by those to whom the assets belong. Receipts for the student activity fund are not included in the \$282.8 million revenue total because the Board cannot use these assets to finance its operations.

³ On October 18, 2006, a former secretary pleaded guilty to embezzling \$228,000 in school activity funds. This fraud involved altering or scratching out amounts on cash receipt forms. Another former secretary was accused of stealing \$12,000 in student funds and this case is currently in litigation.

Background

CCPS revenues consist primarily of funds received from the State, Carroll County, and the federal government. Other miscellaneous sources include receipts from the sale of food, facility rentals, and interest income. Chart 1 (below) shows the breakdown of the CCPS fiscal year 2005 revenues of \$282.8 million by major source.



In addition to the above revenues, schools also collect student activity funds for various purposes, such as yearbook, drama club and school trips. These school activity funds are accounted for separately by each school and reported in summary in the audited financial statements. As of June 30, 2005, school activity fund balances totaled \$1.7 million and the fiscal year 2005 revenue totaled \$6.3 million.

CCPS Revenue and Billing Cycle Activity Was Generally Adequate

Due to similarities between the work of the 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 audit of the fiscal year 2005 financial statements. The auditor's procedural review and testing disclosed no reportable conditions regarding the collection of significant revenues from State, local, and federal sources, or the related accounts receivable. This activity included the use of wire transfers to process the related revenues.

CCPS School Activity Funds Should Be Adequately Controlled

CCPS does not have a school activity fund manual or written policies and procedures that address internal controls or that explains the purpose and appropriate use of school activity funds. Furthermore, CCPS had not ensured effective implementation of internal controls over school activity funds. Our review of the procedures used and certain transactions at four schools, which collected \$1.3 million in funds during fiscal year 2005, disclosed many internal control weaknesses and inconsistent procedures among the schools in the handling of student activity funds. The following findings represent weaknesses found at one or more of those schools.

- Duties were not properly segregated. Each of the four school's financial secretary had nearly complete control over school activity fund accounts, including receipt and custody of cash and related checking accounts, maintaining the accounting records, and performing the cash deposits and bank reconciliations. Independent verifications were not performed to ensure cash received and recorded was fully deposited.
- Club advisors and other groups with funds held in the school activity fund were not always provided accounting reports to enable them to ensure that all deposits and expenditures for

their activity were accurately recorded and the balance available was correct.

- Cash and checks were not always stored under locked control with limited access and were frequently not deposited in a timely manner. Furthermore, the checks were not always restrictively endorsed immediately upon receipt, but instead were endorsed when the bank deposit was prepared.
- Receipt forms had altered or scratched out amounts that were not investigated. The previously mentioned theft of school activity funds totaling \$228,000 involved an employee altering the amounts on cash receipt forms (unrelated to the forms we reviewed).

The internal control weaknesses we identified could allow undetected theft of cash receipts or unauthorized spending of student activity funds, such as occurred in the two thefts already disclosed by CCPS. CCPS has a fiduciary responsibility to ensure that school activity funds are protected and used for their intended purposes.

Recommendation⁴

1. CCPS should establish and enforce, through periodic monitoring and reporting, comprehensive procedures that provide adequate internal control over the receipt, custody, and disbursement of school activity funds and ensure that funds are used appropriately. For example, such controls should include segregation of duties, independent verifications, and safeguards for undeposited collections.

⁴ Recommendations are numbered consecutively through the report.

Chapter 2

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). Medicaid-funded reimbursements to CCPS are not grants and were not subject to the Single Audit process. The report on the audit of fiscal year 2005 federal grant activity was issued by CCPS' independent certified public accounting firm on September 1, 2005.

In that report, the auditor stated that CCPS complied, in all material respects, with the requirements applicable to its major federal grant programs. In addition, with respect to internal controls over compliance with and operation of major federal programs, the firm noted no reportable conditions⁵ and no matters considered to be material weaknesses.⁶

We also noted that while CCPS had a process in place to identify children eligible for Medicaid-subsidized⁷ services, enhancements should be made to ensure that all services provided are billed and the related reimbursements are received.

⁵ Reportable conditions are issues relating to a significant deficiency in the design of operation of the internal control over compliance that, in the auditor's judgment, could adversely affect the grantee's ability to administer a major federal program.

⁶ Material weaknesses, which are more severe problems, are reportable conditions where the existing internal control components might not detect, in a timely manner, a material instance of noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud.

⁷ The Federal Medical Assistance Program, or Medicaid, is not deemed a grant program under Circular A-133 and is not included in the Single Audit.

Background

CCPS receives funds primarily from the State, Carroll County, and the federal government. Most funds received from the State and Carroll County are unrestricted; however, federal funds are generally restricted for use for a specified program (such as School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2005 expenditures of federal award funds totaled \$11.9 million.

CCPS Established Adequate Internal Control Over Federal Grants and Complied With Federal Grant Requirements

Because of the accounting firm's work on CCPS federal fund expenditures, we relied on the auditor's results. Besides expressing an opinion on CCPS compliance with the terms of several grant programs, the firm also considered the existing internal control structure's impact on compliance and audited the fiscal year 2005 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). In its report, the firm stated that CCPS complied, in all material respects, with the requirements applicable to its major federal grant programs. In addition, with respect to internal controls over compliance with and the operation of major federal programs, the auditors noted no reportable conditions and no matters considered to be material weaknesses.

Processes Are in Place to Generally Identify Students Eligible for Medicaid-Subsidized Services

CCPS has adequate processes in place to identify students eligible for Medicaid-subsidized services. CCPS determines the eligibility of all children enrolled in Special Education programs within the school system by contacting the Medicaid Eligibility Verification System administered by the State of Maryland. In addition, there is outreach to families during meetings to discuss educational services for special needs students to identify potential eligibility and to encourage program participation.

Improvement is Needed to Ensure That Costs for All Medicaid-Subsidized Services are Recovered

CCPS should ensure that all eligible costs for Medicaid-subsidized services are billed and reimbursement is received. Our test disclosed that for 3 of 10 students who received Medicaid-subsidized services, CCPS did not bill and obtain reimbursement for all of the services provided. These services included transportation, physical therapy, and nursing; however, we were unable to readily determine the total unbilled amount. CCPS is currently developing a process to electronically record services provided to students, eliminating the need for both the manual collection of data from service reports and the manual recording of information into the billing system which generates invoices to Medicaid for reimbursement. Per CCPS, as of April 2006 there were approximately 910 students deemed eligible for Medicaid-subsidized services. According to CCPS records, fiscal year 2005 reimbursements for Medicaid-subsidized services totaled \$1.7 million.

Recommendation

2. CCPS should ensure that all eligible costs for Medicaid-subsidized services are billed and fully recovered.

Chapter 3

Procurement and Disbursement Cycle

The CCPS procurement and disbursement process did not provide sufficient control and accountability to adequately protect school system funds. Our review disclosed significant weaknesses in internal control over the automated CCPS procurement and disbursement system. These weaknesses included unrestricted user access to the system that allowed certain employees the capability to add, delete, and adjust vendor information, generate purchase orders, process vendor invoices, edit payee information, print checks, and record adjustments. Certain internal control deficiencies were also found in electronic disbursements processes, such as wire transfers. A number of procurement deficiencies were also found in the bidding, approval, contract award, and contract monitoring processes.

Numerous deficiencies were identified over the control, issuance, and monitoring of the CCPS credit cards issued to employees, resulting in virtually no formal control over card use. A number of questionable credit card purchases were made. Finally, the CCPS travel policy should be updated to afford better control of costs and should be approved by the Board.

Background

CCPS uses an automated system for procurements and disbursements. Requisitions are manually prepared by departments and are subject to supervisory approval within the requesting departments. Purchase orders, contracts, solicitations, and bids are usually handled by the purchasing office with the exception of transportation services. CCPS procurement regulations are similar to State regulations. Purchases over \$15,000 typically

are required to be formally bid⁸ and approved by the Board and oral bids are required for purchases greater than \$7,500. The receipt of goods and services is confirmed by the ordering departments and payments are then processed by the finance office. Vendor payments are processed using the automated system. According to CCPS records, non-payroll disbursements totaled \$84 million during fiscal year 2005.

During fiscal year 2005, CCPS employees used credit cards to make an additional \$3.7 million in purchases. According to CCPS records, 480 employees have been issued credit cards whose monthly charges are paid directly by the school system.

CCPS Should Strengthen Internal Controls Over Its Disbursements, Procurements, and Contract Monitoring

Procurement and disbursement system controls need to be strengthened - Our review identified significant internal control deficiencies over the automated procurement and disbursement system. Specifically, nine employees (including 6 accounting employees mentioned on page 31) were provided system capabilities allowing them to record and process critical accounting and procurement transactions. For example, these employees individually could create purchase orders, add vendors, process invoices, and print checks. In addition, there was no compensating control such as an independent review of system transaction reports or exception reports to detect inappropriate automated procurement and disbursement activity.

Wire payments were also not adequately controlled. Two employees had unlimited access to initiate and process wire payments without any independent approvals. The daily bank limit for wire transfers per individual was \$750,000.

The aforementioned internal control weaknesses could allow unauthorized transactions to be processed and not detected.

⁸ Effective July 1, 2006, the bid threshold was increased to \$25,000 by the Board at the request of the purchasing office.

Vendor bids should be secured to reduce the possibilities for loss or irregularities

– The purchasing office stored vendor bids in an open area that was accessible to many employees. The bids were stored in a supply/copier room frequented by employees throughout the day, and were not in a locked cabinet or safe. Unsecured bids increase the risk of bid tampering. According to the fiscal year 2005 audited financial statements, expenditures for contractual services, excluding transportation, totaled \$5.8 million.

Service contracts should be competitively bid and adequately monitored

– The purchasing office had issued procurement instructions that allowed professional service contracts to bypass the competitive procurement process and Board approval, even though this is in direct conflict with CCPS procurement regulations and Board policy. CCPS purchasing personnel informed us that it is a common practice for individual departments to directly procure professional service contracts without obtaining competitive bids. Consequently, our review of eight contracts valued at \$462,000 found that six contracts totaling \$287,000 were not competitively bid and justifications for these sole-source procurements were not documented. In addition, two of the eight contracts were not presented to the Board. Finally, five of these eight contracts were not adequately monitored to ensure payments were only made for services actually provided. One of those contracts also lacked the details needed for monitoring (such as number of staff to be supplied, estimated hours, and hourly or daily rates).

CCPS should disclose to the Board contracts awarded to employees with potential conflicts of interest and consult with its Ethics Panel

– Contracts were awarded to two employees without notifying the Board or consulting with its Ethics Panel, consisting of members of the public. These contracts were procured on a sole-source basis, without written justification, and neither was submitted to the Board for its approval, as required by CCPS policy. One fiscal year 2005 contract for school counseling services, totaling \$121,500, was awarded to a company owned by a full-time counselor at the same school. When the contract was bid, this relationship was reviewed and deemed acceptable by CCPS

management. However, we noted that one of the references listed in the employee's proposal was the CCPS management employee who was in charge of evaluating the bids and monitoring the contract. These issues were not communicated to the Board when the contract was submitted for approval.

In the second case, a school-based employee, while on a requested unpaid leave of absence, was awarded multiple consulting contracts to conduct educational workshops for school employees. One of the contracts with this employee was included in the six contracts mentioned in the previous finding. Contractual payments to the employee totaled \$65,000 during fiscal years 2004 and 2005.

Procurement discounts should be better utilized or

pursued - CCPS should ensure that discounts afforded by contractual arrangements are fully utilized by employees who make purchases, and perhaps seek additional discount arrangements for certain items. CCPS had bid out and contracted with two vendors to provide office supplies at discounted prices. CCPS policy requires employees to use the contracted vendors unless extenuating circumstances exist and then only with the approval of the purchasing office. However, employees used CCPS credit cards to purchase \$189,000 of office supplies from other vendors between July 1, 2004 and April 5, 2006. Consequently, there was a lack of assurance that these purchases were made at the best price.

Significant Improvement is Needed to Control Credit Card Purchasing

CCPS should establish controls and improve monitoring

over credit cards – CCPS had 480 employees (15 percent of its workforce) with CCPS credit cards who used the cards to make purchases totaling \$3.7 million in fiscal year 2005. We found virtually a complete lack of controls over credit card usage. Internal controls over credit cards need to be implemented or enhanced in the following areas:

- CCPS did not require initial justifications or periodic evaluations of the necessity of card issuance or card spending limits to reduce its exposure and risk of inappropriate charges. For

example, we identified six employees with a combined monthly spending limit of \$20,500, yet these employees had only spent a total of \$372 over a 21-month period.

- Documented supervisory reviews of all individual charges were not required. Our test of 228 purchases in fiscal year 2005 and 2006 totaling \$41,801 disclosed that, although many purchases were approved, we noted, for example, that 76 purchases made by principals totaling \$7,510 were not subject to independent approval. CCPS also does not obtain electronic records of credit card users, limits, and transactions from the bank, which could assist in monitoring the credit card program.
- Other than ATM withdrawals, no merchant codes were blocked to prevent unauthorized charges. Our tests identified charges at gyms, packaged goods stores, nail salons, and a race track.
- Duties for issuing and canceling credit cards and for reconciling individual cardholder statements with the master (aggregate) statement were not segregated. This situation would allow for the unauthorized issuance and use of a credit card which would not be readily detected.
- CCPS does not have a comprehensive credit card manual that addresses topics such as internal controls, periodic reviews, acceptable use of credit cards, unauthorized purchases and the protocol for canceling cards (including after employee misuse).

The Government Finance Officers Association, the United States Governmental Accountability Office, and the State of Maryland have issued a number of recommendations for establishing controls over credit card usage, including conducting reviews of spending and transaction limits, issuing clear guidelines on appropriate uses of the cards, having an automated reconciliation process, and separating accounting and reconciliation duties.

Credit card activity should be more closely monitored to ensure appropriateness of use – Given the preceding finding, we obtained transaction records from the issuing financial institution for review. From July 1, 2004 to April 5, 2006 there were

37,233 credit card transactions totaling \$6,950,682. Using established merchant codes we summarized activity and identified approximately \$611,000, or 9 percent of all purchases during the period, that did not appear to have an obvious relationship with the mission of CCPS. This does not mean the purchases were improper, just that a clear policy on use should be established to formally convey appropriate uses and eliminate any confusion. We found numerous restaurant purchases on weekends, gift card purchases, uses at department stores among other unexpected transactions. Although CCPS acknowledged the lack of policies, it believes that many of the purchases were appropriate.

We attempted to review supporting documentation such as credit card statements, activity logs, and receipts for 228 purchases (from within the \$611,000 identified) totaling \$41,801. Our review identified numerous purchases that were not adequately explained, justified, or approved. In a few instances, purchases were labeled "personal;" however, there was not always documentation that the employee reimbursed the school system. For example, one employee charged \$237 at a hotel on a non-sanctioned trip and another employee made two purchases for satellite TV service in October 2004 and January 2006 totaling \$396. We were advised that the employees were instructed to reimburse CCPS for the personal expenditures; however, the documentation related to these reimbursements was not readily available.

Many purchases were not explained or were given one word descriptions such as "gifts" or "food." As noted in the prior finding, CCPS does not have a formal policy on acceptable uses of its credit cards, nor require documentation explaining the education-related purpose of a purchase. Examples include:

- One card holder made 48 transactions totaling \$4,000 at restaurants, grocery stores, and discount stores between July 2, 2004 and April 1, 2006. Most of these purchases occurred on weekends or when schools were closed such as during the summer or holiday break.
- \$2,700 in audio equipment was purchased by credit card, thus bypassing the procurement and fixed asset accounting process. The vendor invoices (all with the same date) and the credit card

charges were split into three individual amounts below \$1,000, which is the CCPS capitalization threshold for depreciable equipment.

- A CCPS credit card was used to purchase computer equipment totaling \$20,000. By using the card, this purchase bypassed the purchasing office and IT department, and appeared to violate CCPS procurement regulations that require purchases over \$15,000 to be bid.

While some of the purchases tested were made by central office staff, many of the purchases tested were made by school-based staff, which could be charged to either the CCPS operating account, each school's activity fund account⁹ or a grant. We noted that other school systems in Maryland strictly limit the issuance of credit cards and/or the permissible uses.

CCPS Should Reevaluate Its Travel Reimbursement Policy

CCPS should have a travel reimbursement policy that is based on reimbursing reasonable cost incurred by employees. CCPS' current practice is to reimburse employees \$45 per day for meals for all out-of-county travel, (which covers the cost of breakfast, lunch, and dinner) regardless of distance. This includes day conferences and training in surrounding counties. The meal allowance is paid without regard to whether the conference or training seminar provided meals or whether the employee was required to work or travel during these meal times. Professional development expenses, which include meals, totaled at least \$250,000 for fiscal year 2005.

State travel regulations specifically take into consideration time and whether meals are included as part of the conference or training seminar. Also, according to State travel regulations, meals are only allowed for non-overnight travel when the employee is subject to extremely long commute times requiring very late arrival at home.

⁹ In Chapter 1 we comment on the lack of controls, policies, and procedures regarding the appropriate the use of and accounting for school activity funds.

Recommendations

3. CCPS should implement effective internal controls over its procurement and disbursement systems. Such controls should include segregating employee duties and restricting employee capabilities on the procurement and disbursement systems.
4. CCPS should implement adequate controls over its procurement and monitoring of contractual services. Goods and services should be competitively procured whenever possible and CCPS should ensure that employees make purchases at the contracted discount prices. CCPS should also ensure that all contracts are procured in accordance with Board policy and administrative regulations to include competitively procuring professional service contracts and vendor bids should be adequately secured. Also, CCPS should verify, at least on a test basis, that services were performed prior to approving invoices for payment. CCPS should ensure that the Board is provided all pertinent information when approving contracts and the Ethics Panel should be consulted prior to awarding contracts to employees.
5. CCPS should implement appropriate controls over its credit card program. For example, it should develop a comprehensive credit card manual; require justifications for issuance of a credit card and credit card limits; segregate duties over credit card administration; conduct periodic spending and credit limit reviews; restrict merchant codes; require supervisory approval for all purchases; and regularly obtain electronic cardholder and transaction records from the credit card vendor for review purposes, and restrict employees from using credit cards for personal use.
6. The Board should establish a travel reimbursement policy that is based on reasonable costs incurred by employees.

Chapter 4

Human Resources and Payroll

CCPS uses an automated system to maintain human resources information and to record employee time, to track leave, and to process payroll transactions. The hiring of new employees is initiated either directly by the school or by the human resources office. Procedures require that the related paperwork be submitted to CCPS central office staff and that a review be conducted to ensure adequate funding prior to adding the employee to the automated personnel and payroll systems.

Numerous employees were given capabilities to process payroll-related transactions on the automated records. Also, although an element of formal workforce planning was in place covering all employees, it was limited to the immediate needs (current years) and did not consider future workforce needs.

Background

According to CCPS records, salary, wage, and benefit costs for fiscal year 2005 totaled \$191 million, and CCPS had approximately 3,200 FTE¹⁰ employees in fiscal year 2005, giving it a 9 to 1 student to employee ratio (see Table 1 on the next page). CCPS' automated system maintains human resources information, and is used to process payroll and to track employee leave balances. Time records are prepared manually by all employees and are approved by supervisors. Time records are entered onto the automated system every two weeks by payroll clerks at the central office. After various system edit checks, the system generates payroll checks and direct deposit advices. Leave accumulation is automatically calculated whereas leave taken is recorded in the system by the payroll clerks.

¹⁰ FTE = Full-Time Equivalent. For example, two twenty-hour per week positions would equal one FTE.

Table 1
Comparison of Employee to Student Ratios
Fall 2004 (unaudited)

School System	Number of Full-Time Equivalent Employees	Number of Students (as of September 30, 2004)	Student to Employee Ratio
Carroll Co.	3,206	28,792	8.9 to 1
Charles Co.	2,819	26,026	9.2 to 1
Washington Co.	2,481	20,807	8.3 to 1
Frederick Co.	4,760	39,489	8.3 to 1
Harford Co.	4,654	40,294	8.6 to 1
Howard Co.	6,602	48,219	7.3 to 1

Source: MSDE 2004-2005 Factbook

Human Resource and Payroll Internal Controls Need to Be Strengthened

CCPS did not have adequate internal controls over its automated human resource and payroll system. Thirty employees, including five administrative and information technology employees without routine payroll or human resource responsibilities, had unlimited system access to all human resource and payroll functions. This unlimited access allowed those employees to add employees, change salaries, change taxes, and process payroll checks and direct deposits. Additionally, independent reviews of accesses or attempted transactions posted by those employees were not required. We also noted that, while the CCPS Board had authorized 3,394 FTE positions as of March 2006, the human resources system allowed 3,420 FTE positions, not all of which were filled. Although we found no evidence of unauthorized hiring or payments, the excess positions on the system could be used to process unauthorized payroll payments.

Existing Workforce Planning Should be Expanded to Include Future Critical Needs

CCPS has taken certain steps to address current workforce needs, such as determining current workforce qualifications and needs for both instructional and non-instructional positions, and has implemented a number of teacher retention and recruiting initiatives. While these CCPS efforts address immediate workforce needs (1-2 years), they do not consider expected long-term workforce needs (for example 5 or more years). Based on CCPS 2006 reports, approximately 37percent of CCPS employees are age 50 or older. Given the increasing number of employees at or close to retirement age, and the increased qualifications as required for teachers by the federal No Child Left Behind Act, CCPS could experience difficulty in hiring qualified administrative, financial, and instructional employees in the future. Workforce planning involves analyzing the existing workforce and identifying gaps between future needs and current resources and then implementing procedures to address the gaps over the intervening years.

Recommendations

7. CCPS should take the necessary corrective actions to ensure that adequate internal controls are in place over the human resource and payroll system. For example, system access capabilities should be segregated and limited to those who need those capabilities to perform their duties.
8. CCPS should expand its workforce planning to include long-term needs for both critical instructional and non-instructional positions.

Chapter 5

Inventory Control and Accountability

CCPS had not established adequate internal controls and record keeping over equipment inventory. Furthermore, the policies and procedures governing the accounting and safeguarding of these assets were insufficient or non-existent.

Background

According to the CCPS audited financial statements, as of June 30, 2005, the value of CCPS equipment was \$30.1 million and fiscal year 2005 expenditures for capitalized equipment were \$3.6 million. Equipment items include computers, audio and video items, athletic equipment, and various other items. Items with a cost of \$1,000 or more are to be included in the centralized automated fixed asset inventory system and recorded for financial statement reporting purposes.

Existing Controls Over Equipment Should be Enhanced and Formal Policies Established

CCPS did not have adequate written policies or procedures to govern accountability and control for its equipment. For example, CCPS did not have a formal written policy addressing equipment acquisitions, tagging, physical inventories, reporting of lost and stolen items, and segregation of duties. Consequently, our limited testing found discrepancies between the property records and the related physical assets on hand. For example, computers disposed in December 2004 and August 2005 were still listed on the records in July 2006. Also, we noted sensitive items (equipment below the \$1,000 recordation threshold that are prone to loss or theft, such as digital cameras, DVD players, and other electronic equipment) were not recorded in the fixed asset records, nor were they required to be otherwise accounted for or tracked. Finally, although CCPS had documented operational procedures for recording data in the

automated fixed asset system, it did not adequately control access to the system. Thirteen of the twenty users with the ability to add, delete, and change fixed asset records, did not appear to have duties requiring any access to the system.

Recommendation

9. CCPS should develop and implement the necessary policies and procedures to ensure that accountability and effective control is maintained over its equipment, including sensitive items.

Chapter 6

Information Technology

CCPS maintains and administers a computer network, computer operations and a number of information systems applications, including administrative and academic applications. CCPS includes an annual technology plan as part of the system's Master Plan, and prepares a separate, more-extensive technology plan every three years. These plans establish a vision and mission for technology in CCPS and set defined goals. These plans address topics such as student achievement, computer systems security and upgrades, and training, to name a few. Also, CCPS has developed a comprehensive disaster recovery plan, in case of catastrophic system failures. Finally, CCPS has a process in place to recover reimbursement for certain technology expenditures from the federal E-rate program.

Although CCPS has plans to address increased and upgraded uses of information technology, our audit identified several areas in need of improvement, including controls over critical financial applications, program change procedures, and database security. For example, employees' access capabilities on the CCPS accounting information system were not segregated to establish effective internal control nor were the access capabilities periodically reviewed. We also noted that CCPS did not have adequate procedures in place to prevent or detect unauthorized program changes, including financial and human resource-related computer applications. Also, CCPS did not fully use certain IT system features to monitor for unauthorized access to its academic application database.

Background

The Information Services (IS) Department is a service department that develops, designs, maintains, and supports the technical infrastructure and applications at CCPS. The technical infrastructure consists of local area networks at each CCPS location

(that is, schools and the headquarters location) connected via a wide area network. The IS department fulfills its responsibilities with a staff of 37 employees and maintains a computer room at the headquarters location with numerous servers. Several significant administrative and academic related applications exist, including accounts payable, purchasing, human resources, and payroll, as well as the student information system and Free and Reduced Meal system.

Technology Plans Are Regularly Developed to Address Current and Future Needs of CCPS and a Disaster Recovery Plan Was in Place

CCPS compiled an annual technology plan as part of the school system's Master Plan and prepared a separate technology plan every three years. These plans established 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. Also, CCPS has developed a comprehensive disaster recovery plan covering various aspects of critical IT processing in case of catastrophic system failure (for example, a natural disaster or fire).

Steps Should be Taken to Ensure Access to IT Software Applications is Appropriate and Periodically Evaluated

CCPS should ensure that employee access to the accounting information system is consistent with employee duties¹¹ and that user access is periodically reviewed - CCPS granted certain employees universal update access over computer systems in entire departments and such access was not periodically reviewed. For example, 6 accounting employees and 19 human resources and payroll employees had been assigned such capabilities in their respective areas, even though their duties did not require this level of access. For example,

¹¹ Note that this issue is also addressed in various Chapters where the applicable systems are reviewed.

the 6 accounting employees were assigned capabilities that allowed them to create a vendor and a purchase order, to input a vendor invoice, and to print a check. Another example is the payroll clerks had the computer capability to add new employees, set pay rates, set tax rates, adjust leave balances, and print payroll checks. Our review also disclosed that three IT personnel had unlimited update access to perform any function in the accounting system. The access of the IT personnel is a particularly significant concern since these individuals can make changes to the system without leaving an audit trail.

Security monitoring and program change procedures for critical applications need to be improved – The CCPS server for its academic database did not log system security access events and, as a result, unauthorized activities impacting academic applications could go undetected.

In addition, program change procedures affecting key CCPS administrative and financial applications were inadequate, allowing unauthorized changes to production programs to go undetected by management. For example,

- technical reviews were not made of the detailed differences in source code between the modified and prior version of programs being changed;
- the programmer who made the program changes also moved the new programs into production; and,
- supporting documentation to establish the propriety of modified programs was unavailable.

Available Federal Funding for Technology is Obtained

CCPS has a detailed process in place to request and receive reimbursement for technology expenditures from the federal Schools 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 has

a low poverty rate and is not considered to be a rural county.¹² Nevertheless, CCPS was approved for approximately \$251,000 in federal E-rate funding for fiscal year 2006 and has a process in place to obtain these E-rate funds. The Maryland State Department of Education has also approved CCPS' technology plan as meeting all the requirements required by the E-rate program.

Recommendations

10. CCPS should limit employees' capabilities on the accounting information system to those functions necessary to perform their job duties and ensure that the capabilities granted also establish effective internal control over the various functional areas, such as procurements, disbursements, and payroll. The capabilities granted should also be regularly reevaluated and updated to ensure changes in job duties, promotions, and resignations do not result in inappropriate capabilities or access to the system.
11. CCPS should implement security monitoring procedures and establish program change controls to ensure that only authorized users have access to applications and data systems and that all changes to production programs are approved.

¹² Rural or urban status is determined by the E-rate program.

Chapter 7

Facilities Construction, Renovation, and Maintenance

CCPS maintains 41 schools and 3 other facilities (such as administrative and support offices) with a staff of approximately 350 custodial and maintenance personnel. CCPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Plans are long-term and updated annually and reflect input from the Board. CCPS has also adopted a number of State required guidelines and practices for the procurement and monitoring of construction and renovation projects, and has recently implemented an energy conservation program to control energy costs.

However, CCPS had not established formal performance measures and related benchmarks and goals to assess program efficiency for both custodial and maintenance. Also, CCPS did not always document the performance of certain routine maintenance processes.

Background

CCPS uses a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. The annual CIP includes input from various sources, including public meetings and student demographic data, and is approved by the Board. In the fiscal year 2007 CIP (prepared in fiscal year 2005), necessary major renovations, repairs, and systemic improvements to existing schools over the next six years were estimated to cost \$290 million.

The following table compares CCPS fiscal year 2005 plant costs (including both maintenance and operational costs) with other

similarly-sized systems in Maryland. It also compares two cost measurements used to assess plant costs: plant costs per student and plant costs per square foot. When these two cost measurements are considered, along with square footage per student, these statistics show that CCPS facilities costs and utilization are generally in line with its peer group. Although, while the information presented in Table 2 below appears to indicate that CCPS plant costs per student were high for fiscal year 2005, CCPS facilities were utilized at 96 percent of their State-rated student capacity.

Table 2
Plant Cost Comparison Per Student and Per Square Foot
Fiscal Year 2005 (Unaudited)

School System	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student ①	Per Square Foot		
Carroll Co.	②\$23,403,068	\$819.29	\$5.77	142.00	4,055,938
Charles Co.	19,794,596	764.74	6.04	126.60	3,276,034
Frederick Co.	31,574,837	800.58	5.71	140.30	5,534,030
Harford Co.	29,586,412	737.69	5.59	132.00	5,293,314
Howard Co.	40,608,884	840.78	5.92	142.10	6,864,613
Washington Co.	16,044,606	772.68	5.38	143.70	2,984,870
Average of Comparable Schools	\$27,521,867	\$783.29	\$5.75	136.90	4,790,572

Sources: MSDE Selected Financial Data, School System Capital Improvement and Maintenance Plans, School System Staff

① - Based on Average Daily Enrollment 2004-2005 (most recent data available)

② - Operations (\$18 million) and Maintenance (\$5 million)

A Number of Best Practices Were in Place Regarding Major Projects and Energy Management

CCPS had developed adequate procedures over the procurement and monitoring of major projects – CCPS uses a formal process to develop specifications for major construction and renovation projects and follows State law governing procurement requirements, such as bid posting. Also, CCPS employs five project managers who directly oversee major construction and renovation projects and who work closely with hired construction managers or general contractors to monitor construction and progress. Our testing of eight contracts, valued at \$14 million from four construction projects, disclosed they were procured and awarded in accordance with State regulations and Board policy. Also, our tests of selected invoices found the payments to be appropriate (for example, CCPS retained a percentage of the invoice amounts) and included documentation of required approvals.

An energy management program has been implemented to control energy costs – CCPS has contracted for energy management consulting services, including computer software that monitors and accounts for energy usage at all facilities, and energy efficient equipment such as light fixtures. The program is expected to save \$10 million over 15 years. CCPS also competitively procures energy contracts in an effort to reduce costs.

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

CCPS should develop performance standards and measures and fully use its work order system's capabilities to monitor efficiency – CCPS had not implemented a performance measurement system to 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). While we noted that CCPS used a staffing formula to determine the need for

custodial personnel within the school system, a staffing formula was not used for maintenance personnel. Furthermore, we were informed that CCPS had not compared the costs of custodial and maintenance operations to similarly-sized districts in Maryland or other states. 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 established measures and benchmarks (such as maintenance expenditures per square foot) to assist schools in the evaluation of costs and practices. One technique used to measure performance is to obtain customer feedback, such as from school principals. In August 2006, CCPS informed us that they were in the process of developing a customer feedback process.

Furthermore, CCPS was not fully using its automated work order system, when assigning maintenance work and tracking the completion of assigned tasks, to help it control costs and assess performance. We noted that although all work orders were logged, along with information related to the actual resources used to perform the tasks, no information was entered indicating the resources expected to be used to perform the tasks, based on either past history or industry guidebooks. As a result, completed work could not be evaluated for efficiency nor could it be used to assess the performance of both individual employees and the entire department. An effective work order system can be used to generate a variety of statistical data including employee productivity, cost reports, and facility assessments (key pieces of a performance measurement system).

CCPS should maintain documentation that all required maintenance work was performed – CCPS could not provide us with documentation that all required preventive maintenance and monthly school inspections required by its comprehensive maintenance plan were performed. CCPS had developed a comprehensive maintenance plan with schedules and details for preventive maintenance tasks, including the inspection of school physical plants on a monthly basis. However, CCPS staff could not provide us with required checklists to document that monthly inspections were conducted at three of the eight schools tested.

CCPS could improve its training program for maintenance employees – While custodial employees received new hire training and subsequent continuous training, maintenance department employees only received training on an ad hoc basis. Specifically, a formal training program (including training schedules, certifications, and skills assessment) had not been implemented to ensure that maintenance staff maintained and improved their skills. A formal training program helps ensure that employees safely and competently perform their duties and helps improve operational effectiveness and efficiency.

Recommendations

12. CCPS should develop a performance system with standards and measures for maintenance and custodial operations. CCPS should also fully use the existing work order system for maintenance operations and document that all preventive maintenance was performed, to ensure that appropriate, cost effective and timely maintenance is provided to all facilities.
13. CCPS should consider implementing a formal training program for maintenance employees and enhancing their capabilities.

Chapter 8

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. Nevertheless, we noted a number of areas where improvements could be made. For example, CCPS had not conducted a documented cost benefit analysis of its decision to outsource student transportation services, nor had it investigated the feasibility and economic benefits of using smaller buses on certain routes. Also, CCPS deviated from the Board approved methodology for paying bus contractors for certain costs of ownership. Under the Board policy, return on investment was to be based on the prime interest rate. However, for fiscal years 2003 through 2006, CCPS made higher payments than what was required if the prime rates had been used. Not complying with the Board's policy could result in excessive payments totaling approximately \$4 million over the lives of the 122 buses purchased during those years. Furthermore, CCPS did not establish formal performance measures to track the performance of its transportation services. CCPS transportation costs appear to be high when compared on a cost per mile and cost per rider basis to similarly-sized school systems. Finally, we noted that controls should be strengthened over bus contractor procurements and payments.

Background

CCPS is the ninth largest school system in Maryland, based on student enrollment. The system has been described as rural but rapidly is becoming suburban. CCPS is responsible for the safe transportation of approximately 28,000 eligible students, of which two percent are disabled. The majority of CCPS students are

transported on one of 335 buses owned by 72 bus contractors hired by the school system. For 2005, CCPS also operated a small fleet of 22 buses, which included 13 spare vehicles. According to its audited financial statements, CCPS fiscal year 2005 transportation costs totaled approximately \$15 million, with 90 percent representing payments to bus contractors. Of the 5,316,480 reported route miles for the 2004-2005 school year, 31 percent were for transporting disabled students.

Table 3
Comparison of Transportation Costs per Rider and per Mile
Fiscal Year 2005 (Unaudited)

School System	Number of Eligible Riders		Miles (in thousands)		Dollar Expenditures (in thousands)	Average Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
Carroll	27,370	584	3,694	1,622	15,173	\$543	\$2.85
Washington	17,006	361	2,190	460	7,032	\$405	\$2.65
Frederick	32,882	704	5,970	1,498	15,317	\$456	\$2.05
Harford	34,437	682	4,907	1,556	18,716	\$533	\$2.90
Charles	22,011	446	3,922	1,245	12,598	\$561	\$2.44
Howard	38,367	1,249	3,340	1,634	23,173	\$585	\$4.66

Source: MSDE 2004-2005 Fact Book (Note that this MSDE document is based on self-reported data from the 24 Maryland public school systems, and that MSDE does not warrant the comparability or completeness of the data.)

Several Best Practices Were in Place to Enhance Bus Route Efficiency and Safety

The CCPS transportation department had several practices in place to help maintain a high level of safety and reduce student transportation costs:

- Using routing and mapping software to assist in the development and revision of routes;
- Staggering school arrival and dismissal times to enable certain buses to perform multiple runs on the same day;

- Considering deadhead miles (the distance traveled by buses when not transporting students) or bus starting point when assigning routes;
- Conducting periodic reviews of routes to identify hazardous bus stop and walking conditions; and
- Placing walking distance requirements on middle and high school students to determine eligibility for transportation services.

Formal Performance Measures on Student Transportation Should Be Developed and the Results Reported Regularly to the Board

CCPS should develop, track, and report to the Board formal performance measures and related results that provide essential operational and financial information regarding student transportation services. CCPS' Transportation Department considered bus capacities, deadhead miles, drive times and other factors when developing bus routes and should consider these items when developing performance measures. We were advised that the department informally evaluated certain operating statistics, which could form the basis of a formal performance measurement system, but it could not document these statistics. The department had also not developed formal benchmarks against which its operational effectiveness and efficiency could be measured.

Performance measures would serve as a tool that management and the Board could use to monitor performance and to ensure accountability. For example, the following CCPS data, in Table 4, could be used to monitor performance related to bus capacities:

Table 4				
Conventional School Bus Utilization ❶ (unaudited)				
	Elementary School	Middle School	High School	Overall Total or Weighted Average
Number of routes	246	158	156	560
Mfg. rated capacity	64	64	64	64
CCPS bus capacity ❷	58	51	44	52
Average actual riders	43.2	38.9	39.4	41
Percent of rated capacity	67.5%	60.8%	61.6%	64.0%
Percent of CCPS capacity	74.5%	76.3%	89.5%	78.5%

❶ Calculations are averages based on bus load data provided by CCPS transportation area supervisors for the months of September 2005 and February 2006 excluding data for buses for disabled riders.

❷ CCPS Board policy states that manufacturer capacities will be used, but the Transportation Department believes the lower capacities shown in the Table are more realistic expectations. We have found that many school systems, to accommodate student comfort, do not attempt to run buses at manufacturers' stated capacity, a practice that appears reasonable.

Table 4 shows that conventional school buses are being operated, on average, with 11 fewer riders than the CCPS Transportation Department recommended capacities. This disparity is even more pronounced for special education bus routes, where average ridership is 8 on buses with modified capacities of 17 to 44.

The Government Finance Officers Association (GFOA) recommends that program and service performance measures be developed and used as an important component of long-term strategic planning and decision making which should be linked to governmental budgeting.

Outsourcing of Transportation Services Has Not Been Established as Cost Beneficial

CCPS personnel advised us that a cost benefit study has never been conducted to determine the cost efficiency of contracting out these transportation services versus CCPS directly owning and operating the buses. Furthermore, no recent analysis has been performed to determine the amount of profits the bus contractors are realizing and what rates are most appropriate for each of the bus contractor pay elements.

CCPS should undertake a study to determine whether its current method for transporting students via private contractors is the most cost beneficial to the school system. Under current arrangements with bus contractors, CCPS essentially assumes all of the risks for bus operations while essentially guaranteeing a profit to the contractors for the expected 12-year life of the bus. Contractors are paid a per vehicle allotment (PVA) that covers full depreciation of the bus over 12 years with the assumption that there is no residual value.¹³ The PVA also provides an additional annual payment to the contractors (calculated as a percentage of the bus cost) as a return on investment. Furthermore, the bus contractors are paid a specified rate per mile to approximately cover operating and maintenance costs, a driver per hour allotment to cover the contractor's labor costs, an annual administrative costs allotment, and reimbursement for fuel at market rates. An additional benefit to the bus operators is that CCPS pays for the liability insurance, including personal injury, property damage, and medical coverage, for all contractor buses. In addition to the 45 spare buses owned by the contractors, CCPS purchased and maintains 13 "loaner buses" used by contractors when their buses are out of service due to mechanical breakdown, maintenance, or for any other reason. CCPS charges the contractors when they use a loaner bus for the same per mile operating and maintenance rate paid to contractors;

¹³ CCPS advised us that although the estimated useful life of a bus is 12 years, it has recently revised its PVA for 2007 and later to fully depreciate a bus after 10 years. This would result in CCPS reimbursing those contractors who retain a bus for 12 years, 120 percent of the cost of the bus; while providing contractors who sell a bus after 10 years, an even greater residual value after CCPS has paid for 100 percent of the bus cost.

contractors are not charged for the purchase cost or depreciation of the loaner bus.

CCPS has contracts with 72 bus operators who provide service for approximately 700 bus routes.¹⁴ Available routes are awarded to interested operators based principally on past performance and a waiting list maintained by CCPS Transportation Department. Financial bids are not solicited¹⁵ since the CCPS Transportation Department annually prepares a schedule of rates to be paid to bus operators for each of the pay elements described in the preceding paragraph. The rates are approved annually by the CCPS Board. Once a route is awarded, the contract renews automatically and typically lasts for the 12-year life of the bus.¹⁶ CCPS bus contracts have generally been renewed without changing the PVA, although such changes are not precluded by the contract provisions. Routes are adjusted primarily to meet CCPS needs, but contractors' desires and years remaining on buses' lives are also considered when making route assignments or reassignments.

CCPS believes that contracting out for these services benefits the school system since it does not require an up-front capital outlay for buses, repair shops, and bus depots, nor payments for certain ongoing costs for health care, taxes and other personnel related costs for drivers and other maintenance and administrative personnel that may be required. However, without proper study and

¹⁴ Individual contractors provide service to one or more routes, and buses run multiple routes whenever possible.

¹⁵ From 1997 to 1999, CCPS began to bid some of its bus routes. The results of bidding were not favorable as the bids were higher than the formula method. CCPS hired a consulting firm to study bidding versus the formula method. One conclusion of the consulting firm was that due to the limited number of routes open for bid at any one time (routes only became available as 12-year bus lives expired), CCPS did not attract the larger national bus companies that may have been able to provide economy of scale savings. Also, CCPS' bid methodology was not consistent with the formula method (it did not include a PVA component) and local contractors had difficulty estimating total costs into the other bid parameters so they guessed high. Beginning with fiscal year 2000, CCPS decided to primarily use the formula method, with the waiting list, and only actually bid out a small number of school activity (such as athletics) bus routes.

¹⁶ CCPS monitors the contractors' performance and can terminate a contract if necessary, but has not needed to do so in any recent year.

analysis, this conclusion is not necessarily justified. Actual experiences in other states and in the Frederick County Public School System have indicated that outsourcing of bus services was more expensive than providing student bus services in-house. Table 5 shows our comparison of Frederick County Public School's costs¹⁷ to CCPS costs for student transportation over a three-year period.

School System	Eligible Riders	Route Buses	Expenditures	Cost Per Rider	Cost Per Mile
CCPS	26,811	299	\$14,505,347	\$541	\$2.69
Frederick Co	32,702	373	\$12,734,358	\$390	\$1.90

Also, two Maryland school systems that brought their bus services in-house (including Frederick County) did so primarily as a result of Internal Revenue Service (IRS) determinations and penalty proposals.¹⁸ IRS concluded that the hourly rates paid to bus contractors were wages from the school system that were subject to employer's social security and Medicare taxes, and that the school system was responsible for paying the employer taxes and employee withholding taxes to the U.S. Treasury. CCPS could be subject to a similar IRS determination since, like other school systems where this issue has arisen, CCPS provides extensive control, detailed direction, and close oversight of its bus contractors' operations.

¹⁷ To ensure the comparability of data, we contacted transportation officials at Frederick County school system. Although this information was not audited by us, those officials were aware of their lower transportation costs when compared to some other school systems in Maryland and provided information to indicate their costs were comprehensive, although CCPS questions the comprehensiveness of that cost data.

¹⁸ These are not the only two Maryland school systems about which the IRS has made such determination. At least one other school system has executed a settlement agreement with the IRS and paid a negotiated sum for the years questioned and agreed going forward to treat all hourly rates paid to school bus contractors as wages subject to employment taxes.

More Can Be Done to Ensure Cost-Effective Operation

Certain payments to bus contractors were not in accordance with the Board-approved policy – CCPS did not adjust the “per vehicle allotment” (PVA) paid to its bus contractors to reflect current market interest rates in accordance with the Board-approved policy and thus is paying more than necessary for bus services. Furthermore, neither this deviation from the Board-approved formula nor its financial impact appeared to have been formally disclosed to the Board.

In fiscal year 2000, the Board formally approved a PVA payment methodology for bus contractors that was recommended by a CCPS consultant. The annual PVA for each bus purchased is calculated to cover full depreciation of the bus over 12 years,¹⁹ with the assumption that there is no residual value, and also includes an additional annual payment to the contractors of the prime interest rate times the bus’ original cost as a return on investment. CCPS annually calculates a PVA that would be applied to any bus purchased during that year, and that PVA would remain the same throughout the 12-year life of each of those buses. The PVA can change each year and applies to all buses purchased during that year based on prevailing interest rates. As noted by the CCPS consultant’s report, a contractor’s return on investment on a new bus purchase could be higher or lower than for buses purchased in prior years.

CCPS used the Board-approved PVA formula of paying current market interest rates through fiscal year 2002. However, for fiscal years 2003 to 2006 when market interest rates were lower than 2002, which should have resulted in lower PVA than 2002, CCPS paid an amount even greater than in 2002. Specifically, in fiscal year 2003, when the prime rate had decreased as compared to the preceding year, the Transportation Department did not use the lower prime rate for buses purchased in that year. Rather, the amount paid continued to be based on fiscal year 2002 payments plus a two percent increase. Payments for succeeding years also

¹⁹ Conventional school buses in Maryland have a usable 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.

did not consider the prime rates during those years (which were lower than the 2002 rate) but merely used the previous years total PVA payment amounts coupled with percentage increases (2, 2 and 3 percent for fiscal years 2004, 2005 and 2006, respectively). We were advised that the Transportation Department deemed it unfair to set the PVA for new bus purchases lower than in previous years and that the increases were in line with teacher raises. Although the Board approved the Transportation Department's proposed PVAs each year, there was no documentation to indicate the Board was formally notified that the amount represented a deviation from the Board-approved PVA payment formula based on market interest rates or was made aware of the cost impact of the deviation.

We calculated the PVAs for the past four years (2003 to 2006) using the prime interest rate²⁰ as specified by Board policy and compared these PVAs to the actual PVAs paid by CCPS for buses purchased those years. This comparison showed that the CCPS annual PVA payments per bus were from \$2,425 to \$3,286 higher than they should have been for buses put into service during this four-year period.²¹ Since the PVA for buses purchased in a given year stays the same for the entire 12-year life of a bus, CCPS will pay approximately \$4 million more than is required by Board policy over the life of the 122 new buses put into service by contractors during the last four years. \$787,000 of the \$4 million has already been paid through fiscal year 2006 and, unless changes are implemented, the remaining \$3.2 million will be paid during fiscal years 2007 to 2017. Our \$4 million estimate is conservative as it does not include the lost interest income that could be earned by CCPS on the excess funds paid.

Smaller, more cost-effective buses should be considered for bus routes that have few passengers - CCPS should consider using smaller buses for special education routes. It is CCPS practice to primarily contract for 48-passenger buses for

²⁰ The prime rates used to calculate the PVA for 2003 to 2006 ranged from 4.00% to 5.50%.

²¹ For example, CCPS calculated the PVA for a bus purchased in 2005 as follows: \$10,766 (the 2002 PVA) x 1.02 (a 2% increase for 2003) x 1.02 (a 2% increase for 2004) x 1.02 (a 2% increase for 2005) = \$11,424. Using the prime rate of 4% for the return on investment in the Board-approved PVA formula, the 2005 PVA calculation would be: \$66,000 bus purchase price x (8.33% depreciation + 4.0% return on investment) = \$8,138. \$11,424 - \$8,138 = \$3,286.

special education bus routes. After physical modifications to meet students' needs, there are, on average, 25 remaining seats on the buses, ranging from 17 to 44 seats. From July 2005 through March 2006, special education routes averaged 8 passengers, with 31 of the 65 routes never transporting more than 13 passengers at a time.

The cost difference between a 48-passenger bus and a smaller vehicle could be substantial. As of April 2006, a comparably equipped 24-passenger bus cost approximately \$9,000 less than the 48-passenger bus (\$58,000 vs. \$67,000). The direct cost savings contractors realize in purchasing smaller vehicles will result in lower CCPS payments over the life of the buses. For example, the annual PVA for a 48-passenger bus purchased in 2006 would be \$9,110 or \$109,320 over the 12-year life of the bus. However, the annual PVA for a 24-passenger bus would be only \$7,586 or \$91,032 over the life of the bus. This \$18,288 savings for purchasing smaller buses does not include the lower per mile operating, maintenance, and fuel charges that CCPS would also pay. Significant savings could be realized using smaller buses when feasible considering that 31 percent of the CCPS annual bus mileage is for transporting disabled students.

While the above comparison is based on using a 24-passenger bus, there are other even less expensive bus options that CCPS could consider. Smaller buses, ranging from 18 to 8 passengers, cost from \$10,000 to \$15,000 less than the 48-passenger buses now being used.

We were advised that the reasons CCPS does not consider smaller buses in general, are both student safety (the premise being that larger buses are safer) and a presumed shorter useful life. We contacted school bus manufacturers who stated that both 24 and 30-passenger buses meet all established safety standards and that a diesel powered version should have a similar useful life to a full size bus. Finally, for special education, CCPS decided that capacity should include three forward facing wheelchairs. Manufacturers advised that versions of both the 24 and 30-passenger buses can accommodate that layout.

Internal Control Over Payment and Procurement for Transportation Services Should Be Improved

Access controls to the automated payments system for bus contractors should be strengthened – Access to the automated pay system was not restricted. All ten transportation employees had update access to the system, including the ability to record pay adjustments. Furthermore, there was no independent verification process that would detect unauthorized changes.

The duties over awarding and monitoring of school bus contracts should be separated – One employee in the Transportation Department had virtually complete control over the school bus contracts, including the contract awards, evaluating contractor performance, calculating contractor pay, determining contractor pay raises (for mileage and bus driver allotments), and had unlimited access to the contractor pay system. Since the school bus contracts are not subject to a competitive procurement process, there is an even greater need to segregate the duties of contract award and monitoring. Our tests did not disclose any instances of improper activity regarding bus contracts.

Recommendations

14. CCPS should develop, track, and report to the Board appropriate and reliable performance measures for transportation services and related results.
15. CCPS should prepare a documented cost benefit analysis to determine whether continued use of outside vendors to provide student bus services is, in fact, cost beneficial for the school system. This analysis should also evaluate each pay element (including the PVA interest factors) of the current bus contracts to determine whether the rates paid by CCPS are, in fact, reasonable and necessary. CCPS should also evaluate its current relationship with its bus contractors in light of past IRS determinations involving other school systems.

16. CCPS should use smaller, less expensive buses on all routes with very few passengers. Also, CCPSS should conduct a multi-year analysis of ridership, enrollment projections, travel distances, and other relevant factors and determine the ideal mix of bus sizes to efficiently accommodate its students' transportation needs.
17. CCPS should ensure that PVA payments to bus contractors comply with formal Board policy. CCPS should also determine whether it can legally lower the PVAs it is paying for contractors' buses bought in 2003 to 2006 to a rate consistent with the Board approved PVA formula. CCPS management should ensure that the Board is formally provided with full disclosure about how annual PVA amounts are determined.
18. CCPS should segregate the duties of contract award and contract monitoring for bus services, and strengthen internal control over the automated payments system for bus contracts.

Chapter 9

Food Services Operations

CCPS has implemented a number of best practices to help reduce food service costs, such as using performance measures and participating in both the USDA commodity program and a 12-county food purchasing cooperative. CCPS also has adequate procedures in place to identify students eligible for free and reduced-price meals under the federal national school meals programs. However, CCPS needs to improve internal controls over its food services cash collection and reconciliations.

Table 6
Comparison of Cost per Meal
Fiscal Year 2005 (Unaudited)

School System	Total Expenditures	Meals Served			Average Cost Per Meal
		Breakfast (paid, free, and reduced)	Lunch and Snacks (paid, free, and reduced) ❶	Total	
Carroll County	\$6,075,621	164,643	2,052,330	2,216,973	\$2.74
Frederick County	10,399,188	436,368	2,538,741	2,975,109	3.50
Harford County	11,803,392	707,951	3,309,329	4,017,280	2.94
Howard County	10,397,964	200,934	3,429,344	3,630,278	2.86
Charles County	7,686,502	487,992	2,319,868	2,807,860	2.74
Washington County	7,142,316	726,354	1,906,609	2,632,963	2.71
Peer Group Total	\$47,429,362	2,559,599	13,503,891	16,063,490	\$ 2.95

❶ Snacks are provided by certain school systems, excluding CCPS.

Sources: MSDE 2004-2005 Fact Book; and MSDE Selected Financial Data 2004-2005.

Background

Thirty seven of the 41 CCPS schools have cooking cafeterias. The remaining schools receive prepared food from another school. CCPS operates a self sustaining food services operation. For fiscal years 2003 thru 2006, CCPS reported that food service revenues exceeded expenditures by approximately \$61,500, which is net of losses, totaling \$13,559, for fiscal years 2005 and 2006.

Table 7
Food Service Facts for FY 2005

Average Cost per Meal				\$ 2.74
Number of Meals Served:				
Breakfast	Paid		66,968	
	Free		83,520	
	Reduced Price		<u>14,155</u>	164,643
Lunch	Paid		1,695,773	
	Free		266,328	
	Reduced Price		<u>90,229</u>	<u>2,052,330</u>
Total Meals Served				2,216,973
Schools				41
Kitchens				37
Full-time employees				37
Part-time employees				153
Revenues:				
Federal	Cash payments		\$1,258,441	
	USDA Commodities		<u>422,222</u>	\$1,680,663
Sales and other sources				4,293,546
State aid				<u>59,346</u>
Total Revenue (all sources)				6,033,555
Total Expenditures				<u>6,042,860</u>
Excess of Expenditures over Revenues				\$ (9,305)

Sources: MSDE 2004-2005 Factbook and CCPS FY 2005 Audited Financial Statements.

Certain Best Practices Were in Place Regarding Food Service Costs and Participation in the Free and Reduced Price Meal Program

CCPS has implemented several practices to contain food services costs – These measures helped to both increase operational efficiency and reduce food supply and material costs.

- CCPS used performance data such as meals per labor hour, and monthly financial reports to track and monitor the operating efficiency at each of its school cafeterias.
- CCPS participated in the United States Department of Agriculture commodities program, which is a free food program. Per CCPS records, \$426,000 in USDA commodities was received in fiscal year 2006.
- CCPS participated in a 12-county food purchasing cooperative in order to maximize its buying power and to reduce food costs. Fiscal year 2005 food purchases from the cooperative totaled \$963,000.
- CCPS used standard serving sizes and recipes to economize on food purchases.

CCPS uses 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 free or reduced priced meal programs, and direct enrollment for children receiving services from the Maryland Department of Human Resources. As a percentage of student enrollment, CCPS has one of the lowest participation rates of Maryland public school systems (see Table 8 on next page). This could be because, based on 2003 U.S. Census Data, Carroll County has the fourth highest median income in Maryland and the second lowest percentage of children, aged 5 to 17, in families in poverty.

Table 8							
Free and Reduced Meal Participation 2004 – 2005 (Unaudited)							
School System	Student Enrollment	Students Qualified for Free Meals	Students Qualified for Reduced Price Meals	Percent of Students Qualified for Free and Reduced Price Meals	Total Breakfast and Lunches Served	Total Free and Reduced Price Meals	Percent Free and Reduced Price Meals
Carroll Co.	28,766	1,982	741	9%	2,216,973	454,232	20%
Howard Co.	48,219	3,762	1,554	11%	3,630,278	836,711	23%
Frederick Co.	39,395	4,277	1,657	15%	2,975,109	1,000,813	34%
Harford Co.	40,277	5,515	2,100	19%	4,017,280	1,535,439	38%
Charles Co.	26,026	4,349	1,523	23%	2,807,860	1,079,362	38%
Washington Co.	20,620	5,102	2,057	35%	2,632,963	1,379,452	52%
Statewide	864,516	214,093	64,213	32%	90,282,745	50,521,045	56%

Sources: MSDE Schedule of Free/Reduced Priced Meal Participation fiscal year 2005, and the MSDE 2004-2005 Factbook.

Internal Controls over Cash Operations Could be Improved

CCPS should improve internal controls over cash

collections and deposit of food service revenue – Our review of cash handling and accountability procedures at two school cafeterias identified internal control weaknesses that could result in theft of cash receipts without detection. Specifically, at both school cafeterias reviewed, independent verifications were not performed to ensure that all cash received was subsequently deposited, checks were not immediately restrictively endorsed, and cash registers were left open between sales. In addition, at one school cash was not always immediately placed in and recorded on the cash registers, and at the other school individual cash register tapes were not compared to the amount of cash in the individual cash register drawers at closeout.

Recommendation

19. CCPS should improve its internal control procedures for cash handling at school cafeterias to address the weaknesses noted.

Chapter 10

School Board Operations and Oversight

The Board had not developed policies in a number of areas related to financial operations, such as cash receipts, credit cards and school activity funds. Additionally, the Board should develop performance measures to monitor CCPS operations and to help in decision making processes, should become more involved with the external audit process, and should establish an internal audit function to act as an independent reviewer of CCPS operations for the Board.

Background

CCPS is governed by a five-member board elected to four-year terms by the voters of Carroll 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. The County Commissioners serve as non-voting, ex-officio members of the Board. The Superintendent serves as the Board's Executive Officer, Secretary, and Treasurer. To assist in oversight, the Board contracts with a certified public accounting firm for independent audits of the CCPS financial statements and federal grant programs, and receives monthly updates from CCPS management personnel on a broad range of financial and academic topics.

The Board is ultimately accountable for the success of the CCPS in providing the children of Carroll County with a quality education, while wisely spending local, State, and federal funds. Following is the CCPS Board's stated vision, mission, and core values:

Vision

The Carroll County Public School System plays a foundational role in the success of the community. Through a network of resources and supports, students participate in learning guided by rigorous, stimulating curricula which are augmented through a variety of educational opportunities for extended learning and success.

Our employees are at the heart of our educational efforts, and accordingly, they benefit from competitive salaries and a multitude of staff development opportunities for professional growth as educational leaders.

In an atmosphere of mutual trust and respect and an environment which is safe and orderly, students and staff learn, work, and grow together as individuals with shared goals. As participants in the system's success, each student is valued by staff and encouraged to share their unique ideas, talents, and abilities. Staff collectively strive to create a learning environment which challenges students to reach their maximum potential.

Graduates are effectively prepared to achieve their personal goals through higher education or as part of the business community. The community views students as its greatest resource and welcomes them as productive, caring, respectful, and responsible citizens. Individuals desiring to answer the call to serve in public education choose to do so in Carroll County Public Schools, where they can become an integral part of a diverse learning community which values and supports their efforts.

The community and its families support their schools and students. Members of the business community are willing participants in providing the support central to the system's success and are eager to celebrate student achievement. As responsible stewards of both human and fiscal resources, the Board of Education and staff acknowledge and appreciate the community's many contributions.

The Carroll County Public School System is proud to maintain an environment in which students, staff, families, and other community members participate in and contribute to the system's ongoing pursuit of excellence.

Mission

The mission of Carroll County Public Schools is to ensure that every student can thrive as a responsible citizen in a changing world by providing rigorous and challenging curriculum in partnership with quality staff, caring families, and supportive community members

Core Values

- Never be satisfied in our pursuit of excellence.
- All students can learn and succeed - no excuses, no exceptions.
- All students and staff are entitled to a safe and orderly learning environment.
 - Everyone's participation is paramount to our success.
- Treat everyone in an open, fair, honest, and respectful manner.

Source: <http://carrollk12.org/about/vision.htm>

Additional Actions Should be Taken to Oversee Management of the School System

The Board should establish formal performance measures to track and evaluate performance of non-academic operations – CCPS had not established formal measures over many of the school system’s non-academic operations such as student transportation, personnel, finance, and facilities. Examples of useful performance measures would include number of school bus accidents, departmental staffing ratios, and cost comparisons such as transportation cost per student and facility cost per student. When implemented correctly, performance measures can be used to assist in decision making processes such as allocating resources and budgeting, and to report on departmental effectiveness and efficiency.

The Government Finance Officers Association (GFOA) recommends that program and service performance measures be developed and used as an important component of long-term strategic planning and decision making which should be linked to governmental budgeting.

The Board should adopt additional governing policies related to financial and support services. – The Board needs to develop and adopt policies governing a number of areas related to financial and support services. Based on our review of the Board’s Policy Manual and our audit work, we noted that the Board had not provided formal guidance in the following areas:

- Cash Receipts and Disbursements
- Inventory
- Information Technology
- Credit Cards
- Travel and Reimbursement
- School Activity Funds
- Internal Controls
- Food Services

In addition, we noted that, for some of these areas, such as school activity funds, the school system management had not developed administrative procedures.

The Government Finance Officers Association (GFOA) recommends that an entity document its accounting policies and procedures and that these documents be reviewed and updated on a periodic basis. The GFOA also has identified financial and operational best practices that should be considered when developing such policies and procedures.

Better Use of Audit Functions Could Improve Board Oversight

The Board should consider establishing a formal, independent, internal audit function – The Board does not use a formal, internal audit function to assist in its oversight responsibilities. One of the common functions of an internal auditor is to assist management in monitoring the design and effectiveness of the control environment. However, as mentioned in other findings, our audit has identified significant deficiencies in the CCPS system of internal control. Additionally, as noted in Chapter 1, there have been thefts of student activity funds, where poor or no controls were present. An internal audit function that reports directly to the Board should be able to identify and recommend resolutions for weaknesses in the system's internal control.

The Board has attempted to address this area of concern by creating a quality assurance position to conduct directed reviews over various areas of CCPS. However, unlike an internal audit function, this position is not independent since it does not report directly to the Board, and work is not conducted in accordance with recognized professional auditing standards (such as, Government Auditing Standards or Institute of Internal Auditors Standards). We were informed that it was not the intent of the system for this position to function as an internal auditor.

The Government Finance Officer's Association (GFOA) recommends that every government entity consider the feasibility of establishing a formal internal audit function.

The Board should become more involved with the external audit process – Written Board procedures specifically state that one of its primary responsibilities is to appoint an independent external auditor. As previously noted, the Board contracts with a certified public accounting firm to conduct certain audits. However, our review disclosed that the Board was not involved in the solicitation, review of bids and qualifications, and interviews of potential external auditors. School system management selected the external auditor and then submitted the selection to the Board for approval. Furthermore, there is no indication that the Board formally met with the external auditors regarding the audit process, to address any of its concerns or the auditor’s concerns, or to discuss the final audit results and report.

The Government Finance Officer’s Association (GFOA) recommends that every government entity establish an audit committee whose primary responsibilities should be to oversee the external financial statement audit, including the selection of the external auditor and the resolution of any audit findings. The GFOA also recognizes the importance of maintaining the external auditors’ independence (in fact and in appearance) by reporting directly to the Board and not to system management.

Recommendations

20. The Board should provide increased guidance to management by developing and adopting policies and performance measures to govern financial and support services operations. In addition, the Board should ensure that related administrative procedures are developed by management, as appropriate.
21. The Board should enhance its oversight of CCPS operations by establishing a formal internal audit function that reports directly to the Board, and by becoming more involved in the external audit process.

Chapter 11

Other Financial Controls

While CCPS had procedures in place to govern its risk management, it did not have written policies governing its use of long-term debt, such as lease/purchase agreements.

Risk Management Best Practices

CCPS uses a combination of commercial insurance and self-insurance to manage its risks. CCPS insures its general liability risks through participation in the Maryland Association of Boards of Education Group Insurance Pool. CCPS purchases commercial insurance for workers' compensation coverage. The notes to the fiscal year 2005 audited financial statements stated that settled claims had not exceeded coverage in any of the past three fiscal years.

CCPS self insures health coverage. A health insurance advisory committee has been established to provide guidance regarding the health insurance plan. In addition, CCPS has commercial stop-loss coverage for individual health claims exceeding \$200,000.

The notes to the fiscal year 2005 audited financial statements indicated that CCPS had sufficient collateral that its deposits were not subject to custodial or credit risk at year-end.

Debt Management Policies Need To Be Established

CCPS has not adopted a policy to govern its use of long-term lease obligations to finance operations, as recommended by the GFOA. Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. An effective policy should provide guidelines to ensure CCPS manages

its debt program in line with its resources. By law, CCPS is not authorized to issue bonds or similar debt instruments to finance capital or operational needs. However, CCPS does use lease/purchase agreements to acquire equipment items, such as energy management equipment. According to CCPS audited financial statements, capital lease payments through 2020 had a present value of \$9.4 million at June 30, 2005, with \$688,559 due within one year.

Recommendation

22. CCPS should adopt a formal policy governing long-term obligations in accordance with best practices recommended by GFOA.

Audit Scope, Objectives, and Methodology

Scope

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

Objectives

We had two broad audit objectives:

1. To evaluate whether 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 or functions. We also did not review the activities, financial or other, of any parent teacher association, group, or funds not under the local board of education's direct control or management. Finally, we did not evaluate the 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 appropriate²²). 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, 2004 through January 31, 2006. For our audit work on revenue and federal grants, we relied on the results of an independent audit of fiscal year 2005 activity; accordingly, our revenue and federal grants work was limited to this period.

In addition, we contacted a number of other state auditors' offices and legislative program evaluation agencies that had a history of conducting audits or reviews of local school systems. We interviewed those officials and inspected their work programs and resultant reports to identify specific audit techniques and operational practices at schools that could be adapted for our school system audits. Finally, we used certain statistical data--including financial and operational--compiled by the MSDE from various informational reports submitted by the Maryland local school systems. This information was used in this audit report for background or informational purposes, and was deemed reasonable. For comparison purposes, information provided was generally limited to those Maryland school systems of similar sizes, based on student enrollment or system budget. In many cases, due to the self-reporting nature of the information, the data was neither audited nor independently verified by us.

Other Independent Auditors

When developing the approach for the audits of school system financial management practices, a consideration was the reliance on the work of other independent auditors to the extent practicable

²² During the course of the audit it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

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 work performed with respect to the independent federal grants audit of the CCPS fiscal year 2005 federal financial assistance programs for compliance with federal laws and regulations and the CCPS fiscal year 2005 financial statement audit. Accordingly, we significantly reduced the scope of our work in Chapter 1 "Revenue and Billing Cycle," and in Chapter 2 "Federal Funds."

Limitations of Internal Control

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 January 30, 2006 to September 26, 2006. The CCPS response to our findings and recommendations is included as an appendix to this report.

APPENDIX A



CARROLL COUNTY PUBLIC SCHOOLS

125 N. Court Street • Westminster, MD 21157

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CHARLES I. ECKER
Superintendent

January 4, 2007

Mr. 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:

Attached is our response to the audit report of the legislative auditors for the Carroll County Public School System, dated December 2006.

I would like to thank the legislative auditors for helping us become a better and more efficient school system in the administration of the school system. It was good to note the auditors' comments in the report acknowledging that no impropriety by central office personnel was alleged, even though there are a number of areas where controls must be improved.

In addition, there were a number of places throughout the audit where we provided clarification to the auditors during the review of draft recommendations in late November. Hopefully, we clarified a number of items. Some of the changes were made in the final report but others were not.

I would also like to thank you for moving Carroll County up in your schedule. As I indicated to you, I volunteered the Carroll County School System to be one of the first school systems to be audited. I did this because if we are doing something wrong, I want to know about it so the proper steps can be taken to improve the efficiency of the school system.

Sincerely,

Charles I. Ecker
Superintendent of Schools

Carroll County Public Schools
Response
to
Draft Legislative Audit

January 4, 2007

1. **Recommendation:** CCPS should establish and enforce, through periodic monitoring and reporting, comprehensive procedures that provide adequate internal control over the receipt, custody, and disbursement of school activity funds and ensure that funds are used appropriately. For example, such controls should include segregation of duties, independent verifications, and safeguards for undeposited collections.

Response: CCPS agrees with the recommendation, but notes the difference between school activity funds and school operating funds. The School Activity Fund is used to account for the operations of student activities that are owned, operated, and managed by the student body under the guidance and/or direction of school staff members. Student payments and fundraisers are the principal revenue sources for the School Activity Fund. The Current Operating Fund accounts for the basic education programs and includes all financial resources used for the operations of the school system. Revenue sources for the Current Operating Fund include local, state, and federal tax dollars.

A committee consisting of the Assistant Superintendent of Administration, Finance staff, Technology Services staff, and Quality Assurance staff developed draft procedures that address the recommendation. During two (2) meetings held in November, the proposed revisions were presented to principals, assistant principals, and financial secretaries to allow them to provide feedback. This committee met again in December to consider the feedback and make appropriate changes. Additional training dates have been scheduled in January and implementation will be effective February 1, 2007.

The appropriate use of school activity funds will be discussed between school building administrators, central office directors, and senior management.

The proposed procedures were provided to our external auditor and to the legislative auditors for their review and comment.

In FY06, CCPS added a degreed accountant position to the Finance Department who now handles the monthly school reports, previously assigned to a non-degreed. This higher level of knowledge and analytical skill improved the handling of monthly school financial reports. CCPS will randomly audit schools for compliance with the procedures.

2. **Recommendation:** CCPS should ensure that all eligible costs for Medicaid-subsidized services are billed and fully recovered.

Response: CCPS agrees with the recommendation but wishes to correct some of the information provided by the auditors. The three (3) students tested during the audit, did not have services billed for transportation, PT and/or nursing because they did not receive the services.

The development of the electronic service recording system will improve the billing process by reducing human error. However, several restrictions still prevent CCPS from being reimbursed for services, even if the services fall into the category of "billable." If one or more of the following are not verified, service reimbursement will be denied:

- Full certification and licensing of the service provider (SLP-CCC, OT and PT, RN) or on-site supervision of non-certified staff (SLP, COTA, PTA) by certified staff. Student attendance on bus transportation by bus, both a.m. and p.m., on the day of service delivery
 - Service is identified on the IEP
 - Service billed matches service frequency on the IEP
 - Specialized transportation is identified on the IEP
 - Nursing service meets MA billing requirement (ex. Medication management does not meet billable criteria although it appears on the IEP).
3. **Recommendation:** CCPS should implement effective internal controls over its procurement and disbursement systems. Such controls should include segregating employee duties and restricting employee capabilities on the procurement and disbursement systems.

Response: CCPS agrees with the recommendation. In the FY08 Operating Budget, the Finance Office is requesting two (2) accountants and an accounts payable clerk to address this recommendation. The upgraded version of our financial software (SunGard Pentamotion) allows for more flexibility within the security of the software so the school system will be working with Technology Services to review changes that can be made to the access for each individual to improve internal controls. The school system will also work with Technology Services to look at the possibility of generating reports for attempted unauthorized actions.

4. **Recommendation:** CCPS should implement adequate controls over its procurement and monitoring of contractual services. Goods and services should be competitively procured whenever possible and CCPS should ensure that employees make purchases at the contracted discount prices. CCPS should also ensure that all contracts are procured in accordance with Board policy and administrative regulations to include competitively procuring professional service contracts and vendor bids should be adequately secured. Also, CCPS should verify, at least on a test basis, that services were performed prior to approving invoices for payment. CCPS should ensure that the Board is provided all pertinent information when approving contracts and the Ethics Panel should be consulted prior to awarding contracts to employees.

Response: CCPS agrees with the recommendation. CCPS has modified its procedures to include the following:

- A locking cabinet with limited access, housed in the Purchasing Office, is now being used for unopened bids and bids awaiting Board approval.
- Detailed information, such as rates and days, are now being requested on contracts.
- Written justification explaining the sole source procurement is now required prior to contract approval. Invoices for services under contract are not paid until an

administrator having both the knowledge of the services performed and the authority to sign for that funding source has approved the invoice. In instances where the invoice exceeds the contract amount, Finance staff now contacts the Contract Administrator and makes them aware that CCPS has been invoiced for more than the contract. Payment is not made until the administrator approves the amount in excess of the contract and, if the total exceeds \$25,000, it will be presented to the Board of Education for action.

- Employees will only use contracted vendors with discounted pricing for school system purchases.
5. **Recommendation:** CCPS should implement appropriate controls over its credit card program. For example, it should develop a comprehensive credit card manual; require justifications for issuance of a credit card and credit card limits; segregate duties over credit card administration; conduct periodic spending and credit limit reviews; restrict merchant codes; require supervisory approval for all purchases; and regularly obtain electronic cardholder and transaction records from the credit card vendor for review purposes, and restrict employees from using credit cards for personal use.
- **Response:** CCPS agrees we should implement appropriate controls over the credit card program.
 - CCPS will develop a procurement card manual or possibly make it a separate section within the Financial Procedures Manual. We will use the State Comptroller of the Treasury's Corporate Purchasing Card Program Policy and Procedures Manual as a guide. Included will be controls that deal with the separation of duties, credit limit reviews, merchant code restriction, supervisory review, and obtaining electronic records from the procurement card vendor.
 - CCPS will reduce the number of procurement cards.
 - CCPS will implement card purchasing limits to ensure consistency across the system.
 - The auditors' examples of credit card use provided in the report have been investigated. All purchases noted were made for a school or for the school system. The investigation revealed that none of the purchases benefited any individual employee.
6. **Recommendation:** The Board should establish a travel reimbursement policy that is based on reasonable costs incurred by employees.

Response: CCPS agrees with the recommendation. The reimbursement of costs under the current travel guidelines (GEN 46 in the HR Procedures Manual) will be reviewed. A complete review of the guidelines was started several months ago and will include the process of handling travel arrangements.

In August 2006, a *Request for Proposal for Travel Agency Services* was advertised resulting in no bids. Changes were made to the proposal and it was re-advertised with a closing date of November 29, 2006. Again, no bids were received. The Purchasing Office will meet with several regional travel agencies to determine other alternatives to obtaining services.

In August 2002, KPMG Consulting released the Performance Audit results of the Office of Finance. The audit report states that the travel reimbursement process is manual and inefficient and suggested that CCPS institute a per diem structure instead of reimbursing for food receipts. KPMG commented that a per diem structure might not have a net impact on costs, but it would greatly simplify the accounting required, reduce the amount of paperwork, and result in significant time-saving for the Finance Office and at schools.

7. **Recommendation:** CCPS should take the necessary corrective actions to ensure that adequate internal controls are in place over the human resource and payroll system. For example, system access capabilities should be segregated and limited to those who need those capabilities to perform their duties.

Response: CCPS agrees with the recommendation. The Payroll Department will review existing security with Technology Services in light of available upgrades within SunGard Pentamation. There is the possibility that some changes might be possible with the newer versions. If these options do not result in appropriate security changes, we will explore other options.

8. **Recommendation:** CCPS should expand its workforce planning to include long-term needs for both critical instructional and non-instructional positions.

Response: CCPS agrees with the recommendation. There is currently a process in place that collects and analyzes data to support the development of a workforce plan. CCPS agrees to expand its workforce planning to include long-term needs.

9. **Recommendation:** CCPS should develop and implement the necessary policies and procedures to ensure that accountability and effective control is maintained over its equipment, including sensitive items.

Response: CCPS agrees with the recommendation. Controls and procedures for handling equipment inventory will be reviewed with an emphasis on acquisitions, tracking, inventory reconciliation, and uniform reporting. Purchasing will conduct a review of its equipment inventory controls and procedures.

Technology Services and Purchasing will work together to develop a system for removing equipment from fixed assets at the time of disposal.

The workload and staffing in the school offices continue to limit the ability to segregate duties and verify the physical inventories.

10. **Recommendation:** CCPS should limit employees' capabilities on the accounting information system to those functions necessary to perform their job duties and ensure that the capabilities granted also establish effective internal control over the various functional areas, such as procurements, disbursements, and payroll. The capabilities granted should also be regularly reevaluated and updated to ensure changes in job duties, promotions, and resignations do not result in inappropriate capabilities or access to the system.

Response: CCPS agrees with the recommendation and is currently in the process of implementing a long-term plan to update the technology infrastructure to adequately meet these needs. In the second paragraph in Chapter 6 on page 29, the auditors acknowledge “. . . . CCPS has plans to address increased and upgraded uses of information technology.” The auditors are well aware of the limitations of our legacy systems and limited resources. CCPS continues to re-design our overall infrastructure that addresses the concerns raised in the auditors' report.

11. **Recommendation:** CCPS should implement security monitoring procedures and establish program change controls to ensure that only authorized users have access to applications and data systems and that all changes to production programs are approved.

Response: We agree with this recommendation in principle but believe there is a fundamental misunderstanding of many of the factors that govern this area.

Some that are noted relate to “segregation of duties.” Some things mentioned in the report are “best practice” and concepts that we fully understand and support. Staffing will always be a major challenge in an organization with limited resources such as a public school system. In a limited budget, adding staff such as a Security Officer and Quality Assurance staff always compete with adding teachers and other instructional staff.

There also seems to be a misunderstanding related to the control we have over third-party software applications such as Pentamotion (Financial Software) and SASI (Student Information System).

CCPS has 3,500 employees, 28,500 students, and 46 locations over a 450 square mile area, 9,000 PCs, over 60 servers, and dozens of applications. It is unrealistic to believe that a K-12 school system has the resources in place to review all security audit logs, incident reports, and on-line reports for our large array of systems on a daily basis.

The audit also mentions the need to “establish program change controls.” However, this is very misleading as 95% of our application development is done in a Microsoft .NET and ASP environment in which we have a complete development system in place including change control procedures and other essential elements of software engineering and the software development life cycle. This finding references one small area of our application development environment. Furthermore, this area is our one remaining core legacy application.

CCS agrees adding management approval of key production changes and again already has this process in place with other applications. Once we move Pentamation to the same environment, it will become part of our overall application development environment and its associated standards. We are well aware of the inadequacies of the current legacy implementation of Pentamation.

We will continue to strive to meet these expectations.

12. **Recommendation:** CCPS should develop a performance system with standards and measures for maintenance and custodial operations. CCPS should also fully use the existing work order system for maintenance operations and document that all preventive maintenance was performed to ensure that appropriate, cost effective, and timely maintenance is provided to all facilities.

Response: CCPS agrees with the recommendation. Both Operations and Maintenance supervisors will set performance standards for applicability at CCPS.

CCPS will develop an electronic tracking system to ensure that reports are received monthly from each cost center.

13. **Recommendation:** CCPS should consider implementing a formal training program for Maintenance employees and enhancing their capabilities.

Response: CCPS agrees with the recommendation. In-service training is scheduled and available to all Maintenance and Operations employees at least twice per year. Additionally, CCPS provides safety training for the use of all new equipment, as well as mandatory refresher training for all employees certified to use aerial platform and fork lift equipment. CCPS also makes available outside training classes for the trades employees.

CCPS will establish a formal procedure for this training to be included in both the Operations and Maintenance procedures manuals.

14. **Recommendation:** CCPS should develop, track, and report to the Board appropriate and reliable performance measures for transportation services and related results.

Response: CCPS agrees with this recommendation. CCPS has established internal and external comparison performance measures, but does not have a formal method of providing this information to the Board of Education. CCPS will provide performance measure reports to the Board of Education for their review.

CCPS notes that regularly scheduled meetings with bus contractors are held throughout the year with Transportation staff. Topics for these meetings include bus capacity, deadhead miles, ride times, and safety features of routes. Performance data compiled for these

meetings is shared as needed with the Assistant Superintendent of Administration and Superintendent and will be provided to the Board of Education after each meeting.

15. **Recommendation:** CCPS should prepare a documented cost benefit analysis to determine whether continued use of outside vendors to provide student bus services is, in fact, cost beneficial for the school system. This analysis should also evaluate each pay element (including the PVA interest factors) of the current bus contracts to determine whether the rates paid by CCPS are, in fact, reasonable and necessary. CCPS should also evaluate its current relationship with its bus contractors in light of past IRS determinations involving other school systems.

Response: CCPS agrees with this recommendation. CCPS will recommend to the Board of Education that we develop a "Request for Proposal" to solicit proposals from vendors to analyze and compare the benefits of our current system versus a county-owned fleet.

We will have our attorney review the IRS rulings concerning employee/employer relations with bus contractors.

16. **Recommendation:** CCPS should use smaller, less expensive buses on all routes with very few passengers. Also, CCPS should conduct a multi-year analysis of ridership, enrollment projections, travel distances, and other relevant factors and determine the ideal mix of bus sizes to efficiently accommodate the transportation needs of its students.

Response: CCPS disagrees with the recommendation. CCPS will continue to use Type I full-size school buses in consideration of the safety and protection of its students. Further, full-size school buses allow for ever changing program needs and allow flexibility to meet student needs for both in-county and out-of-county routes. Full-size buses also provide flexibility for use on field trips, athletic events, and other student transportation needs that support the overall function of the school system.

Carroll County is proud of its advocacy for the safety of its students and will continue to advocate for the purchase and use of full-size buses.

17. **Recommendation:** CCPS should ensure that PVA payments to bus contractors comply with formal Board policy. CCPS should also determine whether it can legally lower the PVAs it is paying for contractors' buses bought in 2003 to 2006 to a rate consistent with the Board approved PVA formula. CCPS management should ensure that the Board is formally provided with full disclosure about how annual PVA amounts are determined.

Response: CCPS disagrees with the recommendation. The school bus formula is presented annually and approved by the Board of Education during a regularly scheduled public meeting. Prior to approving the payments, Board Members discuss merits of the amount of payments and during some years changed the recommendation prior to taking action.

During discussions with auditors regarding this recommendation, the current Board of Education President, a twelve-year veteran of the Board, confirmed that there is full disclosure to the Board on all payments and that the bus contractor formula is approved by the Board each year.

18. **Recommendation:** CCPS should segregate the duties of contract award and contract monitoring for bus services and strengthen internal control over the automated payments system for bus contracts.

Response: CCPS agrees to strengthen internal controls over the automated payment system for bus contracts and will discuss changes to the method of contract award and contract monitoring with the Board of Education. Under COMAR, Transportation Services personnel is required to monitor the bus services and personnel. CCPS will designate personnel, as per the audit, to process payments to contractors. CCPS wishes to acknowledge auditors' comments that no impropriety in contractor payments is alleged.

Currently, the Board of Education awards bus contracts based on recommendation by Transportation Services. After the feasibility study referenced in Recommendation 15 is complete, we will review the pros and cons of having the Purchasing Department make recommendations to the Board of Education for school bus contractors. CCPS wishes to acknowledge auditors' comments that no impropriety in contractor awards is alleged in this area.

19. **Recommendation:** CCPS should improve its internal control procedures for cash handling at school cafeterias to address the weaknesses noted.

Response: CCPS agrees with the recommendation. A thorough review will be performed to identify procedures that can be implemented to improve the internal controls over cash collection and deposits in the cafeterias.

20. **Recommendation:** The Board should provide increased guidance to management by developing and adopting policies and performance measures to govern financial and support services operations. In addition, the Board should ensure that related administrative procedures are developed by management, as appropriate.

Response: CCPS agrees with the recommendation. CCPS staff will provide proposed policies to the Board of Education for their action.

By Board policy, administrative regulations outlining how the proposed policy will be implemented must accompany policies submitted to the Board.

21. **Recommendation:** The Board should enhance its oversight of CCPS operations by establishing a formal internal audit function that reports directly to the Board, and by becoming more involved in the external audit process.

Response: The Superintendent of Schools has revised the Table of Organization so that the Internal Auditor reports directly to him. The Superintendent will discuss this recommendation with the Board and follow their decision.

22. **Recommendation:** CCPS should adopt a formal policy governing long-term obligations in accordance with best practices recommended by GFOA.

Response: CCPS agrees with the recommendation and will work with County government to develop a policy that is consistent with their debt management procedures.

APPENDIX B

Auditor's Comments on Agency Response

Carroll County Public Schools (CCPS) disagreed with certain of our comments in its response (Appendix A) to the audit report. We continue to believe that the comments made in the report are valid.

CCPS disagreed with all or part of Findings 5, 10, 11, and 17. We have reviewed the CCPS response and provide the following comments:

- For Finding 5, the CCPS response stated that its investigation of the credit card purchases we questioned revealed that none of the purchases benefited any individual employee. However, the CCPS records clearly indicated that numerous purchases made using CCPS credit cards needed to be reimbursed by the cardholders because the purchases were indeed made for the cardholders' benefit.
- For Finding 10, CCPS indicated that limitations of its legacy systems and limited resources prevented it from establishing effective internal control over its accounting information system. During the audit we confirmed with the CCPS information technology department that the existing accounting information system did have features available to limit user capabilities, and that effective internal control could have been established using these features with CCPS current staffing.
- For Finding 11, CCPS stated that the OLA recommendation was misleading as 95 percent of its development takes place in a software application that was not reviewed by OLA. Regardless of the percentage assigned by CCPS, we reviewed and commented upon the critical financial, human resources, and student information systems used by CCPS.
- For Finding 17, CCPS disagreed that certain payments to bus contractors proposed for fiscal years 2003 to 2006 deviated from the Board approved policy and that the Board was not apprised of the financial costs of the deviation. During the audit, CCPS could not provide us with any documentation, including Board agenda items and minutes, that indicated that the Board was apprised of the proposed deviations from its policy or the increased costs from this deviation.

In accordance with State law, all areas of disagreement will be addressed through separate correspondence between this Office and CCPS.

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