

Financial Management Practices Performance Audit Report

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Frederick County Public Schools

June 2008

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OFFICE OF LEGISLATIVE AUDITS  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro  
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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA  
Legislative Auditor

June 4, 2008

Senator Verna L. Jones, Co-Chair, Joint Audit Committee  
Delegate Steven J. DeBoy, Sr., 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 Frederick County Public Schools (FCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. FCPS is the seventh largest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 64 schools, with fiscal year 2007 operating expenditures of \$410 million. The objectives of this audit were to evaluate whether FCPS 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 identifies several areas in which FCPS had implemented certain financial and operational best practices. Nevertheless, it also contains 18 recommendations to enhance controls in existing financial management systems and processes in areas such as procurement, transportation, and information technology. For example, management should ensure that available automated controls for procurements and disbursements are used, that adequate accountability is established for purchases, and that access to critical information systems and programs is restricted. Other issues to be addressed include analyzing food service operations, which have incurred significant annual net operating losses since at least fiscal year 2000, and establishing comprehensive policies and appropriate controls on credit card use.

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 59. We wish to acknowledge the cooperation extended to us during our audit by FCPS.

Respectfully submitted,

Bruce A. Myers, CPA  
Legislative Auditor



# Executive Summary

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The Office of Legislative Audits has conducted an audit to evaluate the effectiveness and efficiency of the financial management practices of the Frederick County Public Schools (FCPS) in accordance with the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. State law requires the Office to conduct such an audit of each of the 24 public school systems in Maryland and provides that the related audit process be approved by the Joint Audit Committee. Since the Committee approved the audit process in September 2004, we have issued audit reports related to 10 school systems, FCPS represents the eleventh to date. The approved process included 11 functional areas to be audited at each system. The following are summaries of the findings in these areas at FCPS.

## Revenue and Billing Cycle (see pages 7 through 10)

According to the audited June 30, 2007 FCPS financial statements, \$464.5 million in revenue was received during fiscal year 2007, the vast majority of which was received via electronic funds transfer from other governmental entities. Procedures and controls for these revenue sources and related accounts receivable were found to be adequate. Procedures over student activity funds, with \$6.8 million in collections during fiscal year 2007, were also found to be adequate.

## Federal Funds and Grants (see pages 11 through 15)

Annually, FCPS is subject to an audit of its federally-funded programs (often referred to as the Single Audit, a requirement of Circular A-133, which is issued by the U.S. Office of Management and Budget). Due to parallels between that audit work and the scope of our audit, we placed significant reliance on the results of the independent audit of the grant activity. According to FCPS records, reported expenditures related to grant activity totaled \$16.2 million during FY 2007. The related report stated that FCPS complied, in all material respects, with the requirements applicable to its major federal programs. In addition, with respect to internal

controls over compliance with and the operation of major federal programs, the auditors noted no reportable conditions and no matters considered to be material weaknesses.

FCPS has an adequate process for the identification of children eligible for Medicaid-subsidized services and for recovering the related costs. However, FCPS did not establish adequate controls over certain expenditures for a program that provides resources and support to families of at-risk school children (operated in conjunction with the Frederick County Department of Social Services). According to FCPS records, program expenditures totaled approximately \$1.3 million in fiscal year 2007 and were funded primarily with local in-kind funds, including \$169,000 in FCPS restricted funds.

## Procurement and Disbursement Cycle (see pages 17 through 21)

According to FCPS records, non-payroll disbursements totaled \$146 million during fiscal year 2007. FCPS should restrict employee capabilities on the automated procurement and disbursement system and segregate employee duties for requesting credit cards from issuing banks. In addition, independent approval of sole source contracts should be formalized. Furthermore, FCPS should improve controls and monitoring over the use of credit cards. Finally, FCPS should enhance controls over employee travel.

## Human Resources and Payroll (see pages 23 through 25)

According to its records, FCPS employed over 5,000 employees during fiscal year 2007 with salary, wage, and benefit costs of \$264 million. FCPS had implemented workforce planning with respect to hiring and retaining instructional and administrative staff, and adequately addressed long-term workforce needs in all critical operational units. FCPS should address internal control deficiencies in its automated human resource and payroll system, where several employees had the ability to modify payroll information without supervisory review.

## Inventory Control and Accountability (see pages 27 through 29)

Although FCPS has established formal policies and procedures governing the purchase and disposal of property, including textbooks, FCPS could enhance those policies and procedures to ensure more effective accountability and control. For example, FCPS policies did not ensure adequate control over sensitive equipment items (those items costing under \$1,000 and prone to loss of theft).

## Information Technology (see pages 31 through 34)

FCPS maintains and administers a computer network, computer operations, and a number of significant administrative and academic-related information system applications. FCPS developed and periodically updated a written master technology plan. However, several areas are in need of improvement, including information technology (IT) system access and security, and computer center operations. For example, FCPS did not adequately restrict access to its computer room and was not making full use of certain IT system features designed to restrict or detect unauthorized or unnecessary access to systems and programs. FCPS also needs to establish better record keeping related to computer hardware and software maintained by the individual schools.

## Facilities Construction, Renovation, and Maintenance (see pages 35 through 39)

FCPS employs a staff of 503 custodial and maintenance personnel to maintain 64 schools and a number of other facilities. FCPS uses a comprehensive and public process to plan for school construction and renovation, and has been able to obtain alternative financing for a certain project. FCPS also has implemented an energy management program in over 60 percent of its schools, with plans for future expansion to additional schools. FCPS should consider making better use of its automated work order system to manage its maintenance operations and personnel. Also, although FCPS had developed a comprehensive preventive maintenance plan, better documentation is necessary to ensure the completion of all

required preventive maintenance. FCPS also needs to improve the procurement of architectural services by ensuring the consistent application of existing policy (for example, allowing sufficient time for bidders to submit proposals).

## Transportation Services (see pages 41 through 46)

FCPS is responsible for the safe transportation of approximately 34,300 eligible students, of which 2 percent are disabled. FCPS operates its own fleet of 437 buses to transport virtually all of its students, and reported costs per rider are the lowest among its peer group of LEAs. FCPS used several practices that increased the efficiency of transporting students, such as staggering school start and stop times so buses can provide multiple trips on the same day and obtaining fuel with a cooperative agreement with Frederick County government. However, FCPS should monitor the use of over 700 fuel cards to ensure that fuel purchases are appropriate, establish transportation performance measures and goals, and perform a periodic cost analysis to determine if the practice of transporting all students using its own fleet and not using contractor-provided transportation services is in the continued best interest of FCPS. Finally, FCPS should establish a formal policy justifying the purchase of vehicles other than school buses, as we noted that 86 of its 322 other vehicles were driven 5,000 or less miles during 2007.

## Food Services Operations (see pages 47 through 52)

While FCPS currently uses a number of best practices, its food service operations are not self-supporting and FCPS has not analyzed alternate methods to improve the financial condition of the operations. For the past eight years, food services have operated with annual deficits and, for each of the past two years, the annual operating deficit has exceeded \$670,000. This condition indicates that FCPS should do more to analyze the efficiency of its food service operations. In addition, FCPS should improve record keeping related to food inventories.

## School Board Operations and Oversight (see pages 53 through 56)

The seven-member elected Board has adopted policies to govern the operations of the Board and FCPS. FCPS has established a comprehensive ethics policy to govern Board members and system employees, and has an active internal audit operation that reviews a number of operational and financial areas. However, the Board should develop goals and related performance measures to monitor the financial operations of FCPS. The Board should also consider implementing a mechanism to receive and act on confidential information about suspected fraud, waste, and abuse.

## Other Financial Controls (see pages 57 through 58)

FCPS has a policy in place to govern its risk management practices. However, FCPS needs to adopt policies on cash investment and the use of long-term lease/purchase agreements and other multi-year debt.



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# Background Information

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## Oversight

Frederick County Public Schools (FCPS) is governed by a local school board, consisting of seven elected voting members and a student representative. The vast majority of FCPS funding is provided by the Frederick County and State 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 FCPS to comply with the requirements and mandates of the federal No Child Left Behind Act of 2001. Oversight by the Frederick County government is limited, although the FCPS operational and capital budgets require County approval.

## Statistical Overview

According to MSDE student enrollment records, FCPS ranked seventh in student enrollment among the 24 public systems in Maryland. From fiscal year 1997 to 2007, the total full-time regular and special education pupil population has increased from 32,237 to 40,224, with further projected increases to 44,190 by 2015. As of the beginning of the 2007-2008 school year, FCPS has 64 schools, consisting of 38 elementary, 13 middle and 10 high schools, plus a vocational school, an alternative school and a special education school. A review of budget history from fiscal year 1997 to 2007 disclosed an increase in the FCPS operating expenditures from \$219 million in fiscal year 1997 to \$410 million in fiscal year 2007. The largest expenditure category is salaries, wages, and benefits, accounting for 64 percent of total operating expenditures, which supported 5,019 employees, both full and part-time, during fiscal year 2007 (3,448 instructional and 1,571 non-instructional).<sup>1</sup>

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<sup>1</sup> The primary source for this background data is MSDE statistical data, including the annual Fact Book.

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

## External Audit of Fiscal Year 2007 Activity

Annually, FCPS 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 FCPS federal grant programs (as required by federal regulations). The two resulting audit reports for the 2007 fiscal year were issued in September 2007. Neither of the resultant reports included any reportable conditions or any significant findings on FCPS record keeping, processes, and controls. In addition, student activity funds are subject to annual audit by a contracted auditor, including a review of internal controls.

# Chapter 1

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## Revenue and Billing Cycle

According to the FCPS audited financial statements for the fiscal year ended June 30, 2007, \$464.5 million of revenue was received by FCPS during fiscal year 2007. Due to similarities between the work of the independent certified public accounting firm that audited FCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the external audit of revenues and certain accounts receivable (for example, amounts due from other governments). The firm's procedural review and testing disclosed that collection activity for the most significant revenue types, the majority of which was received via electronic fund transfers from other government entities, and related accounts receivable was adequate.

Our audit of certain revenues received by cash or check by the central accounting office disclosed that FCPS could improve controls over the billing and related collections of certain accounts receivable.

For student activity funds<sup>2</sup>, we placed reliance on the results of an accountant contracted by FCPS to periodically perform agreed upon procedures on all school activity funds including reviews of internal

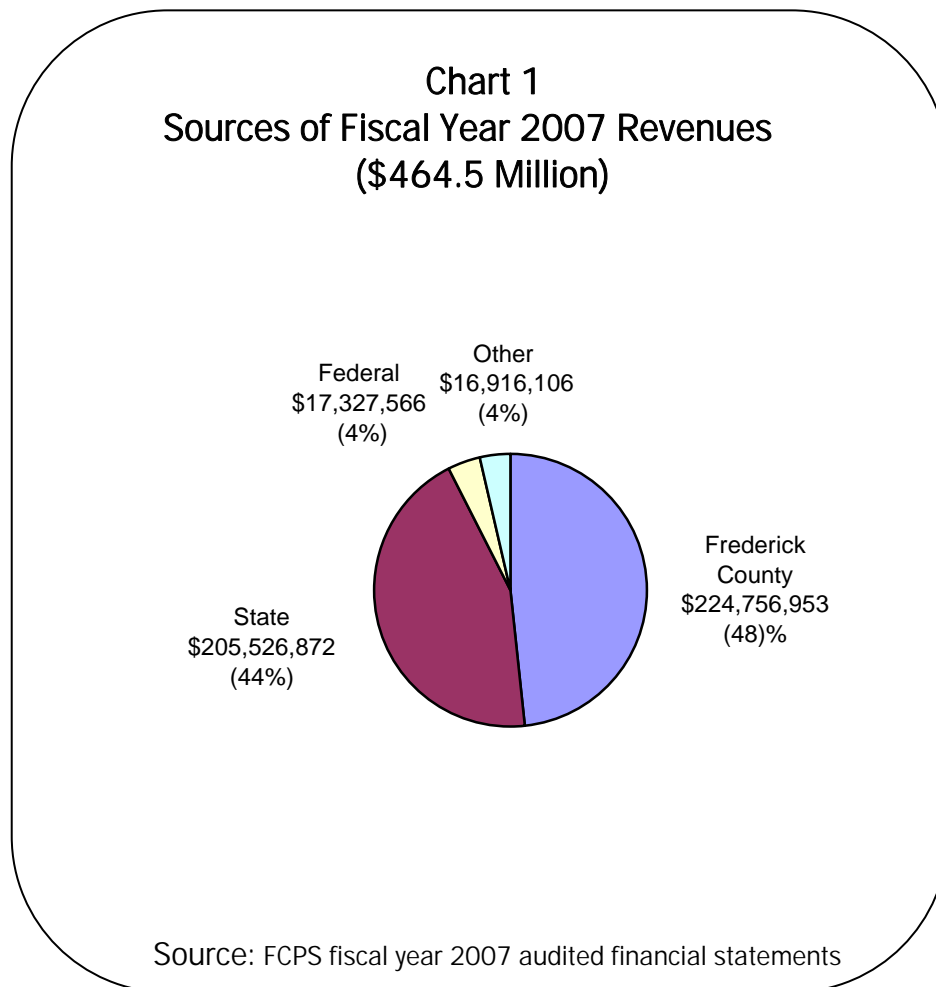
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<sup>2</sup> The Board has a fiduciary responsibility to ensure that the school activity fund is used only for intended purposes by those to whom the assets belong. Receipts for the school activity fund, which totaled \$6.8 million during fiscal year 2007, are not included in the \$464.5 million revenue total because the Board cannot use these assets to finance its operations.

controls and tests of bank reconciliations. The accountant's work disclosed no pervasive control weaknesses among schools or fraudulent acts.

## Background

FCPS revenues consist primarily of funds received from Frederick County, the State, and the federal government, the vast majority of which were received via electronic funds transfer. Other sources include federal grant funds, receipts from the sale of food, facility use reimbursement fees, and interest income. Chart 1 (below) shows FCPS fiscal year 2007 revenues of \$464.5 million by major source.



In addition to the revenues in Chart 1, schools also collected funds for various purposes, such as for student activity groups including yearbook and band. These school activity funds are accounted for separately by each school and are reported in summary in the audited financial statements. According to the audited financial statements, fiscal year 2007 school activity fund revenues totaled \$6.8 million, and the June 30, 2007 balance was \$2.3 million.

## FCPS Revenue and Billing Cycle Activity Was Generally Adequate

Due to similarities between the work of the accounting firm that audited the FCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the independent audit. The auditor's procedural review and testing disclosed that collection activity for significant revenue types (local, State, and federal aid, plus other sources, such as food service operations), the majority of which was received via electronic fund transfers, and related accounts receivable was adequate.

Student activity funds were also subject to periodic agreed upon procedure reviews by an independent accountant which included reviews of internal controls and tests of bank reconciliations. The accountant's work disclosed no pervasive control weaknesses among schools or fraudulent acts.

## Controls Over Certain Accounts Receivable and Related Collections Need to Be Improved

Controls over collections and related accounts receivable processed by the central accounting office for various transactions including construction retainers, facilities rentals, out-of-county tuition, and salary expenses, which totaled \$3.6 million in fiscal year 2007, need to be improved. Two employees involved with the cash receipt and deposit process also had access to the related accounts receivable records. For example, one employee who took the deposits to the bank also had the ability to create and modify the automated accounts receivable records.

## Recommendation

1. FCPS should improve controls over central accounting office collections and related accounts receivable by ensuring a proper segregation of duties.

# Chapter 2

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## Federal Funds and Grants

Annually, FCPS is subject to an audit of its federally-funded grant programs (often referred to as the Single Audit, and required by Circular A-133, which is issued by the U.S. Office of Management and Budget). The report on the audit of fiscal year 2007 federal grant activity was issued by an independent certified public accounting firm on September 28, 2007.

In that report, the auditor stated that FCPS 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<sup>3</sup> and no matters considered to be material weaknesses.<sup>4</sup>

FCPS has a process in place to identify children eligible for Medicaid-subsidized<sup>5</sup> services and to recover the related costs. However, FCPS had not established adequate procedures over

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<sup>3</sup> Reportable conditions are issues relating to significant deficiencies in the design or operation of the internal control over compliance that, in the auditor's judgment, could adversely affect the grantee's ability to administer a major federal program.

<sup>4</sup> Material weaknesses are severe reportable conditions in which the existing internal control components might not detect, in a timely manner, a material instance of noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud.

<sup>5</sup> The Federal Medical Assistance Program, or Medicaid, is not a grant program under Circular A-133 and is not included in the Single Audit.

expenditures of a program that provides support to families of at-risk students.

## Background

FCPS receives funds primarily from Frederick County, the State, and the federal government. Most funds received from Frederick County and the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2007 expenditures of federal award funds totaled \$16.2 million.

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

Because of the accounting firm's work on FCPS federal fund expenditures, we relied on the auditor's results. Besides expressing an opinion on FCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the fiscal year 2007 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). In its report, the firm stated that FCPS 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 Were in Place to Identify Students Eligible for Medicaid-Subsidized Services and to Recover the Related Costs

FCPS has adequate processes in place to identify students eligible for Medicaid-subsidized services and recover the related costs. FCPS makes use of listings of all children whose families are participating in Medicaid as determined by the Department of

Human Resources. These lists are regularly compared to the student information system to identify newly-eligible students and the continuation of eligibility for previously identified students. In addition, there is outreach to families on the FCPS web site and during meetings to discuss educational services for special needs students (including programs/services subject to Medicaid funding) to identify potential eligible students and encourage program participation.

FCPS also has an adequate process to ensure that it receives revenue related to Medicaid-eligible services provided to students. On a monthly basis, the FCPS Medicaid coordinator receives a record of services provided to each eligible student, as well as transportation reports for these students, and compares these reports and the master list of eligible students to prepare billings for the services provided. FCPS also has processes in place to monitor individual school performance in submitting information for billing and follows up with schools that show low performance.

For fiscal year 2007, reimbursement for Medicaid-subsidized services totaled \$1.6 million.

## More Specific Expenditure Guidelines Should Be Established for the Community Agency School Services Program

FCPS had not established comprehensive expenditure guidelines over the Community Agency School Services (CASS) program. The program is administered by FCPS in conjunction with local organizations, including municipalities, county and state government (the Frederick County Department of Social Services). The mission of the program is to provide affordable, accessible resources and support to families of at-risk children (such as those suffering from chronic illness, neglect or abuse, or experiencing financial difficulties), with the intent of positively impacting a child's educational experience. According to FCPS records, program expenditures totaled \$1.3 million in fiscal year 2007, which primarily consists of payments to social workers working in this outreach program.

As the lead agency responsible for program administration, FCPS established certain broad guidelines for CASS expenditures regarding the types of goods and services which could be purchased (for example, gift cards for food and gas, medical and utility expenses). However, our review disclosed a number of expenditures made that were not defined in the guidelines. In addition, these guidelines did not impose any limitations regarding the dollar amounts that could be expended per student or household. During our audit, an FCPS official advised us that FCPS is in the process of more clearly defining allowable expenses.

Specifically, our review disclosed that the majority of program grants to clients were made with FCPS procurement cards that had been issued to 11 program coordinators. Program grants totaled approximately \$54,000 in fiscal year 2007. Our testing related to procurement card activity disclosed numerous small payments for goods and services which were not specifically identified in the aforementioned guidelines, including veterinary services, toys, athletic equipment and apparel, and payments to the State Motor Vehicle Administration. We also noted that there was no requirement that a signed client statement be obtained to support that the client had received the benefit of the related goods and services. Consequently, there was a lack of assurance as to the propriety of such payments.

## Available Funding Was Obtained from the Federal E-Rate Program

FCPS has a process in place to request and receive reimbursement for technology expenditures from the federal School and Libraries Universal Service Program (E-Rate). The E-Rate program provides funding to schools for telecommunications expenses (such as Internet access). The funding is based on the level of poverty and the rural status of the school district. FCPS charged approximately \$200,000 to the program for fiscal year 2006 and subsequently recovered these E-Rate funds.

## Recommendation

2. FCPS should ensure that CASS program expenditure guidelines are sufficiently comprehensive and include the specific types of expenditures permitted using program funds and maximum amounts that can be expended per student or household. FCPS should also require signed documentation to provide evidence that the benefits of goods and services purchased were received by those intended.



# Chapter 3

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## Procurement and Disbursement Cycle

Although FCPS had a number of policies and procedures in place, we found that FCPS did not always take full advantage of the controls provided by its automated purchasing and disbursement system, and two employees had inappropriate access to the system. Also, policies over sole source procurements should be revised to enhance accountability. Regarding the corporate purchasing card program, the initial receipt and distribution of credit cards was not properly controlled and the permissibility of certain expenditures was questionable. Finally, FCPS did not exercise adequate controls over travel expenditures.

## Background

FCPS uses an automated system for procurements and disbursements. Requisitions are prepared electronically by departments and are forwarded to the purchasing department. Requisitions must be approved by supervisory personnel within the requesting department. Purchase orders, contracts, solicitations, and bids are initiated and processed by the purchasing office. Purchases anticipated to cost more than \$12,500 require bids from multiple vendors. Board policy requires that all contracts over \$25,000, with the exception of sole source contracts, be approved by the Board.

The receipt of goods and services are recorded in the automated system or on hardcopy documentation by the receiving school or department and payments are then processed by the finance office using the automated system. On a test basis, employees other than those responsible for processing payments compare checks to the related supporting documentation. According to FCPS records, non-payroll disbursements totaled \$146 million during fiscal year 2007.

During fiscal years 2006 and 2007, FCPS records indicated that its employees used credit cards to make a total of \$2.6 million in purchases (including textbook purchases). According to FCPS records, as of May 2007, 385 employees have been issued credit cards whose monthly charges are paid directly by the school system.

## FCPS Should Strengthen Internal Controls Over Its Disbursements, Procurements, and Certain Contract Approvals

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

**strengthened** – FCPS did not use the controls and functions of the automated purchasing and disbursement system to the fullest extent to control these processes. Specifically, two Finance Office employees had the capability to create a requisition, add and modify vendor information, and enter and process an invoice for payment without independent supervisory approval. In addition, four Office employees entered and processed certain payments (known as voucher requests – commonly used for travel expenses and other reimbursements where use of a purchase order is not warranted) without independent supervisory approval. Specifically, these individuals reviewed expense reports submitted by FCPS employees, processed the resulting reimbursements in the system and distributed the resultant reimbursement checks, without the benefit of an independent comparison of checks to the source documents as conducted for other disbursements.

**FCPS should ensure that travel expenditures are made for valid purposes and are properly documented prior to reimbursement** – Although existing FCPS travel policies for extended-day travel arrangements required employees to obtain

supervisory approval of the combined travel authorization and reimbursement request form both before and after the travel, we were advised that, after the travel had occurred, employees forwarded the approved form directly to the Purchasing Department to be paid. As a result, unauthorized travel expenditures could be added to the reimbursement request after approval without detection. Furthermore, approvals were not always obtained as required. Our test of 15 travel expense reimbursements, totaling \$17,400, identified 5 reimbursements totaling \$6,400 made for expenditures related to travel arrangements which were not properly pre-approved (for example, the aforementioned form was not approved by a supervisor or was approved after the travel had occurred). We further noted that there was no procedure in place to ensure that credit cards were not used to incur expenditures reimbursed to employees or in addition to preauthorized travel arrangements. Travel expenditures, excluding mileage reimbursements, totaled approximately \$324,000 in fiscal year 2007.

**Board policy should be modified to address approval of sole source procurements** – Although Board policy generally requires that the Board approve all contracts over \$25,000, only the Superintendent’s approval is specifically required for sole source procurements in excess of \$25,000. The Superintendent may choose to notify the Board of sole source procurements at his/her discretion. When requested, FCPS provided documentation which illustrated that the majority of contracts procured using this method were for private placements of disabled students. Specifically, this procurement method was used 121 times during fiscal year 2008, through January 2008, for contracts totaling \$7.2 million; the vast majority of the 121 contracts were applicable to disabled services. In many instances, waiting for Board approval may delay the placement of disabled students in private institutions. Nevertheless, the Board should exercise some oversight (for example, receiving periodic notification of time sensitive sole source contracts) to ensure the appropriateness of the procurements.

## FCPS Should Improve Controls and Monitoring Over the Use of Credit Cards

Although FCPS had developed policies and procedures to help ensure the proper usage of its credit cards, our review disclosed certain deficiencies that should be addressed. During fiscal years 2006 and 2007, credit card transactions totaled \$2.6 million and, as of May 2007, there were 385 active cards. Specifically, testing of controls over certain active cards disclosed the following conditions:

- The employee responsible for completing the process to request cards from the issuing bank also received the cards for distribution to the appropriate employees. This same employee also received all monthly credit card statements.
- FCPS policy over procurement card use did not specifically address the permissibility of certain categories of transactions. For example, our review of fiscal year 2006 and 2007 credit card purchases identified \$55,100 in purchases related to food and restaurants, \$135,100 in purchases related to travel expense, and \$329,200 in purchases related to retail services. Our testing of 118 fiscal year 2006 and 2007 transactions (related to 50 different cards), totaling \$33,500, disclosed that 23 transactions were for the purchase of gift cards and high dollar incentives (such as portable DVD players) totaling \$4,500 to be distributed to students; however, no documentation existed to verify the intended purpose of the purchases or the names of the students who received the purchases.
- FCPS did not perform periodic evaluations of the necessity of card issuance or card spending limits to reduce its exposure and risk of inappropriate charges. For example, we tested 31 cards to determine when they were last used and noted 22 cards with a combined monthly credit limit of \$23,000 which were not used at all during a six-month period prior to May 2007. In addition, 16 of these cards were not used at all during the previous year.
- Our review of all credit cards with multiple transactions on the same day in fiscal years 2006 and 2007 disclosed 25 transactions (related to 7 different cards) totaling \$10,448 that appeared to have been intentionally split in order to avoid

exceeding the employee's credit limit. For example, a credit card charge of \$1,151 was split into three transactions to circumvent the employee's single transaction limit of \$500.

## Recommendations

3. FCPS should implement effective internal controls over its automated purchasing and disbursement system. Such controls should include segregating employee duties and expanding the periodic comparison of checks to source documents to include voucher requests. In addition, FCPS should formally modify its policy to clarify Board responsibilities related to sole source contracts.
4. FCPS should ensure that approved travel documentation is not returned to the preparer to be submitted for payment, and that travel is approved in advance in accordance with existing policy.
5. FCPS should ensure that controls are improved over the credit card process including proper segregation of duties, clarification of policy regarding appropriate uses of credit cards and required documentation and monitoring of card activity.



# Chapter 4

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## Human Resources and Payroll

FCPS had implemented comprehensive workforce planning, which adequately addressed long-term trends in all critical operational areas. However, internal controls over access to the automated system used to process personnel and payroll transactions should be better controlled.

### Background

Payroll costs are the largest single cost in the FCPS budget. According to the FCPS audited financial statements, direct salary, wage, and benefit costs for fiscal year 2007 totaled \$264 million, and FCPS had 5,019 FTE<sup>6</sup> employees in fiscal year 2007. The 8 to 1 ratio of FCPS students to employees (both instructional and non-instructional) is comparable to other similar-sized school systems (see Table 1 on the following page).

FCPS uses an automated system to maintain human resource information and to record employee time, track leave, and process payroll transactions. The system generated semi-monthly time records and adjustments are processed by timekeepers at the various schools and departments. After various system edit checks, the system generated payroll checks and/or direct deposit advices. Leave accumulation was automatically calculated by the system.

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<sup>6</sup> FTE = Full-Time Equivalent. For example, two twenty-hour per week positions would equal one FTE.

The hiring of new employees is initiated either directly by the school or the program needing the employee. Procedures require that the related paperwork be submitted to the FCPS central office where the final approval is made and a review is conducted to ensure adequate funding prior to including the employee in the automated personnel and payroll systems. The Board approves the creation of all new positions as part of the annual budget process.

**Table 1**  
**Comparison of Student to Employee Ratios – Fall 2006**  
**(Unaudited)**

School System	Number of Students (as of September 30, 2006)	Number of Full-Time Equivalent Employees (as of October 1, 2006)	Student to Employee Ratio
Frederick Co.	40,224	5,020	8.0 to 1
Carroll Co.	28,616	3,482	8.2 to 1
Anne Arundel Co.	73,066	9,046	8.1 to 1
Harford Co.	39,568	5,036	7.9 to 1
Howard Co.	49,048	7,094	6.9 to 1

Source: MSDE 2006-2007 Fact Book

## Workforce Planning Addressed Future Critical Needs

FCPS monitors data related to portions of the workforce approaching retirement, and forecasts the number of retirements that are likely to create a need for an abnormally high number of qualified applicants in any given year. The FCPS Master Plan sets the strategic direction of the school system and provides coordination and focus for initiatives to address challenges faced by FCPS. The Plan includes a number of objectives and strategies to address human resource needs—which is evidence of workforce planning. It addresses the recruitment and retention of highly qualified instructional staff (that is, teachers and certain instructional aids). FCPS implements alternative methods to address non-instructional personnel employed by FCPS, such as central office and critical support staff. An analysis is conducted annually which identifies all employees eligible or likely to retire

during the next three fiscal years. This allows FCPS to tailor its recruitment and retention efforts.

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

FCPS had not established adequate internal controls over its automated personnel and payroll system. Three individuals had the ability to modify payroll information (such as payroll deductions and adjustments) without documented supervisory review or approval, and two of these employees routinely made such adjustments as part of their normal duties. Furthermore, additions of new employees to the payroll system were processed by Human Resources clerks. However, there was no documented review of the subsequent system-generated Personnel Control report of these changes to source documents to ensure that all additions were proper and coded correctly.

### Recommendation

6. FCPS should take the necessary corrective actions to ensure that adequate internal controls are in place over the automated human resource and payroll system. Specifically, job duties should be segregated and an independent review and approval process should be established over payroll-related changes recorded in the system.



# Chapter 5

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## Inventory Control and Accountability

FCPS has established formal policies and procedures governing the purchase and disposal of all property; however, FCPS could enhance the controls over sensitive equipment items and textbooks.

### Background

According to the FCPS records, as of June 30, 2007, the book value of FCPS equipment was \$61.4 million. Equipment items include computers, audio and video items, athletic equipment, and various other items. All furniture and equipment items with a cost of \$1,000 or more are recorded upon purchase and capitalized for financial statement reporting purposes, as well as control purposes. These records are maintained centrally and equipment is subject to an annual physical inventory. Generally, FCPS orders instructional materials on an as-needed basis. These materials are primarily maintained at the schools, and inventories of custodial supplies are stored in a centralized location in addition to the schools. According to the audited financial statements, inventory as of June 30, 2007 was valued at \$562,000.

## FCPS Should Enhance Its Policy Over Sensitive Equipment

FCPS policy defines sensitive equipment as capital or non-capital items that are prone to theft and concealable in a handbag or briefcase (such as portable tools and cameras); other items may be considered sensitive if there is a history of theft or loss. However, FCPS policy directs individual departments and schools to identify and account for such equipment at their discretion and there is no policy to ensure sensitive items are properly identified and inventoried on a consistent, periodic basis. FCPS maintains numerous items, which would be considered sensitive that cost less than the capitalization threshold of \$1,000, including digital cameras and laptop computers. While we were able to physically sight nine of the ten sensitive equipment items selected for testing (the tenth item had been reported stolen), purchased during 2007, six of the nine items sighted were not tagged or otherwise identified as FCPS property. We also noted that no physical inventory was routinely performed for sensitive items unless over \$1,000.

## Formal Textbook Procedures Should Be Enhanced

While FCPS had established formal procedures for selecting, purchasing, and disposing of textbooks, no policy or process had been established to maintain a comprehensive inventory of textbooks. All potential textbook purchases are reviewed and are submitted to the Board for its review and approval. Textbooks are inventoried within the individual schools; however, no centralized process existed for controlling inventory. Maintenance of a comprehensive centralized inventory may help limit excessive or redundant purchases, since the availability of textbooks on a system-wide basis would be more apparent. According to the audited financial statements, purchases of textbooks totaled \$1.8 million in fiscal year 2007.

## Recommendations

7. FCPS should develop a minimum dollar threshold for sensitive items, over which consistent accountability would be established

(that is recordation and periodic physical inventories), including tagging or otherwise identifying items as FCPS property.

8. FCPS should enhance existing policies governing textbook accountability by maintaining a comprehensive, centralized inventory.



# Chapter 6

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## Information Technology

FCPS maintains and administers a computer network, computer operations, and a number of significant administrative and academic-related information system applications. FCPS developed and periodically updates a written technology plan that is linked to FCPS' Master Plan. The plan provides a vision and mission for technology in FCPS, an assessment of technical needs, and defines goals and objectives. In addition, FCPS had developed a comprehensive disaster recovery plan in case of catastrophic disruption to its operations.

Nevertheless, we did identify deficiencies in a number of areas, including system user access and security, critical program change controls, and computer center operations. For example, changes to critical financial-related production data and user profiles and permissions were not logged for subsequent review to ensure appropriateness, and physical access to the FCPS computer room was not strictly controlled. In addition, FCPS did not maintain centralized records of hardware and software.

## Background

FCPS operates a wide area network connecting the various schools within Frederick County. The FCPS Technical Services Department (TSD) maintains and administers the FCPS telecommunications network, financial and human resources information applications, the student information system, the email system, instructional

applications, and other general computer operations. TSD comprises 48 employees and maintains the critical core networking equipment and servers used to support the FCPS operations. The student information system is located at FCPS headquarters and is fully administered by TSD. Through a cooperative agreement with the Frederick County Government, FCPS uses the County's IT system servers for financial and human resources applications, although TSD controls the application settings for FCPS-related data processing.

## Several Best Practices Were in Place

**Technology plans are regularly developed to address the current and future needs of FCPS** – FCPS has developed a written technology plan, which includes a comprehensive assessment of the technology needs of the schools. The plan identifies each school's IT needs and the actions to be taken to address those needs. The plan also includes measurable goals and objectives. The goal of the plan is to integrate technology into all aspects of instruction and administration to enable students, teachers, staff, administrators, and parents to access, gather, analyze, evaluate, and communicate information. The plan also includes Internet safety and telecommunications policies. The plan is periodically updated and monitored for implementation status of identified actions.

**A comprehensive disaster recovery plan had been developed** – FCPS had developed an adequate disaster recovery plan in case of a catastrophic event disrupting its critical functions housed on FCPS-owned computer resources. This plan included the identification of back-up data centers and the identification and prioritization of mission critical applications.

## Steps Should Be Taken to Ensure Adequate Security Over IT Applications

### **Enhancements should be made to existing procedures to ensure that all access and program changes are**

**appropriate** – User access to computer resources is commonly controlled through the use of individual passwords and user logon ids; however, these tools could be more effectively used. For example, certain users, including 3,000 Frederick County government employees, had inappropriate or unnecessary access privileges and capabilities, including unlogged modification access, to production programs. Also, eight FCPS employees had unnecessary access to a stand-alone software program that permitted changes to financial-related production databases. Additionally, there were a number of issues related to password policies and user account settings. For example, automatic password expirations (requiring periodic password changes) were not consistently applied for all users and there was no standard as to the complexity of passwords (to make them more difficult to hack). Furthermore, FCPS did not fully use existing system audit software to monitor security events, access permissions, and failed attempts to access certain critical data. Finally, production program changes to the financial application were not adequately documented, as requests for changes and the results of testing were not documented.

### **Data processing functions should be better safeguarded**

**from disruption** – Physical access to the FCPS computer room was not adequately controlled as 121 employees had keys that granted them computer room access, although their job duties did not require such access. In addition, although critical back-up files were created weekly and stored off-site, a more secure location should be used.

### **A comprehensive approach to IT security should be**

**developed** – FCPS did not have a formal information technology security policy in place. Such a policy should address key aspects of IT such as access control rules, identification of nonpublic information, workstation security, use of anti-virus software, and encryption. Also, such a policy needs to provide information

technology security guidance with respect to all of an entity's computer applications and operations.

## FCPS Should Enhance Recordkeeping for Hardware and Software to Improve Control and Ensure Compatibility

FCPS has delegated the purchasing authority and inventory responsibilities for computer hardware and software to each of the schools and individual departments. While FCPS has piggy-backed on statewide contracts for hardware procurements to ensure that individual purchases are cost efficient, FCPS is not able to monitor hardware and software on a centralized basis to ensure that all systems are compatible and operated in the most efficient and cost effective manner, and that all equipment is properly accounted for.

### Recommendations

9. FCPS should implement appropriate security measures to safeguard its applications and data systems, and should adopt a formal information technology security policy.
10. FCPS should establish physical controls and safeguards over its computer operations and institute appropriate backup procedures.
11. FCPS should consider a centralized inventory system for all its computer hardware and software for recordkeeping purposes and to facilitate monitoring and more efficient planning.

# Chapter 7

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## Facilities Construction, Renovation, and Maintenance

FCPS maintains 64 schools and a number of other facilities (such as administrative headquarters) with a staff of 503 custodial and maintenance personnel. FCPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Plans are long-term, are updated annually, and reflect input from the Board. We also noted that FCPS had obtained an alternative financing source for a construction project to help alleviate the need for capital funds. FCPS had established performance measures, with related benchmarks and goals, for its maintenance and custodial operations.

FCPS did not use its automated work order system to its fullest extent as a management tool nor ensure that all scheduled preventive maintenance work orders were completed. Additionally, FCPS' procurement of architectural services was not always consistent with established policy.

## Background

FCPS uses a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. In the fiscal year 2007 CIP and operating budget, necessary construction, major renovations, repairs, and systemic

improvements to existing schools over the next six years were estimated to cost \$480 million.

The following table compares FCPS fiscal year 2006 plant costs (that is, maintenance and operational costs) with other similarly-sized school systems in Maryland. The table presents two measures used to assess plant costs: cost per student and cost per square foot. These statistics show that FCPS facilities operations and maintenance costs are generally in line with its peer group.

Table 2 Plant Cost Comparison Per Student and Per Square Foot Fiscal Year 2006 (Unaudited)					
School System	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student <sup>①</sup>	Per Square Foot		
Frederick Co.	\$34,768,309	\$875.86	\$6.28	139.40	5,533,550
Carroll Co.	27,585,085	949.25	6.65	142.70	4,146,896
Howard Co.	44,455,079	912.07	6.56	139.13	6,781,422
Harford Co.	33,105,071	827.50	6.51	127.09	5,084,164
Anne Arundel Co.	59,188,511	811.18	5.07	159.89	11,666,226
Average of Comparable Schools	\$41,083,436	\$875.00	\$6.21	141.64	6,642,452

Sources: MSDE Selected Financial Data, School System Capital Improvement and Maintenance Plans, and School System staff.  
<sup>①</sup> - Based on Average Daily Enrollment 2005-2006 (most recent data available)

## A Number of Best Practices Were in Place

**FCPS had a continuous planning process to address major facilities projects and repairs** – FCPS had a continuous planning process, which includes input from various sources, to address future school construction and major renovation and repair projects. For example, FCPS uses public meetings, student demographic data, and internal sources (such as annual inspections of all facilities to document current conditions) to develop annual educational facilities master plans and capital

improvement plans (CIP). The educational facilities master plan and CIP are presented to and approved by the Board.

**FCPS obtained alternative source funding for costs of a major facilities project** – FCPS entered into an agreement with a developer, with the support of the Frederick County government, to obtain \$9.6 million in alternative funding toward the construction of additional space at one of its high schools. This funding, to increase school capacity, was provided so that the developer could proceed with a housing development and still meet the requirements of Frederick County’s Adequate Public Facilities Ordinance. In addition, the County and Board are negotiating with another developer regarding the necessary steps and funding needed to meet the Ordinance in connection with another housing project.

**FCPS has a program to manage energy use at approximately 61 percent of its schools** – The energy management program uses computers to monitor the operations of major systems (such as boiler and chiller) and controls these systems from a centralized location. Since program improvements are generally funded with capital funds, the program is usually implemented at a school during major renovations. We were advised that FCPS plans on installing this energy management system in seven additional schools over the next five years (the ultimate goal is to have this program in all schools). According to FCPS, energy consumption per square foot has decreased each year since fiscal year 2004 (from 14.1 BTUs per square foot per degree day in 2004 to 13.0 BTUs per square foot per degree day in 2007). In addition, FCPS entered into a long-term agreement for electricity needs with other school systems to ensure the availability of energy at fixed prices over the term of the agreement.

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

**FCPS should enhance existing tools to measure and assess operational efficiency** – FCPS should fully use its automated work order system when assigning maintenance work and tracking the completion of assigned tasks, to help it control costs and assess

performance. Although actual time and materials used to perform tasks were entered in the automated system, it was not used to assess the performance of either the individual employees or the entire maintenance department due, at least in part, to estimated costs not being developed for significant projects. An effective work order system can be used to generate a variety of statistical data – including employee productivity reports, cost reports, and facility assessments – all of which are key pieces of a performance measurement system.

**FCPS should maintain documentation that all required preventive maintenance work was performed** – FCPS could not provide documentation that all required preventive maintenance was completed as scheduled by custodial and maintenance staff. FCPS had developed a comprehensive plan for preventive maintenance tasks, such as checking the operation of air conditioning units and lubricating motors and pumps on other mechanical equipment. However, our review of preventive maintenance work orders scheduled for 12 schools during a one-month period disclosed that, at 3 schools, 175 of 259 work orders were not recorded in the system as having been completed during the month scheduled. Since the preventive maintenance scheduling module of the automated work order does not carry uncompleted preventive maintenance work orders to the following month, these tasks may not have been completed until the next scheduled date. In addition, we noted that completed preventive maintenance work orders were not reviewed by supervisory personnel to ensure that work was completed in compliance with quality standards.

## Procedures for the Procurement of Architectural Service Contracts Should Be Improved

**FCPS should ensure that the policy for the procurement of architectural services is consistently applied and that all procurements are properly documented** – While FCPS procurement policies generally follow State Procurement Regulations for the procurement of architectural services, these policies were not consistently followed. Our review of four contracts totaling \$3.2 million (each contract exceeded \$225,000) for

architectural services procured during fiscal years 2004 through 2007 disclosed the following conditions:

- For one school renovation project procurement totaling approximately \$1.2 million, prospective bidders were required to submit technical proposals 14 days after the Invitation to Bid was sent out, although State regulations generally require a minimum of 20 days for submission of proposals. As a result, there is limited assurance that all prospective bidders had enough time to prepare a bid and, therefore, that FCPS received the best value for the services provided.
- For another contract totaling approximately \$328,000, FCPS advised us that it selected the vendor after it deemed that the cost proposal for the original vendor was excessive and the vendor declined to negotiate a lower cost. However, the contract file did not contain any documentation to support this decision, and the related Request for Proposal did not identify cost as a factor in the selection process, nor had FCPS predetermined an acceptable cost prior to bidding. Without supporting documentation, FCPS cannot adequately demonstrate that this contract was fairly awarded.

## Recommendations

12. FCPS should enhance the effectiveness of its facilities maintenance operations by including estimated time and materials, at least for significant projects, in its automated work order system, and comparing these to the actual results. FCPS should also ensure that all preventive maintenance and custodial tasks are performed timely and that such performance is documented on a work order and reviewed to ensure compliance with quality standards.
13. FCPS should ensure that procurement policies are applied consistently to all architectural service contracts and that awards are properly documented.



# Chapter 8

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## Transportation Services

Based on FCPS and MSDE data, FCPS' cost per rider and per mile are below those of similarly-sized systems (see Table 3 on the following page). We also noted that FCPS uses various practices designed to efficiently transport students, including the implementation of automated routing software. However, FCPS had not established formal performance measures, which could yield further efficiencies, or a process to ensure that established bus capacity and student ride time goals were attained. We also noted that FCPS did not monitor the use of over 700 fuel credit cards, even though the credit card vendor reported certain questionable purchases. FCPS did not assess the rationale or reasonableness of the assignment of many of the FCPS' 322 non-student transportation vehicles to FCPS personnel or perform a formal analysis of the costs and benefits of continuing to operate its own bus service.

## Background

FCPS is the seventh largest school system in Maryland, based on student enrollment. Based on land area, Frederick County is the largest county in the State. FCPS is responsible for the safe transportation of approximately 34,300 students of which 2 percent are disabled. For 2007, FCPS operated its own fleet of 437 buses, which included 19 spare vehicles. In addition, special needs students are transported on 13 buses owned by contractors hired

by FCPS. In 1997, FCPS converted from contractor-based transportation services to primarily in-house following an IRS ruling that bus contractors were acting as employees, rather than independent contractors, and after an analysis that indicated in-house operations could be more cost-effective.

Fiscal year 2006 transportation costs totaled approximately \$17.2 million, with 8 percent representing payments to bus contractors. Of the 6,651,616 reported route miles for the 2005-2006 school year, 24 percent were for transporting disabled students.

**Table 3**  
**Comparison of Transportation Costs per Rider and per Mile**  
**Fiscal Year 2006 (Unaudited)**

School System	Number of Eligible Riders		Miles (in thousands)		Expenditures (in thousands)	Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
Frederick Co.	33,502	836	4,970	1,582	\$17,153	\$500	\$2.62
Howard Co.	40,117	1,213	3,569	1,766	26,999	653	5.06
Anne Arundel Co.	53,698	1,651	6,207	3,427	34,772	628	3.61
Harford Co.	35,193	702	5,032	1,707	20,651	575	3.06
Carroll Co.	27,538	597	3,631	1,747	16,462	585	3.06
Average of Comparable Schools	39,137	1,041	4,610	2,162	\$24,721	\$610	\$3.70

Source: MSDE 2005-2006 Fact Book

## Several Best Practices Were In Place to Enhance Bus Route Efficiency and to Reduce Transportation Costs

The FCPS Transportation Department used several practices to enhance bus route efficiency and/or to reduce associated costs:

- Staggering school arrival and dismissal times so buses can make multiple runs in mornings and afternoons.<sup>7</sup>
- Implemented automated routing software.

<sup>7</sup> The current staggering allows FCPS buses to typically make one run to a middle-high school and one run to an elementary school each morning and afternoon.

- Establishing a walking distance policy to determine eligibility for transportation services.
- Assigning bus routes to drivers based on proximity to reduce the amount of miles driven with no students on the bus (that is, deadhead miles). Also, providing fuel cards to drivers to minimize deadhead miles and time required to refuel buses.
- Obtaining fuel under a cooperative agreement with Frederick County.

## More Can Be Done To Ensure Cost-Effective Operations

### **FCPS needs to assess its current fleet of non-student transportation related vehicles**

– FCPS currently maintains 322 other vehicles (47 cars, 237 trucks/vans and 38 other specialized vehicles) in addition to its 437 school buses. Currently, vehicles are purchased when FCPS deems additional vehicles are needed and when funds are available in departmental budgets, instead of documenting or otherwise formally assessing need based on factors such as vehicle mileage, availability, and maintenance costs. Based on data provided by FCPS, we noted that 86 vehicles traveled 5,000 miles or less during fiscal year 2007, which calls into question the need for many of these vehicles; especially as 21 new vehicles were purchased during that year at a cost of \$446,000.

Furthermore, the Superintendent is authorized to annually assign FCPS-owned vehicles to specific employees and allow individuals to use these vehicles for commute purposes (with a bi-weekly payment for this benefit). FCPS regulations include certain factors to be evaluated when considering the assignment of a vehicle. For example, the need for a vehicle must be consistent with the employee's job responsibilities and the estimated number of miles to be traveled during the year to successfully execute those responsibilities. During the current school year 33 of the 322 vehicles have been assigned to employees (10 of which were used for commuting). We noted that the annual authorization assigning vehicles to these 33 employees was not documented for the current year. In addition, no authorizations were on file for the 10 FCPS employees assigned vehicles for commute purposes.

**Fuel credit card activity should be more closely monitored to ensure appropriateness of use** – FCPS did not monitor the issuance and usage of fuel cards assigned to employees operating FCPS-owned vehicles (including school buses). FCPS purchases about 1.5 million gallons of fuel annually from off-site locations. The issuance of fuel credit cards is necessary due to limitations of geography and timing of bus travel routes. FCPS contracted with two separate vendors to issue fuel cards. Our review of available documentation disclosed that over 700 cards had been issued; however, while cards could be matched by type of vehicle such as a school bus, FCPS personnel could not provide the names of employees to whom they were distributed. In addition, while one vendor reported system-defined exceptions on their monthly statements, FCPS personnel did not track or follow-up on questionable purchases identified. For example, in June 2007, the procurement card vendor reported that 49 fuel cards, known to be assigned to school buses, were used 156 times to purchase 6,441 gallons of unleaded fuel even though all school buses used diesel fuel. We were advised by FCPS that, although it questioned the accuracy of the data reported by the card vendor, it would investigate this matter after the new contract (which was in process) with this vendor was executed.

In addition, FCPS could not provide documentation that an approved contract had been obtained for one of the fuel card vendors. We were advised that the previous contract expired in 2006, and that payments to this vendor since that time were made via a direct payment method, instead of executing a purchase order. Consequently, Board approval of the related payments had not been obtained. Payments to this vendor during fiscal years 2006 and 2007 totaled approximately \$630,000. Without a signed contract, FCPS has limited recourse against this vendor for billing disputes. Furthermore, FCPS has no assurance that they are paying the most competitive price for fuel.

**Periodic cost-benefit analysis should be performed** – FCPS had not formally reevaluated its 1997 decision to directly operate all student transportation services to determine whether this continues to be cost-beneficial.<sup>8</sup> Such an evaluation should at least

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<sup>8</sup> The original decision was initiated by an IRS ruling prior to 1997 that found the bus contractors were operating as employees, and then a cost-benefit study that indicated in-house operations could be more cost-effective.

consider whether the most significant factors and assumptions for deciding to bring bus operation in-house are still valid. According to recent MSDE statistics as shown in Table 3 on page 42, FCPS student transportation costs are low compared to other similarly-sized systems, many of which contract out such services to private vendors. However, these statistics do not reflect all transportation costs. For example, costs reported by FCPS to MSDE<sup>9</sup> for transportation do not include costs related to employee health insurance. Including these costs would provide a more accurate determination of the true costs of operating the transportation services in-house.

## Efforts Should Be Taken to Enhance Effectiveness and Efficiency of Student Transportation

**FCPS should develop, track, and report to the Board formal performance measures and related results** – We were advised that the Transportation Department considered bus capacities, deadhead miles, drive times and other factors when developing bus routes; however, except for bus capacity and student ride time, there were no formal performance measures that incorporated such data to provide essential operational and financial information regarding student transportation services. The Transportation Department also had generally not developed formal benchmarks against which its operational effectiveness and efficiency could be measured (for example, transportation cost per student, bus operating costs per mile). The Government Finance Officers Association 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.

**FCPS should ensure the accuracy of student transportation data so that compliance with FCPS policies can be monitored** – Based on certain FCPS data provided to us, it

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<sup>9</sup> This condition is not indicative of a problem or omission on FCPS' part, as FCPS reports all costs in accordance with MSDE established financial reporting guidelines. MSDE financial guidance includes costs related to insurance in another reporting category.

appeared that FCPS was not always in compliance with certain of its policies. However, we were informed by FCPS personnel that the records provided could be misstated due to errors in the automated software currently being implemented. For example, FCPS guidelines state that elementary school routes should operate at 78 percent capacity, and middle/high school routes should operate at 65 percent capacity. Our review of documentation provided by FCPS for the 2006-2007 school year disclosed that 66 of 272 buses tested did not meet the capacity guideline. For example, based on FCPS data, 16 of these 66 buses operated at capacities of less than 40 percent. Without reliable data, FCPS cannot adequately determine compliance with established guidelines.

## Recommendations

14. FCPS should take action to increase the cost-effectiveness of bus operations and its non-student transportation vehicle fleet. Specifically, FCPS should analyze its current fleet of vehicles to ensure optimal use and that vehicle assignments are properly authorized and in accordance with FCPS policy. FCPS should also establish accountability over fuel cards, and ensure current approved contracts are executed with the related vendors. In addition, FCPS should use vendor reports to monitor card use, investigate existing reports that highlight possible misuse, and take appropriate disciplinary actions. Finally, a periodic cost analysis to determine the most cost effective method for providing transportation services should be prepared.
15. FCPS should develop, track, and report to the Board appropriate and reliable performance measures for transportation services and related results. FCPS should ensure the accuracy of student transportation data, monitor bus capacities for compliance with transportation policies (to the extent practicable), and ensure efficient use of its bus fleet.

# Chapter 9

## Food Services Operations

FCPS has implemented certain best practices in its food services operations, such as the use of performance measures and participation in the United States Department of Agriculture commodity program. FCPS also has adequate procedures in place to identify students eligible for free and reduced-price meals under the federal national school meal programs. Nevertheless, the FCPS food service operation is not financially self-sufficient and has operated with a net loss annually since 2000, with annual net losses ranging from approximately \$150,000 to \$800,000. In addition, FCPS has not conducted an analysis to identify the most cost-effective method of providing food services or otherwise attempted to analyze the reason(s) for the operating deficits incurred by the food service operations. Table 4 below also shows that the average cost per meal for FCPS exceeds that of similarly-sized systems. Finally, FCPS should ensure that all procurements and payments for food services are proper and should improve current record keeping practices over inventory.

**Table 4**  
**Comparison of Cost per Meal**  
**Fiscal Year 2006 (Unaudited)**

School System	Total Expenditures	Meals Served			Average Cost Per Meal
		Breakfast (paid, free, and reduced)	Lunch and Snacks (paid, free, and reduced)	Total	
Frederick Co.	\$10,328,068	563,706	2,640,136	3,203,842	\$3.22
Howard Co.	11,041,316	215,768	3,467,764	3,683,532	3.00
Anne Arundel Co.	18,153,997	1,207,998	5,222,578	6,430,576	2.82
Harford Co.	12,286,807	791,792	3,598,017	4,389,809	2.80
Carroll Co.	6,327,094	190,201	2,135,851	2,326,052	2.72
Average of Comparable Schools	\$11,952,304	601,440	3,606,053	4,207,492	\$2.84

Sources: MSDE 2006 Data

## Background

Ten of the 64 FCPS schools have cooking cafeterias, with those 10 schools responsible for purchasing food and related supplies. The remaining schools receive food prepared at another school. FCPS does not operate a self-sustaining food services operation, although it is intended to be self-sustaining. For fiscal year 2006, FCPS reported that operating expenditures exceeded revenues by over \$670,000. See Table 5 below for information regarding that year's food services.

**Table 5**  
**Food Service Facts for FY 2006**

<b>Average Cost per Meal</b>			<b>\$ 3.22</b>
 <b>Number of Meals Served:</b>			
Breakfast	Paid	249,847	
	Free	251,975	
	Reduced Price	61,884	563,706
Lunch	Paid	1,899,736	
	Free	539,149	
	Reduced Price	201,251	2,640,136
<b>Total Meals Served</b>			<b><u>3,203,842</u></b>
School locations served /kitchens			64/10
Full-time employees			141
Part-time employees			242
<b>Revenues:</b>			
Federal	Cash payments	\$2,487,352	
	USDA Commodities	408,919	\$2,896,271
Sales and other sources			6,627,361
State aid			130,349
<b>Total Revenue (all sources)</b>			<b>\$9,653,981</b>
 <b>Total Expenditures</b>			 <b><u>10,328,068</u></b>
 <b>Excess of Expenditures over Revenues</b>			 <b><u>\$(674,087)</u></b>

Sources: MSDE 2006 Data and FCPS FY 2006 Audited Financial Statements.

## Certain Best Practices Were in Place

### **FCPS has implemented several practices to contain food**

**services costs** – Even though operating deficits are common for FCPS, certain measures employed by FCPS should help to improve operational efficiency and to reduce food supply and material costs.

- FCPS used performance data, such as meals per labor hour and monthly reports of meals served, to track and monitor the operating efficiency at each of its school cafeterias.
- FCPS participated in the United States Department of Agriculture (USDA) commodities program, which is a free food program. According to FCPS records, \$409,000 in USDA commodities were received in fiscal year 2006.
- FCPS used standard serving sizes and recipes to economize on food purchases.
- FCPS used certain support schools to prepare food for other schools. Managers of the support schools oversee staff at the smaller schools.

### **FCPS uses several best practices to encourage participation in its free and reduced-price meal programs**

– These practices include using a family application process—instead of individual student applications—to simultaneously qualify more students for the free or reduced priced meal programs, advertising in the local newspaper, and obtaining information from the local Department of Social Services to identify eligible students. For fiscal year 2006, 80 percent of the FCPS students eligible to receive free lunches and 78 percent of the students eligible to receive reduced-price lunches actually participated in the programs. According to MSDE data, this participation rate is comparable to most other local school systems.

## More Could Be Done to Ensure Cost-Effective Operations

### **FCPS should analyze alternatives for improving food**

**services operations** – Although food services operations are intended to be self-sufficient, the operations have experienced a net

loss from operations for the past eight fiscal years (see Table 6 on the following page). While certain non-operating sources, such as capital contributions, have helped support the food services operations, the food services fund has maintained a negative unreserved fund balance as well (see Chart 2 below).

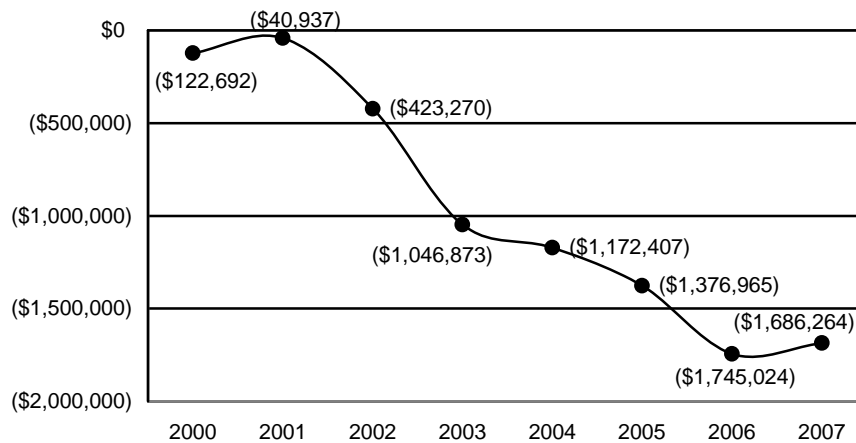
**Table 6**  
**Results of Food Service Operations and Unreserved Fund Balance**  
**Fiscal Years 2000 to 2007**

Fiscal Year	Unreserved Fund Balance	Operating Income (Loss) ❶
2000	\$ (122,692)	\$(392,855)
2001	(40,937)	(148,687)
2002	(423,270)	(795,150)
2003	(1,046,873)	(787,865)
2004	(1,172,407)	(490,091)
2005	(1,376,965)	(574,125)
2006	(1,745,024)	(674,087)
2007	(1,686,264)	(670,594)

❶ - Represents income/(loss) from operations before any capital contributions.

Source: FCPS Financial Statements

**Chart 2**  
**Food Services Unreserved Fund Balance**  
**Fiscal Years 2000 to 2007**



Although FCPS had not formally analyzed the cause(s), management has offered numerous explanations for the continued deficits. These explanations include the Board policy of extending fringe benefits to temporary employees resulting in additional expense, USDA nutritional guidelines preventing FCPS from offering more profitable a la carte options on their menu, and FCPS calendar changes (for example, early dismissal) resulted in daily revenues 20 percent to 40 percent lower than regular school days.

During the course of our audit work, FCPS management solicited consultant services for the analysis of operating alternatives (that is, outsourcing). At its November 7, 2007 meeting, the Board voted against retaining a consultant to advise on the food services operations due primarily to the contract cost. FCPS had not examined other methods that could potentially improve profitability, such as participating in food services cooperatives and the use of third parties to process USDA commodities into ready-to-serve items; both practices having been identified in other school systems as cost-saving best practices.

**Record keeping practices could be enhanced to improve accuracy and control** – Current procedures require all food and food-related items purchased by the 10 schools with working cafeterias to be recorded in detail records maintained at the school. The same employees who maintained the records at each school also placed and received orders of food and related supplies and are primarily responsible for the inventories. Adequate separation of duties is impractical, given the limited number of personnel available at each school; however, FCPS did not provide any centralized periodic monitoring (such as random test counts of amounts on hand) as a safeguard to ensure proper inventory control and accountability.

In addition, detail inventory records maintained for food related inventory maintained by the central warehouse did not always accurately reflect amounts on hand. Our test of 15 food items recorded in the detail records at the central warehouse costing \$56,400 disclosed 5 items costing \$17,172 that were not properly recorded, as quantities were both overstated and understated in the detail records. According to FCPS' records, food service inventories at June 30, 2007 totaled approximately \$435,000.

## Recommendation

16. FCPS should formally analyze and consider alternatives to its current food services operations to improve the financial condition of the operations. Furthermore, FCPS should consider implementing additional controls to ensure the accuracy of inventory records.

# Chapter 10

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## School Board Operations and Oversight

Detailed policies have been adopted to govern actual Board operations and the Board meets with the certified public accounting firm to review the results of the annual FCPS financial statement audit and the federal Single Audit. FCPS also has an internal auditor who is actively involved in reviews of financial areas. In addition, the Board is actively involved in the development of the FCPS annual budget. However, certain processes could be improved. For example, the Board is not provided with financial or operational performance measures to help monitor implementation of the budget and Master Plan. While the Board had implemented a Code of Ethics that applies to all staff, the Board should consider a mechanism to receive confidential information about suspected fraud, waste, or abuse.

## Background

FCPS is governed by a seven-member board elected by the voters of Frederick County. By law, the members must be residents of Frederick County. The Board operates a number of committees (such as Finance, Policy, and Human Resources). In its oversight responsibilities, the Board contracts with a certified public accounting firm for independent audits of the FCPS financial statements and federal grant programs. The board receives monthly updates from FCPS management personnel on a broad range of financial and academic topics.

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

### **Vision**

Education is the foundation of our community. Frederick County Public Schools System educates its students to become caring, respectful, and responsible citizens and family members. Students look forward to school each day. They take full advantage of the rigorous academic curricula and strive to develop their talents. They utilize the power of technology to explore a world of new ideas and information. They acquire the knowledge and skills to achieve and the confidence to succeed, and are rewarded with a wide choice of offers from higher education and employers. Outstanding applicants compete to join our system. Employees enjoy the respect of students and the community, opportunities for professional growth, and recognition for their contributions to our system. They value each student and create a learning climate where students can reach for their dreams. Parents, public officials, businesses and citizens actively support our commitment to challenge all students to achieve their potential. The board of education and school system staff embrace the community's contributions and are responsible stewards of its resources. Parents choose to send their children to our schools. Businesses and families move to Frederick County because of our schools. Other school systems emulate us.

### **Mission**

Working together to education each child and promote success.

### **System Goals**

- *All students will demonstrate the knowledge and skills necessary to meet graduation standards and achieve their potential.*
- *All schools will be safe and inviting, with a climate that fosters learning and character development.*
- *All employees will be highly qualified, motivated and effective.*
- *All sectors of the community will be engaged in the education of our children.*
- *Frederick County Public Schools will advocate for adequate resources to achieve these goals and manage these resources in a publicly accountable and cost-effective manner.*

Source: FCPS Board Policy

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

**The Board uses a number of methods to oversee the operations of FCPS** – The Board contracts with an independent certified public accounting firm to perform audits of its financial statements and federally-funded grant programs, and annually meets with that firm to review the results. The Board contracts with an independent internal auditor who, while organizationally reporting to the head of the Finance Department, routinely provides assessments to the Board of FCPS compliance with Board policies. The internal auditor performs annual reviews of student fund activity at all schools and assesses compliance with Board policy and FCPS procedures in certain financial-related areas. The Board is also actively involved in the development of FCPS' annual budgets.

**A detailed ethics policy has been established** – The FCPS Board has adopted a detailed conflict of interest policy that covers Board members as well as all FCPS employees, and specifically identifies those supervisory employees (including certain employees with procurement responsibility) required to file annual financial disclosure statements. This policy also covers conflicts of interest and conforms to State law. FCPS maintains an Ethics Panel (composed of five persons appointed by the Board) to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. We reviewed the related statements for calendar year 2006. All persons required to file disclosure statements did so, and our review did not disclose any issues of potential audit significance.

## The Board Should Consider Additional Steps to Assist It in Governing FCPS

**The Board should implement financial performance measures to assist it in managing FCPS** – The Board does not receive any key performance indicators related to the financial operations of FCPS. Without this information, it is difficult for the

Board to evaluate the progress of its budget and Master Plan. Examples of useful performance measures would include cost comparisons such as facility cost per student and explanations for any budget variances. 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 Board should consider implementing a formal process, including a fraud hotline, to help detect fraud, waste or abuse** – FCPS did not have a fraud hotline or whistleblower program that encouraged reporting suspected fraud, waste, or abuse and protected workers. Such a process is advocated by a number of private and public entities, including the Institute of Internal Auditors and the American Institute of Certified Public Accountants.

## Recommendation

17. FCPS should take action to improve Board oversight. These actions should include receipt of periodic performance measures. In addition, FCPS should consider establishing a confidential fraud hotline and a whistleblower policy related to employee reporting of fraud, waste, or abuse.

# Chapter 11

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## Other Financial Controls

This chapter addresses the management of cash, risk, and long-term debt, such as lease/purchase agreements entered into by FCPS, and the potential for outsourcing opportunities. While FCPS had procedures in place to govern its risk management, it needs to adopt policies governing its investment strategies and use of long-term debt.

### FCPS Has Taken Action to Protect Itself Against Losses and Future Claims

**Risk management best practices were in place** – For risk management, FCPS uses a combination of self-insurance, membership in the Maryland Association of Boards of Education (MABE) Workers Compensation Pool, and commercial insurance. FCPS self insures for health insurance and purchases additional coverage in excess of self insurance amounts. According to the audited financial statements, settled claims had not exceeded coverage for fiscal years 2006 and 2007. Also, FCPS used workers compensation loss data provided by MABE to enhance safety training in areas with the greatest claims and has established initiatives such as a return-to-work program to help reduce workers compensation costs. FCPS purchases commercial insurance as coverage for a variety of areas including property, general liability, and physical damage.

## Formal Investment and Debt Management Policies Have Not Been Established

FCPS had not adopted policies governing investments or its use of long-term debt to finance operations, as recommended by the Government Finance Officers Association (GFOA). According to FCPS' fiscal year 2006 and 2007 audited financial statements, FCPS used the Maryland Local Government Investment Pool.

While FCPS is not permitted to issue bonds or other long-term debt instruments to finance capital or operational needs, it does use lease/purchase agreements to purchase equipment items such as buses. According to the 2007 financial statements, FCPS' long-term liabilities related to lease/purchase agreements total approximately \$4.7 million.

### Recommendation

18. FCPS should adopt a formal policy governing investments and a formal policy governing long-term lease/purchase debt, in accordance with GFOA best practice recommendations.

# Audit Scope, Objectives, and Methodology

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## Scope

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

## Objectives

We had two broad audit objectives:

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

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

objectives of our local school system audits, was approved on September 14, 2004 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. As approved, the audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. We also did not review the activities, financial or other, of any parent teacher association, group, or funds not under the local board of education's direct control or management. Finally, we did not evaluate the FCPS 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 FCPS. We also interviewed personnel at FCPS, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate<sup>10</sup>). Our audit procedures included inspections of documents and records, and observations of FCPS 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, 2006 through June 30, 2007. For our audit work on revenue and federal grants, we primarily relied on the results of an independent audit of fiscal year 2006 and 2007 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. For comparison purposes, information provided was generally limited to those Maryland school

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<sup>10</sup> During the course of the audit it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

systems of similar sizes, based on student enrollment and/or system budget. In many cases, this information was self-reported by the school systems. The data were neither audited nor independently verified by us.

### **Other Independent Auditors**

When developing the approach for the audits of school system financial management practices, a consideration was the reliance on the work of other independent auditors to the extent practicable to avoid unnecessary duplication of audit effort. With respect to FCPS, the results of other auditors that we considered were reported in three distinct audit reports: one related to the administration of its federal grants, another was the management letter from the audit of its financial statements audit, and the third was the independent audit of the School Activities Fund.

During the course of this audit, we relied on these results. We performed certain steps to satisfy ourselves as to the reliability of the reported results of the independent federal grants audits of the FCPS fiscal year 2006 and 2007 federal financial assistance programs for the evaluation of internal controls and compliance with federal laws and regulations and the FCPS fiscal year 2006 and 2007 financial statement and School Activity Fund audits. Accordingly, we significantly reduced the scope of our work in Chapter 1 "Revenue and Billing Cycle," and in Chapter 2 "Federal Funds."

### **Limitations of Internal Control**

FCPS 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 FCPS that did not warrant inclusion in this report.

## Fieldwork and FCPS Responses

We conducted our fieldwork from April 2007 to October 2007. The FCPS response to our findings and recommendations is included as an appendix to this report.

APPENDIX



**Frederick County Public Schools**

115 East Church Street • Frederick, Maryland 21701

Dr. Linda D. Burgee, Ed.D.  
Superintendent of Schools

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June 3, 2008

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

Dear Mr. Myers:

Enclosed are the responses to the recommendations outlined in the "Financial Management Practices Audit Report" for Frederick County Public Schools dated May 2008.

We would like to thank you and your staff for your professional audit and both your areas of recommendations and your mention of areas of best practices here at FCPS.

Sincerely,

A handwritten signature in cursive script that reads "Linda D. Burgee".

Linda D. Burgee  
Superintendent of Schools

**Frederick County Public Schools (FCPS)  
Financial Practices Performance Audit**

**Recommendations and Responses**

**1. Recommendation**

FCPS should improve controls over central accounting office collections and related accounts receivable by ensuring a proper segregation of duties.

**Response**

FCPS agrees with this recommendation and FCPS has modified the access for the two employees noted so to ensure proper segregation of duties.

**2. Recommendation**

FCPS should ensure that CASS program expenditure guidelines are sufficiently comprehensive and include the specific types of expenditures permitted using program funds and maximum amounts that can be expended per student and household. FCPS should also require signed documentation to provide evidence that the benefits of goods and services purchased were received by those intended.

**Response**

FCPS agrees and have made the appropriate changes effective July 1, 2007 to the CASS guidelines to provide specifics as to the type of expenditures that can and cannot be made using CASS program funds and the maximum amounts that can be expended per household and student. Also, CASS has required signatures from the recipient of receipt of all gift cards or payments.

**3. Recommendation**

FCPS should implement effective internal controls over its automated purchasing and disbursement system. Such controls should include segregating employee duties and expanding the periodic comparison of checks to source documents to include voucher requests. In addition, FCPS should formally modify its policy to clarify Board responsibilities related to sole source contracts.

**Response**

FCPS accepts the recommendation regarding internal controls and are currently taking appropriate steps to improve internal control practices in the procurement and payable system.

FCPS also agrees to present to the Board for their consideration amending its policy to require Board approval of sole source procurements in excess of \$25,000. Currently, FCPS Regulation No. 200-7 (Purchasing Regulations) govern sole source purchases and the audit did not disclose evidence that this regulation was ineffective. Review of requests for a single and/or sole procurement is not only scrutinized by members of the Purchasing Supervisory

staff for approval of the request, but also receives additional review/approval from either the Executive Director of Fiscal Services and the Superintendent of Frederick County Public Schools.

**4. Recommendation**

FCPS should ensure that approved travel documentation is not returned to the preparer to be submitted for payment, and that travel is approved in advance in accordance with existing policy.

**Response**

FCPS accepts this recommendation. FCPS has implemented changes in current processes to ensure all expenses are approved by an appropriate supervisor prior to payment.

**5. Recommendation**

FCPS should ensure that controls are improved over its credit card process including proper segregation of duties, clarification of policy regarding appropriate uses of credit cards and required documentation and monitoring of card activity.

**Response**

FCPS agrees with this recommendation and has already made changes to the procurement instructions, processing and approval processes. Current card holders have already been notified a procurement card cannot be used to purchase gift cards. FCPS will proceed accordingly to tighten controls to ensure a separation of duties for card initial requests, approvals, and card distribution, as suggested in the recommendation.

**6. Recommendation**

FCPS should take the necessary corrective actions to ensure that adequate internal controls are in place over the automated human resource and payroll system. Specifically, job duties should be segregated and an independent review and approval process should be established over payroll-related changes recorded in the system.

**Response**

FCPS agrees with this recommendation. FCPS can authenticate the legitimacy of hire/rehire actions entered into the Payroll system by comparing the authorizing source documents to the "Action Report". The Action Report is generated by the HRIS system. Source documents (Job Data Change Forms) received in Human Resources are authorized by a manager, entered into the HRIS system, and electronically (or hardcopy) forwarded to the Payroll Department. An Action Report will be run each pay period that yields a listing of all hires/rehires entered. The Action Report/Job Data Change Form comparison review will be assigned to a supervisor or appropriate staff person outside the entry process.

**7. Recommendation**

FCPS should develop a minimum dollar threshold for sensitive items, over which consistent accountability would be established (that is recordation and periodic physical inventories), including tagging or otherwise identifying items as FCPS property.

**Response**

FCPS agrees that controls are needed for sensitive items. FCPS plans to establish a policy for sensitive items. This policy will include a definition of a sensitive item, the dollar value threshold for tracking such items and the procedures for tracking these assets. This policy will be established by the end of Fiscal Year 2008.

**8. Recommendation**

FCPS should enhance existing policies governing textbook accountability by maintaining a comprehensive, centralized inventory.

**Response**

FCPS agrees with the recommendation. The Associate Superintendents and appropriate FCPS staff are investigating the feasibility of adding modules to the new library automation system that would assist FCPS in maintaining a centralized inventory of textbooks.

**9. Recommendation**

FCPS should implement appropriate security measures to safeguard its applications and data systems, and should adopt a formal information technology security policy.

**Response**

FCPS agrees with the recommendation and currently has an Information Technology Security Policy. The policy will be reviewed on an annual basis to make any necessary updates or modifications to reflect new technologies planned and adopted by FCPS.

**10. Recommendation**

FCPS should establish physical controls and safeguards over its computer operations and institute appropriate backup procedures.

**Response**

FCPS agrees with this recommendation and has already implemented key card access to control and safeguard physical access to our data operations center. Backup procedures are being reviewed and adjusted as necessary.

**11. Recommendation**

FCPS should consider a centralized inventory system for all its computer hardware and software for recordkeeping purposes and to facilitate monitoring and more efficient planning.

**Response**

FCPS agrees and has recently completed the implementation of a solution that keeps inventory of all network connected hardware and software.

**12. Recommendation**

FCPS should enhance the effectiveness of its facilities maintenance operations by including estimated time and materials, at least for significant projects, in its automated work order system and comparing this to actual results. FCPS should also ensure that all preventive maintenance and custodial tasks are performed timely and that such performance is documented on a work order and reviewed to insure compliance with quality standards.

**Response**

FCPS agrees with this recommendation. The Maintenance and Operations Department estimates and tracks project costs for activities that fall outside of routine maintenance and repair. FCPS agrees that all scheduled preventative maintenance should be performed properly and timely. FCPS is currently evaluating automated and manually preventative maintenance systems to select an adequate system to monitor FCPS' maintenance programs. Evaluation of systems will take into consideration the significant costs of the programs and funding for the programs have yet to be identified.

**13. FCPS should ensure that procurement policies are applied consistently to all architectural service contracts and that awards are properly documented.****Response**

FCPS agrees that procurement processes should be consistently applied when applicable and awards should be properly documented. On March 26, 2008, modified procedures were approved by the Board that clarified the selection criteria, procedures and documentation that were noted as deficiencies in prior draft findings and recommendations of the State Legislative Auditor's Report. The new procedures were incorporated into FCPS Purchasing Department Procedure #OP030.

**14. Recommendation**

FCPS should take action to increase the cost-effectiveness of bus operations and its non-student transportation vehicle fleet. Specifically, FCPS should analyze its current fleet of vehicles to ensure optimal use and that vehicle assignments are properly authorized and in accordance with FCPS policy. FCPS should also establish accountability over fuel cards, and ensure current approved contracts are executed with the related vendors. In addition, FCPS should use vendor reports to monitor card use, investigate existing reports that highlight possible misuse, and take appropriate disciplinary actions. Finally, a periodic cost analysis to determine the most cost effective method for providing transportation services should be prepared.

**Response**

FCPS agrees with this recommendation and will analyze the current fleet of vehicles to ensure optimal use and ensure that authorization to use system-owned vehicles while on and off duty is properly documented.

FCPS agrees that fuel credit card activity should be monitored for appropriateness of use. Fuel contracts for one of the vendors have been obtained since the discussion phase of this audit and FCPS is working towards obtaining the second vendor's contract or discontinuing usage of their cards if a contract can not be obtained by June 30, 2008.

FCPS agrees with the recommendation to use vendor reports to monitor card use, investigate existing any variances and take appropriate actions. But FCPS has questioned the source of the audits recommendation. The Wright Express invoice (June 2007) stated there were 6,441 gallons of unleaded fuel purchased by diesel fueled school buses. FCPS' internal fuel transaction report for the month of June 2007 did not identify this type of fuel usage. Also the Wright Express summary information did not match the detail information on the same invoice.

FCPS agrees to the need for periodic financial analyses of the student bus service and vehicle maintenance services.

**15. Recommendation**

FCPS should develop, track and report to the board appropriate and reliable performance measures for transportation services and related results. FCPS should ensure the accuracy of student transportation data, monitor bus capacities for compliance with transportation policies (to the extent practicable), and ensure efficient use of its bus fleet.

**Response**

FCPS agrees with this recommendation and will be reviewing the list of suggested performance measures and implementing those that are most applicable to our school district. Also FCPS agrees that FCPS should verify student transportation data and use the data to ensure efficient use of FCPS' bus fleet.

**16. Recommendation**

FCPS should formally analyze and consider alternatives to its current food services operations to improve the financial condition of the operations. Furthermore, FCPS should consider implementing additional controls to ensure the accuracy of inventory records.

**Response**

FCPS agrees that periodic financial analyses of the food service operations are necessary. As noted in the legislative auditors report, the Board just rejected bids for such a study due to the cost of the review. Future analyses will depend on Board's direction and willingness to change current operational practices.

FCPS agrees that proper inventory accountability is important to the food service operations. Procedures are in place to ensure that proper inventories are taken on a timely basis and variances are researched and corrected. Year end procedures will be amended to include review of year end inventories and sample testing of the counts by an independent agent or employee. FCPS will enhance their documentation of the centralized review of the inventory information to include the ratios which are reviewed and research steps taken to research variances.

**17. Recommendation**

FCPS should take actions to improve Board oversight. These actions should include the receipt of periodic performance measures. In addition, FCPS should consider establishing a confidential fraud hotline and a whistleblower policy related to employee reporting of fraud, waste or abuse.

**Response**

FCPS agrees that steps should be taken to improve board oversight. FCPS will review various performance measures and review the current policy governing board members communication with System staff. FCPS will consider and research creating a fraud hotline or similar tool. Should such a tool be created there will be formal follow-up procedures.

**18. Recommendation**

FCPS should adopt a formal policy governing investments and a formal policy governing long-term lease/purchase debt, in accordance with GFOA best practice recommendations.

**Response**

FCPS agrees with the need for a formal written policy on cash management practices and the use of lease/purchase agreements. It is important to note that FCPS does not have the authority to issue long term debt and all lease agreements contain an appropriation clause which terminates a lease should sufficient appropriations not be approved for a given fiscal year.

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