Financial Management Practices Performance Audit Report

Kent County Public Schools

May 2007

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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May 11, 2007

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

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Kent County Public Schools (KCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. KCPS is the smallest public school system in Maryland based on the number of students enrolled. The educational services are delivered in eight schools, with fiscal year 2006 operating expenditures of $27.4 million. The objectives of this audit were to evaluate whether KCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

Our report contains 15 recommendations. KCPS needs to make certain enhancements to its existing financial management systems and processes and needs to implement adequate safeguards over procurement, payroll, and its equipment inventory. Furthermore, KCPS should address the underutilization of school buildings and improve oversight of its transportation operations. For example, we identified a need for KCPS to take appropriate action to address significant underutilization of its school buildings since only 60 percent of available space is used. In addition, certain components of the formula used to establish bus vendor reimbursement rates should be reevaluated, as they appear to result in unnecessarily high reimbursements. Finally, also included in this report are instances of processes and best practices that we found to be in place in KCPS that help ensure the efficient use of resources.

An Executive Summary of our findings can be found on page i, immediately following this cover letter, and our audit scope, objectives, and methodology are explained on page 57. We wish to acknowledge the cooperation extended to us during our audit by KCPS.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Executive Summary

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

Revenue and Billing Cycle (see pages 7 through 9)

According to the audited June 30, 2006 KCPS financial statements, $35.5 million in revenue was received from all sources during fiscal year 2006, the vast majority of which was received via wire transfer from other governmental entities. Procedures and controls for the majority of revenue sources and accounts receivable were found to be adequate.

Federal Funds (see pages 11 through 13)

Annually, KCPS is subject to an audit of its federally-funded programs (often referred to as the Single Audit, a requirement of Circular A-133, which is issued by the U.S. Office of Management and Budget). Due to parallels between that work and the scope of our audit, we placed significant reliance on the results of the independent audit of the fiscal year 2006 grant activity, for which reported expenditures totaled $3.5 million. The related report stated that KCPS 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.

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

Procurement and Disbursement Cycle (see pages 15 through 19)

KCPS should ensure that it complies with its existing policies that require the use of competitive bidding for goods and services costing more than $15,000, and that formal contracts be prepared. Also, KCPS should develop a formal policy regarding the appropriate use of sole source procurements, and the related documentation requirements. KCPS should determine if it would be cost beneficial to obtain goods and services from new vendors, when existing long-term contracts expire rather than renewing those contracts or entering into new contracts with existing vendors (effectively treating them as sole source vendors). Finally, KCPS exercised appropriate controls over corporate purchasing cards and travel expenditures.

Human Resources and Payroll (see pages 21 through 24)

KCPS employed 600 full-time and part-time employees during 2006 with an associated payroll cost of $20.5 million. KCPS exercises position control and fills vacant positions through the use of a centralized hiring and approval process to help control payroll costs. KCPS should establish procedures to independently verify the propriety of changes posted to its payroll records on the automated financial management system. Although KCPS had implemented workforce planning, it was not comprehensive, as it did not address the needs and processes for employees other than teachers and related instructional positions.

Inventory Control and Accountability (see pages 25 through 26)

Formal procedures have been established governing the purchase and disposal of all property, including textbooks; however, KCPS could improve its existing procedures over the recordkeeping of its equipment inventory which, according to its records, had a June 30, 2006 value of $5.8 million.

Information Technology (see pages 27 through 29)

A master technology plan, which is periodically updated to address current and future school needs, has been developed. However, several areas are in need of improvement, including IT system user access, and security and computer center operations. For example, KCPS did not have a formal IT disaster recovery policy in place and was not making full use of certain IT system features designed to restrict or detect unauthorized or unnecessary employee access to systems and programs.

Facilities Construction, Renovation, and Maintenance (see pages 31 through 37)

KCPS uses a staff of 35 custodial and maintenance personnel under the supervision of a contractor to maintain its nine facilities, including eight schools. KCPS uses a comprehensive and public process to plan for renovation of school facilities. Plans are long-term, are updated annually, and reflect input from the Board. KCPS has also adopted a number of State required guidelines and practices for the procurement and monitoring of construction and renovation projects. KCPS should take appropriate action to address significant underutilization of its school facilities. Additionally, KCPS should ensure the routine inspection of all facilities is completed as required by internal policies, should improve its processes related to energy management, and should better use its work order system to manage its maintenance operations.

Transportation Services (see pages 39 through 43)

Due to its small size, KCPS provides transportation services to the lowest number of students and travels fewer miles than almost any other school system. KCPS uses 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. However, KCPS did not have policies in place addressing bus capacity goals and maximum student ride times. In addition, the KCPS Board-approved payment methodology includes one cost component that appears to result in higher than necessary payments for student transportation services. Finally, KCPS has not performed a cost/benefit analysis to determine if it should continue to outsource transportation services.

Food Services Operations (see pages 45 through 49)

KCPS currently uses a number of best practices in its food services operations. For example, it uses certain performance measures (such as meals per labor hour) to monitor the efficiency of its operations. KCPS also uses available USDA commodities and has procedures in place designed to maximize participation in the National School Meal Program. Internal controls over cafeteria collections and related food procurements should be improved.

School Board Operations and Oversight (see pages 51 through 54)

The five-member Board has adopted policies governing the operations of the Board and KCPS. In addition, financial information is made available to the proper parties (such as principals and administrative supervisors) in a timely and consistent manner. While the Board had processes in place to oversee the KCPS financial position, it did not use an internal audit function to act as an independent reviewer of KCPS operations. Finally, the Board had adopted a detailed ethics policy that applies to Board members and to all KCPS employees.

Other Financial Controls (see pages 55 through 56)

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

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Background Information

Oversight

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

Statistical Overview

According to MSDE student enrollment records, KCPS has the smallest student enrollment among the 24 public school systems in Maryland. From fiscal year 1996 to 2005, the average annual full-time regular and special education pupil population has decreased 8.3 percent from 2,651 to 2,430, with MSDE projecting further decreases in the coming years (to a projected low of 1,940 in 2012 before a projected increase to 1,970 in 2015). Presently, KCPS has eight schools, consisting of four elementary, three middle, and one high school. A review of the budget history from fiscal year 1996 to 2006 disclosed an increase in the KCPS total operating expenditures from $17 million in fiscal year 1996 to $27.4 million in fiscal year 2006. The largest expense category is salaries, wages, and benefits, accounting for 75 percent, which supported about 340 budgeted full-time positions in fiscal year 2006, consisting of 240 instructional and 100 non-instructional employees.[1]

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.

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

External Audit of Fiscal Year 2006 Activity

Annually, KCPS 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 KCPS federal grant programs (as required by federal regulations). The two resulting audit reports for the 2006 fiscal year were issued in August and December 2006. Student activity funds are also subject to annual audit by the firm, including a review of internal controls. None of the resultant reports included any reportable conditions nor any significant findings on KCPS record keeping, processes, and controls.

Maryland Quality Award

In March 2003, KCPS was awarded the Gold Maryland Quality Award for 2002 from the Maryland Technology Enterprise Institute (MTECH) of the University of Maryland. According to MTECH, one of the purposes of this Program is to recognize organizations whose performance is worthy of emulation. Recipients of this award, which is part of the Maryland Performance Excellence Award Program, have demonstrated evidence of systematic leadership practices, a strong customer focus, a clear process for setting strategic direction, information systems that create a customer focus and permit fact-based decision making, and human resource systems that lead to employee growth and development. Six recipients earned a Maryland Quality Award or a certificate of recognition in 2002. Among these six, KCPS was the only school system to be recognized and the only Gold Award recipient.

Chapter 1

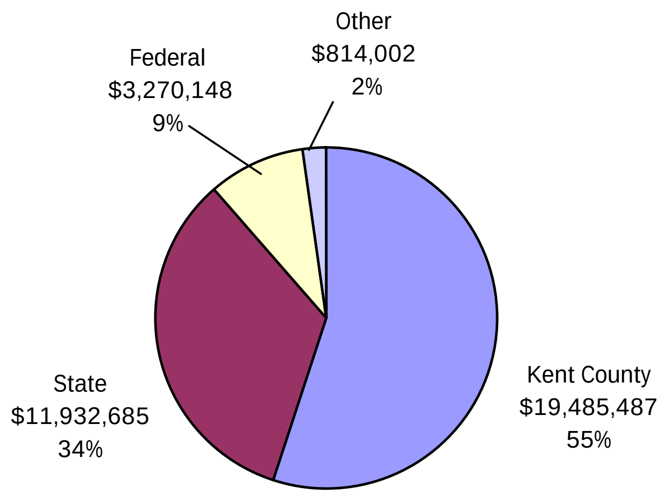
Revenue and Billing Cycle

According to the KCPS audited financial statements for the fiscal year ended June 30, 2006, $35.5 million in revenue was received by KCPS during fiscal year 2006. Because of similarities in the work of the certified public accounting firm in its independent audit of the KCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the firm's audit of the fiscal year 2006 financial statements for certain revenue transactions, including State, local and federal sources. The auditor's procedural review and testing did not disclose any findings impacting our audit related to the collection of the aforementioned revenue sources and related accounts receivable.

Background

KCPS revenues consist primarily of funds received from Kent County, the State, and the federal government, the vast majority of which was received via wire transfer. Other miscellaneous sources include receipts from the sale of food and facilities rentals. Chart 1 on the following page shows the allocation of the KCPS fiscal year 2006 revenues of $35.5 million by major source.

Chart 1
Sources of Fiscal Year 2006 Revenue



Source: KCPS fiscal year 2006 audited financial statements

In addition to the aforementioned revenues, schools also collect student activity funds for various purposes, such as yearbook and school trips. These school activity funds are accounted for separately by each school and reported, in summary, in the audited financial statements. As of June 30, 2006, student activity fund balances totaled $51,000 and the related fiscal year 2006 revenue totaled $240,000.

KCPS Revenue and Billing Cycle Activity Was Generally Adequate

Due to similarities between the work of the firm that audited the KCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the audit of the fiscal year 2006 financial statements. The auditor’s procedural review and testing disclosed no findings impacting our audit regarding the collection of significant revenues from State, local, federal, and other sources (such as food service receipts), or regarding the related accounts receivable. This activity included the use of wire transfers to process the related revenues. Student activity funds were also subject to audit by the firm, including a review of internal controls and bank account reconciliations. The results of this work, likewise, disclosed no reportable conditions.

Recommendations

None

Chapter 2

Federal Funds

Annually, KCPS is subject to an audit of its federally-funded grant programs (often referred to as the Single Audit, a requirement of Circular A-133, which is issued by the U.S. Office of Management and Budget). The report on the audit of KCPS fiscal year 2006 federal grant activity was issued by its independent certified public accounting firm on December 6, 2006.

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

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

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

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

Background

KCPS receives funds primarily from Kent County, the State, and the federal government. Most funds received from Kent County and from the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2006 expenditures of federal award funds totaled $3.5 million.

KCPS Established Adequate Internal Controls over Federal Grants and Complied With Federal Grant Requirements

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

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

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

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

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

Processes are in place for timely comparisons of services provided to each Medicaid-eligible student (such as speech therapy and psychological services) with the master list of eligible students and with each student's individual education plan to determine those eligible services to be billed to Medicaid. Additionally, KCPS timely submits reimbursement requests for services provided to eligible students, and safeguards are in place to ensure that federal reimbursement requests are only submitted for students transported for eligible services.

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

Our testing found that KCPS used available funding, totaling approximately $46,000 during fiscal year 2006, under the federal Schools and Libraries Universal Service Program (E-rate) to the extent authorized and permitted under funding commitment letters. The E-rate program provides discounts to assist schools to obtain affordable telecommunications and Internet access. Based on our testing, expenditures charged to the program and subsequently reimbursed were for authorized purposes.

Recommendations

None

Chapter 3

Procurement and Disbursement Cycle

Although certain procurement policies were in place, KCPS had not established a policy addressing the use of sole source procurements. Furthermore, compliance with existing policies could not always be documented. Our testing of invoices and the related procurements disclosed, for example, that formal contracts were not always prepared as required and, in a few instances, decisions not to obtain competitive bids were not documented. Similarly, we also noted that KCPS did not have a policy to determine if, at the expiration of original long-term contract periods, it would be cost-effective to conduct a competitive procurement for the related goods and services versus renewing the existing contract or simply entering into a new contract with the existing vendor. Finally, we noted that KCPS exercised appropriate controls over corporate purchasing cards and travel expenditures.

Background

KCPS generally uses a manual system for purchasing. Requisitions are manually prepared by the requesting department and must be approved by both supervisory personnel (such as the respective department head) and the chief financial officer. The finance office generates purchase orders and submits them to vendors. Purchases anticipated to cost more that $15,000 generally require bidding, which is handled by a central employee in the finance office with the assistance of the requesting unit. In addition, it is the Board's policy to approve all contract awards over $15,000. All invoices are submitted directly to the finance office. The ordering departments receive the goods and indicate such receipt by signing the purchase orders or other receiving documentation and by submitting them to the finance office where they are matched to the original approved purchase orders and invoices, before payment processing. Payments are processed through an automated system, which prints vendor checks and records the payments to the financial records. According to KCPS records, non-payroll related operating disbursements totaled $8 million (with an additional $7.5 million in capital expenditures) during fiscal year 2006.

Procurement and Contract Processes Need to Be Improved

KCPS should ensure that its procurement policies are comprehensive and adhered to by staff – The existing KCPS procurement policy did not address the use of sole source procurements. Additionally, existing requirements to document both the formal bid evaluations and the contractual arrangements were not always adhered to. KCPS has established policies and procedures for using competitive procurements to obtain goods and services which generally require that all items over $15,000 be obtained based on competitive bidding. Our test of six payments (to five different vendors), totaling $335,000, made during fiscal year 2006 disclosed deficiencies in the procurement of goods or services in five instances, including one instance of the required Board approval not being obtained. Our findings for these test items are noted on Table 1 on the following page.

Table 1 Test Results -- Invoices and Contracts				
Invoice Tested	Invoice Amount	Description of Goods / Services	Contract Value	Deficiencies Noted
1	$67,809	Architectural services	$872,300	There was no evidence of competitive procurement or justification for a sole source procurement.
2	106,832	Construction management	1,092,325	There was no documentation to support evaluation of bids and selection of contracted vendor.
3	4,794	Vending machine services	None included ❶	This contract was awarded as a sole source procurement without documented justification.
4	73,165	Computers	No contract ❷	No contract or purchase order was issued prior to the procurement. KCPS deemed the items to be available from only one vendor, but it did not document any justification for a sole source procurement. KCPS did not determine if other jurisdictions had a contract to obtain these goods, which may have provided for lower prices. Board approval was not obtained.
5	78,826	Computer leasing	236,477	None
6	4,000	Snow removal/grounds maintenance	No contract ❸	There was no contract or purchase order and a competitive procurement was not conducted.
Totals	$335,426		$2,201,102	

❶ Fiscal year 2006 payments totaled $50,000.
❷ Fiscal year 2006 payments totaled $115,000.
❸ Fiscal year 2006 payments exceeded $31,000.

KCPS should reevaluate its continued use of long-term contracts instead of more frequent competitive procurements – For several long-term contracts it was KCPS's practice, at the conclusion of the original term, to either exercise the available renewal option or enter into new contracts with the same vendors without formally considering the cost-effectiveness of the renewal or conducting competitive procurements. Table 2 on the following page includes three long-term contracts, one of which was renewed at the conclusion of its initial term and two for which KCPS entered into new contracts with the prior vendors (all three included cost/price increases and were approved by the Board), without conducting a new competitive procurement. Because of the length of the original contracts and the renewal periods, at least 10 years will pass without a competitive procurement for these goods and services.

Table 2 Ongoing Vendor Contracts and Services Renewed Without Consideration of New Procurement				
Service	Date Contract First Started	Initial Contract Term	Current Contract Period	Fiscal Year 2006 Payments
Transportation	July 1, 1997	5 years	July 1, 2002 to June 30, 2007	$1.4 million
Operations and Maintenance Management	July 7, 1988	5 years	July 1, 2005 to June 30, 2008	$415,000
Vending	July 1, 2000	5 years	August 2005 to August 2010	$50,000

While it may be beneficial to retain a vendor after the term of an original contract, the end of a contract term also provides an opportunity to determine if the needed goods and services are available at a more advantageous price or terms.

KCPS Has Established Policies to Control the Use of Credit Cards and Travel

KCPS has established policies designed to control the use of corporate purchasing cards and employee travel. Specifically, KCPS developed procedures to help ensure that credit card use is restricted to appropriate purchases and that purchases are reviewed and approved by supervisory personnel. In addition, policies define the conditions under which employees may be reimbursed for travel, including the requirement that all travel be approved in advance by the KCPS Superintendent or his delegated representative.

Recommendation

1. KCPS should ensure that it complies with its existing policies and procedures regarding competitive procurements, Board approval, bid evaluations, and contracts; and KCPS should also develop a sole source procurement policy. In addition, KCPS should formally analyze the costs and benefits of renewing contracts for needed goods and services when long-term contracts expire.

Chapter 4

Human Resources and Payroll

KCPS exercises position control and fills vacant positions by use of centralized hiring and approval of all new employees. This helps KCPS control payroll costs, which represent the largest category of expenditures. However, KCPS should address certain procedural deficiencies with respect to payroll processing. These include a lack of supervisory review of changes to payroll amounts paid and recorded in the automated financial management system, and unnecessary system access given to two employees. We also noted that, while KCPS had implemented workforce planning, it was not comprehensive, as it did not address the needs and processes for employees other than teachers and related instructional positions.

Background

According to KCPS records for fiscal year 2006, salary, wage, and benefit costs totaled $20.5 million and, as of October 2005, KCPS had 339 full-time equivalent employees, of which 101 were non-instructional. The ratio of KCPS students to full-time equivalent employees (both instructional and non-instructional) is reasonable when compared with similar-sized school systems (see Tables 3 and 4). Payroll costs represent the largest single cost component in the KCPS budget.

Table 3 Comparison of Student to Employee Ratios – Fall 2005 (Unaudited)			
School System	Number of Students (as of September 30, 2005)	Number of Full-Time Equivalent Employees (as of October 1, 2005)	Student to Employee Ratio
Kent Co.	2,440	339	7.2 to 1
Dorchester Co.	4,654	605	7.7 to 1
Talbot Co.	4,482	597	7.5 to 1
Garrett Co.	4,668	663	7.0 to 1
Somerset Co.	2,915	440	6.6 to 1

Source: MSDE Student/Staff Publications

Payroll processing involves both automated and manual processes. KCPS uses a manual system to maintain human resources information, to record employee time, and to track leave usage. An automated system is used to process and record payroll transactions. Biweekly time records and any adjustments are recorded by designated employees—known as timekeepers—at the various locations and are provided to central office staff who record this information in the automated financial management system. The system generates payroll checks and direct deposit advices which are provided to the originating locations and are distributed. KCPS is in the process of implementing an automated timekeeping system to process and track time records and to maintain leave records (which will be updated automatically from the time records).

The hiring of new employees is initiated either directly by the school or program in need (for new positions) or by the human resources office (for vacancies). Position control procedures require that the related paperwork be submitted to KCPS central office staff for review and approval. In addition, all new hires are reported to the Board.

Payroll Internal Controls Need to Be Strengthened

KCPS did not have adequate internal controls over its manual and automated payroll processing. Two employees with complete access to all payroll menus in the existing automated financial management system, were responsible for entering and processing all payroll-related information (such as adding and deleting employees, recording adjustments to biweekly payroll amounts, and approving the payroll for check processing), without independent review and approval of the resultant transactions as recorded on system generated output reports.

Existing Workforce Planning Should Be Expanded to Non-instructional Areas

KCPS should enhance its existing workforce planning efforts to include positions other than instructional personnel. The KCPS Master Plan sets the strategic direction of KCPS and provides coordination and focus for initiatives to address school system challenges. The Plan includes a number of objectives and strategies to address human resource needs—which is evidence of workforce planning. However, it addresses only the recruitment and retention of highly qualified instructional staff (that is, teachers and certain other instructional aides). The Plan does not address non-instructional personnel employed by KCPS, such as central office and critical support staff, which represent about 30 percent of KCPS employees (101 of 339). These support functions also play a key role in the ultimate success of KCPS in providing quality education and, therefore, should be included in workforce planning. In addition, although the Plan contained goals, objectives, and related detailed measures, the objectives generally did not include specific measures that could be used to define overall success or failure of actions taken.

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

Table 4 Comparison of Non-instructional Staff Per 1,000 Pupils for Select Categories Fiscal Year 2005 (Unaudited)					
	Number of Non-instructional Positions❶		Number of Non-instructional Positions Per 1,000 Pupils❷		
School System	Professional ❸	Support Staff❹	Professional	Support Staff	Combined
Kent Co.	26	75	10.34	29.83	40.18
Talbot Co.	70	158	15.54	35.07	50.61
Somerset Co.	38	91	12.87	30.83	43.70
Garrett Co.	48	147	10.13	31.03	41.17
Dorchester Co.	47	134	9.82	27.99	37.80
Average of Comparable Systems	51	133	12.09	31.23	43.32

Source: MSDE 2004/2005 Fact Book
❶ - Excludes contractual and consulting positions
❷ - Based on Fall 2004 student enrollment
❸ - Includes principals, vice principals, social workers, and other administrators
❹ - Includes technicians, secretaries, clerks, trades personnel, etc.

Recommendations

2. KCPS should implement independent supervisory review and approval of payroll-related changes recorded in its automated system.

3. KCPS should expand its workforce planning to include all critical operational units and non-instructional positions, as well as measurable objectives.

Chapter 5

Inventory Control and Accountability

Our audit disclosed that KCPS has established formal procedures governing the purchase and disposal of all property, including textbooks; however, KCPS could improve its existing procedures over the recordkeeping of its equipment inventory.

Background

According to its records, as of June 30, 2006, the value of KCPS equipment totaled $5.8 million. Equipment items include computers, audio and video items, athletic equipment, and various other items. All items, regardless of cost, are to be included in the centralized inventory system, and items costing over $5,000 are capitalized for financial statement reporting purposes.

Formal Textbook Procedures Have Been Established

KCPS had established formal procedures for selecting and purchasing textbooks. All potential textbooks are reviewed and are submitted to the Board for its review and approval. Purchases are coordinated with a private vendor that also maintains inventory records for the textbooks. Additionally, textbooks may only be sold or disposed of in accordance with those procedures.

KCPS Could Improve its Recordkeeping for Equipment Inventory

KCPS did not always maintain inventory records in an accurate manner. Although KCPS procedures required all items to be recorded in the detail equipment inventory records for control purposes, we found inaccuracies in those records. Our test of 15 sensitive items (such as laptop computers) recorded in the detailed inventory records, costing $26,631, disclosed 6 items, costing $15,508, that could not be located at the two specified schools. Although we were subsequently provided with documentation that these items had been either replaced or disposed of, the related inventory records did not accurately reflect the status of the items and, therefore, could not be used to control KCPS equipment. In addition, of five other inventory items on hand at the aforementioned two schools that we selected to test (such as computers), three items were not recorded in the detail records.

Recommendation

4. KCPS should comply with its inventory procedures to enhance controls and ensure that inventory records accurately reflect equipment on hand.

Chapter 6

Information Technology

KCPS maintains and administers a computer network, computer operations, and a number of information systems applications, including financial and academic applications. KCPS developed and periodically updates a written technology master plan that includes an assessment of technical needs and measurable goals and objectives.

We identified deficiencies in several areas, including information technology (IT) system user access, computer room security, and computer center operations. For example, KCPS did not have a formal IT disaster recovery policy in place and was not making full use of certain IT system features designed to restrict or detect unauthorized and unnecessary employee access to systems and programs. Finally, physical access to one of its two computer rooms was not strictly controlled.

Background

KCPS operates a wide area network, with Internet connectivity, which connects the local networks of the individual schools with the KCPS headquarters. The Technology Department maintains assorted computer servers to support the KCPS academic information system applications. In addition, the Technology Department has a computer system, maintained in a separate location, which processes several significant financial information system applications.

Accounts payable, accounts receivable, and payroll applications are part of the financial information system, which is operated by the KCPS Finance Department. However, KCPS provides only limited computing support for these applications since an independent contractor provides maintenance and system upgrades.

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

KCPS has developed a written technology plan, which includes a comprehensive assessment of the technical 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 the *Internet Safety and Appropriate Use of Computer Networks Procedure* and an inventory of current computer and media hardware and projected needs. The plan is periodically updated and monitored for implementation status of identified actions.

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

We noted numerous deficiencies in the area of computer security, which increased the vulnerability of various KCPS automated systems, programs, and data. For example, user access to computer resources was not adequately controlled through passwords, automatic password expirations (requiring periodic password changes) were not enforced for users of the KCPS network (including the financial application), and there was no standard as to the complexity of passwords (to make them more difficult to hack). In addition, several employees could directly modify financial application program files without restriction or logging of that activity, even though their duties did not require this access. Furthermore, KCPS did not use existing system audit software that could be used to monitor security events, access permissions, and failed attempts to access certain critical data.

Finally, KCPS did not use anti-virus software for approximately 200 laptops issued to KCPS faculty and staff.

Data Processing Functions Should Be Better Safeguarded from Disruption

Physical access to one of the two computer locations was not adequately controlled as the door to the room remained unlocked and the door propped open (for ventilation). This computer room was susceptible to occasional flooding and, therefore, a tarp was used to protect equipment from damage. Furthermore, the room was not equipped with smoke or fire suppression devices (such as sprinklers) and with sensors to monitor temperature and humidity. These conditions could increase the likelihood of theft or damage to critical systems. In addition, critical financial application system backup files, although routinely generated, were not stored at an off-site location to protect the information in case of catastrophic damage to the computer room.

Also KCPS lacked a formal, comprehensive, disaster recovery plan, which should include

- the identification of backup data centers or hot sites;[5]
- the identification and prioritization of all mission critical applications, with the related software and hardware required to accomplish recovery;
- the description of network restoration plans; and
- a listing of current emergency contact information and responsibilities for staff.

Recommendations

5. KCPS should implement appropriate security measures to safeguard its applications and data systems.

6. KCPS should establish physical controls and safeguards over its computer operations, should institute appropriate backup procedures, and should develop a comprehensive disaster recovery plan.

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[5] Hot sites are locations containing equipment necessary to process information.

Chapter 7

Facilities Construction, Renovation, and Maintenance

KCPS maintains eight schools, a support office, and a grounds complex, with a staff of approximately 35 custodial and maintenance personnel, under the supervision of a management company. KCPS uses a comprehensive and public process to plan for renovations of school facilities. Capital Improvement Plans are long-term, are updated annually, and reflect input from the Board. We also noted that KCPS has voluntarily adopted a number of State requirements and practices for the procurement and monitoring of construction and renovation projects.

However, KCPS had not taken appropriate actions (such as close unneeded schools) to address declining student enrollment and to ensure the efficient use of its existing physical plant. In addition, KCPS has not determined the benefit of continuing an outsourcing arrangement for certain maintenance services begun in 1988. Furthermore, KCPS did not complete routine inspections of all facilities as required by its internal policies. Finally, KCPS could improve its processes related to energy management and use of work orders to better manage its maintenance operations.

Background

KCPS uses a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. In the fiscal year 2007 CIP, necessary major renovations, repairs, and systemic improvements to existing schools were estimated to cost approximately $19.2 million over the six-year period.

Table 5 (below) compares KCPS fiscal year 2005 plant costs (that is, maintenance and operational costs) and square footage with those of other similar systems in Maryland. It depicts two measurements to assess plant costs: plant costs per student, and plant costs per square foot. These statistics show that KCPS facilities have more square footage per student, and that the plant costs per student are higher than most school systems in its peer group.

Table 5
Plant Cost Comparison Per Student and Per Square Foot
Fiscal Year 2005 (Unaudited)

School System	Plant Costs: Total	Plant Costs: Per Student ❶	Plant Costs: Per Square Foot	Square Footage Per Student	Total Gross Square Footage
Kent Co.	$2,514,655	$1,009.09	$4.43	228.00	568,172
Somerset Co.	2,996,528	1,030.80	4.98	207.03	601,848
Talbot Co.	3,684,746	820.66	5.25	156.28	701,684
Garrett Co.	3,906,885	826.50	4.90	168.84	798,123
Dorchester Co.	3,924,398	831.44	4.49	185.36	874,885
Average of Comparable Systems	$3,628,139	$877.35	$4.90	179.37	744,135

Sources: MSDE Selected Financial Data, School System Capital Improvement and Maintenance Plans, School System Staff
❶ - Based on Average Daily Membership 2004-2005

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

KCPS uses a comprehensive process to develop its Capital Improvement Plan – KCPS uses a comprehensive process, which includes the solicitation of input from various sources, to plan for future school construction and major renovation and repair projects. For example, KCPS uses public meetings, student demographic data, and other internal sources (such as current curriculum mandates) to develop its six-year CIP, which is updated annually. The CIP is presented to and approved by the Board, and is also approved by elected local officials. In addition, the KCPS Master Plan, which is used to guide overall KCPS operations, incorporates certain CIP objectives and strategies related to school facilities. (Although the development and use of a CIP is a best practice, we did note an issue of excess capacity that should be considered in the CIP; refer to the finding at the bottom of this page.)

Current construction and renovation procurement and monitoring practices are adequate – KCPS uses a formal process to develop specifications for major construction and renovation projects in accordance with the *Administrative Procedures Guide* issued by the Maryland Public School Construction Program. While not required to, it also generally follows State law governing procurement requirements (such as bid posting and minority participation). Our review of five recent contractual procurements (valued at $4.7 million) disclosed that the awards were in accordance with policy and properly approved. We also tested 10 related invoices (totaling $1.2 million) and noted that the invoices were accurate (for example, KCPS retained a percentage of the amount invoices) and that each invoice included documentation of approvals and formal inspection by contract personnel (such as the construction manager and architect) prior to payment.

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

During the 2005-2006 school year, all eight of the KCPS schools had excess student capacity, well beyond recommendations of the Maryland Public School Construction Program's square footage funding guidelines.[6] The guidelines establish a recommended standard square footage per student based on the type of school, ranging from 131 square feet for elementary schools to 160 square feet for high schools. Overall, the KCPS square footage per student

[6] By way of comparison, in our January 2006 Financial Management Practices Audit Report on the Baltimore City Public School System, a system long-reported to have excess capacity, the fiscal year 2003 square footage per student was 203.31 and the fiscal year 2005 square footage per student for KCPS was 228.00.

was 228 for fiscal year 2005 and, using November 2005 enrollment data, we calculated that seven KCPS schools of all types exceeded the higher 160 square feet allowance. When the aforementioned State-rated building capacity (square footage per student) is matched to enrollment, KCPS, in total, uses only 60.4 percent of available space. The eight schools comprise 536,000 square feet. Using capacity data obtained from KCPS and comparing it to the State-rated building capacities, Table 6 (below) shows that all eight schools are found to have significant underutilization:

Table 6
KCPS School Utilization Data
(as of November 2005)

Percent of Capacity Underutilized	Number of Schools
Over 40%	3
31 – 40%	3
21 – 30%	2
Total	8

Projections on student enrollment through 2015, prepared by the Maryland Department of Planning, generally anticipate a continuing decrease in the number of students attending KCPS schools. Specifically, average pupil population is expected to decrease from 2,430 in 2005 to a projected low of 1,940 in 2012 before a projected slight increase to 1,970 in 2015. KCPS management has long been aware of the need to address underutilized schools. In January 2002, KCPS issued a report, after studying the need to continue to provide high quality instructional programs while maintaining fiscal responsibility to the citizens of the County; the report recommended combining one elementary and middle school into a single K-8 facility.[7] In addition, a consultant examined the feasibility of this combination (such as renovation costs), and determined that the project was feasible.

After conducting public hearings, in September 2002, the Superintendent recommended that the Board defer action, and we were advised that the Board is in the process of revisiting the issue of grade configuration and enrollment; however, as of September 2006, KCPS had not taken any additional actions regarding school utilization. The closing of one school would improve the under-

[7] A K-8 (that is, Kindergarten through grade 8) configuration, although not common in Maryland, does exist. For example, Mt. Savage School is a K-8 facility in the Allegany County Public School system, and Baltimore City also makes use of this configuration.

capacity situation, but may not resolve the issue, given the extent of underutilization. With only one high school, three middle schools and four elementary schools spread throughout this rural county, additional closings might be more problematic.

Decisions on the continued use of underutilized schools also impact capital funding for maintenance and renovations. For example, the fiscal year 2007 CIP includes two renovation projects, estimated to cost $1.4 million, for the school recommended to be closed in the 2002 report.

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

Third-party vendor contract should be assessed for cost-effectiveness and should be better monitored– KCPS contracts with a third-party vendor to manage its operations and maintenance program as well as to provide custodial supplies, systems for training and safety, and technical assistance. Payments to the vendor for fiscal year 2006 totaled $415,000, and included costs for administrative overhead and profit. KCPS has contracted with the same vendor for these services since 1988 and the current contract runs through June 2008. However, KCPS has not determined that it is cost beneficial to receive the services from a vendor rather than provide them in-house.[8]

In addition, KCPS should conduct more thorough monitoring to ensure that all contractual requirements are met. When queried, the management company could not provide us with documentation that required monthly inspections of all eight schools and the KCPS administrative building (during which the cleanliness and physical condition of selected rooms were to be reviewed) had been performed. For example, our test of inspections during the nine-month period from September 2005 to May 2006 for the nine facilities disclosed that only 43 of the 81 required inspections were completed.

[8] In addition, KCPS has entered into two new contracts with this vendor since the initial awarding in 1988, but it has not attempted to obtain bids from other potential vendors (as commented on in Chapter 3 of this report).

KCPS should more fully use its automated work order system's capabilities to monitor efficiency – KCPS 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. We noted that information related to the resources needed to perform tasks (such as time and materials) was not entered on the work order or into the automated system. Consequently, completed work orders could not be used as a basis to determine estimated costs of performing routine tasks and to assess the performance of both individual employees and the entire maintenance department. An effective work order system can be used to generate a variety of statistical data–including employee productivity, cost reports, and facility assessments–all of which are key pieces of a performance measurement system.

Energy Savings Programs Could Be Enhanced

We noted that, while KCPS had instituted certain energy saving programs (such as participation in a consortium with other Eastern Shore entities to purchase energy at the best possible terms), the energy management and conservation policies and program could be strengthened. For example, we were advised that KCPS personnel did not routinely monitor the automated energy management system, which allows complete control of building thermostats from a central computer and the ability to generate reports to determine that the system is working properly. At the time of our review, this system had been installed in six of the KCPS eight schools to ensure an efficient use of heating and cooling and to determine if anticipated savings were achieved. The failure to routinely monitor the system was due, in part, to a lack of personnel trained in understanding and using the system. At the conclusion of our fieldwork, KCPS was in the process of obtaining related training for its staff. In addition, the energy policy was not comprehensive; for example, it did not address conservation or savings goals and measurable objectives, resources and training for all staff on conservation, energy audit procedures, and school-based incentive programs (which reward individual schools for realized savings).

Recommendations

7. KCPS should take action to ensure the efficient use of resources from a capital planning and maintenance perspective, including identifying excess capacity, closing any unneeded school(s), and adjusting its capital improvement plan as necessary.

8. KCPS should determine the cost-effectiveness of its longstanding practice of outsourcing management functions. Additionally, KCPS could enhance the effectiveness of its facilities maintenance operations by including time and materials in its automated work order system. Finally, KCPS should ensure that building inspections are performed as required and are documented.

9. KCPS could enhance its energy management practices by instituting comprehensive energy savings and management programs system-wide, including providing appropriate training to staff charged with program oversight.

Chapter 8

Transportation Services

Due to its small size, KCPS provides transportation services to the smallest number of students and travels fewer miles than most other similarly-sized public school systems in Maryland. Nevertheless, its annual transportation cost per student is higher than the average of similarly-sized school systems (see Table 7 on the following page). All transportation services are provided by one vendor under contract with KCPS.

KCPS uses several practices that increase the efficiency of transporting students, such as staggering school start and stop times so buses can provide multiple trips on the same day, using automated routing software to help develop and modify bus routes, and serving more than one school with a single route.

However, we also noted that KCPS does not adequately monitor actual bus ridership to ensure that buses are used to capacity. In addition, while KCPS has practices in place to monitor vendor payments, it has not performed a cost-benefit analysis to determine if it should continue to outsource transportation services, or to determine the practicality of using smaller buses on routes with lower ridership. Finally, the contractor payment methodology used may result in higher payments than warranted.

Background

KCPS has contracted for student bus services with an outside vendor since 1997. The vendor uses 35 buses to transport approximately 2,200 students to KCPS' eight schools. The vendor operated 111 bus routes during the 2005-2006 school year. Of the 610,760 reported route miles for the 2004-2005 school year, 15 percent were associated with transporting disabled students. The fiscal year 2005 and 2006 transportation-related expenditures totaled $1.5 million and $1.7 million, respectively, with 84 percent of the 2006 expenditures relating to payments for third-party transportation services.

Table 7
Comparison of Transportation Costs per Rider and per Mile
Fiscal Year 2005 (Unaudited)

School System	Number of Eligible Riders		Miles (in thousands)		Expenditures (in thousands)	Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
Kent Co. ✓	2,178	55	518	92	$1,490	$667	$2.44
Garrett Co. ✓	4,580	39	1,050	71	3,455	748	3.08
Talbot Co.	3,032	14	486	31	1,564	513	3.03
Somerset Co. ✓	2,774	58	645	100	2,004	708	2.69
Dorchester Co. ✓	4,463	86	853	153	2,435	535	2.42
Average of Comparable Systems	3,712	49	759	89	$2,365	$626	$2.81

Source: MSDE 2004/2005 Fact Book
MSDE Selected Financial Data
✓ - System contracts for the majority of transportation services.

We did note that KCPS uses a formula (included in the contract) to determine the rates paid for the buses based on a number of factors, including a "per vehicle allowance" (or PVA, which is explained in greater detail elsewhere in this chapter), driver salary, operation and maintenance mileage, and auxiliary costs. Generally, for each bus in operation, these components are also adjusted annually based on changes in the Consumer Price Index (CPI).

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

The KCPS Transportation Department had several practices in place to help control student transportation costs, including the use of

- automated routing software,

- staggered school arrival and dismissal times,
- a single route for several schools due to their relative proximity, and
- consolidated bus stops.

In addition, the Department monitors the contractor's costs, including the operational mileage and hours billed for each bus route.

Enhancements to Bus Route Scheduling Should Be Considered

In order to maximize efficiency, KCPS uses automated routing software along with its Student Information System to plan the most efficient routes for transporting students. Due to KCPS' small student population relative to the County's geographic area, many buses are not utilized at or near bus capacity.[9] For example, our review of the rider count sheets prepared in September and October 2006 for the 2006-2007 school year for 73 bus routes disclosed that 49 bus routes averaged less than 60 percent of the manufacturer-rated capacities, with 34 of those 49 averaging less than 50 percent capacity. We noted that only 17 routes were utilized at 75 percent or greater capacity for the period.

KCPS does not have policies addressing bus capacities or addressing the maximum amount of time students should spend on a bus. Based on our audits of other school systems, we have been informed that 70 percent of capacity is a reasonable standard and that a one-hour travel time, each way, is deemed a maximum. The KCPS bus analysis—prepared by KCPS Transportation staff after the beginning of each school year—shows the anticipated use of each bus based on student locations, route times, and distances, as recorded in the automated routing system. The analysis does not show the actual time students spend on the bus.

Increasing actual bus utilization may be difficult in rural systems with small populations since the schools tend to be spread over a larger area and there are fewer concentrated population centers. As a result, KCPS may want to consider other options to more efficiently use buses, such as working with the contractor to purchase smaller buses (which have lower purchase prices and lower operational costs) for routes where this would be appropriate

[9] The effective utilization of buses and routes impacts costs as the contractor payment methodology includes, among other cost components, an amount for each bus in service, as well as for miles driven.

(currently, the contractor generally uses buses with 66-student capacities) or determining if students could be transferred between buses at some point along existing routes (similar to the process used by other school systems to transport students to magnet schools).

Methodology Appears to Result in Larger Than Necessary Payments to Bus Contractors

KCPS uses a "per vehicle allowance" (PVA) component as a portion of the amount paid each month to the vendor for transportation services. The PVA component, as originally developed by MSDE in 1978 and as presently applied in other school systems, covers full depreciation of the bus over a 12-year period,[10] with the assumption that there is no residual value, and includes an additional annual payment to the contractor of some pre-determined interest rate (for example, the prime rate) multiplied by the original bus cost as a return on investment. The PVA was intended to reflect the costs associated with the year a bus was placed in service (that is, the purchase price and an assumed rate of return that could be earned had funds that were used to purchase the bus been invested for the life of the bus). Once established, the rate of return for a particular bus should stay constant. Accordingly, since it is assumed that a bus will last 12 years, the annual PVA payment made for that 12-year period should be consistent.

However, KCPS was not using the prescribed methodology to determine the PVA component for its buses. For new buses, the PVA was determined by applying the CPI to the prior year's PVA for the same-sized bus rather than by calculating a new PVA based on the purchase price of the new bus (es) and the prevailing interest rate at the time of purchase. Furthermore, each year, KCPS determined a new PVA for each bus by adjusting the previous year's PVA for the annual change in the CPI, an approach that was presented annually to the Board for approval. Since 1997, the PVA increases have ranged from 1.6 percent to 3.4 percent. Although this adjustment was reflected in the contract with the vendor, it is not consistent with the underlying basis for the original PVA calculation, which provided for a constant PVA.

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[10] Conventional school buses in Maryland have a usable life of 12 years as Established by Maryland law. Under prescribed maintenance and inspection conditions, the State Superintendent of Schools can grant approval to operate a conventional school bus beyond 12 years.

For the buses currently in service (for the 2006-2007 school year), we estimated that, since the beginning of the current contract in 1997, KCPS paid at least $140,000 to the vendor in excess of what would have been paid if KCPS had used a constant PVA for each bus since 1997 (or since the bus was placed in service).

Periodic Cost Benefit Analysis Should Be Performed

KCPS has contracted with the same vendor since 1997 and it is in the final year of the current five-year contract. The current contract with the vendor was not bid out. KCPS has not performed a cost-benefit analysis to determine if it should continue to outsource transportation services. As noted in previous comments, even if KCPS determines that the current process is the most beneficial, it should consider modifications to the current arrangement that may benefit both students and KCPS (for example, capacity issues and the PVA calculation explained in the preceding findings).

KCPS believes that contracting out for these services is preferable to providing these services in-house since it does not require an immediate capital outlay for buses or for ongoing personnel and related costs; however, this conclusion is not necessarily assured, as it is not based on a study of the long-term impact. Furthermore, our audits of other school systems have shown that the PVA payment methodology is complex to administer and that these assumed costs savings may be offset or exceeded by built-in profit margins for operators. In addition, actual experiences in other states and in at least one other Maryland school system (Frederick County) have indicated that outsourcing of bus services can be more expensive than providing student bus services in-house.

Recommendations

10. KCPS should establish policies for student capacity and travel time and, because of low ridership on many bus runs, analyze the cost/benefit of using smaller capacity buses.

11. KCPS should evaluate its practices with respect to calculating the PVA for its bus contracts to determine if the methodology it uses and the rates paid are reasonable and necessary.

12. KCPS should periodically prepare an analysis to identify the most cost-effective method of providing student bus service (that is, through the use of outside vendors or in-house operations).

Chapter 9

Food Services Operations

KCPS uses best practices in its food services operations. For example, it developed and uses certain performance measures (such as meals per labor hour) to assess the efficiency of its operations. KCPS also uses available USDA commodities and has procedures in place designed to maximize participation in the National School Meal Program. However, we noted other areas where KCPS could improve its operations, such as enhancements that could be made with regard to the internal controls over food service collections and procurement of food service contracts. See Table 8 on the following page for cost per meal data.

Table 8 Comparison of Cost per Meal Fiscal Year 2005 (Unaudited)					
School System	Total Expenditures	Meals Served			Average Cost Per Meal
		Breakfast (paid, free, and reduced)	Lunch, Snacks and Summer Food (paid, free, and reduced)	Total	
Kent Co.	$1,111,755	125,918	307,252	433,170	$2.57
Garrett Co.	2,319,081	251,762	487,273	739,035	3.14
Talbot Co.	1,619,726	162,369	400,712	563,081	2.88
Dorchester Co.	1,918,269	226,675	535,165	761,840	2.52
Somerset Co.	1,324,106	210,411	349,865	560,276	2.36
Average of Comparable Systems	$1,795,513	212,804	443,254	656,058	$2.72

Sources: MSDE 2004-2005 Fact Book, Allegany School System audit, KCPS fiscal year 2005 CAFR

Background

Six of the eight KCPS schools have cooking cafeterias; the remaining schools receive prepared food from another school. KCPS operates a self sustaining food services operation. For the combined fiscal years 2005 and 2006, KCPS reported that food service revenues exceeded expenditures by approximately $39,000. See Table 9 on the following page for information regarding fiscal year 2005 food services.

Table 9
Food Service Facts for Fiscal Year 2005

Average cost per meal				$2.57
Number of meals served				
Breakfast				
Paid		47,593		
Free		63,103		
Reduced price		15,222		
			125,918	
Lunch				
Paid		168,477		
Free		110,968		
Reduced price		27,807		
			307,252	
Total meals served				433,170
Schools				8
Kitchens/cafeterias				6/8
Full-time employees				6
Part-time employees				19
Revenues				
Federal	Cash payments	$460,592		
	USDA commodities	66,642	$527,234	
Sales			515,304	
State aid			70,193	
Total Revenue (all sources)				$1,112,731
Total Expenditures				1,111,775
Excess of Revenue over Expenditures				$956

Sources: Comprehensive Annual Financial Report, MSDE 2004-2005 Fact Book

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

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

- KCPS used performance data, such as meals per labor hour, and monthly financial reports to track and monitor the operating efficiency at each of its school cafeterias.
- KCPS participated in the United States Department of Agriculture (USDA) commodities program, which is a free food

program. Per KCPS records, $64,000 in USDA commodities were received in fiscal year 2006.

- KCPS participated in a 12-county food purchasing cooperative in order to maximize its buying power and to reduce food costs.
- KCPS used standard serving sizes and recipes to economize on food purchases.

KCPS used several best practices to encourage participation in the federal free and reduced price meal program – These practices include (1) the use of a family application process, instead of individual student applications, to simultaneously qualify more students for the free or reduced priced meal program, and (2) direct enrollment for children receiving services from the Maryland Department of Human Resources. According to MSDE records, approximately 40 percent of all KCPS students qualify for the program. We determined that approximately 51 percent of all lunch meals served by KCPS were served to students participating in the program.

Internal Controls Over Cash Collections and Food Procurements Could Be Improved

KCPS should improve controls over cash collections and deposit of food service revenue – Our review of cash handling and accountability procedures at three school cafeterias (which, for example, collected $22,509 of the total $39,477 from all schools during April 2006) identified internal control weaknesses that could result in theft of cash receipts without detection. Specifically, at the school cafeterias reviewed, amounts received and deposited by the cafeterias were not agreed to the related cash register tapes.

KCPS should ensure the propriety of all food service procurements and payments – KCPS procures food items through cooperative agreements (contracts entered into by other entities) as well as through the use of standard procurement methods. Most purchases are made directly by cafeteria managers and should follow established KCPS procurement practices and payment procedures. Our review of contracts and related invoices for purchases of food and related items (such as paper goods) disclosed several problems. The results of our test of 5 contracts and 10 related invoices (2 from each vendor), with fiscal year 2006 expenditures totaling $379,000, are shown in Table 10 on the following page:

Table 10 Test of Food Services Contracts and Invoices				
Invoices Tested	Combined Totals - both invoices	Description	Total FY 06 Payments	Deficiencies Noted (could be more than one for each test item)
1,2	$21,240	Food Stuffs	$212,267	None
3,4	17,060	Milk	76,105	Contract (negotiated by another school system) was not presented to or approved by the Board.
5,6	10,429	Paper Products	47,523	Amounts invoiced and paid did not always agree to the contract prices. We noted overpayments of $1,089 for the two invoices tested.
7,8	3,744	Breads	24,157	None
9,10	18,704	Cash Register System	18,704	Contract was not presented to or approved by the Board. Requisition and purchase order were prepared after receipt of goods and invoice.

Recommendation

13. KCPS should ensure that an independent supervisory official verifies that all recorded cash collections from cafeteria sales are deposited. Additionally, KCPS should ensure that it complies with its policies and procedures regarding the procurement of food services items and that appropriate controls are in place to verify the propriety of invoices. Based on our test results, KCPS should consider reviewing past invoices to determine the extent of any overpayments to vendors and should make any appropriate recoveries.

Chapter 10

School Board Operations and Oversight

The Board has adopted policies governing the operations of the Board and KCPS. In addition, we found that financial information is made available to the proper parties (such as principals and administrative supervisors) in a timely and consistent manner. Finally, we noted that the Board has adopted a detailed ethics policy that applies to Board members and all employees of KCPS. However, while the Board had processes in place to oversee KCPS' financial position, it did not use an internal audit function to act as an independent reviewer of KCPS operations nor did it implement a mechanism for the reporting and investigation of suspected fraud.

Background

KCPS is governed by a five-member elected board. By law, the members must be residents and registered voters of Kent County. In its oversight responsibilities, the Board enters into contracts for independent audits of its financial statements, federal programs, and student activity funds and receives monthly updates from staff on a broad range of financial and academic topics. Due to the size of KCPS and the limited membership of the Board, a committee structure is not used; rather, individual members are periodically informed of and become involved in all aspects of operations and governance. This audit focused on the Board's fiscal oversight responsibilities.

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

Kent County Public Schools is a learning community where students and staff alike strive to be an outstanding school system by aligning their efforts to exceed stakeholder expectations. This success is earned with an eye toward our mission: "successful learning for all students;" and by employing 11 strategies for success devised with the assistance of stakeholders. Our strategies for success are [as follows]:

- Ensure a safe and caring learning environment
- Prepare students to be responsible citizens
- Empower students to respect and care for themselves and one another
- Promote trustworthiness and integrity
- Hold high expectations for all
- Respect uniqueness and value diversity
- Encourage growth and adaptability in a technological society
- Inspire students to be lifelong learners
- Facilitate stakeholder involvement and commitment
- Realize that the learning process is a shared responsibility
- Embrace continuous improvement

Source: http://www.kent.k12.md.us/kent/quality/baldrige.htm

Certain Oversight Has Been Put in Place

The Board used a number of methods to broadly oversee the operations of KCPS – The Board uses a number of methods to oversee the operations of KCPS. For example, the Board contracts annually for the Comprehensive Annual Financial Report (CAFR). The Board also receives and discusses detailed budget and expenditure information as part of the budget approval process. In addition, members receive a detailed expenditure report each month with comparisons to budget amounts. The Board also reviews and monitors key performance indicators related to both academic and financial operations of KCPS.

The Board has established and periodically updates a number of policies governing financial and support operations of KCPS. These policies cover areas such as Board governance, procurement, personnel, finance, instructional programs, student conduct, and school facilities. In addition, KCPS has developed detailed procedures manuals to implement Board policies. Furthermore, monthly financial reports are timely distributed to appropriate staff (such as principals and administrative supervisors) to ensure efficient management of funds.

A **detailed ethics policy has been established -** The KCPS Board has adopted a detailed code of ethics policy that covers Board members as well as employees. KCPS policy details conflicts of interest and ethics requirements conforming to State law in those areas. KCPS maintains an Ethics Panel (composed of three independent county citizens) to interpret ethics policies and to provide advice on policy implementation. The current policy requires the Panel to provide information on the purpose and application of the policy. The Panel also reviews and rules on any reported complaints of ethics violations. The policy identifies a number of supervisory employees required to file annual financial disclosure statements. We reviewed the related statements for calendar year 2005 and did not note any issues of audit significance.

The Board Should Consider Additional Steps to Assist It in Governing KCPS

KCPS does not have an internal auditor reporting to the Board. The use of an internal auditor, independent of direct management, is a recommended best practice of the Government Finance Officers Association (GFOA). The GFOA notes that internal auditors commonly assist management in monitoring the design and proper functioning of internal controls and procedures, and can play a valuable role in conducting performance audits, special investigations, and studies. As mentioned throughout this report, our audit identified significant deficiencies in the KCPS system of internal control, such as a lack of supervisory review of payroll adjustments and inadequate deposit verifications of food service collections. We also noted that a process, such as a whistleblower hotline, had not been implemented to enable employees and others to confidentially report suspected fraud. If such a process was established, an internal audit position could conduct investigations of any reported allegations. Additionally, as noted in Chapter 1 "Revenue and Billing Cycle," the KCPS external auditor performed services related to student activity funds; this is a process that could be performed by an internal auditor.

While KCPS may not be able to justify an internal audit position based on its size (as the smallest of all 24 public school systems), it could determine if such a position could be shared with other local Boards (such as Queen Anne's and Talbot County Boards of Education). There is a precedent for such an arrangement, as KCPS participates in two consortiums with a number of school systems on the Eastern Shore for food and energy purchases.

Recommendation

14. KCPS should consider the feasibility of establishing an internal audit position and a hotline for the confidential reporting of suspected fraud.

Chapter 11

Other Financial Controls

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

Cash and Risk Management Best Practices

KCPS has adopted policies to govern cash and risk management. For example, the Board has formalized policies to govern investments and to protect funds and to standardize collection practices for money collected in the schools. To manage its risks, the KCPS policy is to use a combination of self-insurance and commercial insurance to protect itself from losses. KCPS maintains a risk management program that tracks and analyzes loss data. KCPS self insures in areas such as employee health benefits and vehicle damage and liability. In addition to self insurance, KCPS covers certain risks (such as catastrophic losses) using commercial insurance obtained through its membership in three insurance pools [such as the Maryland Association of Boards of Education (MABE) Group Liability Pool]. The notes to the fiscal year 2006 CAFR stated that it was believed that were no outstanding claims in excess of the pools' equity.

Debt Management Policies Should Be Established

KCPS had not adopted any policies governing its use of long-term debt to finance operations, as recommended by the GFOA. KCPS is not permitted to issue bonds or other long-term debt instruments to finance capital or operational needs. KCPS does use lease/purchase agreements to purchase equipment items such as computers. According to the KCPS 2006 CAFR, long-term liabilities related to lease/purchase agreements totaled $228,000.

Recommendation

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

Audit Scope, Objectives, and Methodology

Scope

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

Objectives

We had two broad audit objectives:

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

2. To evaluate whether the KCPS 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 KCPS 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 KCPS. We also interviewed personnel at KCPS, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate[11]). Our audit procedures included inspections of documents and records, and observations of KCPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2005 through September 30, 2006. For our audit work on revenue and federal grants, we primarily relied on the results of an independent audit of fiscal year 2006 activity; accordingly, our revenue and federal grants work was limited to this period.

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

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

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

Other Independent Auditors

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

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

Limitations of Internal Control

KCPS 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 KCPS that did not warrant inclusion in this report.

Fieldwork and KCPS Responses

We conducted our fieldwork from May 2006 to October 2006. The KCPS response to our findings and recommendations is included as an appendix to this report.

APPENDIX

KENT COUNTY PUBLIC SCHOOLS

215 WASHINGTON AVENUE * CHESTERTOWN, MARYLAND 21620 * PHONE 410-778-1595
FAX # 410-778-6193

May 10, 2007

Mr. Bruce A. Myers, CPA
Dept of Legislative Services
Room 1202
301 West Preston St
Baltimore, Maryland 21201

Dear Mr. Myers:

Enclosed is the responses of the Kent County Public School system to the draft performance audit report dated April 27, 2007.

An electronic copy of the response was submitted on Thursday, May 10th. A paper copy was submitted via overnight mail.

If there are additional questions, do not hesitate to call me.

Sincerely,

Frances W. Miller
Assistant Superintendent
of Administrative Services

ebk

Cc: Superintendent
Board President

Date: May 10, 2007

Kent County Public Schools response to the office of Legislative Audits recommendations:

#1 Procurement and Disbursement Cycle – KCPS accepts the recommendation, will develop a sole source procurement policy in FY'08

#2 Human Resources and Payroll. KCPS has received funding approval to purchase a web-based, enterprise-wide financial and human resources management system. Implementation has begun.

#3 Human Resources and Payroll. KCPS fills non-instructional vacancies with ease. KCPS is fortunate to have low turnover with respect to non-instructional support folks, and we enjoy a large pool of qualified applicants from which to choose for these positions. Including non-instructional positions in workforce planning is viewed by the KCPS Human Resources Department as a good idea, put not one that is a necessity at the present time. Our resources are dedicated solely to priority initiatives. Although workforce planning for non-instructional areas may represent a strategic alignment of an organization's human capital with its business direction, this is reserved for organizations that possess the human capital and funding for such planning. Our organization is a small one with finite resources and funding. Many good initiatives simply aren't funded at this time.

#4 Inventory Control and Accountability. KCPS accepts the recommendation.

#5 Information Technology. KCPS accepts the recommendations, certain security measures have been implemented as a result of exit conference.

#6 Information Technology. KCPS accepts the recommendation: Physical controls and safeguards will be more firmly established with the full implementation of the new financial and human resources management system. The staff of the department will prepare a draft comprehensive disaster recovery plan to be submitted to the BOE for consideration.

#7 Facilities Construction, Renovation, and Maintenance. KCHS accepts the recommendation, the FY'08 Facilities Master Plan was adopted in May'07, as a working document in this process.

#8 Facilities Construction, Renovation, and Maintenance. KCPS acknowledges that during the period we were audited all inspections required were not preformed. In October of 2006 the custodial manager was replaced, and we are now currently in compliance. A monthly report has been provided to Kent County Public Schools to show the frequency and the buildings that have been inspected.

We are currently in the process of upgrading our computerized work order system (ISIS) to a web portal version. This will allow KCPS to track work request progress from start to finish. We also have scheduled training on this system for May 2007. The system will be used for tracking resources, productivity and statistical information.

KCPS will review and determine the cost-effectiveness of its successful long standing practice of outsourcing management functions during FY'07, when the current contract is up for renewal.

#9 Facilities Construction, Renovation, and Maintenance. The KCPS has begun to use Energy Star (Portfolio Manager), a tool developed by the EPA, to help us track and begin to develop and energy comprehensive plan. Efficient management of resources requires effective data management. Portfolio Manager helps you streamline your portfolio's energy and water data, and track key consumption, performance, and cost information portfolio-wide. We can achieve the following with Portfolio Manager:

- Track multiple energy and water meters for each facility.
- Customize meter names and key information.
- Benchmark your facilities relative to their past performance.
- View percent improvement in weather-normalized source energy.
- Monitor energy and water costs.
- Share your building data with others inside or outside of your organization.
- Examine historical data, through our technical services department to provide usage conservation recommendations.

#10-12 Transportation. KCPS has retained the services of a professional consulting firm with expertise in student transportation to assist with a full evaluation of policies and procedures related to student transportation. The findings and recommendations have assisted with an analysis of our current method of providing bus service (using outside vendors), that has been utilized in the FY'-8 budget process.

Management Partnership Services, Inc. has provided guidance during the current contract negotiations, especially as it relates to the calculation of the PVA. The new formula addresses the recommendation.

#13 Food Service. KCPS accepts the recommendation and has instituted changes in the procedures for recording cash collections. KCPS has conducted a review of past invoices as a result of this recommendation and have recovered funds from overcharged amounts.

#14 School Board Operations and Oversight – The BOE will take under advisement the need to consider an additional position for an internal auditor during budget deliberations.

#15 Other Financial Controls – The KCPS will consider using the recommended practices of the GFOA when developing procedures for use of lease/purchase agreements

The Kent County Public School System appreciates the opportunity to respond to the audit team's report.

Frances W. Miller

Frances W. Miller,
Assistant Superintendent of
Administrative Services

ebk

cc: Superintendent
Board President

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