

Financial Management Practices Audit Report

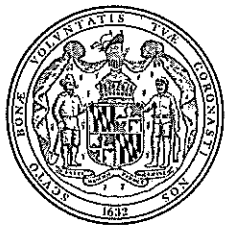
Queen Anne's County Public Schools

October 2011



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

Karl S. Aro
Executive Director

October 25, 2011

Bruce A. Myers, CPA
Legislative Auditor

Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Senator James C. Rosapepe, 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 Queen Anne's County Public Schools (QACPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. The objectives of this audit were to evaluate whether QACPS 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 audit disclosed that QACPS needs to enhance internal controls and accountability for certain financial operations including its procurement and vendor payment functions, payroll processing, information system security, and equipment management. For example, a number of employees were provided automated system capabilities that allowed them to perform incompatible functions, thereby increasing the risk of errors and improper activities occurring without detection. Also, its automated systems were not properly secured to mitigate risks from external sources.

The audit also identified opportunities to improve the cost-effectiveness of its student transportation operations. Certain rates used to pay bus contractors were established based on negotiations with the contractors and did not reflect market conditions or actual costs. We estimated potential cost savings of \$2.1 million if market conditions and actual costs (such as the actual purchase price of buses and maintenance and fuel costs) were considered. For example, we estimated that for the 39 buses placed in service since fiscal year 2006, QACPS will pay out approximately \$1 million more over the 12-year life of the buses than if the payments to the applicable bus contractors had considered actual bus acquisition costs and prevailing interest rates.

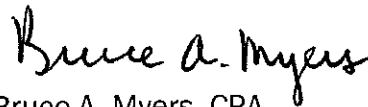
QACPS also should establish comprehensive policies pertaining to procurement and equipment inventory management to help ensure that Board expectations are formally delineated.

A number of the findings identified during this audit were conditions commented upon in our preceding audit report on QACPS dated October 23, 2006. While some corrective action had been made, none of the prior issues addressed during the current audit had been satisfactorily resolved.

QACPS had established proper internal controls in certain areas, such as revenue collection and federal grant management. In addition, certain best practices for developing construction plans and for managing energy costs had been instituted.

An executive summary of our findings can be found on page 5. QACPS' response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by QACPS.

Respectfully submitted,

A handwritten signature in black ink that reads "Bruce A. Myers". The signature is written in a cursive, flowing style.

Bruce A. Myers, CPA
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

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* Denotes item repeated in full or part from preceding audit report

Executive Summary

Legislative Audit Report on the Queen Anne's County Public Schools (QACPS) October 2011

According to data compiled by the Maryland State Department of Education, QACPS ranks 17th in student enrollment among the 24 public school systems in Maryland. In fiscal year 2010, QACPS had a total full-time regular and special education pupil population of 7,793 at its 14 schools. QACPS' operating and capital expenditures totaled \$92 million during that year.

The Office of Legislative Audits has conducted its second audit of QACPS' financial management practices. The results of the first audit were issued in a report dated October 23, 2006. Our current audit identified a number of opportunities for QACPS to improve internal controls, to adopt more cost-effective processes, and to enhance policy direction. In addition, a number of the findings identified during this audit were conditions commented upon in our preceding audit report. While some corrective action had been made, none of the prior issues addressed during this audit had been satisfactorily addressed.

QACPS Needs To Improve Internal Controls and Accountability in Certain Financial Areas

Although proper internal controls had been established in certain financial areas, such as the revenue and billing cycle and federal grant management, QACPS needs to improve internal controls and accountability in certain other financial areas. For example, QACPS needs to segregate duties by limiting authorized users' capabilities to process transactions on its financial and human resources/payroll automated systems. Numerous users also had been assigned system capabilities that allowed them to perform critical system functions (such as processing invoices for payment, changing payroll data) even though these employees did not require all of the system capabilities to perform their job duties. Proper internal controls help ensure that financial transactions are properly authorized and appropriately administered, and assets are properly safeguarded.

QACPS also needs to implement adequate security measures and monitoring procedures to protect its network and related critical devices from security risks. For example, certain firewall rules allowed unnecessary access from external sources to critical portions of QACPS' network, thereby placing various network devices at risk. Controls also need to be improved in other areas, such as inventory management.

QACPS Should Consider Implementing Certain Steps to Improve Cost Effectiveness

QACPS should evaluate certain factors used to make payments to its bus contractors. Certain payment rates were established based on negotiations with the contractors and did not reflect market conditions or actual costs. We estimated potential cost savings of \$2.1 million if market conditions and actual costs (such as the actual purchase price of buses and maintenance and fuel costs) were considered. For example, we estimated that for the 39 buses placed in service since fiscal year 2006, QACPS will pay out approximately \$1 million more over the 12-year life of the buses than if the payments to the applicable bus contractors had considered actual bus acquisition costs and prevailing interest rates. Also, QACPS needs to verify certain bus contractor billing information, such as bus route mileage, which appeared to be high.

QACPS Needs to Establish Certain Comprehensive Policies

QACPS needs to establish comprehensive policies pertaining to procurement and inventory management to help ensure that Board expectations are formally delineated. For example, QACPS had not established written policies to govern procurement decisions, such as when competitive bidding should be used and what contracts should be approved by the Board.

QACPS Had Established Certain Best Practices in Certain Areas

Certain best practices for developing construction plans and for managing energy costs had been instituted. For example, QACPS participates in a consortium to purchase energy and uses an energy management system to monitor and control usage at most facilities.

Background Information

Statistical Overview

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Queen Anne's County Public Schools (QACPS) ranks 17th in student enrollment among the 24 public school systems in Maryland. From fiscal year 2000 to 2010, the total full-time regular and special education pupil population has increased 10 percent from 7,069 to 7,793 with a projected increase to 8,840 by 2019. For the 2010-2011 school year, QACPS had 14 schools, consisting of 8 elementary, 4 middle, and 2 high schools. According to QACPS' audited financial statements and required supplementary information, operating and capital expenditures totaled \$92 million in fiscal year 2010. The largest expenditure category was salaries and wages, including benefits, which accounted for 77 percent of total expenditures during fiscal year 2010. According to MSDE records, during fiscal year 2010, QACPS had 966 full-time equivalent positions which consisted of 700 instructional and 266 non-instructional employees.

Oversight

QACPS is governed by a local school board, consisting of five elected voting members and two non-voting student members. The State and the Queen Anne's County government provide the vast majority of QACPS funding. In addition, 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 QACPS to comply with the requirements and mandates of federal law. Queen Anne's County government exercises authority over QACPS primarily through review and approval of QACPS' annual operational and capital budgets.

External Audit of Fiscal Year 2010 Activity

QACPS engages a certified public accounting firm to independently audit its annual fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of QACPS federal grant programs (as required by federal regulations). The resulting financial statement and single audit reports for fiscal year 2010 were issued in September 2010 and

December 2010, respectively. Neither report included any material weaknesses¹ or deficiencies² in QACPS' record keeping, processes, and controls.

Due to similarities between the work of the independent certified public accounting firm that audited QACPS' financial statements and the risks and objectives of our audit in certain areas, we relied on the results of the independent audit of the fiscal year 2010 financial statements to reduce the scope of our audit work related to certain revenues, accounts receivable, and federal grant activity.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of 12 of the 22 findings contained in our preceding audit report dated October 23, 2006 (the 22 findings resulted in 12 detailed recommendations in that report). We followed up on these 12 findings based on our current assessment of significance and risk relative to the audit objectives. We determined that, although some corrective action had been taken, QACPS did not satisfactorily address these 12 findings and, therefore, these findings are repeated in this report.

¹ A material weakness in internal control is a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the Board's financial statements (or, with respect to the Single Audit, material noncompliance with a type of compliance requirement of a federal program) will not be prevented or detected and corrected, on a timely basis.

² A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. With respect to the Single Audit, a deficiency is a control deficiency, or combination of control deficiencies, that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

Findings and Recommendations

Revenue and Billing Cycle

Background

QACPS revenues consist primarily of funds received from Queen Anne's County, the State, and the federal government. According to the QACPS audited financial statements, revenues from all sources totaled \$98.1 million during fiscal year 2010. In addition to these revenue sources, schools also collect funds for various purposes, such as for student activities, clubs, and school publications. Because they are not considered school revenue, these student activity funds are accounted for separately by each school and are reported in summary in the audited financial statements. Although this revenue is raised through student-related activities, QACPS has a fiduciary duty to safeguard these funds. For fiscal year 2010, school activity fund collections totaled \$1.2 million and the June 30, 2010 balance was \$458,382.

External Audit Disclosed No Reportable Conditions Regarding Revenue Activities

Due to the similarities between the work of the independent certified public accounting firm that audited the QACPS financial statements and the objectives of our audit in this area, we placed significant reliance on the results of that audit for revenues and accounts receivable (for example, amounts due from other governments). The auditor's procedural review and testing disclosed no material weaknesses or deficiencies regarding significant revenue types or accounts receivable. Such testing included the most significant revenue types—the majority of which related to electronic fund transfers from other government entities—as well as food service cash receipts.

Accounting Manual for School Activity Funds Was Established and Related Disbursements Tested Were Proper

QACPS' Board of Education has a fiduciary responsibility to ensure that school activity funds are used only for intended purposes. In response to a recommendation in our preceding audit, QACPS had developed an *Accounting Manual for School Level Bookkeepers* to establish a uniform method for reporting all receipts, expenditures, and balances related to school sponsored activities. The *Manual* states that school principals are responsible for establishing and maintaining internal control procedures to provide for the effective management and stewardship of school funds. Each school has a

dedicated bookkeeper for school activity funds who is tasked with maintaining accounts, disbursing funds, and collecting funds in accordance with the *Manual*.

In addition, our test of fiscal year 2010 and 2011 student activity fund disbursements disclosed that the transactions tested were properly supported and were made for valid school purposes.

Finding 1

Certain procedures required by the accounting manual for school activity funds were not always performed.

Analysis

Our review of the *Manual* and current practices disclosed that although principals and bookkeepers are required to conduct annual internal evaluations of the financial activities of the various school groups, this requirement had not been implemented. Furthermore, QACPS did not establish a process to independently review school activity fund transactions, even on a test basis, to ensure that school personnel complied with the *Manual* and the established internal controls, and properly accounted for receipts and disbursements.

Our review of fiscal year 2010 school activity fund transactions at two schools that processed 30 percent of the total funds collected during the year disclosed that one of the schools processed school activity fund receipts and disbursements and performed bank reconciliations in accordance with the requirements of the *Manual*. However, the other school reviewed did not comply with certain requirements. Regarding cash receipts, our test of 10 fiscal year 2010 and 2011 receipts totaling \$19,900 disclosed that the school did not establish proper accountability over these collections. The school did not issue pre-numbered receipts or prepare any documentation to evidence the collection and transfer of money from the event/activity coordinator to the bookkeeper. Rather, amounts collected were simply noted on check stubs maintained in the fund checkbook. Therefore, QACPS lacked assurance regarding the completeness or timeliness of deposits. School activity fund receipts at this school totaled \$110,700 in fiscal year 2010. The *Manual* requires that schools properly account for all receipts, including documenting the receipt and transfer of any collected funds and timely deposit. Similar conditions were commented upon in our preceding audit report.

In addition, our review of bank reconciliations at this school disclosed that the review and approval of the reconciliations was not documented as required by the *Manual*.

Recommendation 1

We recommend that QACPS ensure that proper accountability and controls are implemented for student activity funds by developing a process to independently verify, at least on a test basis, that school personnel comply with the *Manual*. Specifically, we recommend that QACPS ensure that

- a. school personnel conduct annual internal evaluations of student activity funds,**
- b. all funds received by schools are recorded and deposited in a timely and intact manner (repeat), and**
- c. bank reconciliations are reviewed and approved.**

Federal Funds

Background

QACPS receives funds pertaining to federal government programs that 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 2010 expenditures of federal award funds totaled \$7.5 million.

Single Audit Report Disclosed No Reportable Conditions Regarding Federal Grant Management

Due to the work performed by the independent certified public accounting firm that conducted the Single Audit of the QACPS federal grants and the objectives of our audit in this area, we relied on the auditor's work and results. Besides expressing an opinion on QACPS 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 2010 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). The related report stated that QACPS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with, and the operation of, major federal programs, the auditors did not identify any material weaknesses or significant deficiencies.

Procurements and Disbursements

Background

According to QACPS records, non-payroll disbursements totaled \$21 million during fiscal year 2010. Purchase orders for goods and services are manually generated by the requesting department and must be approved by both supervisory personnel (such as the respective department head) and the chief financial officer. Purchases anticipated to cost more than \$25,000 generally require bidding, which is handled by an employee in the central finance office, with the assistance of the requesting unit. All invoices are submitted by vendors directly to the finance office. The receipt of goods and services is confirmed by the requesting department before payment processing. Payments are processed by the finance department through an automated system that prints vendor checks and also posts the payment to the financial records.

Finding 2

Certain incompatible duties pertaining to the processing of procurements and disbursements were not segregated.

Analysis

QACPS did not establish adequate internal controls over its automated financial system and related verification processes. Specifically, our review disclosed the following conditions:

- QACPS did not adequately segregate duties by limiting authorized users' capabilities on the automated financial system used to prepare purchase orders and process invoice payments. For example, our test of 28 user IDs disclosed that 7 employees had been assigned system capabilities that allowed them to perform critical incompatible functions related to procurements and disbursements (including the ability to add/delete vendors, enter/post purchase orders, enter/post payments, and print checks). These employees did not require access to all of these capabilities in the system to perform their job duties. As a result, improper or erroneous transactions could be processed without detection. Our testing of certain purchase orders and invoice payments processed by these employees did not disclose any inappropriate or erroneous transactions for the items tested.
- QACPS had processes in place to review data entered into the automated financial system (such as purchase orders and invoices). A QACPS employee compared a report of transactions recorded in the accounts payable system to related documentation (such as invoices); however, this

employee's review was not independent since this employee had unrestricted access to the system. Also, the review process did not compare and agree checks printed to the report of processed transactions. A similar condition was commented upon in our preceding audit report.

Recommendation 2

We recommend that QACPS improve its internal controls over procurements and disbursements. Specifically, we recommend that QACPS

- a. separate incompatible functions and assign critical system functions only to employees who need those capabilities to perform their job duties; and**
- b. conduct independent comparisons of transactions and checks processed to the related supporting documentation, and ensure that this independent review is documented (repeat).**

Finding 3

QACPS did not always maintain documentation to support the propriety of procurements and Board approval was not obtained for certain significant procurements.

Analysis

QACPS did not maintain documentation to support the propriety of certain procurements. Furthermore, unlike many other school systems that require local board of education approval for contracts over a certain monetary threshold, Board approval of QACPS contracts was not required, except for construction contracts. (See Finding 16 concerning the lack of formal procurement policies, including approval requirements.)

Our test of 10 contracts with fiscal year 2010 payments totaling \$2.6 million disclosed that for 8 procurements, with payments totaling \$2.2 million, QACPS did not obtain Board approval. In addition, QACPS could not provide documentation (such as bids or contract awards) for two of these eight procurements (for example, training services) with payments totaling \$234,000. As a result, there was a lack of assurance regarding the propriety of the procurement process for these two purchases. A similar condition regarding the lack of documentation to support contract procurement methods was commented upon in our preceding audit report.

Our test of 10 fiscal year 2010 disbursements made to these vendors totaling \$822,000 disclosed that all 10 disbursements were made for valid business purposes. All payments tested were properly supported by invoices and receiving documentation and were approved for payment.

Recommendation 3

We recommend that QACPS

- a. obtain Board approval for contracts that meet certain criteria (such as those exceeding certain monetary thresholds), and
- b. maintain proper documentation to support the propriety of all procurements (repeat).

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the QACPS budget. Fiscal year 2010 salary, wage, and benefit costs totaled \$71 million. According to MSDE reports, as of June 2010, QACPS had 966 full-time equivalent positions, including 266 non-instructional positions.

Finding 4

Certain system users had been assigned incompatible functions and reports of payroll changes were not generated for review.

Analysis

QACPS did not establish adequate internal controls over its automated human resource and payroll system and related processes. Specifically, our review disclosed the following conditions:

- QACPS did not adequately segregate duties by limiting authorized users' capabilities on the automated human resources and payroll system. Our test of 23 user IDs disclosed that 13 employees had been assigned system capabilities that allowed them to perform all critical system functions (including the ability to add and delete employees and process payroll adjustments), even though these employees did not require all of the system capabilities to perform their job duties. A similar condition was commented upon in our preceding audit report. In addition, as of January 2011, one active user ID with complete system access belonged to an employee who had not worked at QACPS since August 2009. As a result of these conditions, improper or erroneous transactions could be processed without detection.
- QACPS did not generate any report of changes made to payroll (such as the addition of new employees, additional pay for coaching stipends) and, accordingly, did not verify the propriety of the individual changes actually processed. Although we were advised that such changes were reviewed

prior to processing, these reviews did not provide assurance that all processed changes were approved since the employees responsible for the reviews also had the capability to process payroll changes on the system. In addition, although an employee compared the actual bi-weekly payroll totals to expected payments based on adjustments processed each pay period, this employee also had the capability to process payroll changes. A similar condition was commented upon in our preceding audit report.

Our tests of payroll changes and adjustments did not disclose any inappropriate or erroneous transactions.

Recommendation 4

We recommend that QACPS ensure that adequate controls are in place over payroll processing (repeat). Specifically, we recommend that QACPS

- a. separate incompatible functions and only assign critical system functions to employees who need those capabilities to perform their job duties;**
- b. ensure that only active current employees have access capabilities on the system; and**
- c. perform independent supervisory reviews of changes actually processed for the bi-weekly payroll, at least on a test basis, by agreeing changes to appropriate supporting documentation.**

Finding 5

Written contracts stipulating employment terms for six management employees were not executed and there was no evidence the Board approved the salaries.

Analysis

QACPS did not maintain contract documentation related to the pay and benefits for six central office management personnel. These six employees were not covered by any written contract or similar documentation that delineated employment terms including salary ranges, leave accrual, unused leave payouts, and other benefits. Salaries for these six positions totaled \$620,000 in fiscal year 2010. Furthermore, there was no evidence provided that the Board approved these appointments and salaries. State law requires that on the recommendation of the county superintendent, the Board appoint all system employees and set the related salary. This condition was commented upon in our preceding audit report.

Most employees are covered under the union contracts for the teachers and support personnel. Our tests of regular and contractual payroll transactions processed in fiscal year 2010 disclosed that QACPS generally made payments in accordance with appropriate contracts and the payments agreed to supporting documentation such as time records.

Recommendation 5

We recommend that QACPS

- a. ensure employee compensation and benefits for its management employees are documented in written agreements (repeat), and**
- b. obtain Board approval for appointments and salaries as required by State law.**

Inventory Control and Accountability

Background

According to QACPS audited financial statements, the undepreciated value of its capital equipment inventory totaled \$9.7 million as of June 30, 2010. QACPS maintains centralized automated records to track equipment items with an individual cost of \$1,000 or more. These items are capitalized for financial statement purposes.

Finding 6

QACPS lacked policies for establishing proper control over sensitive equipment, equipment records were incomplete and inaccurate, and physical inventories were not properly conducted.

Analysis

QACPS lacked sufficient policies governing its sensitive equipment, and did not establish proper accountability and control over its capitalized equipment. For example, our review disclosed the following conditions:

- QACPS did not have any policy or procedures to control sensitive items below the \$1,000 threshold, such as cameras, certain laptops, tablets, and other electronic devices. Items below the \$1,000 threshold are not recorded in the centralized automated records nor are they required to be labeled to identify them as QACPS property. The Government Finance Officers Association (GFOA) recommends that an entity establish controls over non-capitalized equipment that is marketable and susceptible to theft.

Although we were informed that computers, regardless of cost (including those costing below \$1,000), should be recorded by the Information Technology (IT) Department, our review disclosed that the Department's records were not complete. For example, the Department's records consisted of 52 laptop computers and did not include other IT equipment such as desktop computers and servers that were listed on the centralized automated records. For example, the centralized records included 460 desktop computers not reflected on the Department's records.

- Capital equipment items were not recorded in the centralized automated records or labeled for identification purposes in a timely manner. QACPS' current practice is to record and tag all capital items purchased in any year only at the end of each fiscal year. However, the inventory records indicated that 26 items valued at \$57,500 (including a number of computers) purchased from 2004 to 2009 did not have property tags on the equipment. In addition, for 32 equipment items totaling \$79,700 selected from the detailed inventory records, we were unable to locate 4 items (computers) totaling \$7,000. According to the inventory records, property tags had not been assigned to these items. QACPS was also unable to locate the items and could not explain why the items were missing.
- The physical inventory counts were not performed by independent employees nor were the counts subject to a documented independent verification. Physical inventories are performed at the end of the school year by a representative at each school who is essentially the property custodian (and thus not independent) using property lists created by the record keeper for that location. The updated listings are sent back to the central office record keeper who uses this information to revise the equipment inventory records to reflect new items and changes in location. While we were advised that central office staff periodically performed independent verifications of the physical inventory counts, the detailed results of such reviews were not maintained. Furthermore, central office records showed that this verification was performed only one time at three schools since fiscal year 2007.
- There was a lack of documentation that QACPS investigated missing items. Although the equipment inventory records indicated that 51 equipment items (such as laptops and musical instruments) with a total cost of \$125,000 were missing as a result of a physical inventory conducted for fiscal year 2010, QACPS could not provide evidence that it had resolved or otherwise accounted for these items.

Similar conditions were commented upon in our preceding audit report.

Recommendation 6

We recommend that QACPS put the necessary policies and procedures in place to ensure accountability and control over its equipment inventory (repeat). Specifically, we recommend that QACPS

- a. establish a policy requiring sensitive items to be recorded in the inventory records and tagged for identification purposes;**
- b. record all capital and sensitive equipment items in the inventory records and tag these items as property of QACPS as soon as possible after their receipt;**
- c. ensure that independent verifications of the physical inventory counts are performed for all schools and are documented; and**
- d. document the actions taken to investigate missing items, and approvals for the ultimate resolutions, such as write-off from the records.**

Information Technology

Background

QACPS' Information Technology Department maintains and administers its computer network, computer operations, and instructional information systems applications. QACPS operates a wide area network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at the QACPS headquarters. The Information Technology Department maintains a computer room at the headquarters location in which assorted computer servers operate to support QACPS' applications including its student information system. QACPS maintains its financial and human resources/payroll applications on a separate server and support for these applications is provided by an independent contractor.

Finding 7

Proper security controls had not been established over certain information systems.

Analysis

Access, authentication, and monitoring controls over certain information systems were inadequate. Specifically, our review over the servers hosting the financial and human resources/payroll systems and the student information system disclosed the following conditions:

- QACPS settings on the server hosting the financial and human resources/payroll systems were not properly configured in that numerous

users had the ability to make changes that could result in erroneous or unauthorized changes to critical production data.

- Account and password controls for these systems were not established in accordance with accepted best practices. QACPS did not enforce appropriate minimum password length and password complexity requirements, and in some cases password lifetime requirements were not enforced (that is, users never had to change their passwords).
- Procedures for monitoring security did not include logging any server or database security event (such as unauthorized access attempts and changes to security settings on the server or direct changes to data tables). This condition could result in unauthorized or inappropriate activities affecting the integrity of the data to occur without management's knowledge.

Similar conditions were commented upon in our preceding audit report.

Recommendation 7

We recommend that QACPS implement appropriate security measures pertaining to system access, authentication, and monitoring controls over the aforementioned information systems (repeat). Specifically, we recommended that QACPS

- a. server settings be properly configured to restrict users' ability to make changes to critical production data,**
- b. establish strict password requirements, and**
- c. log and monitor security events.**

Finding 8

QACPS did not have a disaster recovery plan or take certain other precautions to mitigate its information technology security risks.

Analysis

QACPS did not take appropriate actions to protect its information technology resources as follows:

- QACPS did not have an Information Technology Disaster Recovery Plan for recovering computer operations from disaster scenarios (for example, a fire or flood). Without a recovery plan, a disaster could cause significant delays (for an undetermined period of time) in restoring operations above and beyond the expected delays that would exist in a planned recovery scenario. Specifically, the following critical elements of a recovery plan

should be addressed according to the best practices outlined in the State of Maryland *Information Technology Disaster Recovery Guidelines*:

- Alternate site processing arrangements
 - Current and complete list of required hardware and software components
 - Current and complete network restoration procedures
 - Current and complete list of applications prioritized for recovery
 - Procedures for testing the recovery plan
-
- Physical security over certain servers needs to be improved. For example, access to the room housing the computer equipment for the financial and human resources/payroll system was not properly restricted.

 - QACPS did not sufficiently secure critical backup tapes. Although the backup tapes for the server hosting the financial and human resources/payroll system were taken offsite after working hours, the tapes were returned to the onsite location each day. Consequently, in the event of a disaster during working hours both the original and backup data could be destroyed.

Similar conditions were commented upon in our preceding audit report.

Recommendation 8

We recommend that QACPS

- a. **develop and implement a comprehensive disaster recovery plan in accordance with accepted best practices (repeat);**
- b. **establish adequate physical controls and safeguards over its computer rooms (repeat); and**
- c. **institute appropriate backup procedures by storing, at all times, backup tapes of all critical systems at a secure offsite location (repeat).**

Finding 9

QACPS' computer network was vulnerable to external threats.

QACPS' internal network was not properly secured. Specifically, our review disclosed the following conditions:

- QACPS' computer network was vulnerable to external threats because numerous publicly and widely accessible servers (servers accessible to a large group of users such as QAPCS' Online Employment website) were placed in the same network segment that contained non-public critical servers (such as those hosting the student information system). The

failure to segregate servers on the network unnecessarily exposes the non-public servers to security risks from the publicly accessible servers.

- Firewall rules allowed numerous insecure and unnecessary connections to critical network devices. For example, firewall rules were not configured to adequately secure connections into the QACPS network from the Internet.

Recommendation 9

We recommend that QACPS

- a. segregate publicly accessible servers from non-public servers, and**
- b. configure its firewall rules to adequately protect its internal network devices.**

Facilities Construction, Renovation, and Maintenance

Background

QACPS maintains 14 schools and other administration and support offices with a staff of 68 custodial and 9 maintenance personnel. According to the fiscal year 2011 Capital Improvement Plan (CIP), planned construction, major renovations, and systemic improvements to QACPS facilities over the next six years are estimated to cost \$42 million.

An Inclusive Process is Used to Plan for School Facility Construction, Major Renovation, and Repair Projects

QACPS uses a comprehensive process, which includes the solicitation of input from various sources, to plan for future school construction, major renovation, and repair projects. For example, QACPS uses public meetings, student demographic data, and other internal sources (such as current curriculum mandates) to develop its six-year CIP. The CIP is presented to and approved by the Board, as well as elected local officials. In addition, the Educational Facilities Master Plan (EFMP) that is used to guide overall QACPS operations incorporates certain CIP objectives and strategies related to school facilities. Our review of the fiscal year 2011-2016 CIP disclosed that it appeared to address the needs of QACPS based on items such as student demographics and facility assessments.

Processes Are in Place to Minimize Energy Costs

QACPS has processes in place to minimize energy costs. For example, QACPS participates in a consortium with other Eastern Shore entities to pool their buying power to purchase energy at the best possible prices. Also, QACPS utilizes an energy management system to monitor energy usage at 13 of its 14 schools and employs an energy management program coordinator trained

in conservation techniques and energy management practices. According to reports prepared by the program coordinator as of October 25, 2010 (which we did not audit), QACPS has avoided more than \$3 million in energy costs since implementation of the program in May 2006.

Finding 10

QACPS did not obtain Board approval for architectural and engineering contracts.

Analysis

Our review of QACPS' most recent construction-related procurements disclosed that QACPS properly procured a \$23.2 million contract award for general contractor services for new school construction, including review and approval by the Board. Although the procurement of architectural and engineering services totaling \$1.3 million appeared to be properly administered (for example, bids were obtained), the contract was not approved by the Board. State law specifies that Boards are responsible for the employing architects to assist in preparing plans and specifications for constructing or remodeling a building. As such, the Board should, at a minimum, formally approve the selection of the successful bidder and the contract award.

Recommendation 10

We recommend that QACPS obtain Board approval for architectural and engineering services contract awards.

Finding 11

QACPS did not maintain documentation of preventive maintenance work performed.

Analysis

Our test of 16 of the required 29 preventive maintenance tasks (such as boiler and roof inspections) disclosed that no documentation existed to support that QACPS staff completed any of the required tasks. QACPS had developed a comprehensive maintenance plan that included preventive maintenance and custodial task schedules, and required that completed inspections and preventive maintenance work be performed at certain intervals. Without appropriate documentation, QACPS lacked assurance that all preventive maintenance required by its plan had been performed. A similar condition was commented upon in our preceding audit report.

Recommendation 11

We recommend that QACPS document all preventive maintenance work performed in accordance with the requirements of the comprehensive maintenance plan to ensure appropriate and timely maintenance is provided to all facilities (repeat).

Transportation Services

Background

QACPS has approximately 7,800 students eligible to receive student transportation services. These students were transported on one of 77 contractor-owned buses or 12 school system-owned buses. According to QACPS records, fiscal year 2010 transportation costs totaled \$5.8 million, with \$4.5 million (77 percent) paid to bus contractors. Of the 2.1 million reported route miles for the 2009-2010 school year, 22 percent represented miles traveled to transport disabled students.

Finding 12

QACPS did not fully utilize its automated routing software capabilities to develop more efficient routes or plan routes in a way that would utilize existing buses to capacity.

Analysis

QACPS did not fully use automated bus routing software capabilities to develop more efficient routes. For example, the automated routing system has the capability to generate reports of bus routes with student ride times and average bus occupancy. Although our review disclosed that QACPS uses certain reporting capabilities of the routing software, it does not factor in student ride times and actual bus ridership when planning routes. QACPS' automated routing software is used primarily to map out existing routes. In practice, QACPS uses existing bus routes and make modifications to accommodate students' school assignments without periodically reviewing all routes for efficiency on a system-wide basis. Using routing software is a recognized best practice that can reduce the time it takes to design efficient routes, to reduce student ride times, and to help ensure that routes utilize existing bus capacity and minimize the number of buses needed to transport students.

The lack of a system-wide route analysis could have a potentially negative impact on route efficiency. For example, our review of QACPS' fiscal year 2011 bus manifests (which are used to record student ridership) for 83 bus runs disclosed that 29 runs were below 75 percent of QACPS' informal

ridership capacity goals.³ On 4 of these 29 runs, student capacity was less than 50 percent. For six runs, the contractors did not provide ridership data to assess bus capacities.

In addition, our review of QACPS planned capacity (that is, the planned utilization of buses based on the ridership as estimated by transportation staff) showed that planned utilization for 40 routes did not meet capacity goals. Utilizing the full capabilities of the automated routing software could help develop more efficient bus routes and assist in the periodic evaluation of routes.

Similar conditions were commented upon in our preceding audit report.

Recommendation 12

We recommend that QACPS take steps to use buses more efficiently (repeat). Specifically, we recommend that QACPS

- a. fully utilize its automated routing software to develop more efficient bus routes on a system-wide basis, and**
- b. obtain manifests for all bus runs and periodically review bus ridership data and established routes to ensure capacity goals are met to the extent practical.**

Finding 13

QACPS did not base certain elements used to determine payment amounts to bus contractors on documented criteria or actual costs.

Analysis

Certain elements used to determine payment amounts to bus contractors did not reflect market conditions or actual costs over time. Generally, payments to contractors consist of amounts pertaining to the purchase of a bus (per vehicle allotment or PVA) and for operating costs (such as driver salaries, fuel use, maintenance costs, and certain administrative costs). For example, a bus purchased in fiscal year 2010 has an annual PVA of \$15,142. QACPS contractors receive the annual PVA payment for the entire term of the contract. Each bus contract has an initial five-year term and is renewable for an additional five-year term. Our review of the contract terms disclosed the following conditions:

³ QACPS does not have a documented bus capacity target. School bus capacities are lower than manufacturer stated capacities and differ depending on the school. We calculated target capacities based on QACPS' informal bus capacity goals for high, middle, middle/elementary, and elementary schools routes at 44, 50, 55, 66, respectively, based on 66 and 72 passenger buses (manufacturer stated capacity).

- QACPS does not use a formula to calculate the PVA each year, which takes into consideration the actual cost of a new bus and the prevailing market interest rates. Rather PVA payments are based on amounts agreed upon during contract negotiations. For the majority of school systems that utilize bus contractors, a PVA formula is used that includes reimbursement for the cost of the bus (for example 1/12th of the cost of the bus paid each year for a bus with a 12 year life) and a flat rate of return on investment (a percentage of the total cost of the bus paid each year for investing money in the bus instead of another investment option).

To estimate the potential financial impact to QACPS, we calculated the PVA for each of the 39 new buses placed into service from fiscal year 2006 to 2011 using a detailed PVA formula similar to that used by other school systems (adjusted each year to reflect the average new bus cost and prevailing market interest rates at the time new buses were purchased by the contractors and a 12-year useful life). We compared these calculated PVA results to the actual PVA amounts negotiated by QACPS. This comparison showed that the QACPS annual PVA payments per bus were from \$1,451 to \$2,691 more than the payments would have been had the bus acquisition costs and prevailing interest rates that existed at the time of purchase been used in the calculation. The effect is that, over the 12-year life of these 39 buses, QACPS will pay out approximately \$1 million more than if QACPS used actual bus costs and prevailing interest rates. This analysis does not include the effects for any new bus purchases that may be made after fiscal year 2011 and the lost interest income that could have been earned by QACPS on the excess amounts paid.

- QACPS payments to contractors for operating costs pertaining to bus maintenance and fuel costs were not based on actual costs, but were based on a negotiated per mile rate. Consequently, compared to the related costs for its buses, it appears that QACPS' payments to contractors may be higher than necessary to cover those contractor costs. According to QACPS records, actual fiscal year 2010 costs for maintenance and fuel on school system-owned buses totaled \$.49 per mile. However, QACPS' contract with bus vendors paid the contractors \$1.17 per mile for those costs. Using actual bus route miles and payments made to the contractors for fiscal year 2010, we estimated the cost differential equates to \$1.1 million for that year. Other factors, such as vehicle age and size and bus routes may contribute to the cost difference.

Recommendation 13

We recommend that QACPS reconsider its method of establishing payment amounts to bus contractors in future contracts. Specifically, we recommend that QACPS use actual bus purchase costs, bus operating costs, and market investment rates as the basis for establishing contractor rates for the annual per vehicle allotment as well as the rates for maintenance and operating costs.

Finding 14

Although contractor payments were generally accurate and in accordance with contract terms based on contractor provided information, QACPS did not verify the information provided by bus contractors.

Analysis

Our test of bus contractor payments processed in April and October 2010 totaling \$872,000 disclosed that the payments tested were in accordance with contract terms. However, the payment amounts were calculated using information provided by bus contractors (time and mileage) that was not verified by QACPS. Specifically, reports submitted at the beginning of each school year by bus contractors detailing the drive time and mileage for each route were not verified. Consequently, QACPS lacks assurance that payments to contractors for driver salaries, which are based on drive time, and maintenance and fuel costs, which are based on route mileage, were accurate.

Our test of route mileage for 5 fiscal year 2011 bus runs disclosed that for 4 of the tested runs, route mileage appeared overstated in amounts ranging from 10 to 42 miles per day. Using the fiscal year 2011 maintenance and fuel cost rate of \$1.26 per mile, QACPS could have overpaid these four bus contractors by \$19,000 in fiscal year 2011 based on the mileage differential we identified.

Recommendation 14

We recommend that QACPS independently verify bus contractors' reported time and mileage, at least on a test basis, to ensure the accuracy of the related payment amounts.

Food Services

Background

QACPS has outsourced food service operations to a third-party vendor since 1992. The vendor provides meal services to all 14 schools and central offices. QACPS entered into a contract with the current vendor in August 2009, effective for fiscal year 2010 with four one-year renewal options. Significant contract provisions include the following:

- The vendor guarantees QACPS a specific financial return, currently at least \$200,000, for each school year. In the event of a shortfall, the vendor shall pay the difference to QACPS, not to exceed the management fee (which varies based on certain factors but is no less than approximately \$116,000).
- All food service employees are employees of the vendor.
- Vendor employees collect and deposit gross sales into a QACPS account. The vendor bills QACPS monthly for all operating expenses and a pro-rated share of the management fee.
- QACPS furnishes the necessary food service equipment, utensils and trays.

According to the fiscal year 2010 audited financial statements, food service revenue totaled \$2.5 million, including \$1.5 million in sales, with the remainder of revenue consisting primarily of federal grants and the value of donated commodities.

Food Services Contract Was Properly Procured

QACPS properly procured its current food services contract. Specifically, for the most recent food service-related procurement, QACPS properly advertised the request for proposal, obtained competitive sealed proposals, and awarded the food services contract after obtaining Board approval.

Finding 15

QACPS did not review documentation supporting amounts invoiced by the vendor.

Analysis

Although the contract requires QACPS to pay the contractor for all operating costs, QACPS did not verify the accuracy of those costs. Specifically, cost

information contained on the vendor's monthly operating statements, which was used to support the vendor's billings, was not compared by QACPS to supporting documentation maintained by the vendor (such as employee time sheets and third party invoices for supplies). Furthermore, the contract identifies certain transactions that should not be included in operating expenses billed to QACPS. For example, the contract states that operating expenses shall be net of any rebates obtained from local vendors, suppliers, or distributors for goods procured solely for QACPS. Although an audit of the vendor's records is specifically permitted by the contract, QACPS had never undertaken such a review since they began contracting with the vendor in 1992. Consequently, QACPS lacked assurance that expenses were properly reported by the contractor and amounts paid by QACPS were in accordance with the contract terms. According to QACPS records, payments to the food service vendor totaled \$2.4 million in fiscal year 2010. A similar condition was commented upon in our preceding audit report.

Recommendation 15

We recommend that QACPS establish a process to monitor vendor compliance with contract provisions (repeat). Specifically, we recommend that QACPS obtain and review, at least on a test basis, documentation to support charges included on the monthly operating statements and vendor invoices.

School Board Oversight

Background

QACPS' Board of Education is composed of five elected members and two non-voting student representatives. In its oversight responsibilities, the Board contracted with a certified public accounting firm for independent audits of the QACPS financial statements and federal programs. Due to the size of QACPS and the limited membership of the Board, a committee structure is not used, but rather individual members are periodically informed of and become involved in all aspects of operations and governance.

Finding 16

QACPS' Board of Education had not established formal policies pertaining to certain financial areas.

Analysis

QACPS' Board of Education had not adopted policies governing certain significant financial areas. Specifically, the Board had not provided sufficient formal policy guidance for procurements and equipment inventory (previously mentioned in Finding 6). For example, QACPS did not have formal

procurement policies. Comprehensive procurement policies should be established to identify the Board's expectations to ensure acquisitions are obtained at the best value. At a minimum, procurement policies should specify the acceptable procurement methods (such as sealed bidding, sole source) for all types of procurements, when contracts should be in writing, the mandatory contract provisions, and the related approval requirements. In this regard, like many other school systems, the Board should approve procurement awards over a certain monetary threshold.

We also noted that QACPS had not developed administrative procedures (usually required by a policy) designed to guide routine operations in these areas. A similar condition was commented upon in our preceding audit report.

QACPS has indicated that it follows State law and believes that establishing policies in certain financial areas, such as procurements, would be duplicative. Although State law addresses certain financial operations of school systems (for example, requiring bids for certain procurements over \$25,000), the law does not address all critical financial operational areas or address all types of procurements (such as service contracts). Furthermore, the law does not specify how these laws are to be implemented. Since the Board has oversight responsibilities to ensure the proper use of funds, we believe major financial commitments (that is, those above a certain monetary threshold) made by QACPS should be approved by the Board, as is the policy of many other local school systems.

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

Recommendation 16

We recommend that QACPS' Board of Education

- a. adopt formal policies to govern significant financial operations (repeat),**
- b. stipulate within those policies what decisions (such as contract awards) require Board approval, and**
- c. establish a process to ensure that the related administrative procedures are developed and carried out by management as intended (repeat).**

Finding 17

QACPS' ethics policy was not sufficiently comprehensive and required financial disclosure statements were not on file.

Analysis

QACPS' Board of Education has adopted a detailed ethics policy that generally conforms to State law pertaining to local school systems and includes provisions for conflicts of interest and financial disclosure. The ethics policy also establishes an Ethics Panel, which consists of three members appointed by the Board, to interpret policies and provide advice on implementation. However, our review disclosed the following conditions:

- QACPS' ethics policy prohibiting potential conflicts of interest was not sufficiently comprehensive. State ethics law states that an employee may not participate in a matter if a business entity is owned by a qualifying relative. State law defines a qualifying relative as a child, parent, brother, and sister who is a party to the matter; QACPS' policy only includes a spouse or dependent children as a qualifying relative.
- Financial disclosure forms were not being filed as required. QACPS' ethics policy identifies a number of supervisory employees and Board members required to file annual financial disclosure statements. Although the policy requires the forms to be submitted by January 31 of each year with the QACPS' Ethics Panel, no employee had submitted forms applicable to calendar year 2010 as of March 09, 2011. In addition, QACPS could not provide documentation of completed financial disclosure statements from any previous calendar year. QACPS identified 51 individuals required to submit financial disclosure statements annually, including Board members and various administrative staff. QACPS agency staff advised us that personnel do not complete disclosure forms unless staff has something to report. Furthermore, the form QACPS developed to report financial disclosures only requires reporting of gifts if received and does not include any requirement to report other information such as interests in business entities doing business with QACPS, or certain outside employment which could disclose potential conflicts of interest.

Prior to October 1, 2010, State law required that regulations adopted by a school board regarding conflict of interest and financial disclosures applicable to board members, officials, and employees of local school systems to be similar to the State requirements in Subtitles 5 and 6 of Title 15 of the State Government Article of the Annotated Code of Maryland. While keeping the provisions for officials and employees the same, the State law expanded the requirements for board members effective October 1, 2010. The new law

requires that local school board regulations regarding conflicts of interest and financial disclosures for board members be equivalent to or exceed the requirements applicable to State employees in Subtitles 5 and 6 of Title 15 of the State Government Article of the Annotated Code of Maryland. Accordingly, board members must file annual disclosure statements that contain information about the filer's interests in real property, corporations (such as stock ownership) and partnerships, and entities doing business with the school system, as well as disclose certain other relationships. Also, the annual disclosure statement is required to be filed by board members even when no gifts were received to report that fact.

Recommendation 17

We recommend that QACPS' Board

- a. enhance its ethics policy to include all relevant provisions required by State law,**
- b. revise the financial disclosure statement to ensure that requested information is consistent with the requirements of State law (such as the requirements to disclose certain interests), and**
- c. ensure that all applicable school officials file annual financial disclosure statements in a timely manner.**

Other Financial Controls

Finding 18

QACPS did not verify the eligibility of health care coverage participants.

Analysis

QACPS provides health care coverage to employees and eligible dependents through the Eastern Shore of Maryland Educational Consortium Health Alliance. However, neither the Alliance nor QACPS verified the eligibility of enrolled program participants' dependents. As of February 2011, QACPS provided health care coverage to 2,235 employees, retirees, and their dependents.

The Alliance contracts with a health care provider and each of the members pays premiums directly to the provider. As QACPS is self-insured, to the extent that premiums paid each year exceed actual and anticipated claims, QACPS is eligible for a refund (QACPS would reimburse the provider if claims exceeded premium payments for the year). According to its records for fiscal year 2010, QACPS paid the health care provider and the Alliance \$8.4 million and \$3.4 million, respectively. Based on the Alliance's year-end settlement, Queen Anne's County (which consists of the local government and QACPS) received a

refund of \$1.3 million applicable to fiscal year 2010. According to QACPS personnel, refunds are credited to QACPS' account to offset costs for the following year.

Recommended practices published by the GFOA state that health care cost containment, which include verification of enrolled participants, is a critical component of long-term financial planning and budgeting.

Recommendation 18

We recommend that QACPS institute processes to verify the eligibility of enrolled health care program participants and their listed dependents.

Audit Scope, Objectives, and Methodology

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Queen Anne's County Public Schools (QACPS). 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.

We had two broad audit objectives:

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

In planning and conducting our audit of QACPS, we focused on 11 major financial-related areas of operations as approved on September 14, 2004 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of findings included in our preceding audit report on QACPS dated October 23, 2006, was limited to those findings that were applicable to the current audit scope for each of the 11 areas.

The audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. Also, we did not evaluate the QACPS Comprehensive Education Master Plan or related updates, and we 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.

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 QACPS. We also interviewed personnel at QACPS, the Maryland State Department of Education

(MSDE), and staff at other local school systems in Maryland (as appropriate).⁴ Our audit procedures included inspections of documents and records, and observations of QACPS 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, 2009 through December 31, 2010. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits QACPS' financial statements and conducts the federal Single Audit.

We used certain statistical data—including financial and operational—compiled by MSDE from various informational reports submitted by the Maryland local school systems. This information was used in this audit report for background or informational purposes, and was deemed reasonable.

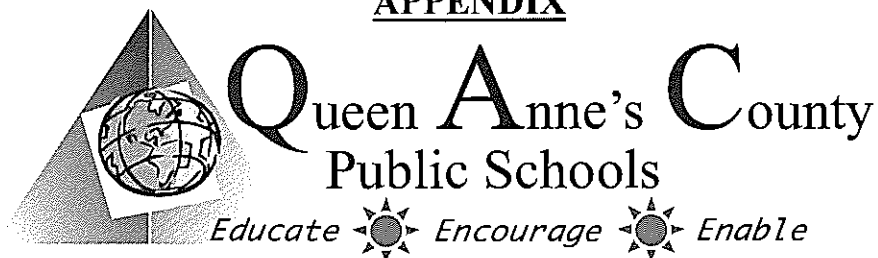
QACPS' management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of 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 QACPS that did not warrant inclusion in this report.

We conducted our fieldwork from August 2010 to March 2011. The QACPS response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise QACPS regarding the results of our review of its response.

⁴ During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

APPENDIX



202 Chesterfield Avenue ~ Centreville, MD 21617 ~ Tele: 410-758-2403 ~ Fax: 410-758-8200 ~ www.qacps.k12.md.us

October 17, 2011

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

Dear Mr. Myers:

Enclosed are the responses to the recommendations made in the Financial Management Practices Audit Report for Queen Anne's County Public Schools. This response has also been emailed to response@ola.state.md.us as requested in your letter dated September 30, 2011.

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

Sincerely,

A handwritten signature in black ink that reads "Robin H. Landgraf".

Robin H. Landgraf
Chief Financial Officer

Enclosure

Cc: Dr. Carol A Williamson, Superintendent
Mrs. Cynthia Todd, President, Queen Anne's County Board of Education

- 1) (a) QACPS has developed a checklist as a tool for the principal and financial secretaries to use in evaluating the effectiveness of the financial procedures in use in their school. This checklist will become part of the required end of year checkout procedures. (b) The accounting manual addresses in detail how cash receipts are to be handled and (c) the review process for bank reconciliations. These procedures will continue to be reviewed with Principals annually, at the August Administrator and Supervisors' meeting. Special emphasis will be placed on cash management. Periodic meetings with the school financial secretaries will be scheduled to review the accounting manual. Additionally, monthly reports including bank reconciliations must be filed in the finance department where staff will review for principal signatures.
- 2) (a) QACPS's finance department consists of a total of 10 individuals, including the Chief Financial Officer. Unfortunately, with such a small staff complete segregation of duties is not always possible and cross training of jobs is critical for the continued operation of the system. As of July 1, 2011 a new software system for all financial operations was implemented. As part of that implementation, security for each individual has been evaluated. We will continue to review access to critical systems and limit access when possible. In many cases, even though an individual's primary job may not require access to certain systems, they may be the "back up" for other individuals who do require that access. (b) In response to the recommendation in the last audit report, a log documenting the review of transactions was implemented. This log indicates batch number, total disbursements and the reviewer's signature. The log is reviewed and approved by the Chief Financial Officer's designee. However, this recommendation is repeated in this report based on the lack of segregation of duties due to the departments' limited staff. With the current economic condition of QACPS, additional staff is not possible so this will continue to be a challenge.
- 3) QACPS follows the state guidelines for competitive bidding. Even though items under \$25,000 are not required to be bid QACPS has a guideline to control procurement of such items. (a) QACPS currently obtains Board approval for all major construction projects. On all other contracts issued as part of the operations of the system, budgets are established during the budget process and unless contracts exceed those budgeted allocations no additional approvals are requested of the Board. During the FY 2013 budget process this practice will be brought before the Board for discussion and possible change if deemed necessary by the Board. (b) QACPS will continue to strive for excellence in maintaining documentation to support all procurements.
- 4) (a) As of July 1, 2011 a new software system for all financial operations was implemented. As part of that implementation, security for each individual has been evaluated, and (b) only current employees were given access to the system. We will continue to review access to critical systems and limit access when

- possible. With such a small staff complete segregation of duties is not always possible and cross training of jobs is critical for the continued operation of the system. In many cases, even though an individual's primary job may not require access to certain systems, they may be the "back up" for other individuals who do require that access. (c) All changes processed for a bi-weekly payroll are initiated by the Human Resources department, and approved by the Human Resources Officer. The payroll total is confirmed by adding total changes approved by the HR officer to the previous payroll total. Once again due to the limited staff review by a "completely" independent supervisor is not possible; however the CFO reviews a list of all changes by payroll date.
- 5) (a) The board will develop a policy that reflects the past practice for determining compensation and benefits for the Directors, the position of Assistant Superintendent is no longer in existence. Documentation of resolutions passed by the Board to approve salary increases for these employees will be maintained. (b) Board approval for all appointments is maintained. The Human Resources Personnel Action Report is reviewed with the Board at the each monthly Board meeting and approved in the open session.
- 6) QACPS has a capitalization threshold of \$1,000. (a) Individual departments, i.e. Special Education, Comtek, who purchase sensitive equipment costing less than \$1,000, are expected to track that equipment within their departments. The finance department is in the process of developing guidelines to be distributed to all departments regarding information to be maintained regarding sensitive equipment. (b) The implementation of the new software program will assist with the recordation of capital equipment. All schools are given an inventory of bar code tags for equipment. The individual schools will be reminded of their responsibility of tagging equipment upon receipt. (c) The central office will continue to provide schools with inventory listing and to verify physical inventory. (d) Documentation of the verification will be maintained, along with documentation of the investigation of missing items, write-offs and disposals.
- 7) As previously stated QACPS implemented an entirely new financial software system as of July 1, 2011. The recommendations in this report all refer to the current IBM iSeries system which will no longer be used for the financial and human resources/payroll operations. (a) However, the iSeries security level was set when the system was installed by an IBM approved vendor. Even though the security level was set that all users were granted *ALLOBJ special authority most user profiles are set for an initial program to load upon sign on and therefore negates the *ALLOBJ authority, these users are not able to access a command line. However, the iSeries security level will be corrected to the IBM recommended setting. (b) As part of the implementation process with the new hosted software system, password requirements will be evaluated. (c) The new software system is a hosted system which includes monitoring of security events.

- 8) As previously stated QACPS implemented an entirely new financial software system as of July 1, 2011. The recommendations in this report all refer to the current IBM iSeries system which will no longer be used for the financial and human resources/payroll operations. After July 1, the software system is a hosted system, disaster recovery plans, backup systems, physical control and safeguards over computer room access are no longer an issue. QACPS has a contract with SunGard Public Sector, a national company to perform computer server management, data storage and backup. System backups will be performed on a full-backup basis weekly, with partial-backups daily.¹
- 9) (a) QACPS will investigate the feasibility of relocating the Human Resources Online Employment Web Server and the Online Learning Center (Moodle) server to a separate DMZ network segment. QACPS has ended its use of the GroupWise email server October 2011. (b) QACPS will investigate the firewall policies to add specific IP addresses and port numbers to the aforementioned network devices, thus providing a "least privilege" security strategy for better protection. Due to the limited staff and the required hours of operation the schedule for making these changes has not yet been determined.
- 10) QACPS has an extensive process in place for selecting architectural/engineering service contracts. Generally, a committee of 8 or more individuals is selected to read all proposals received from architectural/engineering firms. Using defined criteria, those proposals are evaluated. Based on the combined scores of the committee's evaluations, generally 3 firms are asked to give presentations. After presentations, the committee selects a firm to provide those services. The Board approves the budget allocation for planning a building as part of the budgeting process and after the selection committee has made their selection the Board is updated on the committee's decision.
- 11) Preventative maintenance items are now beginning to be processed on the computer software, BigWebDesk used to track all maintenance tasks, therefore documentation will be generated. Full implementation is expected by January 2012.

¹ **Auditor's Comment:** Although certain systems are now being hosted by a vendor, that arrangement does not alleviate QACPS' responsibility for establishing appropriate physical security, and backup and disaster recovery procedures for its existing internal systems, including those resources used to access the hosted programs and data. Furthermore, QACPS must now obtain independent assurances that the hosting vendor has established effective controls to help ensure the security of QACPS' data and to address other aspects relating to the hosted services. This independent assurance is commonly obtained through the receipt of a Service Organization Controls (SOC 2) Type 2 report on the hosting vendor's operations, which is based on guidance issued by the American Institute of Certified Public Accountants.

- 12) QACPS has hired a consultant to evaluate the transportation system and make recommendations, if deemed appropriate, of how the system could run more efficiently. Current guidelines used to determine length of bus ride, number of bus stops on a route, drop off times for students, etc. will all be taken into consideration. QACPS anticipates the consultant's final report to be delivered to the Board before January 1, 2012.
- 13) QACPS is in the final year (FY 2012) of a 5 year contract. Based on recommendations from the consultant hired to evaluate the system, adjustments may be made to the formula used for payment to the contractor. Contract negotiations will begin after January 1 and will commence before June 30, 2012.
- 14) The driver trainer will verify the time and mileage paid to a contractor during the evaluation process. We will strive to audit 25% of the fleet each year.
- 15) QACPS will develop a method of reviewing documentation to support charges included on the monthly operating statement periodically throughout the year. A threshold for minimum number of invoices to be reviewed will be determined, and procedures established for the review. It is anticipated these procedures should be completed by January 2012.
- 16) The Board of Education reviews, on a quarterly basis, the financial operations of the system; the financial data presented to the Board includes prior year information for comparative purposes. However, these practices are not written. State law and the reporting manual developed by MSDE govern many of the financial practices in place. QACPS has a Procurement Procedures manual that is in use. QACPS will develop a manual for fixed asset inventory. There are guidelines that are followed, however, they are not written. As previously stated, the transportation department is in the process of hiring a consultant to review practices and procedures of that department. A written report will be received at the end of that evaluation with recommended changes to current practices and procedures.
- 17) As state law regarding ethics policies has recently changed, QACPS is currently working with our attorney to re-establish a policy that conforms to state law. As part of that process, specific procedures will be established for reporting requirements contained in the new law.
- 18) QACPS has reviewed a proposal for the performance of a Dependent Eligibility Audit. This audit will commence after January 1 2012.

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