

Financial Management Practices Performance Audit Report

St. Mary's County Public Schools

April 2009



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

April 9, 2009

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the St. Mary's County Public Schools (SMCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. SMCPS is the 13th largest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 24 schools, with fiscal year 2008 expenditures of \$193 million. The objectives of this audit were to evaluate whether SMCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

In many cases, SMCPS had procedures and controls in place to ensure the safeguarding of assets and the efficient use of financial resources. Nevertheless, our report contains 20 recommendations to enhance controls in its existing financial management systems and processes in areas such as procurement, payroll, and student transportation. For example, SMCPS needs to enhance procurement policies and procedures, such as developing policies that address the purchase of services and certain goods under \$25,000, and institute better controls to restrict access capabilities for its payroll and disbursement automated systems. We identified certain components of the formula used to establish bus transportation vendor reimbursement rates that should be reevaluated, as they appear to result in unnecessarily high reimbursements, which could cost SMCPS approximately \$3.5 million over the life of the new buses put into service since 2005. Other issues to be addressed include improving controls over electronic funds transfers and participating in the Federal E-Rate program.

An Executive Summary of our findings can be found on page i, immediately following this cover letter, and our audit scope, objectives, and methodology are explained on page 59. We wish to acknowledge the cooperation extended to us during our audit by SMCPS.

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 St. Mary's County Public Schools (SMCPS) in accordance with the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. State law requires the Office to conduct such an audit of each of the 24 public school systems in Maryland and provides that the related audit process be approved by the Joint Audit Committee. Since the Committee approved the audit process in September 2004, we have issued audit reports related to 14 school systems; SMCPS represents the fifteenth to date. The approved process included 11 areas to be audited at each system. The following are summaries of the findings in these areas at SMCPS.

Revenue and Billing Cycle (see pages 7 through 10)

According to the audited SMCPS financial statements, \$185 million in revenue was received from all sources during fiscal year 2007, the vast majority of which was received via electronic fund transfers from other governmental entities. Procedures and controls for these revenue sources and accounts receivable were generally found to be adequate; however, based on our audit, controls over certain cash and check receipts initially received by the Office of Fiscal Services could be improved.

Federal Funds (see pages 11 through 14)

Annually, SMCPS is subject to an audit of its federally-funded programs (often referred to as the Single Audit, and required by Circular A-133, which is issued by the U.S. Office of Management and Budget). Due to parallels between that work and the scope of our audit, we placed significant reliance on the results of the independent audits of the fiscal year 2007 grant activity. The related report stated that SMCPS complied, in all material respects, with the requirements applicable to its major federal programs. In addition, with respect to internal controls over compliance with and the operation of major federal programs, the firm noted no

significant deficiencies and no matters considered to be material weaknesses. Reported federal fund expenditures totaled \$12 million during fiscal year 2007.

SMCPS has an adequate process for the identification of children eligible for Medicaid-subsidized services, and for recovering the related costs. However, since 2002, SMCPS had not participated in the E-Rate program, which provides financial assistance for school systems in the area of telecommunications and Internet access.

Procurement and Disbursement Cycle (see pages 15 through 19)

According to SMCPS records, non-payroll disbursements totaled \$51 million during fiscal year 2008. The audit disclosed that SMCPS needs to develop or improve policies governing procurements. For example, SMCPS had not established policies for the procurement of services, goods and supplies under \$25,000, and items deemed to be available from only a single (sole) source. In addition, adequate controls were not established over procurements and disbursements, including electronic fund transfers, and documentation was not maintained to support certain payments to vendors.

Human Resources and Payroll (see pages 21 through 24)

SMCPS employed 2,030 full-time equivalent employees as of October 2007 and payroll and benefit costs during fiscal year 2008 totaled approximately \$142 million. Internal controls over critical human resources and payroll functions need to be strengthened because certain employees had unnecessary and/or inappropriate computer system access capabilities without any compensating controls. In addition, while SMCPS had implemented workforce planning measures for teachers and other instructional positions, it had not extended these measures to other types of employees such as key non-instructional staff.

Inventory Control and Accountability (see pages 25 through 27)

SMCPS had policies to control equipment, which totaled \$12.5 million as of September 2008 but did not always follow these policies. We found that the official inventory records did not include information technology items and consequently these items were not subject to periodic physical inventories. In addition, SMCPS did not use available information to account for textbooks or to help make textbook purchasing decisions.

Information Technology Services (see pages 29 through 30)

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

Facilities Construction, Renovation, and Maintenance (see pages 31 through 35)

SMCPS maintains 24 schools and several other facilities (such as administration and support offices) with a staff of 156 custodial and maintenance personnel. SMCPS has implemented a number of best practices to help reduce construction and maintenance costs for its facilities. In addition, SMCPS used alternative financing to construct a new administration building, which consolidated many administrative functions within one building and allowed SMCPS to use available capital funds for school construction projects. However, we found that SMCPS did not maintain documentation to support certain contract awards and certain work performed as a result of construction contract change orders was completed prior to final approval of the related change order.

Transportation Services (see pages 37 through 44)

SMCPS is responsible for the safe transportation of over 16,000 eligible students, of which two percent are disabled. SMCPS used a number of recognized best practices to increase student transportation efficiency, such as staggering school arrival and dismissal times to enable certain buses to perform multiple runs. However, SMCPS had not documented its routing procedures and did not use its automated software to assist in the route scheduling process. In addition, SMCPS had not conducted any analysis of its decision to outsource transportation services nor of the reasonableness of the rates paid to bus contractors. Furthermore, SMCPS did not periodically adjust certain rates based on market conditions that were used to provide the bus contractors with a return on their initial investment of funds to purchase buses. Consequently, SMCPS may end up paying \$3.5 million more than necessary over a 12-year period. SMCPS paid contractors for certain costs in excess of those permitted by Board policy and did not verify certain data used to calculate the payments.

Food Services Operations (see pages 45 through 50)

SMCPS has implemented a number of best practices to help reduce food service costs, such as using performance measures to gauge operational efficiency. SMCPS has adequate procedures in place to identify students eligible for free and reduced-price meals under the federal national school meals programs. However, SMCPS could improve controls over certain cash related transactions and access to food services inventory maintained at its central warehouse. The food service operation, which is intended to be self-sufficient, does not account for all costs of operations.

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

Oversight of SMCPS operations included the five-member Board receiving financial updates, such as monthly budget variances to assist it in monitoring the use of funds. The Board is also extensively involved in a comprehensive budgeting process. SMCPS has a detailed ethics policy and had established a process to independently investigate ethics issues and complaints. Nevertheless, the Board could improve oversight of operations by

establishing an internal auditor position as well as receiving and reviewing financial and operational performance measure data. The Board should also consider establishing a confidential hotline.

Other Financial Controls (see pages 55 through 57)

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

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Background Information

Oversight

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

Statistical Overview

According to MSDE student enrollment records, SMCPS ranks 13th in student enrollment among the 24 public school systems in Maryland. From fiscal year 1998 through 2008, the total full-time regular and special education pupil population has increased 22.5 percent from 13,785 to 16,890, with further projected increases to 19,520 by 2017. For the 2007 – 2008 school year, SMCPS had 24 schools, consisting of 16 elementary, 4 middle, 3 high, and 1 alternative school. A review of the budget history from fiscal year 1999 to 2008 disclosed an increase in the SMCPS operating expenditures from \$117 million in fiscal year 1999 to \$193 million in fiscal year 2008. The largest expenditure category is salaries, wages, and benefits, accounting for approximately 80 percent of total operating expenditures. SMCPS budgeted full-time positions in fiscal year 2008 totaled 2,033, which consisted of 1,435 instructional and 598 non-instructional employees.

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

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

External Audit of Fiscal Year 2007 Activity

Annually, SMCPs 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 SMCPs federal grant programs (as required by federal regulations). The resulting audit report for the 2007 fiscal year was issued in September 2007. The audit report on the year-end financial statements and the Single Audit did not include any significant deficiencies or material weaknesses on SMCPs record keeping, processes, and controls.

Chapter 1

Revenue and Billing Cycle

According to the SMCPs audited financial statements, \$185 million of revenue was received by SMCPs during fiscal year 2007. Due to similarities between the work of the independent certified public accounting firm that audited the SMCPs financial statements and the scope of our audit in this area, we placed significant reliance on the results of those audits for revenues and accounts receivable (for example, amounts due from other governments). The firm's procedural reviews and testing for the most significant revenue types (the majority of which was received via electronic fund transfers from other government entities) and for accounts receivable, disclosed no significant deficiencies or material weaknesses.

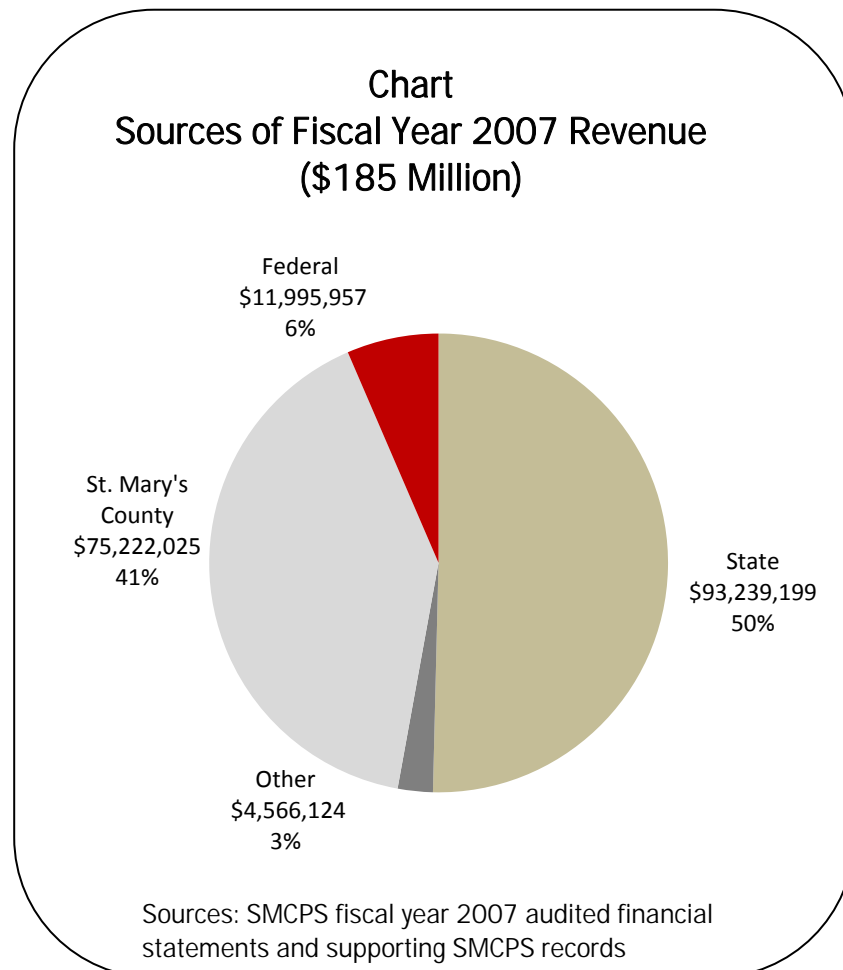
Our audit of certain revenues received by cash or check, which totaled \$30.2 million during fiscal year 2008, disclosed that controls over the collection of these revenues could be improved.

The SMCPs conducts reviews of school activity funds.¹ Those reviews identified some control weaknesses at certain schools. The control weaknesses identified did not appear to be prevalent and were addressed by school management.

¹ The Board has a fiduciary responsibility to ensure that school activity funds are used only for intended purposes by those to whom the assets belong. Receipts for the school activity funds, which totaled \$4 million during fiscal year 2007, are not included in the \$185 million revenue total because the Board cannot use these assets to finance its operations.

Background

SMCPS revenues consist primarily of funds received from St. Mary's County and the State. Other sources include federal grant funds, receipts from the sale of food, interest income, and other miscellaneous sources. Chart 1 (below) shows SMCPS fiscal year 2007 revenues of \$ 185 million by major source.



In addition to the revenues in Chart 1, schools also collect funds for various purposes, such as yearbook and school trips. These school activity funds are accounted for separately by each school and are reported in summary in the audited financial statements. According to the audited financial statements, fiscal year 2007 school activity funds revenue totaled \$4 million, and the June 30, 2007 balance was \$1.3 million.

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

Due to similarities between the work of the independent certified public accounting firm that audited the SMCPs financial statements and the scope of our audit in this area, we placed significant reliance on the results of the financial statement audits. The firm's audit report disclosed no significant deficiencies² or material weaknesses³ regarding significant revenue types and for related accounts receivable. The majority of this revenue was received via wire transfer from other government entities.

Controls Over the Collection of Certain Revenues Should Be Improved

Controls over cash receipts processed by the Office of Fiscal Services should be improved. We noted that SMCPs had not established written procedures to document the processes for receiving, accounting for, and depositing its collections. Also, prior to October 2008, checks received and processed by the Office of Fiscal Services were not initially recorded immediately upon receipt. Rather, these amounts were recorded on the deposit slip when the bank deposit was prepared. Although SMCPs modified its process effective in October 2008 and began recording cash receipts immediately upon receipt, the record of receipt was forwarded with the related receipts and deposit slip to several individuals before it was forwarded to an independent person for deposit verification. As a result, the record of receipt could be modified to conceal a misappropriation of receipts. In fiscal year 2008, cash receipts processed by the Office totaled \$30.2 million.

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

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

Recommendation

1. SMCPS should document the procedures and controls over its cash receipts. These procedures should require the individuals who initially record the receipts to submit this record of collections directly to an individual who is independent of cash receipts processing to verify that all receipts were subsequently deposited.

Chapter 2

Federal Funds

Annually, SMCPS is subject to an audit of its federally-funded grant programs (often referred to as the Single Audit, and required by Circular A-133 issued by the U.S. Office of Management and Budget). The report on the audit of fiscal year 2007 federal grant activity was issued by the independent certified public accounting firm on September 21, 2007.

In that report, the auditor stated that SMCPS 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 firm noted no significant deficiencies and no matters considered to be material weaknesses.

SMCPS had an adequate process for the identification of children eligible for Medicaid-subsidized⁴ services, and for recovering the related costs. However, since 2002, SMCPS had not participated in the federally funded E-Rate program, which provides discounts for school systems related to telecommunications and Internet access.

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.

Background

SMCPS receives funds primarily from St. Mary's County, the State, and the federal government. Most funds received from St. Mary's County and the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2007 expenditures of federal award funds totaled \$12 million.

According to SMCPS records, SMCPS also received an additional \$700,000 of federal fee-for-service payments during fiscal year 2007 for Medicaid-subsidized services for qualified students.

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

Because of the accounting firm's work on SMCPS federal fund expenditures, we relied on the auditor's results. Besides expressing an opinion on SMCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the fiscal year 2007 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). In its report, the firm stated that SMCPS 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 significant deficiencies and no matters considered to be material weaknesses.

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

Our review of Medicaid-subsidized services disclosed that SMCPS has adequate processes in place to identify students eligible for these services and recover the related costs. Specifically, SMCPS

manually reviews Medical Assistance records for all students receiving special education services to determine if the student is eligible for Medicaid-subsidized services. In addition, SMCPs ensures that all services provided are billed.

SMCPs Should Participate in the Federal E-Rate Program

SMCPs had not participated in the federally funded E-Rate program since 2002. The program, which was established by the Telecommunications Act of 1996 and began funding eligible services in January 1998, provides discounts to assist schools to obtain affordable telecommunications and Internet access. A school system's discount rate is based on factors such as the level of poverty (as measured by the percentage of students qualifying for free and reduced prices meals or FARM) and the urban/rural nature of the location of a school system. Based on SMCPs' characteristics, the System would be eligible for a 60 percent discount for eligible service costs. Although we were advised that SMCPs did not participate in the program due to the complexity and red-tape involved in applying for participation and submitting related expenditures for reimbursement, other school systems have addressed these issues by using third parties to handle the administrative tasks. We noted that SMCPs uses a third party to process applications for payment from the federal government related to Medicare Part D subsidies for retiree prescription benefits.

While we could not readily determine the E-Rate funding that SMCPs was eligible for in a particular fiscal year, we did note that Calvert County Public Schools, a similarly-sized school system located near SMCPs that has a lower FARM rate than SMCPs, received a funding commitment under the program for fiscal year 2007 of \$113,000.

Recommendation

2. SMCPS should take the necessary steps to participate in the E-Rate program, including obtaining the services of a third party administrator, if needed.

Chapter 3

Procurement and Disbursement Cycle

SMCPS needs to improve its policies and procedures over procurements. For example, SMCPS did not have any policies governing services and small procurements (those valued at \$25,000 or less) and did not require Board approval of any contracts, with the exception of construction-related contracts. In addition, adequate controls were not established over procurements and disbursements, including electronic fund transfers, and documentation was not maintained to support certain amounts paid to vendors. Finally, SMCPS has adequate travel policies and the related expenditures we tested were made in accordance with those policies.

Background

SMCPS uses an automated system for procurements and disbursements. Requisitions are manually prepared by departments and are subject to supervisory approval within the requesting departments. Purchase orders, contracts, solicitations, and bids are usually handled by the Office of Fiscal Services' purchasing office with the exception of construction activities, which are managed by the Design and Construction Management Department. Purchases of goods over \$25,000 are required to be formally bid. Contracts and agreements over \$100,000 are required to be approved by the Director of Fiscal Services and contracts over \$75,000 are reported to both the Superintendent and the Board. The ordering department documents the receipt of

goods and services by signing a copy of the related purchase order, which is used by the purchasing department to enter receiving report information into the automated system. Payments are then processed on the automated system by the Office of Fiscal Services' accounts payable unit. According to SMCPs records, non-payroll disbursements totaled \$51 million during fiscal year 2008.

SMCPs Should Improve Its Policies and Procedures Over the Procurement Process

SMCPs policies did not address certain aspects of its procurement activities.

- SMCPs did not have any policies governing the procurement process to be followed for purchases of \$25,000 or less (procurements over \$25,000 for certain goods and supplies are required to be bid by State law). In addition, existing policies did not address the procurement of services.
- Current policy did not require Board or Superintendent approval of any contract except those related to construction for which contracts over \$50,000 were approved by the Board. Other contracts exceeding \$100,000 must be approved by the Director of Fiscal Services and all contract awards exceeding \$75,000 are periodically summarized and reported to the Superintendent and Board for informational purposes.
- Policies did not address the use or applicability of sole source procurements and related documentation requirements justifying such purchases. Although we were advised that such procurements were rare, the reason for using this method instead of obtaining competitive bids should be documented to substantiate that the best value was obtained. The Board should review and approve sole source procurements that are over a specified amount.

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

Procurement and disbursement controls need to be

strengthened –Our review identified certain internal control deficiencies over the SMCPS automated procurement and disbursement system. Specifically, three employees had unrestricted purchasing and accounts payable functions, including entering and updating purchase orders, adding vendors, and printing disbursement checks. In addition, one user ID set to “auditor” allowed the user to perform all critical functions in the system. We were advised that this user ID was established for the independent auditors to use during the annual audit of the System. However, there is no need for external parties to have unrestricted access capabilities to critical functions. In addition, SMCPS did not document the review of disbursement checks to the related supporting documentation (such as invoices and receiving reports) to ensure that all disbursements were authorized and properly paid.

Electronic fund transfers, used primarily to process payments to contractors, were not adequately controlled. Two employees with critical automated accounts payable duties also had the ability to process the transfers without any independent approvals (one of these employees was responsible for such processing as part of her routine job duties). These internal control weaknesses could allow unauthorized transactions to be processed and not detected. Payments made through electronic fund transfers totaled \$3.6 million during fiscal year 2008.

Contract pricing information needs to be maintained – Our test of 23 invoices paid during fiscal year 2008 totaling \$561,000 and review of the related contracts disclosed that sufficient documentation to support the prices paid under two contracts was not on file.

SMCPS advised that it leased copiers under a piggybacked contract of another school system. However, we found that the items leased by SMCPS were not included in the other school system’s contract. In addition, SMCPS was unable to ensure that the rates charged on a monthly basis were proper because they did not have the contract pricing information on file. We also noted that SMCPS paid different

amounts for the same equipment that could not be readily explained by agency personnel. For example, SMCPs paid the vendor between \$11,169 and \$15,034 over the four-year term of the contract for copiers of the same model. This contract runs from July 2005 to June 2009 with an estimated annual cost of \$335,000.

SMCPs had not executed a contract for waste management services, for which it paid \$228,000 in fiscal year 2008. SMCPs did have a rate proposal submitted with the vendor's bid; however, we noted that charges were not always in agreement with, or included in, the rate proposal. While the differences we found were not significant (under \$1,000 for the two invoices we tested), a formal agreement would help ensure that the appropriate services are rendered at the agreed upon rates.

Travel Policies Were in Place and Travel Reimbursements Were Made in Compliance with Policies

SMCPs maintains travel reimbursement policies for Board members and employees. These policies include requirements for pre-approval of all overnight travel and proper documentation of all related expenses on forms reviewed and approved by supervisory personnel. Our test of eight travel reimbursements totaling \$11,400 made during fiscal year 2008 disclosed that all items tested were processed in accordance with established policies.

Recommendations

3. SMCPs should enhance its existing procurement policies by addressing all categories of purchases, including procurements of \$25,000 or less, sole source procurements, and services. These policies should require Board approval for contracts that meet certain criteria (such as those exceeding a certain monetary threshold).
4. SMCPs should improve its controls over purchasing and accounts payable system by segregating access capabilities for critical system functions and denying access to such functions

to those who do not need those capabilities. SMCPs should also establish an adequate separation of duties over electronic fund transfers. Finally, SMCPs should document its review of disbursement checks and maintain contract pricing information on file to verify the accuracy of vendor billings.

Chapter 4

Human Resources and Payroll

SMCPS should address certain procedural and control deficiencies with respect to human resources and payroll functions. These deficiencies include unnecessary and inappropriate access capabilities given to certain personnel on the SMCPS human resource and payroll system and a lack of supervisory review of certain human resource and payroll transactions. SMCPS had implemented workforce planning, although it did not address the needs and processes for employees other than teachers and related instructional positions.

Background

Payroll expense represents the largest single cost component in the SMCPS budget. According to SMCPS records for fiscal year 2008, salary, wage, and benefit costs totaled approximately \$142 million. As of October 2007, SMCPS had 2,033 full-time equivalent employees, of which 598 (29 percent) were non-instructional. The 8.3 to 1 ratio of SMCPS students to full-time equivalent employees (both instructional and non-instructional) is reasonable when compared with similarly-sized school systems (see Table 1 on the next page).

SMCPS uses an automated integrated human resources and payroll system to maintain human resources information, record employee time, and track leave usage. The system automatically generates biweekly time records and any adjustments are processed by

central payroll personnel. The system generates payroll checks and direct deposit advices. Payroll processing involves both automated (such as compiling leave and running edit reports) and manual processes (such as data entry of new employee information).

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

School System	Number of Students (as of September 30, 2007)	Number of Full-Time Equivalent Employees	Student to Employee Ratio
St. Mary's Co.	16,890	2,033	8.3 to 1
Washington Co.	21,703	2,800	7.8 to 1
Calvert Co.	17,394	2,229	7.8 to 1
Cecil Co.	16,290	2,276	7.2 to 1
Wicomico Co.	14,399	2,244	6.4 to 1

Source: MSDE Student/Staff Publications

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

Human Resource and Payroll Internal Controls Need to Be Strengthened

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

- Eight employees were assigned inappropriate and/or excessive access capabilities that allowed them to perform critical human resource and payroll functions in the automated system. For example, two employees had unrestricted access capabilities to all critical human resources and payroll functions. These critical functions include adding and deleting employees, changing employee addresses, changing employee pay rates and direct deposit account information, and entering and approving time and attendance information. In addition, one of these

employees was responsible for fully processing the biweekly payroll (including payroll entry, posting leave, and preparing the checks) and had access to the check signing machine. The remaining six employees had been assigned functions that were not needed to perform their job duties.

- One user ID set to "auditor" allowed the user to change employee information in the payroll system, modify pay rates, and add and terminate employees. SMCPs advised that this ID was for the independent auditors to use during the annual audit of the System. However, there is no need for external parties to have such unrestricted access capabilities to critical system functions.
- Final payout calculations for unused annual and sick leave for terminated employees were not independently verified for accuracy and propriety. Our test of 10 such payments totaling \$161,000 disclosed 2 payouts totaling \$29,200 were not properly calculated. One was underpaid by \$530 and one was overpaid by \$750.

There were no compensating controls such as management reviews of periodic reports of personnel changes, payroll transactions and adjustments processed. Although we found no evidence of unauthorized additions to the payroll or unauthorized payments for the items tested, the improper separation of duties and access to the system could be used to process unauthorized payroll payments.

Workforce Planning Should Be Expanded to Include Non-Instructional Positions

Although SMCPs has implemented workforce planning for instructional positions, SMCPs should expand its workforce planning efforts to include non-instructional positions, which represent 29 percent of its workforce (598 non-instructional professional and support staff, out of 2,033 full-time equivalent positions). The SMCPs Master Plan sets the strategic direction and provides coordination and focus for initiatives to address challenges faced by SMCPs. 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 instructional aides).

Non-instructional positions play a key role in the ultimate success of SMCPs in providing quality education and, therefore, should be included in workforce planning. Approximately 12 percent of the 2,033 employees at SMCPs have 25 or more years of service, which makes them eligible to retire within 5 years, and approximately 6 percent are currently eligible to retire. SMCPs has identified the need for workforce planning in this area and has performed some preliminary steps.

Recommendations

5. SMCPs should improve internal controls over its automated human resource and payroll system. Specifically, incompatible functions and duties should be segregated, system access capabilities should be provided as necessary to only perform assigned duties, and an independent review and approval process should be established over critical personnel and payroll-related changes and transactions recorded in the system, including final payments to terminated employees for unused leave balances.
6. SMCPs should further develop and implement its workforce plan by including key non-instructional positions in critical operational units.

Chapter 5

Inventory Control and Accountability

Our audit disclosed that while SMCPs had a policy to control equipment, SMCPs did not follow the policy. The policy requires that records be maintained for all equipment costing \$1,000 or more but SMCPs official records did not include all required equipment items. Specifically, certain information technology equipment (such as personal computers and printers) was not recorded in the official records and was not periodically inventoried. In addition, SMCPs did not use available information to account for textbooks or to help make textbook purchasing decisions.

Background

According to the records maintained by SMCPs, as of September 16, 2008, the undepreciated value of its capital equipment (including furniture and fixtures) was \$12.5 million. Equipment items with a cost of \$5,000 or more are capitalized and depreciated for financial statement reporting purposes. Equipment items with a cost of \$1,000 to \$4,999 are recorded for control purposes. In addition, the Information Technology department maintains separate inventory records for all technology equipment costing over \$100.

Policies, Controls, and Record Keeping Over Equipment Need Improvement

The official inventory records maintained by the Office of Fiscal Services did not include all required equipment items. Specifically, all technology equipment items individually costing \$100 or more are recorded in a separate database maintained by the information technology department but are not included in the official inventory records. As a result, the physical inventory process, which uses the official records as the basis for locating equipment, does not ensure that all items are accounted for. SMCPs policy requires that all equipment with a cost of at least \$1,000 be included in the official inventory records. In addition, SMCPs did not have a formal policy governing disposals of equipment. Although we were advised that disposals are to be documented, our test of five disposals valued at \$10,900 disclosed that only two disposals valued at \$5,500 were properly documented on an approved disposal form. As a result, there was a lack of assurance that the all disposals were appropriate. According to SMCPs records, disposals for fiscal year 2008 totaled \$272,000.

SMCPs Should Enhance Textbook Procedures

While SMCPs had established formal procedures for selecting and purchasing textbooks, processes established to maintain a comprehensive inventory of textbooks need improvement. Textbooks are inventoried within the individual schools; however, no centralized process existed for recording and controlling inventory. Although all schools submit documentation that they took a physical inventory of textbooks, this process was used only to justify the purchase of new textbooks and not to account for the textbooks nor to help ensure such purchasing decisions were prudent (by first considering whether existing textbooks should be redistributed). We were advised that each school is assigned an annual budget amount for purchasing textbooks that acts as a control to limit individual school spending on textbooks and that SMCPs does not question textbook expenditures that were within annual budgeted amounts. However, SMCPs could establish best practices in this area similar to other Maryland LEAs where periodic physical inventories are performed and the inventory records are used to control and account for textbooks, to make purchasing decisions,

and to maximize redistribution of excess books to other schools in SMCPs. During fiscal year 2008, textbook expenditures totaled approximately \$730,000 according to SMCPs records.

Recommendations

7. SMCPs should ensure that all equipment items are properly recorded in the inventory records in accordance with its policies and are subject to periodic physical inventories. SMCPs should also develop formal procedures governing the disposal of equipment and ensure that required disposal documentation is maintained.
8. SMCPs should establish more accountability over textbooks. SMCPs should consider using a comprehensive, centralized inventory record keeping system and using the results of textbook physical inventories to enhance purchasing decisions.

Chapter 6

Information Technology Services

SMCPS maintains and administers a computer network, computer operations, and a number of significant financial and academic information system applications. SMCPS developed and periodically updates a written technology plan that is linked to the school system's Master Plan. However, system user access and password security should be enhanced.

Background

SMCPS operates a wide area network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at the SMCPS headquarters. The Information Technology Services Department maintains a separate computer room in which numerous computer servers are operated to support SMCPS Information System applications. Several significant administrative and academic related information system applications exist. For example, the financial application includes budgeting, accounts payable, fixed assets, and purchasing.

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

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

Steps Should Be Taken to Enhance Security Over IT Applications

Enhancements should be made to existing procedures to ensure that all access to computer resources is appropriate. User access to computer resources is commonly controlled through the use of individual passwords and user logon ids; however, SMCPS could use these tools more effectively. For example, password expiration periods were frequently excessive and for a number of accounts were not used at all. In addition, we found 11 active accounts assigned to persons no longer employed by SMCPS.

Recommendation

9. SMCPS should implement appropriate security measures to safeguard its applications and data systems by improving password protection and by promptly deleting access for terminated employees.

Chapter 7

Facilities Construction, Renovation, and Maintenance

SMCPS used a number of best practices in its capital planning process, as well as in controlling costs. These include 1) the development of a six-year Capital Improvement Plan based on a comprehensive and public process, 2) use of alternative financing to purchase and construct a new administration building, which consolidated many administrative functions within one facility, 3) a preventive maintenance program for significant building components, 4) an energy management and conservation program, 5) a process to evaluate employee productivity and 6) surveys of school-based staff to ensure that maintenance and custodial staff met expectations.

Although SMCPS properly procured construction related contracts, it did not always retain documentation to support the selection of architectural/engineering contracts. In addition, SMCPS does not have a policy to require Board approval of any change orders and we noted instances where work was completed prior to approval of the related change order. Finally, SMCPS did not use the work order system to estimate costs for comparison to actual resources used.

Background

SMCPS maintains 24 schools and several other facilities (such as administration and support offices) with a staff of approximately 119 custodial personnel and 37 maintenance personnel.

SMCPS used a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. The annual CIP was developed using student demographic data and input from various sources, including public meetings, and was approved by the Board. In the fiscal year 2009 CIP (prepared in fiscal year 2007), necessary major renovations, repairs, and systemic improvements to existing schools over the next six years were estimated to cost \$73.7 million.

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

Table 2
Plant Cost Comparison Per Student and Per Square Foot
Fiscal Year 2007 (Unaudited)

School System	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student ①	Per Square Foot		
St. Mary's Co.	\$14,682,221	\$883.83	\$6.91	127.88	2,124,422
Washington Co.	23,876,768	1,109.46	7.90	140.46	3,022,921
Calvert Co.	16,907,198	970.56	7.78	124.67	2,171,819
Cecil Co.	15,116,584	927.06	7.40	125.29	2,043,028
Wicomico Co.	11,756,421	816.70	5.68	143.84	2,070,624
Average of Comparable Schools	\$16,914,243	\$995.95	\$7.19	133.57	2,327,098

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

① - Based on Average Daily Enrollment 2006-2007 (most recent data available)

A Number of Best Practices Were in Place to Enhance the Efficiency and Effectiveness of the SMCPS Facility Construction and Maintenance Department

SMCPS has instituted several best practices to enhance project results and cost effectiveness in its facilities and maintenance department, beyond the previously noted six-year CIP:

- Various methods were used to reduce the need for additional construction. The periodic evaluation of space utilization included consideration of capacity, enrollment projections, redistricting students among schools, and the use of portable classrooms. This includes a complex of 24 portables at one location used to minimize the disruption to SMCPS operations when a school is renovated or expanded.
- Use of a committee comprised of staff members and the public to develop educational specifications for new construction and major renovations/additions.
- Use of alternative financing (a long-term financing agreement) to purchase and construct new administrative office space which consolidated most of its administrative functions within a single building. The use of this financing allowed SMCPS to obtain needed office space without using capital funds needed for school construction projects. Repayment of the financing agreement is made using funds previously committed to leasing space and has resulted in a reduction in operating costs for this purpose.
- Using labor hours per the automated work order system to gauge the efficiency of maintenance staff as compared to an industry benchmark.
- Development and implementation of an energy management program and designation of a full-time employee as an energy manager. The program includes centralized monitoring of HVAC systems at all locations, except for six schools, and monetary awards to schools who achieve designated goals. According to SMCPS, electricity consumption decreased by over 6 percent from fiscal year 2007 to 2008.

Complete Documentation Should Be Maintained for All Contract Awards and Change Orders Should Be Approved Timely

Documentation should be maintained to support contract

awards - SMCPs often did not retain documentation to support the basis for architectural/engineering (A/E) contract awards. Our test of five A/E contract awards totaling \$4.7 million disclosed that, for three of the contracts, totaling \$3.5 million, SMCPs did not retain documentation to support the basis for the award. For example, the evaluation committee is required to rank the bids based on technical criteria such as comparable experience, quality of previous work, and the capacity of the bidder to accomplish the proposed work in the required time. However, for those three contracts, SMCPs did not have documentation to support the evaluation committee's review and ranking of the bids and, as a result, the basis for selecting the successful bidders. In addition, SMCPs personnel could not provide evidence that this information was provided to the Board when the contract was approved.

Construction change order procedures should be enhanced and approved by the Board

– Change order procedures established by the Construction Department had not been reviewed or approved by the Board. In addition, the procedures did not require the Board be advised of, or approve, change orders at any level. Change orders under \$25,000 were approved by the Chief Operating Officer and change orders over \$25,000 required the Superintendent's approval. In addition, our test of four change orders totaling \$356,000, that were processed during the period from April 2005 to February 2008 for projects with change orders totaling \$1.8 million, disclosed that the work was completed on all four change orders before the related change order was approved by the Superintendent. Although certain circumstances could exist that would warrant beginning work prior to change order approval (such as correcting a structural deficiency), approvals should be obtained timely to help ensure costs are not incurred unnecessarily. The change orders we tested included items such as repairing roof decking and replacing floors, which did not appear to warrant expedited action by the contractor.

Use of the Automated Work Order System Could Be Enhanced to Improve Management of Maintenance Operations

SMCPS used its automated work order system to evaluate employee efficiency. However, SMCPS could increase the usefulness of the system. Although SMCPS recorded the actual amount of labor used to perform tasks, it did not record any related materials or equipment costs. As a result, the completed work orders could not be used to compare actual costs to estimated costs (for major projects) or assess the overall performance of the department or determine budgets for future needs.

Recommendations

10. SMCPS should retain all documentation related to contract awards. SMCPS, in conjunction with the Board, should define the Board's role in the change order approval process. In addition the change order procedures should be submitted for Board approval. Finally, to the extent practical, change orders should be approved prior to performing the related work.
11. SMCPS should enhance its use of the automated work order system by recording materials and equipment costs in the system and using the system as a performance measurement and budgeting tool.

Chapter 8

Transportation Services

SMCPS transports its students more miles than other similarly-sized school systems. Although we found that SMCPS used certain best practices to minimize costs, such as staggered school schedules and centralized collection points, we noted that improvements were needed in its use of automated routing software and payments to bus contractors. For example, SMCPS did not have comprehensive routing procedures and, due to functionality issues, could not fully use the automated routing software to improve efficiencies and assist in planning bus routes. In addition, the SMCPS had not conducted any analysis of the cost effectiveness of outsourcing student transportation services and of the reasonableness of the rates paid to bus contractors. Furthermore, SMCPS did not periodically adjust certain rates based on market conditions that were used to provide the bus contractors with a return on their initial investment of funds to purchase buses. Consequently, SMCPS may end up paying \$3.5 million more than necessary over a 12-year period. Finally, we found that SMCPS paid bus contractors for certain costs in excess of those allowed by Board policy, and certain data supporting contractor billings were not verified.

Background

SMCPS is the 13th largest school system in Maryland, based on student enrollment. SMCPS is responsible for the safe transportation of over 16,000 eligible students, including two percent who are disabled. In fiscal year 2007, the majority of

SMCPS students were transported on one of 176 buses owned by 51 bus contractors hired by the school system. For 2007, SMCPS also operated a fleet of 8 buses used primarily to transport disabled students. SMCPS fiscal year 2007 pupil transportation operating costs totaled approximately \$11.7 million. Of the 3,782,381 reported route miles for the 2006-2007 school year, 18 percent were for transporting disabled students.

As seen in Table 3 below, the cost per rider and per mile for SMCPS is reasonable when compared with similarly-sized school systems.

Table 3
Comparison of Transportation Costs per Rider and per Mile
Fiscal Year 2007 (Unaudited)

School System	Number of Eligible Riders		Miles (in thousands)		Expenditures (in thousands)	Average Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
St. Mary's Co.	16,133	348	3,095	687	\$11,732	\$712	\$3.10
Wicomico Co.	12,262	286	1,648	246	6,905	550	3.65
Cecil Co.	14,921	248	2,091	417	8,657	571	3.45
Calvert Co.	13,137	283	2,373	725	10,544	786	3.40
Washington Co.	14,407	371	2,673	507	9,107	616	2.86
Average of Comparable Schools	13,682	297	2,196	474	\$8,803	\$631	\$3.34

Sources: MSDE 2006-2007 Fact Book

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

The SMCPS transportation department had several practices in place to help reduce student transportation costs:

- Staggering school arrival and dismissal times to enable certain buses to perform multiple runs (up to three morning and three afternoon runs in some cases) on the same day, thereby reducing the need for SMCPS to obtain additional buses through bus contractors or purchase.
- Consolidating bus stops for technical high school students to reduce the ride time on these buses.

- Reimbursing bus contractors for the cost of buses based on lowest bids obtained by SMCPSS based on a standard 72-passenger capacity bus, even when a contractor chooses to purchase and use more costly and less fuel efficient larger buses.
- Establishing walking distance requirements to determine students eligible for transportation services.

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

Bus routing procedures should be more comprehensive –

The guidelines used to plan, review, and revise bus routes should be better documented and enhanced to include all appropriate factors. Existing documented procedures provide general information regarding bus transportation (such as how far a student must live from a school before being provided with bus service). However, SMCPSS current procedures did not address factors such as bus loads (capacity), student ride times and the distance between stops when determining the most appropriate bus routes. In addition, these procedures did not address the process for determining and implementing changes to existing bus routes.

SMCPSS should fully use or evaluate the need to replace its automated routing software –

SMCPSS did not fully use its automated bus routing system, which was due, in part, to certain functionality issues. We were advised that the software could not interface with automated student information records to transfer student demographic information. Rather, staff must enter the information into third party software and then update the routing software. SMCPSS staff also stated that the software lacks certain functionality and is very difficult to use. For example, the process for making changes to existing routes was very cumbersome and took excessive time. In addition, SMCPSS staff stated that vendor support was limited. Therefore, it may be worthwhile for SMCPSS to evaluate whether the software should be replaced.

A fully functional automated routing system would enable staff to complete its planning, reviewing, and revising of bus routes in a more efficient and effective manner by providing student data quickly and bus routes in a visual format. For example, we noted that, for fiscal year 2008, 35 of 157 buses (not including special needs buses) operated at levels significantly below desired capacities. Specifically, according to driver manifests, none of the runs for these buses exceeded 75 percent of SMCPs' desired capacity⁵. In addition, our manual review of three bus routes disclosed that these routes include bus stops that were either closer together than required under SMCPs policy or served by multiple buses. SMCPs could not adequately explain the reasons for these inefficiencies.

We were advised by another school system that a concerted effort to maximize the use of routing software (along with manual processes) for the 2008-2009 school year allowed it to eliminate 13 percent of existing bus stops, avoid the purchase of 10 new buses (the System provides transportation services using in-house resources) and eliminate 6 buses due to route consolidation.

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

SMCPs should determine the cost benefit of outsourcing regular bus services – SMCPs has not prepared a cost-benefit study to determine the cost efficiency of contracting out its transportation services rather than directly owning and operating the buses.

Under current arrangements with bus contractors, SMCPs assumes nearly all of the risks for bus operations while essentially guaranteeing a profit to the contractors each year for the expected 12-year⁶ life of a bus. Specifically, contractors are paid a "per

⁵ SMCPs capacities are lower than manufacturer stated capacity and differ depending on the school. Although not formalized, SMCPs advised that the desired capacity for high, middle, and elementary school routes is 44, 52, and 58 students, respectively based on 72-passenger buses (manufacturer stated capacity).

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

vehicle allotment" (PVA) that repays the bus contractors the full acquisition cost of the bus over a 12-year period with the assumption that there is no residual value. The PVA also provides an additional annual payment as a return on investment (ROI) to the contractors, which is established when a bus is purchased and remains fixed over the bus' life. The ROI component of the PVA paid each year by SMCPs was 12 percent of the original bus cost. According to a transportation cost comparison for fiscal year 2007 prepared by another school system, SMCPs had the highest PVA payment of the 16 systems that use this payment method. (This issue is further discussed in the next section below.)

Furthermore, the bus contractors are paid a per mile rate for bus operating and maintenance costs, a driver per hour allotment to cover the contractor's labor costs, a fixed percentage of labor costs for benefits, and for fuel usage at market rates. Additionally, SMCPs pays for the liability insurance, including personal injury and property damage, for all buses operated for SMCPs, including contractor buses.

As noted previously, SMCPs contracts with 51 vendors to provide bus services. These contracts are not competitively bid. New contracts are offered to existing contractors based on seniority. SMCPs sets the rates to be paid to the contractors each year and submits these to the contractors. Contracts are awarded on a 6-year basis and are generally automatically renewed for the 12-year life of a bus.

SMCPs stated that although no analysis of using contractors had been prepared, they believed that the current practice is efficient as SMCPs sets all of the factors used to pay the contractors. However, without proper study and analysis, SMCPs' conclusion is not substantiated. Actual experiences in other states have indicated that outsourcing of bus services can be more expensive than providing bus services in-house.

The annual return on investment (ROI) payments to bus contractors should reflect market conditions – SMCPs did not adjust the component of the "per vehicle allotment" (PVA) that provides a return on investment (ROI) to bus contractors to reflect market conditions. Therefore, SMCPs has been paying more than appears necessary for bus services. Specifically, SMCPs had not changed the implicit 12 percent ROI used in its PVA calculations to

reflect changes in market interest rate conditions. When questioned about the rate, SMCPS personnel indicated that they were using the rate that was last used by the State in 1981 when the State was reimbursing LEAs for school transportation based on the PVA formula. SMCPS personnel were not able to determine if the PVA had ever been adjusted.

To estimate the financial impact to SMCPS of using this constant rate over the life of a bus, we calculated the PVA for each of the 79 new buses placed into service from fiscal years 2005 to 2008 using the prime interest rate⁷ in the SMCPS PVA formula and compared our PVA results to the SMCPS PVAs that were calculated using the 12 percent rate. This comparison showed that the SMCPS annual PVA payments per bus were from \$2,820 to \$4,469 higher than the payments would have been had the prime rate that existed at the time of purchase been used in the calculation. The effect is that, over the 12-year life of these 79 new buses put into service by contractors since 2005, SMCPS will pay out approximately \$3.5 million more than if the prime rate had been used. Of the \$3.5 million, \$746,000 has already been paid out through fiscal year 2008 and, unless changes are implemented, the remaining \$2.8 million will be paid out during fiscal years 2009 to 2019. This analysis does not include the effects for any new bus purchases that may be made after fiscal year 2008 and the lost interest income that could have been earned by SMCPS on the excess amounts paid.

Payments to Bus Contractors Should Be Based On Board Policies and Supporting Data Should Be Verified

Payments to bus contractors should be made in accordance with Board policy - Although Board policy requires that all routes shall be paid based on a minimum of five hours of driving per day, SMCPS modified the minimum hours without specifically notifying the Board of the change for its approval. The modification provided that drivers be paid for a minimum of five and one-half hours per day. Based on our review of vendor payments for March 2008 we

⁷ We used the prime rate since this rate was recommended in a November 1999 study commissioned by another Maryland LEA that used the same PVA formula, and it was suggested as a reasonable prevailing interest rate in a 1978 Maryland State Department of Education study on the PVA. The prime rates during 2005 to 2008 ranged from 4.00 percent to 8.25 percent.

estimate that that SMCPs overpaid its contractors \$42,000 for fiscal year 2008 as a result of the practice of paying the extra one-half hour per day. We were advised that the five and one-half hours per day minimum was subsequently approved by the Board in July 2008.

In addition, Board policy specifies the number of deadhead miles (the distance traveled by buses when not transporting students) for which SMCPs will reimburse contractors. However, our review of deadhead miles paid in fiscal year 2008 disclosed that the System routinely paid contractors for mileage in excess of those allowed under the policy. We estimated that SMCPs paid contractors at least \$138,000 during fiscal year 2008 for the miles in excess of the amount allowed under the policy.

SMCPs should ensure the accuracy of certain data used to compute payments to the bus contractors – SMCPs does not ensure the accuracy of amounts paid to the bus contractors by verifying certain related data. At the beginning of each school year, the contractors' drivers complete a manifest, which includes the total time and miles driven on each route. The data recorded on these manifests are used by SMCPs to calculate the payments to the contractors, but without being verified by SMCPs. School officials advised us that they verify the mathematical accuracy of the calculations included on the manifests but do not verify the accuracy of the time and mileage reported. We have found that other school systems periodically verify contractor information by conducting ride-alongs on bus routes to ensure the accuracy of mileage and hours reported by the contractor.

Performance Should Be Measured

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

Recommendations

12. SMCPs should establish more comprehensive bus routing procedures and evaluate whether its existing automated routing software can be fully used to help plan more efficient services or whether the system should be replaced.
13. SMCPs should periodically prepare a documented analysis to determine whether continued use of outside vendors to provide student bus services is, in fact, cost beneficial for the school system. This analysis should include an evaluation of each pay element (including the ROI component of the PVA) of the current bus contracts to determine whether the rates are reasonable and necessary.
14. SMCPs should pay bus contractors in accordance with existing Board policies or obtain specific Board approval for any modifications to these policies. SMCPs should also independently verify, at least on a test basis, the accuracy of vendor reported data to ensure that payments to contractors reflect the actual services provided.
15. SMCPs should establish a performance measurement system for its transportation services.

Chapter 9

Food Services Operations

SMCPS has implemented a number of best practices to help reduce food service costs, such as using performance measures and participating in both the United States Department of Agriculture (USDA) commodity program and a food purchasing cooperative. SMCPS also has adequate procedures in place to identify students eligible for free and reduced-price meals under the federal national school meals programs. However, we noted that SMCPS could improve controls over certain cash sales transactions and access to food services inventory at its central warehouse. In addition, while the food services operation is intended to be self-sufficient, certain associated expenses (such as utility costs) were charged to the general fund, rather than to the food services operations.

Background

SMCPS has 26 cooking cafeterias at its 24 schools (2 schools have multiple cafeterias due to housing students in multiple buildings). Food and related supplies are maintained in a central warehouse and items are shipped to cafeteria storerooms as needed. SMCPS has 139 full-time-equivalent cafeteria employees as of June 2007. Fiscal year 2007 food service sales totaled \$3.1 million. SMCPS reported that food service revenues exceeded expenditures by \$180,041 for fiscal year 2007. See Table 4 for information regarding fiscal year 2007 food services.

Table 4
Food Service Facts for Fiscal Year 2007

Average Cost per Meal		\$ 2.45
Number of Meals Served:		
Breakfast	Paid	139,400
	Free	133,128
	Reduced Price	33,200
		305,728
Lunch	Paid	1,086,728
	Free	369,932
	Reduced Price	113,483
		1,570,143
Meal Equivalent Snacks		14,240
Ala Carte Sales		319,026
		1,570,143
Total Meals Served		<u>2,209,137</u>
Schools		24
Kitchens		26
Full-time equivalent employees		139
Revenues:		
Federal	Cash payments	\$1,516,439
	USDA Commodities	260,464
		\$1,776,903
Sales and other sources		3,224,011
State aid		546,397
		\$5,547,311
Total Revenue (all sources)		<u>\$5,547,311</u>
Total Expenditures		<u>5,367,270</u>
Excess of Revenues over Expenditures		<u>\$ 180,041</u>

Sources: SMCPs Food Service Reports and Fiscal Year 2007 Audited Financial Statements.

Certain Best Practices Were in Place

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

- SMCPs used performance data, such as meals per labor hour, to track and monitor the operating efficiency at each of its school cafeterias. Based on MSDE information, SMCPs had the lowest cost per meal compared to similarly-sized school systems in the State.
- SMCPs participated in the USDA commodities free food program. Per SMCPs records, \$328,000 in USDA commodities were received in fiscal year 2008.
- SMCPs participated in a food purchasing cooperative to maximize its buying power and to reduce food costs. According to SMCPs records, payments to the cooperative-selected wholesale vendor totaled \$785,000 during fiscal year 2007.
- SMCPs maximizes the use of prepackaged meals to reduce the amount of labor necessary to prepare meals.

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

– These practices include the use of a family application process – instead of individual student applications – to simultaneously qualify more students for the programs, and the use of a keypad system in cafeterias to eliminate the easy identification (and any perceived stigma) of students in the free and reduced-price meal programs. For fiscal year 2007, 75 percent of SMCPs students eligible to receive free lunches and 72 percent of the students eligible to receive reduced-price lunches actually participated in the programs, which was consistent with statewide averages.

SMCPs Needs to Improve Controls Over Cash Transactions, Inventory, and Invoice Processing

SMCPs should enhance its controls over the receipt and processing of cash receipts and related transactions for food services -

- SMCPs did not have documented procedures to govern the receipt and processing of food service collections at elementary schools. Cash receipts are initially received by teachers and subsequently forwarded to cafeteria personnel

for processing and subsequent deposit. However, SMCPs had not developed any procedure that governed how these funds should be initially recorded by teachers or how the transfer of funds should be documented to ensure adequate accountability of funds. According to SMCPs records, cash receipts processed by elementary schools in fiscal year 2008 totaled \$990,000.

- Cafeteria cashiers can void transactions without supervisory review or approval. We were advised that voids are generally processed when a student has inadequate credit or cash to purchase a meal. The cash register system and current practices require that the cashier finish processing the transaction (that is, record the sale) and then void the transaction. According to SMCPs records, 67,000 void transactions were processed during fiscal year 2008 (we could not readily determine the related dollar value). In addition, this process allows cafeteria staff to void any transaction recorded on a given day prior to closing out the register. A subsequent review of cash register documentation disclosed that an alternate method to clear sales transactions related to inadequate student credit or cash without first recording the sale was available to the cafeteria staff and would greatly reduce the number of voided transactions. This would enable SMCPs to place appropriate controls over cash register void transactions without significantly impeding food service efficiency.

SMCPs needs to improve its procedures and controls over food inventory

– Our audit disclosed that the inventory custodian for the central warehouse also conducted the related physical inventory and investigated any discrepancies. Adjustments to inventory records are not reviewed or approved by independent supervisory personnel. According to SMCPs records, inventory in the central warehouse totaled \$170,000 as of October 28, 2008 and food purchases (including related supplies) for fiscal year 2008 totaled \$2.4 million. We also found that shipments to schools from the central warehouse were not verified prior to distribution. Although the schools were required to verify items received, this process limits accountability since SMCPs could not ensure that only items ordered by the schools were actually placed on the trucks.

SMCPS should ensure that costs on certain invoices are proper – Although the contract allowed for periodic price changes by the vendor and the vendor price lists were available, SMCPS did not compare the prices per these lists to vendor invoices. As a result, it did not notice a price increase on invoices effective with the August milk shipments. According to an SMCPS review of the September invoice (as a result of our questions) from the vendor, the System was overcharged \$1,500 during that month. SMCPS has contacted the vendor and arranged for a credit for a future invoice. In addition, the vendor price list did not contain the price of one particular milk product that had been routinely purchased for at least eight years. According to the September 2008 invoice we reviewed, the cost of this item was 15.5 percent higher than for other similar milk products.

All Applicable Expenditures for Food Service Operations Should Be Recognized When Determining Operating Results

Although SMCPS stated that its food service department was designed to be fully self-funded, SMCPS general funds have been used to cover the costs for certain food service related expenses. For example, the SMCPS food service department did not pay for the cafeterias' share of utility and custodian costs at SMCPS schools, which are funded by general funds. SMCPS does not include indirect costs in the annual budget prepared for food service operations. According to documentation prepared by MSDE for SMCPS, estimated indirect costs totaled \$900,000 for fiscal year 2006 (the most recent year for which such costs were calculated). If these indirect costs had been included as a cost of food service operations, the operation would have incurred a \$700,000 deficit instead of a surplus for fiscal year 2007.

Recommendations

16. SMCPS should develop formal procedures to control all cafeteria funds received and processed, including taking action to reduce the number of void transactions and ensuring that such transactions are reviewed and approved by supervisors for propriety. SMCPS should institute

procedures to independently verify, at least on a test basis, all physical inventory results and shipments made to schools. Adjustments to inventory records should be reviewed and approved by supervisory personnel. Finally, SMCPs should verify the pricing of food items before making purchases and when paying vendor invoices.

17. The SMCPs should identify all food service department costs, including utility and custodian costs, to properly reflect the department's full operating costs.

Chapter 10

School Board Operations and Oversight

Oversight of SMCPs operations includes a comprehensive budget process. The Board also receives regular financial updates, including monthly budget variances, to assist it in monitoring the efficient use of funds. The Board also has an active audit committee that includes SMCPs staff and a member of the public that meets with the SMCPs certified public accounting firm to review the results of the annual financial statement and the federal Single Audits and review reports issued by SMCPs' compliance specialist. In addition, SMCPs has a detailed ethics policy and had established a process to independently investigate ethics issues and complaints.

Nevertheless, several opportunities exist for the Board to improve operations and oversight. For example, the Board should consider establishing an internal auditor position. Also, consideration should be given to establishing a confidential hotline to enable employees and others to report operational concerns and suspected fraud, waste, and mismanagement. Finally, the Board should consider receiving and reviewing periodic information on operational performance.

Background

SMCPs is governed by a 5-member board (not including a student representative) elected by the voters of St. Mary's County. By law, the members must be a resident and registered voter of St. Mary's

County. The Board does not have an established committee structure due to its size and generally acts in whole to carry out its oversight duties, although it does have an audit committee. In its oversight responsibilities, the Board contracts with a certified public accounting firm for independent audits of the SMCPs financial statements and federal grant programs.

The Board is ultimately accountable for the success of SMCPs in providing the children of St. Mary's County with a quality education, while wisely spending local, State, and federal funds. Following is the SMCPs stated policy on educational philosophy:

Vision

St. Mary's County Public Schools will fulfill the promise in every child. The school system will endeavor to help all children to develop intellectually, socially, physically, and emotionally, so that they can best serve society and experience success. The school system, through its educational programs and services, will attempt to foster in its students a feeling of civic responsibility toward home, school, and community, and a desire to work for the betterment of society.

Mission

The Mission of St. Mary's County Public Schools is to enable students to develop their intellectual and personal potential for a lifetime of learning and for responsible, productive participation in our diverse and changing world.

Board of Education Goals

- Increased Student Achievement
- Supportive Partnerships
- Safe and Orderly School Environment
- Effective and Efficient Use of Resources

Source: www.SMCPS.org

Certain Oversight Has Been Put in Place Regarding SMCPS Operations

The SMCPS Board uses a number of methods to oversee the operations of SMCPS

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

The Board Could Take Additional Steps to Assist It in Governing SMCPS

The Board should establish an internal auditor function –

SMCPS does not have an internal auditor reporting to the Board. The audit disclosed that SMCPS' compliance specialist reviewed student activity funds but did not review other aspects of the System's operations. In addition, SMCPS personnel advised that they did not consider this employee to be an internal auditor. 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.

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

The Board should receive or review financial and operational related performance measures – The Board does not receive any key performance indicators related to the financial operations of SMCPs, with the exception of actual expenditure data as commented on above. Without this information, it is difficult for the Board to evaluate the progress of its budget and Master Plan. Examples of useful performance measures would include cost comparisons such as facility cost per student and transportation costs. When implemented correctly, performance measures can be used to assist in decision making processes, such as allocating resources and budgeting, and to report on departmental effectiveness and efficiency.

Recommendation

18. The Board should enhance its oversight of SMCPs operations by establishing an internal auditor function. The Board should consider establishing, a confidential hotline, with formal follow-up procedures, and an employee whistleblower protection policy. In addition, the Board should receive and review critical financial and operational performance measure data on a periodic basis.

Chapter 11

Other Financial Controls

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

Risk and Cash Management Best Practices Were in Place

SMCPs used a combination of commercial insurance and self-insurance to manage its risks. SMCPs insured its liability, property, and workers' compensation coverage through participation in the Maryland Association of Boards of Education (MABE) Group Insurance Pool and the Workmen's Compensation Self Insurance Fund. The notes to the fiscal year 2007 audited financial statements stated that settled claims had not exceeded coverage in any of the past three fiscal years.

To control workers' compensation costs, SMCPs uses a variety of methods such as an informal return to work program, employee assistance and wellness programs, and staff training on employee safety. Based on actions taken by SMCPs to control costs, MABE awarded SMCPs a three percent rebate applicable to fiscal year 2009 premiums.

With respect to cash management, SMCPs invested its cash in the Maryland Local Government Investment Pool (MLGIP). According to the SMCPs audited financial statements, all cash and investments, which totaled \$20.1 million as of June 30, 2007, were covered by federal depository insurance or fully collateralized with underlying securities held by the custodian in SMCPs' name.

SMCPs Needs to Establish Capital Lease and Financing Policies

SMCPs had not adopted a policy to govern its use of long-term lease obligations to finance operations, as recommended by the Government Finance Officers Association (GFOA). Long-term liability levels and their related annual costs are important obligations that must be managed within available resources. An effective policy should provide guidelines to ensure SMCPs manages its long-term liabilities accordingly. By law, SMCPs is not authorized to issue bonds or similar debt instruments to finance capital or operational needs. However, SMCPs used a financing agreement to purchase and construct a new administration building. According to SMCPs audited financial statements, capital lease payments through 2017 had a present value of \$5.8 million at June 30, 2007, with \$677,377 due within one year.

SMCPs Should Take Steps to Ensure the Propriety of Health Care Costs

SMCPs did not take all available steps to ensure the propriety of health care costs. SMCPs did not verify the authenticity of program participants and their listed dependents or audit the propriety of claims paid by program administrators. SMCPs provides health benefit coverage to active and retired employees through a modified billing arrangement with a commercial insurance carrier. SMCPs pays a monthly premium and at the end of each annual coverage period, settles with the carrier for the difference between billed premiums and actual claims and expenses. SMCPs is responsible for any underpayment and receives a refund for any overpayment. For fiscal year 2008,

according to the settlement report, SMCPS paid premiums and fees totaling \$20.1 million and was eligible for a refund of \$1.6 million.

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

Recommendations

19. SMCPS should adopt a formal policy governing long-term obligations.
20. SMCPS should take additional measures to ensure the propriety of health care costs.

Audit Scope, Objectives, and Methodology

Scope

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

Objectives

We had two broad audit objectives:

1. To evaluate whether the SMCPS procedures and controls were effective in accounting for and safeguarding its assets
2. To evaluate whether the SMCPS 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 SMCPs 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 SMCPs. We also interviewed personnel at SMCPs, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate⁸). Our audit procedures included inspections of documents and records, and observations of SMCPs operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2007 through June 30, 2008. For our audit work on revenue and federal grants, we primarily relied on the results of independent audits of fiscal year 2007 activity.

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

⁸ During the course of the audit it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

of similar sizes, based on student enrollment and/or system budget. In many cases, this information was self-reported by the school systems. The data were neither audited nor independently verified by us. Finally, information provided in this report was obtained from various reports readily available during our fieldwork.

Other Independent Auditors

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

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

Limitations of Internal Control

SMCPs 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 SMCPs that did not warrant inclusion in this report.

Fieldwork and SMCPs Responses

We conducted our fieldwork from May 2008 to October 2008. The SMCPs response to our findings and recommendations is included as an appendix to this report.

St. Mary's County Public Schools



Central Administration
P.O. Box 641
23160 Moakley Street
Leonardtown, Maryland 20650
Division of Supporting Services
27190 Point Lookout Road
Loveville, MD 20656
301-475-4256, FAX 301-475-4255

Board of Education
Mr. William M. Mattingly, Chairman
Mrs. Cathy Allen, Vice Chairman
Mrs. Marilyn A. Crosby
Dr. Salvatore L. Raspa
Mrs. Mary M. Washington
Ms. Katherine Rocheteau, Student Member
Dr. Michael J. Martirano, Secretary/Treasurer

April 7, 2009

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

Dear Mr. Myers:

This is in response to the e-mail of March 18, 2009, regarding the audit report for St. Mary's County Public Schools. A copy was also mailed to Mr. David Fahnstock on March 30, 2009. Enclosed is our response. A copy will also be provided to you electronically at response@ola.state.md.us. If you have any questions, please advise.

Sincerely,

Michael J. Martirano, Ed.D.
Superintendent of Schools

JBC:kam
Enclosure

St. Mary's County Public Schools
Legislative Audit
2008



Revenue and Billing Cycle

1. SMCPSS should document the procedures and controls over its cash receipts. These procedures should require the individuals who initially record the receipts to submit this record of collections directly to an individual who is independent of cash receipts processing to verify that all receipts were subsequently deposited.

SMCPSS Response

SMCPSS developed a cash receipts process in October 2008. This process has been refined and cash receipts are recorded in a timely manner with separation of duties. A cash receipts log is kept recording all monies received for deposit. The deposit is verified and routed to the appropriate banking institution. The cash receipts log is routed to the accountant in charge of recording the cash receipts in the system to support the auditing of the actual deposited cash receipts to the general ledger. The receiving and deposit path is as follows:

- *The Payroll Account Clerk receives the cash receipts for recording;*
- *The deposit and cash receipt log is verified by the Budget Analyst;*
- *The deposit is taken to the bank by the Accounts Payable Account Clerk; and*
- *The deposit ticket and a copy of the cash receipt log are given to the Coordinator of Accounting for posting.*

Federal Funds / Grants

2. SMCPSS should take the necessary steps to participate in the E-Rate program, including obtaining the services of a third party administrator, if needed.

SMCPSS Response

*SMCPSS concurs with the recommendation. The school system will take the necessary steps to participate in the E-rate program. The suggestion to utilize third party assistance will be utilized. **SMCPSS did participate in the E-rate program in 1998, 1999, 2000, 2001, and 2002.** In-house manpower has been a hindrance in providing the necessary documentation.*

Procurement and Disbursement Cycle

3. SMCPSS should enhance its existing procurement policies by addressing all categories of purchases, including procurements of \$25,000 or less, sole source procurements, and services. These policies should require Board approval for contracts that meet certain criteria (such as those exceeding a certain monetary threshold).

SMCPS Response

SMCPS concurs with amending the existing policies for procurement to address all categories of purchasing including small procurements, services, and sole source. The Superintendent has established a committee, which meets monthly, to revise exiting policies and regulations to account for all procurement actions. The committee is meeting and has a deadline of July 1, 2009 to complete all policies & regulations, contract language, internal controls, and methodologies for presentation to the Board of Education for approval. Currently, under the capital improvements program, any contract let over \$50,000 requires Board of Education approval. This is our threshold for requiring labor, material, and performance bonds.

Procurement and Disbursement Cycle

4. SMCPS should improve its controls over purchasing and accounts payable system by segregating access capabilities for critical system functions and denying access to such functions to those who do not need those capabilities. SMCPS should also establish an adequate separation of duties over electronic fund transfers. Finally, SMCPS should document its review of disbursement checks and maintain contract pricing information on file to verify the accuracy of vendor billings.

SMCPS Response

SMCPS recognizes the importance of purchasing and disbursement procedures. As such, the school system is reorganizing the purchasing office and developing standardized operating procedures which will address the internal controls and strengthen accountability. As indicated above, the Superintendent's committee is tasked with this assignment for a completion date of July 1, 2009. Security access to the automated system is also being analyzed in conjunction with this review. In addition, SMCPS is currently reviewing the access and processing of wire transfers or electronic payments to vendors. A definitive separation of duties and security access for both entering and processing these types of transactions will be completed by the July due date.

Finally, the committee is reviewing all contracts with vendors and consultants to ensure compliance with SMCPS revised contract standards. This includes the utilization of existing State or other qualified agency bids for accuracy of items, pricing, and terms. Analysis and reconciliation of vendor invoicing will be part of the audit control process. Also noted are the lack of certain formal contracts and the necessity to bid them.

Human Resources and Payroll

5. SMCPS should improve internal controls over its automated human resource and payroll system. Specifically, incompatible functions and duties should be segregated, system access capabilities should be provided as necessary to only perform assigned duties, and an independent review and approval process should be established over critical personnel and payroll-related changes and transactions recorded in the system, including final payments to terminated employees for unused leave balances.

SMCPS Response

SMCPS agrees and recognizes the need to improve the internal controls for the processing of payroll and human resource functions. SMCPS is actively analyzing processes, job duties, and system accesses. A

review and audit process is being developed to ensure accurate processing of employee activation and compensation.

Human Resources and Payroll

6. SMCPS should further develop and implement its workforce plan by including key non-instructional positions in critical operational units.

SMCPS Response

SMCPS will work to address and expand the planning for the system's long-term employment needs for educational support personnel. The increased emphasis on planning for the expansion of the workforce shall include all departments providing operational support for the system's instructional initiatives.

Inventory Control and Accountability

7. SMCPS should ensure that all equipment items are properly recorded in the inventory records in accordance with its policies and are subject to periodic physical inventories. SMCPS should also develop formal procedures governing the disposal of equipment and ensure that required disposal documentation is maintained.

SMCPS Response

SMCPS will modify this procedure, the governing policies DID (Fixed Assets-Inventory and DIDA (Capitalization and Physical Inventory –Furniture and Equipment), to incorporate inventory control and disposal of all equipment including Information Technology into one process. SMCPS will also design and implement the processes and standard operating procedures addressing inventory control. These processes and standard operating procedures will be a collaborative document which will encompass all divisions and locations within SMCPS. The collaboration will include both the documentation of current inventory, new inventory, and inventory disposal.

Inventory Control and Accountability

8. SMCPS should establish more accountability over textbooks. SMCPS should consider using a comprehensive, centralized inventory record keeping system and using the results of textbook physical inventories to enhance purchasing decisions.

SMCPS Response

SMCPS will seek to develop a standardized and centralized textbook inventory process through the library media specialists at each school site. We will refine the site based inventory process through the utilization of the library media system, Online Public Access Catalog (OPAC). This will allow each school site to use a standard inventory process that can be checked from the central office before purchasing additional textbooks.

Information Technology Services

9. SMCPS should implement appropriate security measures to safeguard its applications and data systems by improving password protection and by promptly deleting access for terminated employees.

SMCPS Response

SMCPS has already changed our configuration to better control data access. High-privilege user's password ages have already been set to 45 days as recommended. We currently have regular users set to 120 days because a large part of our staff are not here in summer and we do not want to have their account expire in summer. Active directory has been implemented and all passwords are currently set to expire based on level of access. Password lengths have already been set to 8 characters with numbers and letter required.

A study group has been formed to review and develop procedures to ensure that information is communicated from Human Resources of both terminations and changes in employment status to Information Technology in a timely manner as recommended.

Use of Automated Work Order System

10. SMCPS should retain all documentation related to contract awards. SMCPS, in conjunction with the Board, should define the Board's role in the change order approval process. In addition the change order procedures should be submitted for Board approval. Finally, to the extent practical, change orders should be approved prior performing the related work.

SMCPS Response

SMCPS has implemented procedures to ensure retention of all pertinent documents for contract awards. It should be noted that the audit found no deficiencies in documentation of construction contract awards. The deficiencies in retaining documentation were only for A/E contracts.

Our opinion is that the Board of Education has a clear understanding that the Superintendent or his designee has authority in the authorization of change orders. SMCPS will update the change order policy statement to document this authority. Procedures are also now in place to ensure that approved change orders, to the extent practical, will be approved prior to commencement of the work.

Facilities Construction, Renovation and Maintenance

11. SMCPS should enhance its use of the automated work order system by recording materials and equipment costs in the system and using the system as a performance measurement and budgeting tool.

SMCPS Response

The Department of Maintenance generates all tasks using the work order system and realized the advantages of associating material and equipment burdens with each work order in early FY2008. The Department of Maintenance fully implemented the recording of material and equipment costs with each work order in March 2008. The result enables us to compare estimates to project actual and develop better calibrations to our estimating practices.

Transportations Services

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

SMCPS Response

SMCPS will develop a comprehensive, standard operating procedure that will list the guidelines for the determination of bus routes. This will be developed by referencing current COMAR, Board policies, and Maryland Vehicle Law.

SMCPS concurs with the recommendation to update the routing software. In the spring of 2009, we will be working with the department of capital planning, which utilizes a GPS system for redistricting, and obtain a system that will work for both departments to ensure efficiency and services. The implementation of new software will require the realignment of duties and possibly additional staff to ensure that there is a concentrated focus on the implementation and operation of routing software. In developing and utilizing the software, we must consider things such as the rural nature of our roads, the distance students have to travel to school, as well as our special programs such as our STEM, Charter School, and the Finance Academy.

Transportations Services

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

SMCPS Response

SMCPS will consider hiring a consultant to establish a matrix that can be used to analyze and compare the student transportation system in St. Mary's County to other student transportation systems in Maryland, both contracted and in-house, to determine if the current transportation system is cost beneficial to the school system. The matrix should include all aspects of contractor compensation versus in-house bus services.

Transportations Services

- 14 SMCPS should pay bus contractors in accordance with existing Board policies or obtain specific Board approval for any modifications to these policies. SMCPS should also independently verify, at least on a test basis, the accuracy of vendor reported data to ensure that payments to contractors reflect the actual services provided.

SMCPS Response

SMCPS pays bus contractors in accordance with Board of Education policies and regulations. Along with the policies and regulations, SMCPS also has procedures which help determine the payments made to school bus contractors. Regarding the specific item of deadhead miles addressed in the analysis, some routes have deadhead miles that are unavoidable, such as for the STEM program and for special needs routes. Some routes may also have unavoidable deadhead miles because of their location or by determination of SMCPS that the assigned route would be in the best interests of the school system. Best

interests could relate to customer service, driver familiarity with the route, student discipline issues on a specific route, bus equipment such as a digital camera system, the physical size of the bus, or school/central administration requests and recommendations. If SMCPs knowingly assigns these routes to specific contracted buses, we are of the opinion that these routes fall under regulation EE-R line E, which states "If the Department of Transportation changes a route during the school year and results in deadhead over the limit, SMCPs will pay for the extra deadhead mileage and time." SMCPs will review the wording of this regulation to ensure it accurately encompasses its procedures. SMCPs will, however, continue to review and look at different payment methods for deadhead miles that will control cost. If a new path is chosen, SMCPs will update the necessary regulations with the new information.

Regarding, the first item mentioned in the analysis, Department of Transportation regulations were in the process of being updated during 2007/2008 prior to the audit team's arrival. The items were not fully finalized and added until July 21, 2008. The new regulations identify that drivers are paid a minimum of 5.5 hours. Minimum hours fall under regulations which are approved by the Superintendent. This item had been approved and planned for 2007/2008 but the records just took time to get updated.

Please note, the Board approved bus contracts for the 2007-2008 school year. This included a copy of the contractor reimbursement formula which outlines the minimum times and mileage. It listed five and one-half hours as the minimum time for regular bus runs.

SMCPs will review a sample of bus manifests each year. This will be done by riding the buses, following the buses, or through GPS.

Transportations Services

15. SMCPs should establish a performance measurement system for its transportation services.

SMCPs Response

SMCPs concurs with the recommendation of developing performance goals in a manner in which to monitor these goals. SMCPs will develop a matrix to assist in the performance measures of the system.

Food Service Operations

16. SMCPs should develop formal procedures to control all cafeteria funds received and processed, including taking action to reduce the number of void transactions and ensuring that such transactions are reviewed and approved by supervisors for propriety. SMCPs should institute procedures to independently verify, at least on a test basis, all physical inventory results and shipments made to schools. Adjustments to inventory records should be reviewed and approved by supervisory personnel. Finally, SMCPs should verify the pricing of food items before making purchases and when paying vendor invoices.

SMCPs Response

SMCPs agrees with the recommendations. Formal procedures have been developed to control the receipt and processing of cafeteria funds. Additional procedures have been put into place to minimize, monitor, and approve voided transactions. Inventory procedures have been developed that independently verify the results of physical inventories. Adjustments to the inventory records are documented, reviewed, and

approved by the supervisor. Procedures are in place to ensure that the correct pricing is charged on invoices before payment is made.

Food Service Operations

17. The SMCPSS should identify all food service department costs, including utility and custodian costs, to properly reflect the department's full operating costs.

SMCPSS Response

SMCPSS accepts the recommendation and will consider available approaches to identify and capture indirect costs to the Food and Nutrition Services Program. SMCPSS will discuss with their independent auditor how indirect costs should be documented. SMCPSS, during this process, will also consult with other school systems to see how they are addressing this item to minimize price increases of meals to students. SMCPSS may need to approve a memorandum of understanding with regard to what in-kind services would be provided by the Board to the Food Services program in support of the National School Lunch Program.

School Board Operations

18. The Board should enhance its oversight of SMCPSS operations by establishing an internal auditor function. The Board should consider establishing, a confidential hotline, with formal follow-up procedures, and an employee whistleblower protection policy. In addition, the Board should receive and review critical financial and operational performance measure data on a periodic basis.

SMCPSS Response

SMCPSS agrees with the philosophy and purpose of an independent auditor. As funding permits, the Superintendent will undertake a review of this function to determine the best course of action for the school system. With regard to the Board of Education receiving and reviewing financial and operational performance measures, the Fiscal Services Department is developing measures for implementation with the approved FY 2010 operating budget. These measures will be vetted through the Superintendent.

SMCPSS has developed a policy and regulation for the implementation of a confidential hotline.

Other Financial Controls

19. SMCPSS should adopt a formal policy governing long-term obligations.

SMCPSS Response

As part of the Superintendents committee (see recommendation #3), SMCPSS will develop and adopt a formal policy governing long-term obligations.

Other Financial Controls

20. SMCPSS should take additional measures to ensure the propriety of health care costs.

SMCPSS Response

SMCPS manages its health care program through a contract with CareFirst. SMCPS has requested CareFirst to put together a multi-year proposal to control health care costs. The proposal will be presented to the Superintendent in August 2009 for inclusion into the FY 2011 budget cycle.

AUDIT TEAM

Edward L. Shulder, CPA
Audit Manager

David R. Fahnestock
Senior Auditor

Edwin L. Paul, CPA
Information Systems Senior Auditor

Michael A. Horvath
Roger E. Jaynes III
LaTeasa R. Lomax
Staff Auditors

Amanda L. Trythall
Information Systems Staff Auditor