

Financial Management Practices Performance Audit Report

Washington County Public Schools

August 2007



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

August 6, 2007

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

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Washington County Public Schools (WCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. WCPS is the 11th largest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 42 schools, with fiscal year 2006 expenditures of \$214 million. The objectives of this audit were to evaluate whether WCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

Our audit disclosed that, in many cases, WCPS had procedures and controls in place to ensure the safeguarding of assets and the efficient use of financial resources. Nevertheless, our report contains 17 recommendations to enhance controls in WCPS' existing financial management systems and processes in such areas as procurement, payroll, and its equipment inventory. Other issues to be addressed include the recovery of all costs for eligible Medicaid-subsidized services, implementation of a formal energy management program, and performance benchmarking in its maintenance operations.

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 WCPS.

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 Washington County Public Schools (WCPS) 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, provided that the related audit process is approved by the Joint Audit Committee. The Committee approved the audit process in September 2004. The approved process included 11 functional areas to be audited at each system. The following are summaries of the findings in these areas at WCPS.

Revenue and Billing Cycle (see pages 7 through 9)

According to the WCPS audited financial statements for the fiscal year ended June 30, 2006, \$224.1 million in revenue was received during that fiscal year, the vast majority of which was received via wire transfer from other governmental entities. Procedures and controls for the majority of revenue sources were found to be adequate; however, controls over certain accounts receivable could be improved.

Federal Funds (see pages 11 through 13)

Annually, WCPS 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 audit of the fiscal year 2006 grant activity, for which reported expenditures totaled \$15.2 million. The related report stated that WCPS complied, in all material respects, with the requirements applicable to its major federal programs. In addition, with respect to internal controls over compliance with and the operation of major federal programs, the auditors noted no reportable conditions and no matters considered to be material weaknesses.

While WCPS has an adequate process for the identification of children eligible for Medicaid-subsidized services, WCPS is not

recovering all allowable costs, with over \$225,000 not being recovered during fiscal year 2006.

Procurement and Disbursement Cycle (see pages 15 through 20)

Although certain procurement policies were in place, WCPS did not always comply with these policies, including required Board review and approval of certain contracts, and maintenance of various required documentation in the contract files. Additionally, WCPS had not adequately restricted access to its automated purchasing and invoice processing applications.

Human Resources and Payroll (see pages 21 through 25)

WCPS employed over 2,500 employees during fiscal year 2006 with an associated payroll cost of \$142.8 million. WCPS exercises position control and fills vacant positions by use of centralized hiring and approval of all new employees to help control payroll costs. WCPS should address certain deficiencies regarding unnecessary or incompatible access to the automated payroll and personnel system. Although WCPS had implemented workforce planning, it was not comprehensive, as it did not address the needs and processes for employees other than teachers and related instructional positions nor did it consider long-term needs.

Inventory Control and Accountability (see pages 27 through 28)

WCPS has a formal policy governing the purchase and disposal of all property including textbooks; however, WCPS could improve its existing procedures to ensure its policy of performing annual physical inventories of its equipment is complied with at all locations.

Information Technology (see pages 29 through 31)

WCPS prepares a periodic technology plan and uses many best practices for its information technology (IT) operations. However, several areas are in need of improvement, including IT system user access, and security and computer center operations. For example, WCPS did not have a formal IT disaster recovery policy in place and was not making full use of certain IT system features designed to restrict unauthorized or unnecessary employee access to systems and programs.

Facilities Construction, Renovation, and Maintenance (see pages 33 through 40)

WCPS uses a staff of 200 custodial and maintenance personnel to maintain its facilities, including 42 schools. WCPS uses a comprehensive and public process to plan for renovation of school facilities. Plans are long-term and updated annually and reflect input from the Board; however, WCPS needs to improve operations in several areas. For example, WCPS should implement a comprehensive energy management program and better use its automated work order system as part of its process to generate performance measures and benchmarks to assess program efficiency. Additionally, WCPS has not determined whether it is cost beneficial to outsource certain maintenance projects rather than hiring additional in-house staff. Finally, WCPS should ensure that invoices for all construction and major maintenance projects are approved by the contract monitor prior to payment.

Transportation Services (see pages 41 through 45)

Two-thirds of students who ride buses to school are transported on WCPS-owned buses with the remainder being served by contractors. WCPS uses several practices that increased the efficiency of transporting students, such as staggering school start and stop times so buses can provide multiple trips on the same day. However, WCPS does not use automated routing software and some buses appeared to have been operated overcapacity while others appeared to have been operated undercapacity. In addition, WCPS could not adequately document the criteria used during the procurement selection process for bus contractors. Finally, as a result of the methodology used to develop the rates for bus contractors, certain contractor payments did not reflect current market conditions.

Food Services Operations (see pages 47 through 51)

WCPS currently uses certain best practices in its food services operations. For example, it had developed certain performance measures (such as meals per labor hour) to determine if operations are efficient. WCPS also uses available United States Department of Agriculture commodities and has system-wide procedures in place designed to maximize participation in the National School Meal Program. However, controls over cash collections at certain school cafeterias were weak.

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

The seven-member Board has adopted policies governing the operations of the Board and WCPS. However, oversight could be improved as financial information is not always made available to the Board timely, and a contractual internal audit function was not used as an independent reviewer of WCPS operations (with the exception of student activity funds). Finally, the Board had adopted a detailed ethics policy that applies to Board members and all WCPS employees.

Other Financial Controls (see pages 57 through 58)

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

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Background Information

Oversight

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

Statistical Overview

According to MSDE student enrollment records, WCPS ranks 11th in student enrollment among the 24 public school systems in Maryland. From fiscal year 1996 to 2005, the total full-time regular and special education pupil population has increased 6.3 percent from 19,896 to 21,141, with MSDE projecting further increases to 24,070 by 2015. Presently, WCPS has 42 schools, consisting of 25 elementary, 7 middle, 7 high and 3 alternative schools. A review of the budget history from fiscal year 1996 to 2006 disclosed an increase in the WCPS operating expenditures from \$100.6 million in fiscal year 1996 to \$214.2 million in fiscal year 2006. The largest expenditure category is salaries, wages, and benefits, accounting for 67 percent of total expenditures, which supported about 2,570 budgeted full-time positions in fiscal year 2006, consisting of 1,810 instructional and 760 non-instructional employees.¹

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 Maryland public school systems, and MSDE does not warrant the comparability or completeness of the data.

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

External Audit of Fiscal Year 2006 Activity

Annually, WCPS 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 WCPS federal grant programs (as required by federal regulations). The two resulting audit reports for the 2006 fiscal year were issued in August 2006. Neither report included any reportable conditions nor any significant findings on WCPS record keeping, processes, or controls.

Chapter 1

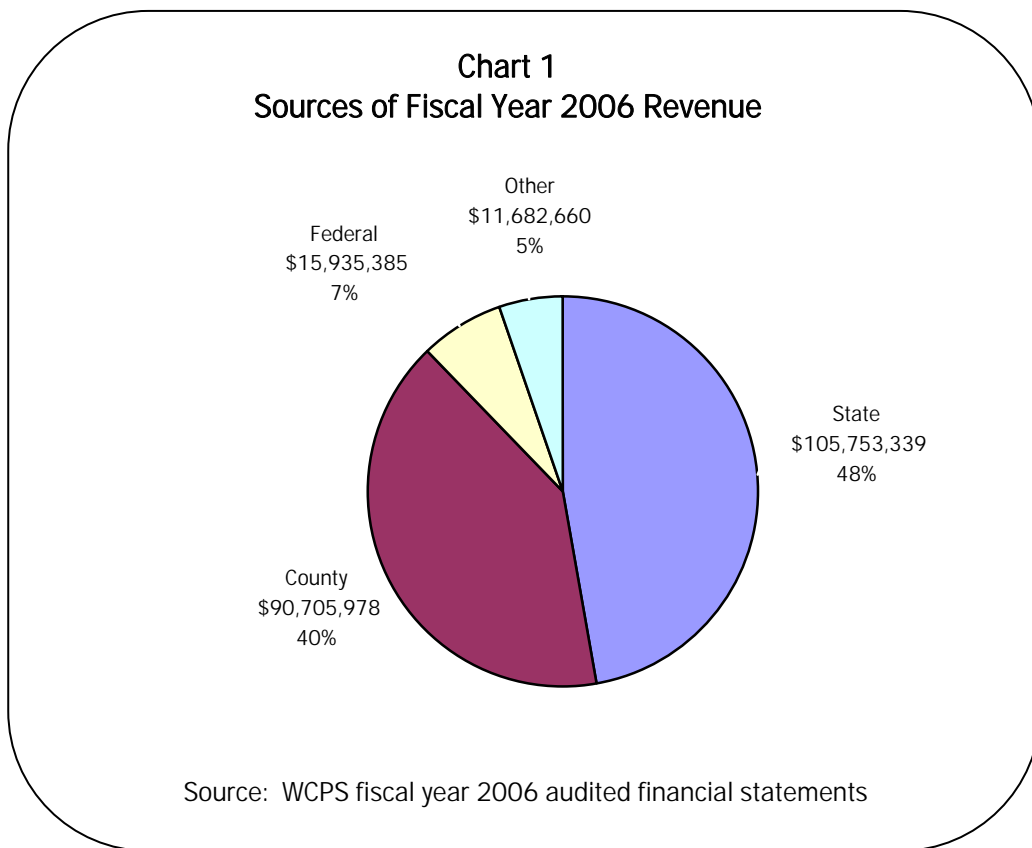
Revenue and Billing Cycle

According to the WCPS audited financial statements for the fiscal year ended June 30, 2006, \$224.1 million in revenue was received by WCPS during fiscal year 2006. Because of similarities in the work of the certified public accounting firm in its independent audit of the WCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the firm's audit of the fiscal year 2006 financial statements for certain revenue transactions, including State, local and federal sources. The auditor's procedural review and testing did not disclose any findings impacting our audit related to the collection of the majority of the previously mentioned revenue sources. However, our review of miscellaneous accounts receivables disclosed a lack of separation of duties over the billing and related collection functions and a lack of certain processes to aid in the monitoring and collection of those receivables.

Background

WCPS revenues consist primarily of funds received from Washington County, the State, and the federal government. Other miscellaneous sources include receipts from the sale of food and rental of facilities. Chart 1 on the following page shows the

allocation of the WCPS fiscal year 2006 revenues of \$224.1 million by major source.



In addition to the revenues, schools also collect student activity funds for various purposes, such as yearbook and school trips. These school activity funds are accounted for separately by each school and reported in summary in the audited financial statements. As of June 30, 2006, student activity fund balances totaled \$2.3 million and the fiscal year 2006 revenue totaled \$4.3 million.

WCPS Revenue Collection Procedures Were Generally Adequate

Due to similarities between the work of the firm that audited the WCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the audit of the fiscal year 2006 financial statements. The auditor's procedural review and testing disclosed no reportable conditions regarding collection of significant revenues from State, local, and federal sources. This activity included the use of wire transfers to process

the related revenues. Student activity funds are also subject to review by an outside auditor under contract with the WCPS, including a review of internal controls, tests of receipts and disbursements, and bank account reconciliations. The results of this work, likewise, disclosed no reportable conditions.

Controls Over Miscellaneous Accounts Receivable and Related Collections Need to Be Improved

Controls over certain accounts receivable processed by the central accounting department (such as billings to other school systems and community groups using WCPS facilities), which totaled approximately \$510,000 in fiscal year 2006, need to be improved. We noted a lack of written policies and procedures governing this activity and also found the following conditions:

- The employee who prepares the invoices also maintains the accounts receivable records, and receives and deposits the related collections.
- Records are maintained manually and receivables are not posted to the records until the related collection is deposited.
- Aging reports are not prepared, although we were advised that invoice files are periodically reviewed for delinquent accounts. According to WCPS personnel, accounts totaling \$57,000 have been outstanding in excess of ninety days as of February 27, 2007.

Recommendation

1. WCPS should develop specific control policies and procedures governing accounts receivable and the collection process. The policies and procedures should address the proper separation of duties and maintenance of records, and the periodic review and follow-up of outstanding billings.

Chapter 2

Federal Funds

Annually, WCPS is subject to an audit of its federally-funded grant programs (often referred to as the Single Audit, and required by Circular A-133, which is issued by the U.S. Office of Management and Budget). The report on the audit of fiscal year 2006 federal grant activity was issued by WCPS' independent certified public accounting firm on August 18, 2006.

In that report, the auditor stated that WCPS complied, in all material respects, with the requirements applicable to its major federal grant programs. In addition, with respect to internal controls over compliance with and the operation of major federal programs, the auditors noted no reportable conditions² and no matters considered to be material weaknesses.³

We noted that WCPS has an adequate process for the identification of children eligible for Medicaid-subsidized⁴ services; however, it is not recovering all allowable costs.

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

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

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

WCPS receives funds primarily from Washington County, the State, and the federal government. Most funds received from Washington County and from the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2006 expenditures of federal award funds totaled \$15.2 million.

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

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

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

To identify students who are eligible for Medicaid-subsidized services, WCPS obtains listings of all children whose families participate in Medicaid as determined by the Department of Human Resources. These listings are regularly compared to the student information system to identify newly-eligible students and to verify the continued eligibility of previously identified students. In addition, WCPS performs participation outreach to families during meetings to discuss educational services for special needs students.

All Costs For Medicaid-Subsidized Services Were Not Billed or Recovered

Additional steps should be taken to recover all costs associated with students eligible for Medicaid-subsidized services. WCPS did not have a process to ensure that its Medical Assistance billing staff received documentation of all services performed each month from the individual schools for subsequent billing. Based on our comparison of reimbursable amounts available for eligible students for certain services to reimbursements actually received, we estimated that the failure to receive submissions from individual schools during fiscal year 2006 resulted in WCPS recovering at least \$225,000 less than could have been recovered if all bills had been submitted. According to WCPS records, fiscal year 2006 reimbursement for Medicaid-subsidized services totaled \$753,000, and we were advised that approximately 1,300 students were eligible to receive Medicaid-subsidized services.

In addition, WCPS does not have a process to ensure that all Medicaid-eligible services provided are identified by the schools and submitted to the billing staff. For example, our test of ten eligible students who received Medicaid-subsidized services in April and September 2006 disclosed that WCPS did not bill for all of the services provided for six of the students in April 2006 and for eight of the students in September 2006. Based on approved treatment plans, these students were eligible for services including case management, and physical and occupational therapy. We estimated that WCPS should have billed for (and recovered) an additional \$3,500 for these services that were provided.

Recommendation

2. WCPS should ensure that all eligible costs for Medicaid-subsidized services are identified, timely billed, and fully recovered.

Chapter 3

Procurement and Disbursement Cycle

Although certain procurement policies were in place, WCPS did not always comply with these policies. For example, there was no assurance that the lowest price was received for all commodity purchases, several contracts tested were not reviewed and approved by the Board, and various required documentation was often not available in the contract files. Also, although WCPS had generally restricted access to its automated purchasing and invoice processing applications, enhancements are needed. Finally, WCPS had exercised appropriate controls over travel expenditures.

Background

WCPS generally uses an automated process for purchasing. Requisitions are prepared electronically and must be approved by supervisory personnel within the requesting department. The purchasing department generates purchase orders and submits them to vendors. Purchases anticipated to cost more than \$10,000 generally require bids from multiple vendors, and are handled by the centralized purchasing department, except for facilities-related services which are procured by the facilities department. Contracts exceeding \$25,000 require Board approval.

All invoices are received directly by the finance office. The ordering departments receive the goods and indicate such receipt by signing a copy of the purchase order (which functions as a receiving report) or other receiving document. Receiving documentation is submitted to the finance office where it is matched to the original approved purchase order and the invoice, before payment processing. Payments are processed through an automated system, which prints vendor checks and also posts the payments to the financial records. During fiscal year 2006, WCPS only had two purchasing cards with combined activity of less than \$1,000. According to WCPS records, non-payroll related operating disbursements totaled \$71.4 million during fiscal year 2006.

Procurement and Contract Processes Need to Be Improved

WCPS should ensure that all procurements and related payments are properly documented and approved - Our review disclosed that, although WCPS had policies governing the procurement of goods and services and the related processing of invoices, contract files often did not contain all required documentation. Our test of 41 payments totaling \$2.9 million (and related to 24 different contracts) made during fiscal years 2005, 2006, and 2007 (through February 2007) disclosed various deficiencies related to invoices totaling \$1.8 million. For example, several instances were found where signed contracts and related pricing information were not on file. Our findings for the test items for which deficiencies were found are noted on Table 1 on the following page.

**Table 1
Test of Contracts and Invoices**

Test Item	Description	Contract Amount	Contract Date	Invoice Amount Tested (if applicable)	Deficiencies / Problems
1	Architectural and Engineering contract for an elementary school addition	\$534,640	6/4/02	\$51,111	<ul style="list-style-type: none"> Bid evaluation documentation was not maintained. Purchase order for contract amount not recorded in accounting records and total expenditures exceeded contract amount by \$40,164. Final contract payment made in November 2006. One invoice (\$14,311) paid in June 2005 was not supported by the contract or a change order (services provided were consistent with the original contract).
2	General contractor - elementary school addition	\$1,108,091	6/7/05	\$317,147	<ul style="list-style-type: none"> Certain required documentation not on file such as performance bond or liability insurance. Purchase order for contract amount not recorded in accounting records for expenditure tracking purposes.
3	Site-work for high school stadium	\$962,920	1/24/06	\$604,398	<ul style="list-style-type: none"> Work began prior to execution of the related contract.
4	Construction of bleachers for high school stadium	\$402,990	4/18/06	N/A	<ul style="list-style-type: none"> No contract was executed, although the construction work had been completed. Certain required documentation not on file such as performance bond or liability insurance. Purchase order for contract amount not recorded in accounting records for expenditure tracking purposes.
5	Construction management for high school stadium	\$175,000	10/18/2005	\$58,333	<ul style="list-style-type: none"> Work began prior to execution of the related contract. Certain required documents not obtained such as bi-weekly construction status reports.
6	Renovation of high school print shop	\$614,217	6/7/2005	\$299,646	<ul style="list-style-type: none"> Liability insurance policy had expired prior to substantial work being completed and no documentation of new policy received. Final inspection or issuance of a Certificate of Substantial Completion not documented.
7	Ceiling replacement and alterations to classrooms at a high school	\$448,900	7/11/2006	\$425,220	<ul style="list-style-type: none"> No documentation of Performance Bond.
8	Stage lighting and dimmer system at a high school	\$98,600	3/21/2006	\$75,690	<ul style="list-style-type: none"> Retainage was not withheld from the invoices tested (as required by the contract).
9	Food and food services	Total FY 2006 payments - \$275,689	N/A	\$1,723	<ul style="list-style-type: none"> WCPS did not have copy of contract or pricing documentation (contract procured by another governmental unit).
10	Food and food services	Total FY 2006 payments - \$211,206	N/A	\$1,625	<ul style="list-style-type: none"> WCPS did not have copy of contract or pricing documentation (contract procured by another governmental unit).
	Totals	\$4,832,253		\$1,834,893	

Note: Amount in invoices tested column may be the sum of multiple invoices tested for the vendor.

Certain procurement documents should be prepared and properly approved – Our review disclosed instances where certain documents used to procure goods and services were not prepared or properly approved, including blanket purchase orders⁵ (BPOs) and requisitions. Tests of seven fiscal year 2006 BPOs, with expenditures totaling \$292,000, and each exceeding \$25,000, found that written contracts were not prepared and none of the procurements were reviewed or approved by the Board, as required by Board policy. We also noted that requisitions used to initiate the purchasing process were often not properly approved by supervisory personnel. Individuals who initiate automated requisitions (such as school secretaries) can also electronically approve the related requisitions. Since the automated system cannot be modified to eliminate these incompatible duties, WCPS procedures require an authorized individual other than the preparer of the requisition (such as a principal) to manually sign a copy of the requisition and forward it to the purchasing office for preparation of a purchase order. However, our test of 15 fiscal year 2006 purchases, totaling \$40,000, disclosed that the purchasing office did not have an approved manual requisition on file for 11 of these purchases totaling approximately \$22,000.

Procedures should be put in place to ensure that lowest prices are paid for commodities – Although WCPS participates in a number of buying consortiums with other local, state and national entities to take advantage of increased purchasing power and already negotiated favorable terms, we found that there was no assurance that the lowest price was always obtained. Specifically, WCPS routinely used BPOs without any competitive bidding or contracts for certain materials and supplies (for example, automotive and maintenance). We were advised that the purchasing department generally accepted the vendors selected by the requesting department with no verification of bids or prices. Our test of seven fiscal year 2006 BPOs, with expenditures totaling \$292,000, disclosed that WCPS did not use competitive bidding when selecting any of the vendors. Accordingly, there was no assurance that the best price was obtained. In lieu of these BPOs, it appears that discounts for many maintenance items could have been obtained through a nationwide purchasing consortium.

⁵ Blanket purchase orders represent open commitments through which frequently purchased items can be obtained.

Controls Over the Automated Procurement System Could Be Improved

WCPS needs to enhance the system controls over the processes used to pay invoices. Two employees who ensured the propriety of check payments (that is, employees were responsible for performing a review of all checks to source documentation) also had been assigned access to menus in the automated accounts payable system allowing them the ability to perform incompatible functions. These employees could initiate and approve payments and print checks allowing them to generate disbursements without oversight approvals. Unlike the requisition process mentioned in the preceding finding, we were advised that system security could be modified so that employee access could be restricted only to those options necessary to perform their job duties.

WCPS Has Established Policies to Control the Use of Travel

WCPS has established policies designed to control the use of employee travel. For example, employee travel policies are in place to control costs including advanced approval and documentation requirements. We found these policies were complied with in those travel reimbursements tested.

Recommendations

3. WCPS should ensure that it complies with its existing policies and procedures regarding competitive procurements, including methods that obtain the best prices, and documents procurement activity through the preparation and maintenance of properly approved contract documents.
4. WCPS should ensure that employees who review disbursements are denied the ability to initiate and approve transactions in the automated payment system.

Chapter 4

Human Resources and Payroll

WCPS exercises position control and fills vacant positions by use of centralized hiring and approval of all new employees. This helps WCPS control payroll costs, which represent the largest category of expenditures for WCPS. However, our review disclosed that WCPS should address control deficiencies over access to the automated payroll and personnel system. We also noted that while WCPS had implemented workforce planning, it was not comprehensive, as it did not address WCPS needs and processes for employees other than teachers and related instructional positions nor did it consider long-term needs.

Background

According to WCPS records for fiscal year 2006, salary, wage, and benefit costs totaled \$142.8 million and WCPS employed over 2,500 employees. Payroll processing involves both automated and manual processes. According to MSDE statistics, WCPS' ratio of students to full-time equivalent employees (both instructional and non-instructional) is reasonable when compared to similar-sized school systems (see Table 2). Payroll costs represent the largest single cost component in the WCPS budget.

**Table 2
Comparison of Employee to Student Ratios – Fall 2005
(Unaudited)**

School System	Number of Students (as of September 30, 2005)	Number of Full-Time Equivalent Employees (as of October 1, 2005)	Student to Employee Ratio
Washington Co.	21,141	2,565	8.2 to 1
Charles Co.	26,406	2,995	8.8 to 1
Carroll Co.	28,940	3,335	8.7 to 1
St. Mary's Co.	16,649	1,931	8.6 to 1
Calvert Co.	17,468	2,155	8.1 to 1

Source: MSDE 2005-2006 Factbook

WCPS uses a manual system to initially record employee time, and an automated system to maintain human resources information, process and record payroll transactions, and track employee leave balances. Twice a month, time records and any adjustments (that were manually prepared by employees and approved by supervisors) are recorded by payroll clerks at the Central Office staff in the automated financial management system. The system generates payroll checks and direct deposit advices which are provided to the originating locations and distributed. WCPS is in the process of implementing a new automated personnel and payroll system to process and track all personnel and payroll information.

Although the hiring of new employees is initiated by either the school or program in need, all hirings are coordinated and ultimately approved by the human resources office. Position control procedures require that new hires be approved by the Superintendent and the Board.

Appropriate Hiring and Certain Payroll Controls Were Established

WCPS exercises position control and the filling of vacant positions by use of centralized hiring and approval of all new employees. Such processes helped WCPS control payroll costs, which is the largest category of expenditures for the school system.

Payroll Internal Controls Need to Be Strengthened

WCPS did not adequately restrict access to its automated personnel and payroll system – Thirteen employees had been assigned access to personnel and payroll menus in the automated system, including menus that provided these employees virtually complete control over the payroll process. While many of these employees needed access to certain components of the menus to perform their jobs, WCPS had not developed a process to restrict access to only those components necessary to perform specific job duties. Specifically, we noted the following conditions:

- Three individuals had complete access to the payroll and personnel menus but did not need such access to perform their job duties.
- Although five employees needed access to features from both menus to perform their duties, the current system's inability to limit access to certain functions within menus allowed them to perform potentially incompatible functions such as adding employees and processing the related payroll.
- Five employees could add employees and the related personnel information to the automated payroll system without additional review or approval, although they could not process related payroll transactions.

As previously noted, WCPS is in the process of implementing a new automated personnel and payroll system that is supposed to provide the necessary functionality to address access to incompatible menus.

Existing Workforce Planning Should Be Expanded to Non-instructional Areas

WCPS should enhance its existing workforce planning efforts to include positions other than instructional personnel. The WCPS Master Plan sets the strategic direction of WCPS and provides coordination and focus for initiatives to address school system challenges. The Plan includes a number of objectives and strategies to address the continuing recruitment and retention of highly qualified instructional staff (that is, teachers and certain other instructional aides). The Plan does not address other personnel employed by WCPS, such as central office and critical

support staff, which represent about 30 percent of WCPS employees (see Table 3 for details). These support functions also play a key role in the ultimate success of WCPS in providing quality education and, therefore, workforce planning should include them.

Furthermore, there is no formal analysis or plan that quantifies actual future workforce needs considering future vacancies or retirements. For example, based on WCPS' 2007 records, approximately 39 percent of the workforce is age 50 or older, with 9 percent of the total workforce eligible for immediate retirement. Given the increasing number of employees at or close to retirement age, and the increased qualifications as required for teachers by the federal No Child Left Behind Act, WCPS could experience difficulty in hiring qualified administrative, financial, and instructional employees in the future. Workforce planning involves analyzing the existing workforce and identifying gaps between future needs and current resources and then implementing procedures to address these gaps.

Table 3 Comparison of Non-instructional Staff Fiscal Year 2006 (Unaudited)		
School System	Number of Non-instructional Positions ^❶	
	Professional ^❷	Support Staff ^❸
Washington Co.	168	591
Carroll Co.	281	714
Calvert Co.	142	453
St. Mary's Co.	162	394
Charles Co.	228	550

Source: MSDE 2005-2006 Fact Book

❶ - Excludes contractual and consulting positions.

❷ - Includes principals, vice principals, social workers, and other administrators.

❸ - Includes technicians, secretaries, clerks, trades personnel, etc.

Recommendations

5. WCPS should ensure that adequate controls are in place to establish appropriate separation of duties by restricting access to automated personnel and payroll systems.

6. WCPS should expand its workforce planning to include all critical operational units and non-instructional positions, and long-term needs for all positions.

Chapter 5

Inventory Control and Accountability

Our audit disclosed that WCPS has a formal policy governing the purchase and disposal of all property including textbooks; however, physical inventories of equipment were not always conducted in a timely manner.

Background

According to its records, as of June 30, 2006, the value of WCPS equipment totaled \$17.4 million. WCPS generally orders materials and supplies on an as-needed basis, with only minimal inventory (such as paper and janitorial supplies) stored at a central warehouse. Equipment items include computers, audio and video items, athletic equipment, and various other items. All items over \$1,000 and electronic equipment regardless of cost are to be included in the centralized inventory system, and items costing over \$1,000 are capitalized for financial statement reporting purposes.

Formal Procedures Have Been Established For the Purchase and Disposal of Property

WCPS has adopted formal procedures governing the purchase and disposal of all property including textbooks. All potential textbooks

are reviewed and are submitted to the Board for its review and approval. Purchases are coordinated centrally where inventory records are maintained. Additionally, textbooks may only be sold or disposed of in accordance with those procedures.

Physical Inventories of Equipment Were Not Always Completed

Although WCPS procedures require each school to conduct physical inventories of equipment on an annual basis, such inventories were not conducted timely. Specifically, as of March 2007, fiscal year 2006 inventories had not been completed at 14 out of 48 WCPS locations. According to the fixed asset records, the cost of the equipment located at these 14 sites was \$4.8 million as of March 2007.

Recommendation

7. WCPS should conduct physical inventories of equipment in accordance with its policies and reconcile the related results with the inventory records on a timely basis.

Chapter 6

Information Technology

WCPS maintains and administers a computer network, computer operations, and a number of information systems applications, including financial and academic applications. WCPS developed and periodically updates a written technology master plan that includes an assessment of technical needs and measurable goals and objectives. WCPS uses best practices in the areas of applications development and resource sharing.

We identified several areas in need of improvement, including IT system user access controls, and security and program change operations. For example, WCPS was not making full use of certain IT system features designed to restrict employee access to systems and programs and did not have a formal IT disaster recovery policy in place.

Background

WCPS operates a wide area network, with Internet connectivity, which connects the local networks of the individual schools with the WCPS headquarters. The Technology Department maintains assorted computer servers to support the WCPS academic information system applications and significant financial information system applications.

WCPS Uses Several Best Practices to Address its Information Technology Needs

Our review disclosed that WCPS uses several best practices for information technology. These practices include:

- Preparing a formal technology plan, which includes a comprehensive assessment of the technical needs of the schools. The plan identifies each school's IT needs and the actions to be taken to address those needs. The plan also includes measurable goals and objectives. The goal of the plan is to integrate technology into all aspects of instruction and administration to enable students, teachers, staff, administrators, and parents to access, gather, analyze, evaluate, and communicate information. The plan also includes various user policies and an inventory of current computer and media hardware needs versus capabilities. Finally, the plan is periodically updated and monitored for implementation status of identified actions.
- Sharing information technology resources with other local government units to promote efficiency. For example, the WCPS wide area network incorporates internet access through a link to the Washington County Free Library system, saving WCPS from incurring monthly operational expenses for Internet access.
- Using recognized best practices in implementing a new automated human resources and payroll system. These best practices are used to help ensure that IT development is implemented on time, within budget and provides the functionality desired by the user. Examples of these best practices used by WCPS included user involvement in the design stages and testing and periodic briefings to the Board to ensure support for the project. Although the system will be delayed in implementation (July 2007 instead of January 2007 as originally intended), the project appears to be on budget and to contain the intended functionality.

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

Our review disclosed several deficiencies in the area of computer application security, which increased the vulnerability of various WCPS automated systems, programs, and data. User password requirements (such as password length and complexity) were generally not in accordance with security and vendor standards and there was no standard as to the complexity of passwords (to make them more difficult to hack). In addition, monitoring of security events for a critical server needs improvement. Also, supervisory review of program changes was not documented.

Data Processing Functions Should Be Better Safeguarded from Disruption

WCPS IT operations lacked a formal, comprehensive, disaster recovery plan. Such a plan should include

- the identification of backup data center(s) or hot sites;⁶
- the identification and prioritization of all mission critical applications, with the related software and hardware required to accomplish recovery;
- the description of network restoration plans if the headquarters building was unavailable; and
- a listing of current emergency contact information and responsibilities for staff.

Recommendations

8. WCPS should implement appropriate security measures, including stricter password requirements, enhanced monitoring of security events, and program change control processes to safeguard its applications and data systems.
9. WCPS should develop a comprehensive disaster recovery plan.

⁶ Hot sites are locations containing equipment necessary to process information.

Chapter 7

Facilities Construction, Renovation, and Maintenance

WCPS maintains 42 schools and various support offices with a staff of approximately 200 custodial and maintenance personnel. WCPS uses a comprehensive and public process to plan for renovation of school facilities. Although Capital Improvement Plans are long-term, updated annually and reflect input from the Board, the Plans did not sufficiently consider deferred maintenance. We also noted that WCPS has voluntarily adopted a number of State-required guidelines and practices for the procurement and monitoring of construction and renovation projects but needs to improve the invoice approval process.

WCPS has also instituted certain best practices such as performing annual facility assessments to determine budget priorities and issuing an annual survey tool to administrators to receive customer feedback, which is used to determine areas in need of improvement. Computer technology is used to maximize energy cost savings at certain schools; however, a comprehensive energy management conservation program had not been established. WCPS also had not established formal performance measures and related benchmarks and goals to assess program efficiency for both custodial and maintenance operations. Furthermore, the automated work order system could be used to assess performance. Finally, WCPS did not always document the performance of certain routine maintenance processes and how it determines the adequacy of staffing levels for the maintenance department.

Background

WCPS uses a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. In the fiscal year 2007 CIP, necessary major renovations, repairs, and systemic improvements to existing schools were estimated to cost approximately \$216 million over the six-year period.

Table 4 compares WCPS fiscal year 2006 plant costs (that is, maintenance and operational costs) and square footage with other similar systems in Maryland. It uses two measurement techniques to assess plant costs: plant costs per student, and plant costs per square foot. These statistics generally show that WCPS facilities may not be as fully used as most similar systems based on square footage per student but overall the plant costs appear reasonable.

Table 4
Plant Cost Comparison Per Student and Per Square Foot
Fiscal Year 2006 (Unaudited)

School System	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student ¹	Per Square Foot		
Washington Co.	\$20,077,605	\$949.48	\$6.73	141.16	2,984,870
St. Mary's Co.	13,504,023	818.33	6.69	122.29	2,017,983
Calvert Co.	15,944,203	933.99	7.55	123.75	2,112,475
Charles Co.	24,018,135	911.05	7.33	124.27	3,276,034
Carroll Co.	27,585,086	949.25	6.80	139.57	4,055,938
Average of Comparable Systems	\$20,262,862	\$903.16	\$7.09	127.47	2,865,608

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

¹ - Based on average daily enrollment 2005-2006 (most recent data available)

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

WCPS uses a comprehensive process, which includes the solicitation of input from various sources (including annual assessments of building age and condition), to plan for future school construction and major renovation and repair projects. For example, WCPS uses public meetings, student demographic data, and other internal sources (such as current curriculum mandates) to develop its six-year Capital Improvement Plan (CIP). The CIP is presented to and approved by the Board. In addition, the WCPS Master Plan, which is used to guide overall WCPS operations, incorporates certain CIP objectives and strategies related to school facilities. A review of the fiscal year 2006-2011 CIP disclosed that it appeared to address the needs of WCPS based on items such as student demographics and facility assessments. WCPS uses a formal process to develop specifications for major construction and renovation projects and follows State law governing procurement requirements, such as bid posting.

WCPS has instituted other best practices:

- Supervisory operations personnel conduct inspections of all facilities, documenting current conditions and needs to prioritize future construction and maintenance projects.
- Processes implemented to reduce the need for additional construction include the use of relocatable classrooms and the periodic evaluation of school districts.
- An annual survey is conducted to obtain feedback from WCPS administrators concerning its facilities and maintenance department, with results being used to develop a corrective action plan. A program is in place at 19 schools that uses computers to monitor the operations of major systems (such as boiler and chiller) and controls these systems from a centralized location. In addition, WCPS participates in a consortium with other State entities to purchase energy at the best possible terms for the members of the consortium.

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

WCPS should develop performance standards and measures and fully use its work order system's capabilities to monitor efficiency – WCPS has not implemented a performance measurement system to measure and assess the efficiency of its maintenance and custodial operations, both for self-evaluation purposes and for comparisons with other systems (which could identify other best practices). Comparability with other systems in Maryland could not necessarily be done unilaterally since there would need to be a consensus on the measures and methodology; however, other states (for example, Michigan and Florida) have mandated the establishment and use of measures and benchmarks (such as maintenance expenditures per square foot) to assist schools in the evaluation of costs and practices.

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

Furthermore, WCPS was not fully using its automated work order system, when assigning maintenance work and tracking the completion of assigned tasks, to help it control costs and assess performance. Although all work orders are logged, along with information related to the actual resources used to perform the task (including labor hours and equipment expenditures), no information is entered indicating the resources expected to be used to perform the task, based on either past history or industry guidebooks. As a result, completed work orders are not used to assess the performance of both individual employees and the entire department or determine budgets for future needs. An effective work order system can be used to generate a variety of statistical data including employee productivity, cost reports and facility assessments (key pieces of a performance measurement system).

WCPS should maintain documentation that all required maintenance work was performed – WCPS could not provide us with documentation that all required preventive maintenance had been completed. WCPS had developed a comprehensive maintenance plan with schedules and details for preventive maintenance tasks, such as checking the operation of air conditioning units and lubricating motors and pumps on other mechanical equipment. Although periodic inspections and evaluations of the work are conducted by supervisors, neither the staff's nor the supervisors' documentation provided a record that all preventive maintenance required by the comprehensive maintenance plan had been performed at the 10 schools tested.

WCPS should ensure that invoices for major construction and maintenance projects are properly approved – Our testing of 16 invoices from March 2005 through September 2006, valued at \$1.9 million, disclosed that some payments were made without assurance that services provided were proper and in compliance with the approved contract. Specifically, the contract monitors assigned to the individual projects did not document their required approval of 9 invoices totaling approximately \$1.2 million prior to payment. Instead, the Director of Facilities approved the invoices for payment, even though this individual was not the contract monitor.

WCPS Should Analyze Facility Needs and Programs to Maximize Cost Saving Opportunities

WCPS should formally consider the impact of deferred maintenance – WCPS' capital improvement planning process did not formally consider the impact of deferred maintenance. Deferred maintenance is a practice of allowing infrastructure to deteriorate by postponing prudent but non-essential repairs to save cost, labor, and material. Generally, a policy of continuing deferred maintenance will ultimately result in higher costs than if normal maintenance had occurred. Specifically, WCPS had not performed an in-house analysis (or consultant study) to identify, quantify, or prioritize required maintenance projects. Although WCPS provided us with a total dollar amount of deferred maintenance, which was \$80 million, they were unable to provide us with any documentation supporting the methodology used to calculate this amount. We did note that WCPS had made an effort to address deferred maintenance needs as reflected in its

successful pursuit of \$3.5 million in supplemental funds received from Washington County in fiscal year 2006. As of February 2007, no additional supplemental funds had been requested or obtained.

WCPS should improve its energy management practices –

Although WCPS had instituted several energy saving programs, it lacked a comprehensive energy management and conservation program. Such a program is an accepted industry best practice and includes goals, strategies, and measures to determine program success (such as reducing total energy use by a stated percentage). We were advised that WCPS is in the process of conducting a preliminary analysis of energy consumption at each WCPS facility to help identify energy-saving capital improvements. In order to complete this process, WCPS has recently hired an energy management analyst. We also noted that WCPS did not use any school incentive programs to encourage energy conservation. Some school systems, including Montgomery County, allow funds saved from school conservation programs to be provided to the school for use in other areas (such as instruction).

Steps Should Be Taken to Ensure Maintenance Operations Are as Efficient as Possible

WCPS should determine whether the benefits of outsourcing maintenance projects exceed the costs of adding additional in-house staff – While WCPS plant maintenance costs per square foot are somewhat lower than similarly-sized school systems (see Table 5 on the following page), WCPS has not determined the cost efficiency of contracting out maintenance services versus WCPS directly employing and training staff to perform these services in-house. Under current arrangements, WCPS out-sources all maintenance projects that require special skills or expertise, such as air conditioning services. Table 5 also reveals that WCPS' contractual expenses as a percentage of total maintenance costs are significantly greater than those of similarly-sized systems.

Table 5
Percentage of Total Maintenance Expenditures – In-house Versus Outsourcing
Fiscal Year 2005 (Unaudited)

School System	Maintenance Costs			Wages as a % of Total Costs	Contract as a % of Total Costs	Total Square Footage	Maintenance Costs per Square Foot
	Total	Wages – WCPS Employees	Contract Expense				
Washington Co.	\$3,666,479	\$1,116,009	\$1,594,642	30%	43%	2,984,870	\$1.23
St. Mary's Co.	2,803,432	1,699,433	415,395	61%	15%	2,017,983	1.39
Calvert Co.	2,710,148	1,896,435	141,962	70%	5%	2,112,475	1.28
Charles Co.	5,784,384	2,505,122	2,003,971	43%	35%	3,276,034	1.77
Carroll Co.	6,060,404	2,382,334	1,616,916	39%	27%	4,055,938	1.49
Average of Comparable Systems	\$4,339,592	\$2,120,831	\$1,044,561	53%	20%	2,865,608	\$1.48

Source: MSDE Selected Financial Data 2004-2005 (most recent data available), Master Plans, Public School Construction Program

We also noted that WCPS has not used a staffing formula to determine the number of maintenance and custodial employees required to meet WCPS' needs efficiently. Our comparison of WCPS' maintenance staffing level to a national standard reported by *American School and University Magazine* disclosed that current levels may be below these standards. However, the adequacy of WCPS' staffing in relation to the standard is not readily determinable since the impact of outsourcing is not apparent.

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

Recommendations

10. WCPS should enhance its performance assessment system to include its detailed work order system and documentation that preventive maintenance was performed to ensure appropriate and timely maintenance is provided to all facilities. In addition, WCPS should ensure that invoices are properly approved.
11. WCPS should formally address its deferred maintenance needs, including balancing these needs against future construction. In addition, WCPS should enhance its energy management practices by instituting comprehensive energy saving and management programs system-wide and should consider establishing an incentive program to encourage lower energy usage.
12. WCPS should review staffing levels and periodically assess staff performance and determine if services currently outsourced could be performed at a lower cost with in-house resources. In addition, WCPS should consider instituting a formal training program for maintenance staff.

Chapter 8

Transportation Services

WCPS used several recognized best practices that increased the efficiency of transporting students, such as staggering school start and stop times so buses can provide multiple runs. While WCPS has generally lower costs per mile and per rider than similarly-sized systems in Maryland (see Table 6 on the following page), it does not have comprehensive routing procedures nor use automated routing software to further improve efficiencies and assist in planning bus routes. In addition, WCPS did not have documentation to support the methodology it used for paying bus contractors for costs of ownership.

Background

WCPS is the 11th largest school system in Maryland, based on student enrollment. Washington County population growth is one of the highest in Maryland, which has resulted in a steadily growing student population over the last several years. WCPS is responsible for the safe transportation of approximately 17,700 students, of which two percent are disabled. Approximately one-third of WCPS students are transported on one of 70 buses owned by 44 bus contractors hired by WCPS. For 2006, WCPS also operated its own fleet of 136 buses, which included 24 spare vehicles. Generally, WCPS buses were operated on routes in more densely populated areas, with contractors operating routes in the

rural parts of the county. Bus contractors are paid a “per vehicle allowance” that covers the full depreciation cost of the buses operated as well as providing a return on investment. Furthermore, bus contractors are paid a per mile rate for operating and maintenance costs and receive reimbursements for other operating costs.

Fiscal year 2006 transportation costs totaled approximately \$8.4 million, with 35 percent representing payments to bus contractors. Of the 2,745,132 reported route miles for the 2005-2006 school year, 17 percent were for transporting disabled students.

Table 6
Comparison of Transportation Costs per Rider and per Mile
Fiscal Year 2006 (Unaudited)

School System	Number of Eligible Riders		Miles (in thousands)		Expenditures (in thousands)	Average Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
Washington Co.	17,384	372	2,270	476	\$8,430	\$475	\$3.07
Calvert Co.	16,519	297	2,360	779	9,696	577	3.09
Carroll Co.	27,538	597	3,631	1,747	16,462	585	3.06
St. Mary's Co.	16,080	313	2,999	697	10,624	648	2.87
Charles Co.	23,542	483	3,972	1,212	16,952	706	3.27
Average of Comparable Systems	20,920	423	3,241	1,109	\$13,434	\$629	\$3.07

Source: MSDE 2005-2006 Fact Book

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

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

- Staggering school arrival and dismissal times to enable certain buses to perform multiple runs on the same day.
- Piggybacking on the Washington County government’s fuel contract to obtain lower than market pricing for fuel.
- Comparing costs of providing transportation services via private vendors versus in-house operations.
- Considering the distance traveled by buses when not transporting students or bus starting point when assigning routes.

Enhancements to Bus Route Scheduling Should Be Considered

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, WCPS 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.

Furthermore, WCPS does not use automated bus routing software. The current planning for bus routes is a year-round process that is very time-consuming and relies heavily on the experience and knowledge of the WCPS transportation department staff using input from the WCPS' Student Information System, bus contractors, school officials, and the community. Although automated software is not intended to replace manual interventions, it is used by a number of other school systems in Maryland and should enable WCPS 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. Additionally, setting formal bus capacities would also assist in scheduling. For example, although alleviated by November, in September 2006, nine buses (including three high school buses) were operating at near manufacturer recommended capacities of 66 students. We have noted in other school systems that the maximum number of high school students desired on a 66 passenger bus is 44 (or two-thirds of the manufacturer capacity). In addition, a number of buses, used primarily for transporting special education students appear to be significantly underutilized.

Also, WCPS has not developed documented performance measures and benchmarks to periodically assess the efficiency of its bus routes. We were advised that the department informally evaluated certain operating statistics, which could form the basis of a formal performance measurement system. 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.

WCPS Needs to Better Control Outsourced Bus Services

Certain Payments to Bus Contractors Did Not Reflect

Market Conditions – WCPS uses a “per vehicle allowance” (PVA) component as a portion of the amount paid each month to vendors for transportation services. The PVA component, as originally developed by MSDE in 1978 and as presently applied in other school systems, covers full depreciation of the bus over a 12-year period,⁷ with the assumption that there is no residual value, and includes an additional annual payment to the contractor of some pre-determined interest rate (for example, the prime rate) multiplied by the original bus cost as a return on investment. The PVA was intended to reflect the costs associated with the year a bus was placed in service (that is, the purchase price and an assumed rate of return that could be earned had funds that were used to purchase the bus been invested for the life of the bus). Once established, the PVA, including the rate of return, for a particular bus should stay constant over the 12-year life of the bus.

However, WCPS did not have a documented methodology to determine the PVA component for its buses. Furthermore, WCPS’ calculation of the PVA component did not reflect current market conditions (such as the current cost of buses and a rate of return adjusted to reflect the current prime rate) as envisioned when the PVA concept was originally developed. In recent years, WCPS has generally adjusted each year’s PVA a certain percentage over the previous year’s amount without considering the market conditions. Although these adjustments were relatively modest, ranging from no change (for one year) to a four percent increase, the adjusted PVA still resulted in higher costs than necessary. For example, for buses purchased during fiscal year 2004, the PVA paid annually by WCPS is \$10,118 per bus, but should have been less than \$9,000 per bus had certain current market conditions been considered. Based on the current WCPS payment methodology, for the 30 buses used for the 2006-2007 school year that were placed in

⁷ Conventional school buses in Maryland have a usable life of 12 years as established by Maryland law. Under prescribed maintenance and inspection conditions, the State Superintendent of Schools can grant approval to operate a conventional school bus beyond 12 years.

service since fiscal year 2004, we estimated that WCPS will pay out at least \$285,000 in excess of what should have been paid over the 12-year life of those applicable contracts had the PVA been adjusted to reflect certain current market conditions at the time the buses were purchased.

Documentation of the selection of and certain payments to bus contractors was not always adequate – WCPS did

not document bus vendor selection criteria and justification. Advertisements for needed services (such as new owner/operators) did not include any criteria or minimum qualifications required of potential vendors and the rationale used to make vendor selections was not documented. In addition, WCPS did not always maintain documentation that it verified the claimed bus miles operated by contractors to ensure the accuracy of bus contractor payments. Our test of payments to ten contractors for fiscal year 2006 disclosed that WCPS did not have documentation that provided assurance of the services provided (such as bus manifests which are used to verify miles traveled) for two out of the ten contractors tested.

Recommendations

13. WCPS should develop policies that address factors such as desired bus loads, student ride times, and distances between stops. WCPS should also determine whether obtaining automated routing software would assist in developing more efficient bus routes and develop performance goals for bus operations.
14. WCPS should document all components of its payment methodology and evaluate the PVA factor annually to determine if the rates paid by WCPS are reasonable and necessary and future payments should be adjusted as appropriate. In addition, WCPS should specify the selection criteria when soliciting for bus services and ensure that it maintains documentation to support all contractor awards and payments.

Chapter 9

Food Services Operations

WCPS 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 12-county food purchasing cooperative. WCPS also has adequate procedures in place to identify students eligible for free and reduced-price meals under the federal national school meals programs. However, WCPS needs to improve internal controls over cash processing at certain cafeterias. See Table 7 on the following page for cost per meal data.

**Table 7
Comparison of Cost per Meal
Fiscal Year 2006 (Unaudited)**

School System	Total Expenditures	Meals Served ^①			Average Cost Per Meal
		Breakfast (paid, free, and reduced)	Lunch, Snacks and Summer Food (paid, free, and reduced)	Total	
Washington Co.	\$7,901,207	748,306	2,316,011	3,064,317	②\$2.58
St. Mary's Co.	5,168,258	380,822	1,643,070	2,023,892	2.55
Calvert Co.	5,198,562	144,924	1,045,999	1,190,923	4.37
Charles Co.	8,502,442	452,972	2,649,795	3,102,767	2.74
Carroll Co.	6,327,094	212,530	2,270,011	2,482,541	2.55
Average of Comparable Systems	\$6,299,089	297,812	1,902,219	2,200,031	\$3.05

Sources: MSDE 2005-2006 Selected Financial Data and MSDE 2005-2006 Factbook.

① - The number of meals served does not include meals served to non-school entities.

② - WCPS cost per meal is \$2.52 when non-school entity meals are factored in.

Background

Nine of the 42 WCPS schools have cooking cafeterias. The remaining schools receive prepared food from another school. WCPS also prepares and is reimbursed for similar meals provided to non-school entities, such as the Commission on Aging and other group functions. During fiscal year 2006, billings for the meals prepared for non-school entities totaled approximately \$336,000. See Table 8 on the following page for information regarding fiscal year 2006 food services.

Table 8
Food Service Facts for Fiscal Year 2006

Average Cost per Meal (including non-school entity meals) **\$ 2.52**

Number of Meals Served:

Breakfast	Paid	285,891			
	Free	409,760			
	Reduced Price	52,655			
			748,306		
Lunch	Paid	1,095,322			
	Free	706,100			
	Reduced Price	246,391			
			2,047,813		
Snacks			251,444		
Summer Meals			16,754		
Non-School Meals			69,877		

Total Meals Served **3,134,194**

School locations served /kitchens	42/9
Full-time employees	49
Part-time employees	136

Revenues:

Federal	Cash payments	\$3,210,481			
	USDA Commodities	415,847			
			\$3,626,328		
Sales and other sources			4,261,320		
State aid			124,898		
Total Revenue (all sources)				8,012,546	

Total Expenditures **7,901,207**

Excess of Revenues over Expenditures **\$111,339**

Sources: MSDE 2005-2006 Factbook, WCPS FY 2006 Audited Financial Statements, WCPS Payroll/Personnel Records.

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

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

- WCPS uses USDA commodities and has standardized its serving sizes to economize on food purchases.
- WCPS monitors menus, adjusts food production, and reheats certain leftover items to reduce waste.
- WCPS uses performance data such as meals per labor hour, and monthly financial reports to track and monitor the operating efficiency at each of its school cafeterias. WCPS participates in a 12-county food purchasing cooperative in order to maximize its buying power and to reduce food costs. Fiscal year 2006 food purchases from the cooperative totaled \$1.5 million.

WCPS uses several best practices to encourage participation in the federal free and reduced price meal programs – These practices include the use of a family application process, instead of individual student applications to simultaneously qualify more students for the free or reduced priced meal programs, and direct enrollment for children receiving services from the Maryland Department of Human Resources. According to MSDE records, approximately 35 percent of WCPS students qualify for the program. WCPS has also identified barriers to participation in the free and reduced price breakfast program, and has instituted initiatives such as serving breakfast in the classrooms to increase participation. Also, 14 eligible schools are now enrolled in the State-funded Maryland Meals for Achievement Classroom Breakfast program, which has significantly improved participation rates. MSDE awarded WCPS with a citation for the largest increase statewide in school breakfast participation for the 2004-2005 school year.

Internal Controls Over Cash Collections at Certain Cafeterias Could Be Improved

WCPS should improve controls over cash collections and deposit of food service revenue. Our review of cash handling⁸ and accountability procedures at three school cafeterias with fiscal year 2006 cash receipts totaling \$783,700 identified internal control weaknesses that could result in theft of cash receipts without detection. Specifically, at those cafeterias cashiers were not specifically accountable for their own collections and cash registers were left open between sales. System management informed us that no standard cash handling procedures had been developed and therefore it was possible that different schools safeguarded collections differently. According to WCPS, fiscal year 2006 collections at all school cafeterias totaled \$1.2 million.

Recommendation

15. WCPS should improve its internal control procedures for cash handling at school cafeterias by developing a formal cash handling policy for use by all schools.

⁸ Students are encouraged to use the PIN numbers but are not required to if they do not have a prepaid account or are not participating in a meal program, therefore cash is still collected at the point of sale.

Chapter 10

School Board Operations and Oversight

The Board had adopted detailed policies governing the operations of the Board and WCPS, and the Board regularly meets with WCPS' external auditors to review the results of the annual financial statement audits and federal Single Audits. Also, the Board is actively involved in the development of the WCPS' budget. However, certain processes could be improved. WCPS staff does not provide the Board with financial data on a periodic basis and, the Board has no financial-related performance measures to help monitor WCPS' implementation of the budget and Master Plan. Although WCPS does have a contractual internal audit position (a best practice), WCPS should consider modifying or expanding the scope of work performed by the internal auditor and changing the reporting relationship this position has with the Board. We also noted that the Board recently adopted a comprehensive ethics policy that applies to all WCPS staff.

Background

WCPS is governed by a seven-member elected board. By law, the members must be residents of Washington County. The Board operates a number of committees (such as Finance, Policy, and Human Resources). As part of its oversight responsibilities, the Board enters into contracts for independent audits of its financial statements and federal grant programs.

These audits focus on the Board's fiscal oversight responsibilities. The Board is ultimately accountable for the success of the WCPS

in providing the children of Washington County with a quality education, while wisely spending local, State, and federal funds.

Vision

Ensuring a world-class education for all students.

Mission

The mission of Washington County Public Schools is building a world-class school system that will empower all students to take their place in the community and equip them to meet the challenges of a rapidly changing, diverse, global society.

Beliefs

- Public education is fundamental to a democracy
- Washington County Public Schools can and should strive to be a world-class school system
- All children learn when taught well and held to the highest expectations
- Setting high expectations for children helps them to continuously achieve, improve, and meet their full potential
- Ongoing assessment is necessary to improve student achievement
- High expectations for staff result in continuous improvement
- Self-discipline is critical to learning
- A safe, clean, secure, and supportive environment is essential to learning
- Education is a shared responsibility
- A successful school system requires an involved and supportive community
- Parents ensure that children arrive at school ready to learn
- Schools recognize and provide for diversity by providing parents and students with choices, whenever possible

Source : <http://www.wcboe.k12.md.us/downloads/masterplan/2006/overview.pdf>

Certain Oversight Has Been Put in Place

The Board used a number of methods to broadly oversee the operations of WCPS – The Board used several methods to oversee the operations of WCPS. The Board contracts annually for an audit of its financial statements and federal grant activity. The fiscal year 2006 Comprehensive Annual Financial Report did not contain findings requiring additional action by the Board. We also noted that the Board receives and discusses detailed budget and expenditure information as part of the budget approval process.

A detailed ethics policy has been established - The WCPS Board has recently adopted a detailed code of ethics, that covers Board members as well as employees, and that specifically identifies those supervisory employees required to file annual financial disclosure statements. This ethics policy also covers conflicts of interest and ethics requirements, which generally conform to the related State law, and an Ethics Panel exists to interpret policies and to provide advice on implementation. The Panel also reviews and rules on any reported complaints related to ethics violations.

An Ombudsman program has been established - WCPS also uses an Ombudsman program which provides for an independent and neutral third party to resolve school-related problems in a confidential manner. This program is advertised on the WCPS website and through community outreach. The program can address any WCPS issue (financial or academic) submitted by the public or by WCPS employees.

Additional Actions Should Be Considered to Provide Guidance to Management

The Board should consider additional steps to assist it in managing WCPS – The Board does not receive detailed expenditure information on a regular basis. Financial data are provided in conjunction with the annual budget process; however, throughout the year monthly comparisons to budgeted amounts are not provided. In addition, the Board does not receive any key performance indicators related to the financial operations of WCPS. Without this information, the Board cannot evaluate the progress of its budget and Master Plan. Examples of useful performance measures would include cost comparisons such as facility cost per student and explanations for any budget variances. When implemented correctly, performance measures can be used to assist in decision making processes, such as allocating resources and budgeting, and to report on departmental effectiveness and efficiency.

WCPS should enhance the internal audit function and consider actions to control potential fraud – WCPS could improve its audit function by modifying the reporting structure and expanding the scope of work. The internal audit function is not sufficiently independent. The accountant contracted by WCPS to perform internal auditing reports directly to school management and not to the Board. Presently, this individual's responsibility is

limited to the review and testing of student activity funds and related internal controls at each WCPS school on an annual basis. Although student activity funds are obvious high-risk audit areas, there has been no formal consideration of expanding responsibility to include other areas of WCPS operations and management.

The use of an internal auditor 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. The GFOA also states that internal auditors can play a valuable role conducting performance audits, as well as special investigations and studies. In addition, the GFOA recommends an entity consider the feasibility of establishing a formal internal audit function reporting to a person outside the staff or line management of the entity under audit. That is, the auditor should report to the Board.

In addition, we were advised that WCPS could receive tips of suspected fraud, waste, or abuse from its Ombudsman program. However, WCPS did not have an established procedure requiring evaluation and follow-up on such notices when received. WCPS also did not have a fraud hotline or whistleblower program that encouraged reporting and protected workers, a process advocated by a number of private and public entities, including the Institute of Internal Auditors and the American Institute of Certified Public Accountants.

Recommendation

16. WCPS should take action to improve Board oversight. These actions should include receipt of periodic financial data and related performance measures. In addition, WCPS should take steps to enhance the internal audit functions through expanded lines of reporting and scope of work, and establish a formal policy related to reported fraud (including consideration of establishing a confidential fraud reporting hotline).

Chapter 11

Other Financial Controls

This chapter addresses the management of cash, risk, and debt (for example, long-term lease/purchase agreements) within WCPS. WCPS has a policy in place to govern its cash management and investment practices, through the formal adoption of the related practices of the Washington County government. However, WCPS does need to adopt policies on its use of long-term lease/purchase agreements and risk management.

Certain Policies Should Be Established to Address Debt and Risk

WCPS had not adopted any policies governing its use of long-term debt to finance operations as recommended by the GFOA – WCPS is not permitted to issue bonds or other long-term debt instruments. However, WCPS does use lease/purchase agreements to purchase equipment items such as computer equipment. According to the WCPS 2006 financial statements, long-term liabilities related to lease/purchase agreements totaled \$425,000.

WCPS has not implemented certain processes that could reduce workers compensation losses and the associated costs – WCPS participates in the Maryland Association of Boards of Education’s (MABE) risk pool for its workers’ compensation insurance coverage. WCPS pays an annual premium into the pool and may participate in refunds or be assessed additional premiums based on claims paid from the pool and WCPS’ individual loss experience. However, WCPS has not used the workers compensation loss data provided by MABE to enhance safety training in areas with the greatest claims and has not established initiatives such as a return-to-work program to help reduce workers compensation costs. Such programs could reduce workers compensation losses and their associated costs. WCPS management advised us that they plan to eventually establish a return-to-work program.

Recommendation

17. WCPS should develop and implement policies addressing the use of lease/purchase agreements and risk management related to workers’ compensation.

Audit Scope, Objectives, and Methodology

Scope

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

Objectives

We had two broad audit objectives:

1. To evaluate whether the WCPS procedures and controls were effective in accounting for and safeguarding its assets
2. To evaluate whether the WCPS 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 WCPS 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 WCPS. We also interviewed personnel at WCPS, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate⁹). Our audit procedures included inspections of documents and records, and observations of WCPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2005 through December 31, 2006. For our audit work on revenue and federal grants, we primarily relied on the results of an independent audit of fiscal year 2006 activity; accordingly, our revenue and federal grants work was limited to this period.

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

⁹ During the course of the audit it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

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

Other Independent Auditors

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

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

Limitations of Internal Control

WCPS 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 WCPS that did not warrant inclusion in this report.

Fieldwork and WCPS Responses

We conducted our fieldwork from September 2006 to March 2007. The WCPS response to our findings and recommendations is included as an appendix to this report.

APPENDIX



WASHINGTON COUNTY PUBLIC SCHOOLS

P.O. Box 730 | 820 Commonwealth Avenue | Hagerstown, Maryland 21741-0730

www.wcboe.k12.md.us

Elizabeth M. Morgan, Ph. D.
Superintendent

July 31, 2007

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

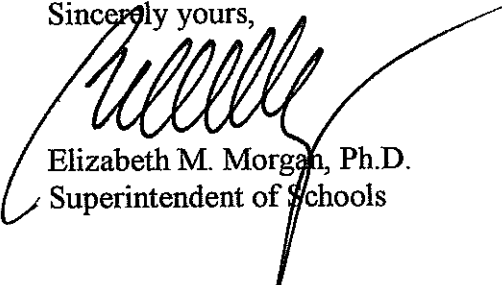
Dear Mr. Myers:

Enclosed are the responses to the recommendations made in the "Financial Management Practices Audit Report" that was issued for the Washington County Public Schools in July, 2007.

I would like to thank the legislative auditors for helping us identify several areas where we can improve our system's performance and efficiency. We appreciate their recommendations, as well as their recognition of best practices within our organization. We look forward to placing your recommendations into effect.

Please do not hesitate to call me if you have any questions or need any additional information regarding this submission.

Sincerely yours,



Elizabeth M. Morgan, Ph.D.
Superintendent of Schools

Copy to:
Board of Education Members

Enclosure

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Recommendation #1: We agree that there is a need for written policies and procedures governing the receivable and collection process. To that end, staff will develop policies and procedures, for Board consideration. There have been long standing institutional practices in place that govern the process of accounts receivable collections. Additionally, the staff responsible for this function is well-seasoned, and their input will be valuable. It is important to note that, despite the need for written policies and procedures, the accounts receivable were properly managed during the period covered by the audit. As evidence of that fact, WCPS began FY2006 with outstanding receivables of over \$335K, and by fiscal year end, only \$1,082.81, or three tenths of one percent of that amount, remained uncollected.

Recommendation #2: We agree with this recommendation. WCPS is currently developing an internal control procedure to ensure that all eligible costs are identified, timely billed, and fully recovered. Tracking and reminder systems are now in place to monitor billing for case management services and OT/PT services. Clerical support has been hired to assist speech and language pathologists with their billings and to validate information for proper billing of transportation services.

Recommendation #3: We agree with this recommendation. With regard to Table 1 on page 17, test items one through eight relate to isolated events that can be attributed to a former employee of the Facilities Department. As a result of such oversights, WCPS has recently reorganized this department into two distinct units. This reorganization, along with staffing increases to accommodate workload demands, will ensure that construction/renovation procurements will be properly documented and that contract administration will be more diligently administered. With regard to test items 9 and 10 on Table 1, in the future, the Food Service staff will ensure that they have a copy of the contract and the pricing documentation before using contracts procured by another governmental unit.

With regard to the comments related to Blanket Purchase Orders (BPO) on page 18, we continue to believe that, because individual purchases under WCPS BPO's are limited to \$1,000, WCPS is not in violation of either State bidding law or Board policy. Additionally, we continue to believe that our current method of issuing BPO's ensures best pricing, because we issue BPO's for the same or similar product to multiple, competing vendors. However, in an effort to provide even more control, WCPS will bid future BPO's annually based upon a discount from list price.

With regard to the approval of requisitions, we acknowledge that there were 11 requisitions for which hard copies with a signed approval could not be located.

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As the approval field for purchase requisitions in our current software is not password specific, it is necessary for WCPS to maintain approved hard copies of requisitions on file as proof of approval. Heretofore, maintaining these approved hard copies was a function of the individual department or school, not the Purchasing Department as stated on page 18 of the recommendations. To ensure that this control is not bypassed in the future, WCPS has begun to require that a hard copy of the requisition, signed by an authorized individual, be sent to the Purchasing Department for filing. The Purchasing staff will not convert the requisition into a purchase order until they receive the signed copy of the requisition. This new requirement has been communicated to the principals, school bookkeepers, and central office staff and was implemented on July 1.

Page 15 of the recommendations also needs clarification. First, Board policy only requires bids for purchases anticipated to cost more than \$25,000, not \$10,000 as stated in the *Background* section. Similarly, only contracts over \$50,000, not \$25,000, require Board approval.

Recommendation #4: We agree with this recommendation. This menu access had been assigned in error and was immediately removed when brought to staff's attention by the auditors.

Recommendation #5: We agree with this recommendation, and we have taken corrective action. We agree that the security access in the then-current CIMS payroll system was not optimal. It was often necessary to give an employee full access to a particular menu in order to provide them with access to one component of that menu that they needed to do their job. Staff had previously recognized this shortfall, and this security flaw was one of the main driving forces that lead WCPS to change payroll systems.

The new Lawson payroll system that WCPS implemented on July 1, 2007 allows system security to restrict access on a component basis. The IT security officer can now assign only the menu components needed to complete particular job duties. Senior management has worked with IT security to ensure that menu components in the new system have been assigned only as needed to complete each employee's assigned personnel or payroll task.

Recommendation #6: We agree with this recommendation. WCPS had previously recognized this need and began addressing a solution several years ago. The inability to do credible workforce planning and position control were several of the factors that lead the system to search for and begin implementation of a full-service Human Resources Information System (HRIS). We have been working on this project for approximately two years.

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Implementation will be completed in the fall of 2007. At that time, we will be able to do both short-term and long-term workforce planning.

Recommendation #7: We agree with this recommendation. Financial administration will make completion of the school inventory a part of the Internal Audit checklist beginning with the 2007-2008 academic year to encourage timely submission of fixed asset inventories.

Recommendation #8: We agree with this recommendation. As of August 2007, all computer system security will meet Department of Budget and Management standards.

Recommendation #9: We agree that our disaster recovery plan needs to be documented. We will complete this documentation by October 21, 2007. We currently have recovery procedures in place that include offsite storage of all backup tapes, daily file backup procedures, and vendor contracts that cover network recovery. WCPS will develop any missing components and create a document that meets the current DBM standards.

Recommendation #10: We agree with this recommendation. With regard to enhancing the WCPS performance assessment system, we implemented a new, automated work order system in July 2007. This system tracks individual employee productivity and provides monthly reports that will detail the efficiency of maintenance and custodial employees. It provides reports that monitor upkeep costs for each facility. It also segregates the work orders for preventive maintenance (PM) from ones for reactive maintenance. Finally, it allows us to maintain the information necessary to document compliance with our comprehensive maintenance plan.

With regard to ensuring that construction invoices are properly approved, we agree that certain construction invoices were not signed by the project monitor. However, it is important to note that, as required by Board Accounts Payable policy, no invoices were paid without the authorization of the Facilities Director. WCPS has now developed and implemented a payment procedure for major construction and maintenance projects that will ensure that all project invoices are reviewed for contract compliance and approved by both the assigned contract monitor and the responsible Director before payment is made.

Recommendation 11: We agree with this recommendation. With regard to a deferred maintenance program, WCPS is currently preparing a list of assets that are being utilized beyond their estimated useful lives, i.e., deferred

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maintenance. This list will be compared to the present Capital Improvement Plan (CIP) to ensure that the identified assets are scheduled for replacement.

With regard to a comprehensive energy management program, we agree that this recommendation was valid during the time period covered by the audit. However, as of the date of the audit, WCPS had already hired an Energy Manager. This individual began developing and implementing a comprehensive energy conservation plan upon his arrival at WCPS in the fall of 2006. We have concentrated on the various aspects of this plan in descending order of the amount of expected savings. We have recently targeted numerous schools for energy reduction based upon BTU's per square foot. During the next school year, we will implement a pilot incentive program based upon these BTU/sq. ft. standards to promote energy savings.

Recommendation #12: We agree that such analysis is beneficial. The Maintenance and Operations management staff evaluates each work order task for resource availability, retained expertise, time to complete, cost to complete, and priority before being assigned to an internal maintenance technician or an outside contractor. If it is unclear if the task should be assigned internally or to an external contractor, the Director of Maintenance and Operations utilizes a model for determination of internal versus external execution. It is important to note that much of the school maintenance work occurs over the summer when students are not in class. Therefore, it is usually more cost effective to use an external contractor during the summer months, rather than to employ additional staff who would be idled during the academic year due to the inability to access the schools when classes are in session.

Furthermore, in the future, before additional maintenance personnel are hired, or when external contracts are due for re-bid, a cost benefit analysis will be performed to determine whether it would be more cost effective to complete the additional workload with more in-house staff or with additional external contracts.

With regard to the institution of a formal training program for maintenance staff, we agree with this recommendation. WCPS implemented monthly training for all maintenance personnel on the first Wednesday of each month, beginning on May 2, 2007. The first topic was OSHA 1910 General Industry Safety training. The Risk Manager is also investigating on-line safety training through Safe-Schools, Inc. and the Maryland Association of Boards of Education Group Insurance Pool.

Recommendation #13: We agree with this recommendation. Routes are currently identified on maps and route descriptions are reviewed and edited on

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a regular basis. A manifest, stop sheet, and route description exists for every route. The department will develop a written operating procedure to address specific steps to be taken to properly construct a bus route. The department is currently reviewing and evaluating computer assisted routing software. We believe that such a system may provide more efficient and economical routing.

Recommendation #14: We agree with this recommendation. With regard to payment methodology for contractors, staff has conducted an analysis of how each Maryland LEA calculates its PVA, to determine best practices. The Department is currently determining the best model for Washington County. Once this is determined, we will document the details of the WCPS PVA calculation methodology. The document will identify all costs associated with operating a contract route.

With regard to selection criteria for bus contractors, the Transportation Department staff, in conjunction with the system's Legal Department, is currently reviewing and revising its procedures regarding the advertising, interviewing, and selection process for contracted bus services. Periodic route audits are conducted and will continue to be a priority.

Recommendation #15: We agree with this recommendation and are in the process of correcting it. Written cash handling procedures were added to the Food and Nutrition Services procedure manual in March. Additionally, an order has been placed for replacement cash drawers to ensure that they can be closed between sales and locked. While we agree that control of cash must be a top priority, it is important to note that the cash shortage for the entire district for FY2006 was only \$136.56 or 0.0036%, against total cash register receipts of \$3,788,463.55. This percentage confirms that theft is not a problem.

Recommendation #16: We agree that Board oversight is necessary. The Board currently monitors adherence to the budget on a quarterly basis when it reviews budget adjustment requests. At that time, staff answers all of the Board's financial questions. To enhance Board oversight, staff will begin providing a monthly financial report to the Finance Committee beginning with the July 2007 financial statements.

With regard to the internal audit function, staff will bring this issue to the Board of Education's Audit Committee for review and response.

With regard to a policy on the reporting of suspected fraud, the Board's Ombudsman provides a well publicized link to all stakeholders. The

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Ombudsman is an independent intermediary within the system who has direct access to the Superintendent and the Board. Employees and the public are encouraged to call this person with any and all complaints and issues. Given this individual's defined relationship to the Board, her position lends itself well to accepting stakeholder concerns about suspected fraud. The WCPS website contains a detailed description of how to report complaints through the Ombudsman, the process that the Ombudsman will use to investigate complaints, and the guarantee of confidentiality. However, in the interest of clarifying the process for reporting fraud and providing assurances against retaliation, the Safety, Security and Risk Manager will develop a policy that can be incorporated into the Ombudsman role that will define, in detail, how such allegations will be handled. Specific instructions for the reporting of fraud and abuse will then be added to the Board's website.

Recommendation #17: We agree with this recommendation. With regard to lease/purchase agreements, it is important to note that these agreements are currently approved by the Board using the same limits applied to purchases of commodities. However, we agree that this practice is not memorialized in a policy. Therefore, staff will prepare an addition to the Purchasing policy that will address acquisitions via lease/purchase arrangements for Board consideration.

With regard to risk management related to workers' compensation, WCPS will institute periodic analysis of loss data. The workers' comp function currently resides in the Human Resources Department. Staff will review this function to determine if it fits better with the skill set of the in the Risk Management Department. It is important to note that WCPS has implemented a *light-duty, back-to-work* program that has significantly reduced Workers Comp payouts. Over the past three years, WCPS's experience modification factor has been reduced from 1.41 to 1.24 (subject to a five-year smoothing formula).

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