

Financial Management Practices Performance Audit Report

Wicomico County Public Schools

December 2008



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

December 8, 2008

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

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Wicomico 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 fifteenth largest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 27 schools, with fiscal year 2007 expenditures of \$165 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 13 recommendations to WCPS to enhance controls and to implement best practices used to improve operations in such areas as transportation, food services, procurement, facilities, and equipment inventory. For example, we identified certain components of the formula used to establish bus transportation vendor payment rates that should be reevaluated, as the rates appear to result in unnecessarily high reimbursements. Also, WCPS should establish better controls over critical information technology. In addition, WCPS should establish performance benchmarking and adopt a formal ethics policy.

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 49. WCPS' response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by 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 Wicomico 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 and provides that the related audit process be approved by the Joint Audit Committee. Since the Committee approved the audit process in September 2004, we have issued audit reports related to 12 school systems; WCPS represents the thirteenth to date. The approved process included 11 functional areas to be audited at each system. The following are summaries of the findings in these areas at WCPS.

Revenue and Billing Cycle (see pages 7 through 9)

According to WCPS' audited June 30, 2007 financial statements, \$183.1 million in revenue was received from all sources during fiscal year 2007, the vast majority of which was received via electronic fund transfers from other governmental entities. Procedures and controls for revenue sources and accounts receivable were found to be adequate.

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, a requirement of Circular A-133, which is issued by the U.S. Office of Management and Budget). Due to parallels between that work and the scope of our audit, we placed significant reliance on the results of the independent audit of the fiscal year 2007 grant activity, for which reported expenditures totaled \$14.3 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 significant deficiencies and no material weaknesses.

WCPS had an adequate process for the identification of students eligible for Medicaid-subsidized services and for recovering the related costs.

Procurement and Disbursement Cycle (see pages 15 through 18)

According to WCPS records, non-payroll disbursements totaled approximately \$77.8 million during fiscal year 2007. WCPS often used existing governmental contracts as a way to obtain discounts and reduce procurement costs, and had appropriate controls in place to control travel expenditures. However, WCPS should require supervisory approvals for all credit card purchases and periodically evaluate card limits. WCPS should also ensure that Board approval is obtained for contracts when required by WCPS policy, and that adequate contract pricing documentation is retained and utilized when approving disbursements.

Human Resources and Payroll (see pages 19 through 21)

According to its records, WCPS employed 2,206 full-time and part-time employees during 2006 and had payroll cost of \$112 million during fiscal year 2007. WCPS exercises position control and fills vacant positions through the use of a centralized hiring and approval process to help control payroll costs. 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.

Inventory Control and Accountability (see pages 23 through 24)

WCPS should improve its existing procedures to ensure that accountability and effective control is maintained for its equipment inventory. According to WCPS records, equipment inventory had a June 30, 2007 value of \$18.3 million.

Information Technology (see pages 25 through 28)

WCPS maintains and administers a computer network, computer operations, and a number of significant administrative and academic-related information system applications. A master technology plan, which is periodically updated to address current and future school needs, has been developed. WCPS also used several best practices to implement its new financial management system. However, several areas are in need of improvement, including information technology (IT) system access and security, and safeguarding computer center operations. For example, WCPS was not making full use of certain IT system features designed to restrict or detect unauthorized or unnecessary access to systems and programs. WCPS also needs to establish a comprehensive disaster recovery plan.

Facilities Construction, Renovation, and Maintenance (see pages 29 through 32)

WCPS employs a staff of 136 custodial and maintenance personnel to maintain its schools and facilities. WCPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Plans are long-term, updated annually, and reflect input from the Board. However, WCPS should consider establishing a formal customer feedback program, a formal training program for maintenance employees, and a formal energy management program. Lastly, WCPS should better use its work order system to manage its maintenance operations.

Transportation Services (see pages 33 through 37)

WCPS uses several practices to increase 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 should reevaluate the formula used to determine payments to bus contractors. For example, the bus contractor payment methodology results in reimbursing the contractors 120 percent of each bus' actual cost over a 12-year period. Also, WCPS has not performed an analysis to determine if it is cost beneficial to continue outsourcing its transportation services. Finally, WCPS should use its routing software to assist in developing more efficient bus routes and should ensure its criteria for selecting bus

contractors complies with applicable laws and results in broad-based competition.

Food Services Operations (see pages 39 through 42)

WCPS currently uses a number of best practices in its food services operations. For example, it uses available USDA commodities and has procedures in place designed to maximize participation in the National School Meal Program. However, WCPS should consider increasing its meals per labor hour goals, and reviewing its cafeteria operations to improve efficiency since WCPS' food service operations reported losses in both fiscal years 2007 and 2006. WCPS should also allocate indirect costs to food service operations so that the true cost of the operation can be determined.

School Board Operations and Oversight (see pages 43 through 46)

The seven-member Board has adopted policies governing certain operations of the Board and WCPS and exercised reasonable oversight of financial activities through independent audits. However, the Board should adopt a detailed ethics policy that applies to all WCPS employees, as well as annual financial disclosure requirements for Board members and key employees. The Board should also consider establishing an internal audit function and a confidential reporting process to receive reports of possible fraud, waste, or mismanagement. The Board should also establish formal performance measure reporting for operational areas, such as transportation, facilities, and food service, to assist in its oversight duties.

Other Financial Controls (see pages 47 through 48)

WCPS has appropriate practices in place to govern its cash, debt, and risk management.

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Background Information

Oversight

Wicomico County Public Schools (WCPS) is governed by a local school board, consisting of seven appointed members. The vast majority of WCPS funding is provided by the State and the Wicomico 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 Wicomico County government is limited, although the WCPS annual operational and capital budgets require County approval.

Statistical Overview

According to MSDE student enrollment records, WCPS is the fifteenth largest school system based on student enrollment among the 24 public school systems in Maryland. Presently, WCPS has 27 schools, consisting of 17 elementary, 5 middle, and 5 high schools. In the fall of 2006, WCPS had 14,427 students and 2,206 full-time equivalent employees. According to the fiscal year 2007 audited financial statements, total expenditures were \$165 million with salary, wage, and benefit costs totaling \$112 million.

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

External Audit of Fiscal Year 2007 Activity

Annually, 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 resulting audit reports for the 2007 fiscal year were issued in September and December 2007, respectively. Student activity funds and the cafeteria funds were also audited annually by the firm, including evaluating related internal controls. A separate report on the fiscal year 2007 audit of the student activity and cafeteria funds was issued in September 2007. None of the resultant reports disclosed any material weaknesses or significant deficiencies on WCPS record keeping, processes, and controls.

Chapter 1

Revenue and Billing Cycle

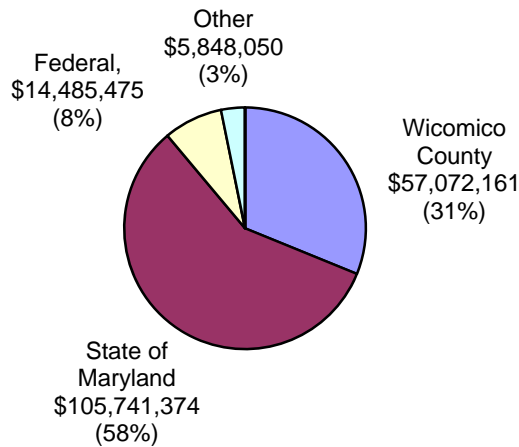
According to WCPS' audited financial statements for the fiscal year ended June 30, 2007, \$183.1 million of revenue was received by WCPS during fiscal year 2007. Due to similarities between the work of the independent certified public accounting firm that audited WCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the audit of the fiscal year 2007 financial statements for revenue transactions, including State, local, and federal sources and other sources of revenue (such as student activity fund¹ cash receipts of \$2.7 million) and for accounts receivable (for example, amounts due from other governments). The firm's procedural review and testing disclosed no significant deficiencies related to the collection of revenue and accounts receivable (the June 30, 2007 year-end receivables balance was \$7.3 million).

Background

WCPS revenues consist primarily of funds received from the State, Wicomico County, and the federal government. Other sources include receipts from the sale of food, facility rentals, and interest income. Chart 1 (see next page) shows the breakdown of WCPS fiscal year 2007 revenues of \$183.1 million by major source.

¹ The Board has a fiduciary responsibility to ensure that the school activity fund is used only for intended purposes by those to whom the assets belong. Receipts for the school activity fund are not included in the \$183.1 million revenue total because the Board cannot use these assets to finance its operations.

Chart 1
Sources of Fiscal Year 2007 Revenues
(\$183.1 Million)



Source: WCPS fiscal year 2007 audited financial statements and supporting WCPS records

In addition to the above revenues, schools also collected funds for various purposes, such as student activity groups including yearbook and Future Farmers of America. These school activity funds are accounted for separately by each school and are reported in summary in the audited financial statements. According to the audited financial statements, fiscal year 2007 school activity fund revenue totaled \$2.7 million, and the June 30, 2007 balance was \$408,174.

Revenue and Billing Cycle Activity Was Generally Adequate

Due to similarities between the work of the accounting 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 independent audit of the fiscal year 2007 financial statements. The

auditor's procedural review and testing disclosed no significant deficiencies or material weaknesses regarding the collection of any accounts receivable or revenues from local, State, federal and other sources (such as food service operations), including electronic fund transfer transactions. Student activity funds and cafeteria cash operations were also audited by the firm, including a review of internal controls and bank account reconciliations. The results of this work likewise disclosed no significant deficiencies or material weaknesses.

Recommendations

None

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 2007 federal grant activity was issued by an independent certified public accounting firm on December 4, 2007.

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 significant deficiencies² and no matters considered to be material weaknesses.³

WCPS had an adequate process to identify children eligible for Medicaid-subsidized⁴ services and for recovering the related costs. WCPS also had a process in place to obtain appropriate federal funding under the E-Rate Program.

Background

² Significant deficiencies are control deficiencies that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

³ Material weaknesses are significant deficiencies that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

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.

WCPS receives funds primarily from the State, Wicomico County, and the federal government. Most funds received from Wicomico 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 2007 expenditures of federal award funds totaled \$14.3 million.

According to WCPS records, WCPS also received an additional \$1 million of federal fee-for-service payments during fiscal year 2007 for Medicaid-subsidized services for qualified students.

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 fiscal year 2007 required Schedule of Federal Awards (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 significant deficiencies and no material weaknesses.

Processes Were in Place to Identify Students Eligible for Medicaid-Subsidized Services and to Recover the Related Costs

WCPS had adequate processes in place to identify students eligible for Medicaid-subsidized services and to recover the related costs. WCPS used listings from the Department of Health and Mental Hygiene of children whose families were participating in Medicaid to identify eligible students. The lists were regularly compared to the WCPS student information system to identify newly-eligible students

and to establish the continued eligibility for previously identified students.

WCPS also had an adequate process to ensure that it received reimbursement for the cost of Medicaid-eligible services provided to students. On a monthly basis, WCPS Medical Assistance Accounting Associates received and reviewed a record of services provided to each eligible student and reviewed the reports to ensure reimbursement eligibility and to prepare billings for the services provided. WCPS also had processes in place to review the accuracy of billings and to ensure that all applicable services were billed. For fiscal year 2007, reimbursement for Medicaid-subsidized services totaled approximately \$1 million.

Available Funding Was Obtained from the Federal E-Rate Program

WCPS had a detailed process in place to request and receive reimbursement for technology expenditures from the federal School and Libraries Universal Service Program (E-Rate). The E-Rate program provides funding to schools for telecommunications expenses (such as, internet access). The funding is based on the level of poverty and the rural status of the school district. We noted that based on poverty level and rural status, WCPS was approved for approximately \$317,250 in federal E-Rate funding for fiscal year 2007 and had a process in place to recover E-Rate funds.

Recommendations

None

Chapter 3

Procurement and Disbursement Cycle

WCPS often used existing governmental contracts (referred to as “piggybacking”) as a way to obtain discounts and reduce procurement costs. In addition, WCPS adequately restricted access to its automated financial management system used for purchasing and invoice processing. However, we did identify that improvements could be made over the monitoring and procurement of contracts and the WCPS credit card program. For example, certain contracts were not formally approved by the Board and credit card purchases were not always approved by supervisors. Finally, WCPS had established policies and procedures to control travel costs.

Background

WCPS used an automated system for purchasing and disbursements. Requisitions were entered by departments and were subject to departmental and purchasing office approvals. Purchase orders, contracts, solicitations, and bids were handled by the purchasing office. WCPS procurement policies require that purchases over \$25,000 be formally bid and approved by the Board. The receipt of goods and services was recorded in the automated system by the receiving school or department and payments were then processed by the finance office using the automated system. According to WCPS records, non-payroll disbursements totaled approximately \$77.8 million during fiscal year 2007.

WCPS Had Established Adequate Controls Over its Automated Purchasing and Invoice Processing Applications

WCPS had established adequate controls over its automated purchasing and invoice processing applications. Specifically, electronic approvals were established over purchase requisitions and invoice payments to prevent one individual from creating and approving purchases or the payment of invoices. In addition, WCPS had written policies and procedures for the procurement of goods and services and the disbursement of funds. Per WCPS records, non-payroll disbursements totaled approximately \$77.8 million during fiscal year 2007.

WCPS Had Established Policies and Procedures to Control Travel Costs

WCPS had established adequate policies and procedures to control employee travel costs, including requirements that all travel reimbursements be approved by departmental directors or an assistant superintendent in advance, that expenses be documented with itemized receipts, and that set limits on expenses such as meals, lodging, and mileage. Our review of WCPS' financial data disclosed that travel expenditures for fiscal year 2007 totaled approximately \$590,000.

WCPS Should Strengthen Controls Over Contract Procurement and Monitoring

WCPS contract approval and monitoring practices need to be improved. Contracts were not always formally approved by the Board and adequately monitored to ensure that correct prices were paid. Specifically, we identified four contracts valued at \$1.6 million that were not formally approved by the Board, as required by WCPS policy. One of the four contracts was an \$85,000 sole source procurement for software maintenance, while two other contracts were food commodities contracts valued at \$1.5 million. The fourth contract for \$75,000 was for playground equipment. The contracts were never formally approved by the Board, although WCPS

procurement policy requires that contracts over \$25,000 be formally approved by the Board.

Furthermore, WCPS could not provide documentation showing how the pricing for four contracts valued at \$819,000 was determined. For example, three of these contracts were "piggybacked" on existing governmental contracts. However, WCPS did not have a copy of these contracts so prices paid could not be verified (virtually all of the contracts' value was paid).

WCPS Should Improve Controls Over its Credit Card Program

WCPS needs to improve controls over its credit card program. Specifically, our test of the purchases on 25 credit card statements disclosed that the purchases on 13 of the statements were not subjected to an independent supervisory review. WCPS management advised us that, in many of these cases, employees allowed their subordinates to use the cards and then approved their subordinates' purchases. However, the WCPS policy on credit cards prohibits anyone other than the employee to whom a card was issued from using it, so that individual accountability is maintained.

We also identified a number of credit card holders with limits which appeared excessive. For example, our review identified 15 credit card holders who had a combined monthly purchase limit of \$335,000 (individual limits ranged from \$15,000 to \$30,000). However, these cardholders only incurred expenditures totaling \$40,000 during all of fiscal year 2007. The average monthly spending of approximately \$3,300 was significantly less than the \$335,000 monthly credit limit. Excessive credit card limits result in unnecessary risk in the event that the cards are lost or used inappropriately.

WCPS had 374 credit cards as of September 2007, with credit card expenditures totaling approximately \$2.5 million during fiscal year 2007.

Recommendations

1. WCPS should ensure that all contracts are properly approved by the Board in accordance with WCPS policy. WCPS should also utilize and retain documents to ensure vendors are paid the correct amount(s) based on agreed upon prices.
2. WCPS should strengthen controls over its credit card program by enforcing its policy that only authorized card holders use the cards and by requiring that all purchases be approved by supervisory personnel. In addition, WCPS should periodically evaluate card usage and limits and make appropriate adjustments to reduce its risks.

Chapter 4

Human Resources and Payroll

WCPS used automated systems to maintain human resources information and to record employee time, track leave, and process payroll transactions. Our review disclosed that adequate controls were in place over WCPS' automated system.

Although WCPS had implemented elements of workforce planning, this planning did not address WCPS needs for employees other than teachers and related instructional positions.

Background

According to the WCPS audited financial statements, salary, wage, and benefit costs for fiscal year 2007 totaled \$112 million, and, according to MSDE records, WCPS had 2,206 employees, including 618 non-instructional employees in October 2006. According to MSDE statistics, the 6.5 to 1 ratio of WCPS students to employees (both instructional and non-instructional) is lower than other similarly-sized school systems (see Table 1 on the next page).

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

School System	Number of Students (as of September 30, 2006)	Number of Full-Time Equivalent Employees (as of October 1, 2006)	Student to Employee Ratio
Wicomico Co.	14,427	2,206	6.54 to 1
Queen Anne Co.	7,786	917	8.49 to 1
St. Mary's Co.	16,665	1,976	8.43 to 1
Cecil Co.	16,421	2,184	7.52 to 1
Allegany Co.	9,526	1,423	6.69 to 1

Source: MSDE Report of Staff Employed in All Positions and Fall 2006 Enrollment

Controls Over WCPS' Payroll System Were Adequate

Our review disclosed that adequate controls were in place over WCPS' automated system used for human resources information and payroll transactions. The hiring of new employees is initiated either directly by the school or by the human resources office. Procedures require that the related paperwork be submitted to the WCPS central office where the final approval is made and a review is conducted to ensure adequate funding prior to adding the employee to the automated personnel and payroll system.

Workforce Planning Should Be Expanded to Include Non-Instructional Positions

WCPS should enhance its existing workforce planning efforts to include positions other than instructional personnel. The WCPS Master Plan sets the strategic direction of the school system and provides coordination and focus for initiatives to address challenges faced by WCPS. The Plan includes a number of objectives and strategies to address human resource needs – which is evidence of workforce planning. However, it addresses only the recruitment and retention of highly qualified instructional staff (that is, teachers and certain instructional aides). The Plan does not address other personnel employed by WCPS, such as central office and critical support staff. About 28 percent (618 employees) of WCPS

employees fill non-instructional positions (see Table 2 below). These support functions play a key role in the ultimate success of WCPS in providing quality education and, therefore, WCPS workforce planning should include them.

**Table 2
Comparison of Non-instructional Staff Per 1,000 Pupils for Select Categories
Fiscal Year 2007 (Unaudited)**

School System	Number of Non-instructional Positions ^①		Number of Non-instructional Positions Per 1,000 Pupils ^②		
	Professional ^③	Support Staff ^④	Professional	Support Staff	Combined
Wicomico Co.	160	458	11.09	31.75	42.84
Allegany Co.	89	309	9.34	32.44	41.78
Cecil Co.	164	462	9.99	28.13	38.12
St. Mary's Co.	172	393	10.32	23.58	33.90
Queen Anne's Co.	73	169	9.38	21.71	31.09
Average of Comparable Schools	125	333	9.76	26.46	36.22

Source: MSDE Student/Staff Publications

① - Excludes contractual and consulting positions.

② - Based on Fall 2006 student enrollment.

③ - Includes principals, vice principals, social workers, and other administrators.

④ - Includes technicians, secretaries, clerks, trades personnel, etc.

Recommendation

3. WCPS should expand its workforce planning to include non-instructional positions in critical operational units.

Chapter 5

Inventory Control and Accountability

Our audit disclosed that WCPS has developed written procedures and policies for the acquisition and disposal of assets. WCPS has also established formal procedures for selecting and purchasing textbooks. However, WCPS could improve its existing policies and procedures to govern accountability over its equipment inventory.

Background

According to WCPS' audited financial statements, as of June 30, 2007, the value of WCPS equipment was \$18.3 million. Equipment items include computers, audio and video items, athletic equipment, and various other items. All furniture and equipment with a cost of \$1,000 or more are capitalized for financial statement reporting. Generally, WCPS orders materials and supplies on an as-needed basis and does not store excess inventory in a centralized location.

Formal Textbook Procedures Have Been Established

WCPS has established formal procedures for selecting and purchasing textbooks. Requests for textbooks are reviewed by the Textbook Committee. The Committee submits potential textbooks to the Board for its review and approval. The purchase of approved textbooks is handled centrally with textbook accountability handled at each individual school.

Existing Controls Over Equipment Should be Enhanced and Formal Policies Established

While WCPS had written policies regarding the acquisition and disposal of assets, WCPS did not have policies and procedures in place to govern accountability for all property. For example, procedures were not in place to require periodic physical inventories with reconciliations to the detail records and reporting of lost and stolen goods. Physical inventories of equipment had not been performed for at least three years. As an example of a policy that has been enacted to control equipment, we note that State policies require all capital equipment to be inventoried at least once every three years, with sensitive equipment items required to be inventoried annually.

Recommendation

4. WCPS should develop and implement the procedures to ensure that accountability and effective control is maintained over its equipment.

Chapter 6

Information Technology

WCPS maintains and administers a computer network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at the WCPS central offices. We found that WCPS has established a three-year technology plan that is linked to the WCPS Master Plan. The plan provides a vision and mission for technology in WCPS and sets defined goals. Also, WCPS used several best practices to implement the new financial management system.

Nevertheless, we identified deficiencies in a number of areas, including system user access and security, disaster recovery planning, and safeguarding computer center operations. For example, employees had unnecessary access to critical files, security logs were not always reviewed by management, and password controls needed improvement. In addition, WCPS did not use anti-virus software on one of its servers.

Background

WCPS operates a wide area network connecting the various schools within Wicomico County. The WCPS Management Information Systems Department (MISD) maintains and administers the WCPS telecommunications network, financial and human resources information applications, the student information system, the email system, and other general computer operations. In addition, MISD hosts and supports Worcester and Somerset County Public Schools

Financial and Payroll applications. MISD maintains the critical core networking equipment and servers used to support WCPS operations.

A Number of Best Practices Were in Place Over Technology

Technology plans are regularly developed to address current and future needs

– WCPS has developed a written technology plan, which includes a comprehensive assessment of the technology needs of the schools. The plan identifies each school’s information technology (IT) needs and the actions to be taken to address those needs. The plan also includes measurable goals and objectives, and addresses professional development and IT related budgets. The plan is periodically updated and monitored for implementation status of identified actions.

Industry best practices were used when implementing the integrated financial accounting system

– WCPS used several best practices for the implementation of its new Integrated Financial Accounting System, which is standardized software and therefore has fewer risks related to the performance than customized software. For example, WCPS used an experienced project manager, obtained user involvement in planning and implementation, developed budgets and time lines, and had appropriate support from executive management.

Steps Should Be Taken to Ensure Adequate Security Over IT Applications

Enhancements should be made to existing procedures to ensure that all access is appropriate

– User access to computer resources is commonly controlled through the use of individual passwords and user logon ids; however, these tools could be more effectively used. For example, certain users had inappropriate or unnecessary access privileges and capabilities, to production programs and critical data files. Also, the security options on the financial applications server were improperly

configured and unnecessary services were installed on the server. These conditions could be exploited to compromise the server.

Additionally, there were a number of security issues related to password and user account settings. For example, the system allowed 161 passwords to be the same as the related user ids. Also, password expiration requirements were frequently not used. Furthermore, the monitoring of security audit events for one server that processed payroll and human resources information was not adequate. As a result, unauthorized modifications to critical production data files (such as grade files) and system files could occur without detection by management.

Data processing functions should be better safeguarded from disruption –

The server room was not equipped with fire detection or fire suppression devices, such as fire or smoke detectors or a fire extinguisher. Additionally, the room lacked environmental sensors which can monitor moisture and humidity and the room was not using flood prevention controls, such as raised flooring in the server room that was located approximately 8-10 feet below ground level.

Anti-virus software should be installed and used on all critical servers –

WCPS was not using anti-virus software on one of its critical servers that processed financial applications. Without virus protection, computer systems are left vulnerable to viruses and other malicious activities.

WCPS Should Develop a Comprehensive Disaster Recovery Plan

WCPS did not have an information technology disaster recovery plan for recovering computer operations from disaster scenarios (for example, a fire or flood). Without a complete disaster recovery plan, a disaster could cause significant delays (for an undetermined period of time) in restoring operations above and beyond the expected delays that would exist in a planned recovery scenario. In addition, although critical back-up files were created and stored off-site, the files were not secured in a secure location (files were kept in an employee's home).

Recommendations

5. WCPS should implement appropriate security measures to safeguard its applications and data systems, in part through eliminating inappropriate access privileges and capabilities and improving password protection. WCPS should establish environmental controls and safeguards over its computer operations and also should install and use anti-virus software on all of its servers.
6. WCPS should develop and implement a comprehensive disaster recovery plan and ensure that critical back-up files are maintained at a secure location.

Chapter 7

Facilities Construction, Renovation, and Maintenance

WCPS maintains 27 schools and other administrative and support offices with a staff of 136 custodial and maintenance personnel. WCPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Plans are long-term and are updated annually and reflect input from the Board. WCPS has followed a number of best practices for the procurement and monitoring of construction and renovation projects.

However, WCPS did not have a formal customer feedback program, a formal training program for maintenance personnel, and a documented energy management program with goals and objectives. Also, time and costs estimates were not tracked and compared to actual results to assess program efficiency for both operations and maintenance.

Background

WCPS uses a five-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 \$20.1 million.

Table 3 on the next page compares WCPS fiscal year 2006 plant costs (that is, maintenance and operational costs) with other similarly-sized school systems in Maryland. The table presents two

measures used to assess plant costs: cost per student and cost per square foot. These statistics generally show that WCPS facilities operations and maintenance costs are slightly lower than its peer group.

Table 3 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		
Wicomico Co.	\$10,461,891	\$721.96	\$5.21	138.63	2,008,946
Allegany Co.	8,426,638	867.38	5.23	165.69	1,609,700
Cecil Co.	13,777,989	833.97	6.77	123.23	2,035,801
St. Mary's Co.	13,504,023	811.10	6.78	119.54	1,990,278
Queen Anne's Co.	6,272,075	806.18	5.76	139.84	1,087,959
Average of Comparable Schools	\$10,495,181	\$829.66	\$6.14	137.08	1,680,935

Sources: MSDE Selected Financial Data
 ① - Based on September 2005 Enrollment

A Number of Best Practices Were in Place

WCPS has a continuous planning process to address major facilities projects and repairs –

WCPS has a continuous planning process, which includes input from various sources, to address future school construction and major renovation and repair projects. For example, WCPS uses public meetings, student demographic data and other internal sources (such as goals, objectives, and policies of the Board) to develop annual educational facilities master plans and capital improvement plans (CIP). The educational facilities master plan and CIP is presented to, and approved by, the Board.

WCPS has adequate procedures in place to procure and monitor major construction and renovation projects –

WCPS has formal processes in place for the development, procurement, approval, and monitoring of major construction and

renovation projects. For example, our review of five contracts totaling \$20 million disclosed that the awards were in accordance with policy and were properly approved. Furthermore, our review of eight related invoices totaling \$3.8 million disclosed that each invoice was properly approved and evidence of formal inspection was documented.

WCPS Should Continue Efforts to Enhance Energy Management

WCPS has implemented several energy management practices such as using an automated system to monitor and regulate energy usage as well as dedicating a full-time position for energy management. However, WCPS had not developed a documented energy management plan. Such a plan is an accepted industry best practice and includes goals, strategies, and measures to determine success (such as reducing total energy use by a specified percentage).

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

WCPS should improve its training program for maintenance employees – While WCPS does provide training on an ad-hoc basis for maintenance employees, a formal documented training program had not been developed. Specifically, a formal training program (including training schedules, certification tracking, and skills assessment) had not been developed and implemented to help ensure that employees safely and competently perform their duties.

WCPS should consider implementing a formal customer feedback program for facilities operations and maintenance – WCPS does not use a formal customer feedback program. We were informed that the custodial and maintenance departments do not receive formal feedback (for example, via surveys or after work completion comment forms) from the school-based personnel. A formal feedback program can be an effective tool to gauge how well the departments are serving the customers

and to make needed adjustments to improve service. According to the audited financial statements, fiscal year 2007 plant expenditures totaled approximately \$11.5 million.

WCPS should consider expanding the use of its automated work order system – WCPS uses an automated work order system to assign maintenance work and track completion of assigned tasks. However, WCPS does not use the full capabilities of the system to control costs and assess performance. We noted that although work orders are logged, the estimated cost and hours are not entered in the automated work order system. As a result, actual time and costs were not compared to estimated time and costs of performing routine tasks. Recording and tracking estimated time and costs can assist in the allocation of resources, development of productivity standards, evaluation of staff, and the budgeting and planning processes.

Recommendations

7. WCPS should develop a documented energy management program with stated goals and objectives, and conduct periodic evaluation of the energy and cost savings to determine the effectiveness of the program and to identify areas for further improvement.
8. WCPS should implement a formal training program for maintenance employees to help ensure that maintenance is safely and competently performed. WCPS also should consider expanding the use of its work order system and implementing a formal customer feedback program to assist in evaluating performance and improving operations.

Chapter 8

Transportation Services

WCPS used a number of best practices in an effort to reduce costs and increase efficiency in transporting students. Such practices included use of staggered start and dismissal times so buses can perform multiple runs in the morning and afternoon. Nevertheless, we did note that WCPS does not use its routing software to help develop efficient routes. WCPS also does not use formal performance measures to periodically evaluate transportation operations with an associated report to the Board. In addition, WCPS has not analyzed the cost effectiveness of using a contractor-owned fleet instead of operating its own bus fleet. Finally, WCPS should reevaluate bus contractor payment rates as the rates paid appeared to result in unnecessarily high reimbursements and ensure its bus contractor selection process allows for broad-based competition and complies with all applicable laws and regulations.

Background

WCPS is the fifteenth largest school system in Maryland based on student enrollment. Approximately 12,500 students are eligible for student transportation. WCPS has a contractor owned fleet of 147 buses. Fiscal year 2006 transportation costs totaled \$6.4 million. Of the 1,926,540 reported route miles for the 2005-2006 school year, 14 percent were for transporting disabled students.

Table 4 below shows that WCPS' cost per rider is lower than three of the four school systems that are of comparable size. However, WCPS' cost per mile is the highest among the comparable school systems.

School System	Number of Eligible Riders		Miles (in thousands)		Expenditures (in thousands)	Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
Wicomico Co.	10,366	234	1,660	267	\$6,392	\$603	\$3.32
Cecil Co.	14,760	270	2,080	447	8,113	540	3.21
Allegany Co.	6,137	208	1,335	342	5,112	806	3.05
St. Mary's Co.	16,080	313	2,999	697	10,624	648	2.87
Queen Anne's Co.	7,688	66	1,649	440	4,978	642	2.38
Average of Comparable Schools	11,166	214	2,016	482	\$7,207	\$659	\$2.88

Source: MSDE 2005-2006 Fact Book

Several Best Practices Were In Place to Enhance Student Transportation Services

The WCPS transportation department used several practices to enhance bus operations:

- Staggering school arrival and dismissal times so buses can typically make one run to a middle-high school and one run to an elementary school each morning and afternoon
- Arranging multiple drop-off points to reduce the number of bus runs and increase the number of students transported on each run (for example, transporting middle and high school students together)
- Requesting a peer review by MSDE during which MSDE identified areas of improvement
- Establishing a walking distance policy to determine eligibility for transportation services, and using consolidated bus stops at larger housing developments to reduce the number of bus stops

More Can Be Done To Ensure Cost-Effective Operations

WCPS should use its electronic routing software to assist

developing routes – WCPS purchased electronic routing software in fiscal year 2000. However, WCPS does not use the software to assist in developing more efficient routes. Our review of the use of 50 buses disclosed that the buses were operating at an average of 58 percent of capacity when transporting elementary school students. Improved routing may be able to help reduce student ride times and increase bus utilization and possibly reduce the number of buses needed to transport students. The MSDE peer review also recommended the use of electronic routing software.

Contractor pay should be periodically revised based on

current market conditions – WCPS pays contractors an annual per vehicle allotment (PVA) for each bus. The PVA formula includes reimbursement for the cost of the bus and a flat rate of return on the investment (ROI). WCPS contractors receive the annual PVA payment for the life of the bus or 12 years. However, the cost reimbursement component of the PVA is calculated as if the bus will only be in operation for 10 years. Thus, bus contractors are paid 120 percent of the bus' cost over the life of each bus (10 percent of the cost each year for 12 years). In addition to paying 120 percent of the bus cost, WCPS contractors are paid a flat ROI rate of 9.5 percent annually based on the purchase price of the bus. Specifically, when new buses are purchased, WCPS does not change its ROI to reflect the market interest rate conditions at the acquisition dates. The rate set in the year of acquisition is used to pay the ROI over the life of the bus.

To estimate the financial impact to WCPS of paying 120 percent of the bus cost and using the 9.5 percent ROI over the life of a bus, we calculated the PVA for each of the past 12 years (1997 to 2008) using a 12-year cost reimbursement rate⁵ and the prime interest rate⁶ as the ROI. Compared to our PVA results, WCPS' annual PVA payments per bus were from \$899 to \$4,228 higher than the

⁵ MSDE conducted a peer review at WCPS' request and recommended in Dec. 2006 that the reimbursement for bus costs be paid on the 12-year life of the bus.

⁶ We used the prime rate since this rate was recommended in a November 1999 study commissioned by another Maryland school system. Also, in 1975 an MSDE study recommended the prime rate as a reasonable prevailing interest rate.

payments would have been had the prime rate and a 12-year cost reimbursement rate been used. The effect is that, over the 12-year life of the 108 new buses put into service by contractors since 1996, we estimate that WCPS will pay out approximately \$2.6 million more than if the prime rate and a 12-year cost reimbursement rate had been used. Of the \$2.6 million, \$1.4 million has already been paid out through fiscal year 2008 and, unless changes are implemented, the remaining \$1.2 million will be paid out during fiscal years 2009 to 2019. This analysis does not include the effects for any new bus purchases that may be made after fiscal year 2008 and the lost interest income that could have been earned by WCPS on the excess amounts paid.

Bus contractor selection criteria should be revised – WCPS, like many other Maryland school systems, use an application process to select bus contractors. However, one of the requirements to be a WCPS bus contractor is residency in Wicomico County. WCPS believes this requirement helps promote business within the County. However, this policy restricts competition from bus contractors outside of the County that could provide the needed student bus services. According to an Assistant Attorney General we contacted, this policy may be in violation of State and federal laws dealing with equal protection and privileges and immunities.

Periodic cost benefit analysis should be performed – WCPS had not formally reevaluated its decision to have a contractor-owned bus fleet. WCPS believes that a contractor-owned fleet is beneficial due to the up-front capital outlay to buy buses, the cost to operate maintenance shops, and the personnel-related costs such as healthcare associated with an in-house fleet. However, experiences in other states and Maryland school systems have found that an in-house fleet or even a mixture of an in-house and outsourced fleet may be more cost beneficial.

Formal Performance Measures for Student Transportation Should Be Developed and the Results Reported Regularly to the Board

To monitor performance and ensure accountability, WCPS should develop, track, and report to the Board formal performance measures and related results that provide essential operational and

financial information regarding student transportation services. We were advised that the department has started to track certain operating statistics, which could form the basis of a formal performance measurement system. 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.

Recommendations

9. WCPS should take action to increase cost the effectiveness of student transportation operations, including (a) the use of its electronic routing software to assist in developing more efficient routes, (b) analyzing bus contractors pay (including the ROI and cost reimbursement rates) for reasonableness and adequacy, and (c) performing and presenting to the Board a cost analysis that shows the most appropriate mix of system and vendor provided transportations services. WCPS should also ensure that its bus contractor selection requirements comply with all applicable laws and regulations.
10. WCPS should develop, track, and report to the Board appropriate and reliable performance measures for transportation services and related results.

Chapter 9

Food Services Operations

WCPS has implemented a number of best practices to help reduce food service costs, such as participation in the United States Department of Agriculture (USDA) commodity program and membership in multi-county food-purchasing cooperatives. 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 should seek to improve its cafeteria labor efficiency to ensure it is producing as many meals per labor hour as possible and should allocate indirect costs to food service operations so that the true cost of the operation can be determined. Table 5 below shows that the average cost per meal for WCPS is comparable to that of similarly-sized school systems.

Table 5 Comparison of Cost per Meal Fiscal Year 2006 (Unaudited)					
School System	Total Expenditures	Meals Served			Average Cost Per Meal
		Breakfast (paid, free, and reduced)	Lunch and Snacks (paid, free, and reduced)	Total	
Wicomico Co.	\$5,496,468	604,985	1,302,207	1,907,192	\$2.88
Allegany Co.	5,125,444	438,312	1,177,671	1,615,983	3.17
Cecil Co.	5,326,340	460,143	1,391,787	1,851,930	2.87
Queen Anne's Co.	1,946,119	72,271	630,970	703,241	2.77
St. Mary's Co.	5,168,258	400,754	1,569,763	1,970,517	2.62
Average of Comparable Schools	\$4,391,540	342,870	1,192,548	1,535,418	\$2.86

Sources: MSDE 2006 Data

Background

Thirteen of the 27 WCPS schools have cooking cafeterias. The remaining fourteen schools receive food prepared at another school. For fiscal year 2006, WCPS reported that food service expenditures, without considering indirect costs such as utilities, exceeded revenues by approximately \$136,000.

Table 6
Food Service Facts for Fiscal Year 2006

Average Cost per Meal			\$2.88
Number of Meals Served			
Breakfast			
Paid	147,980		
Free	404,350		
Reduced price	<u>52,655</u>		
		604,985	
Lunch			
Paid	370,565		
Free	747,819		
Reduced price	<u>133,723</u>		
		1,252,107	
Snacks		50,100	
Total Meals Served			<u>1,907,192</u>
Schools			27
Full kitchens/cafeterias			13
Satellite kitchens/cafeterias			14
Full-time employees			76
Part-time employees			84
Revenues:			
Federal			
Cash payments	\$2,913,029		
USDA commodities	<u>249,841</u>		
		\$3,162,870	
Sales		2,021,875	
State aid		<u>175,653</u>	
Total Revenue (all sources)			\$5,360,398
Total Expenditures			<u>5,496,468</u>
Excess of Expenditures over Revenues			<u>\$(136,070)</u>

Sources: WCPS 2006 Audited Financial Statements, MSDE 2006 Data, and WCPS data

Certain Best Practices Were in Place

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

- WCPS participated in the United States Department of Agriculture (USDA) commodities program, which is a free food program. According to WCPS records, \$363,000 in USDA commodities was received in fiscal year 2007.
- WCPS participated in two food cooperatives which includes 12 other Maryland school districts in order to maximize its buying power and reduce food costs.
- WCPS used standard serving sizes and recipes to economize on food purchases.
- WCPS monitored food consumption, adjusted food production, and reheated certain items to reduce waste.

Several best practices were used to encourage participation in the free and reduced-price meal programs – These practices included 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, use of scanning software to process the applications, and direct enrollment for children receiving services from the State Department of Human Resources. WCPS also used an automated point-of-sale system in cafeterias which helps to prevent easy identification of participating students thereby reducing any stigma associated with participating in the program.

Food Service Operations Should Be Reviewed to Determine if Greater Efficiencies Can Be Realized

Like other Maryland school systems, WCPS tracks and monitors meals per labor hour (MPLH) for each school cafeteria. MPLH is an industry recognized measure that is used to determine the amount of staff hours needed based on the number of meals served. WCPS used an average goal of 12 MPLH. WCPS records indicate that they were operating at 13.7 MPLH for fiscal year 2007, which was above WCPS' goal of 12 MPLH. However, one publication about cost

containment for school foodservice operation indicated that, for food service operations similar to WCPS', 18 MPLH could be produced.⁷

The difference between operating at 13.7 MPLH and 18 MPLH for WCPS is significant. For example, WCPS used 148,469 cafeteria staff hours during fiscal year 2007 when operating at 13.7 MPLH. If operating efficiency were increased to 18 MPLH, the cafeteria staff hours could be decreased by 35,392 hours, resulting in annual savings of approximately \$439,000.⁸ Per the audited financial statements, WCPS food service operations reported losses of approximately \$292,000 for fiscal year 2007 and \$136,000 for fiscal year 2006. In addition, our review identified that indirect costs such as utilities and custodial services were not calculated and allocated to food service operations. Thus, WCPS does not know the true cost (extent of actual losses) of the food service operations. WCPS food service operations are accounted for in an enterprise fund in WCPS' financial statements to reflect this as a separate business unit. As such, management should identify all revenues and costs to properly evaluate the food service operations.

Recommendation

11. WCPS should review its cafeteria operations to determine if additional efficiencies can be realized to improve the number of meals produced per labor hour. In addition, WCPS should calculate and allocate indirect costs to food service operations so that the true cost of the food service operations can be determined.

⁷ WCPS set its MPLH goal based on a conventional system. However, WCPS in part uses a convenience system (prepared foods) which require less staff hours.

⁸ Annual savings is calculated by multiplying the average staff cafeteria rate of \$12.43 by 35,392 hours (estimated amount of hours saved).

Chapter 10

School Board Operations and Oversight

Generally, the Board has adequate polices to govern the operations of the school system. The Board meets periodically with the certified public accounting firm to review the results of the audits of the annual financial statements, the school activity fund, the cafeteria fund, and federal funds. In addition, the Board is actively involved in the development of the WCPS annual budget.

Several opportunities exist for the Board to improve operations and oversight. While the Board had developed certain governing policies over WCPS operations, an ethics policy had not been developed and communicated to all employees. The Board should also consider establishing an internal audit function and formal performance measures to assist in its oversight function.

Background

WCPS is governed by a seven-member board appointed by the Governor of Maryland. To assist in its oversight function, the Board has contracted with an independent auditor to conduct independent audits of the WCPS financial statements, federal programs, student activity funds, and cafeteria funds. The Board has established an audit committee which periodically meets with external auditors to discuss audit results.

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

WCPS Mission

The mission of WCPS is to provide all students an educational foundation and a set of skills which will enable them to become responsible and productive citizens in our society.

Vision Statement

Our vision is to educate each student to his or her full potential.

Belief Statements

We, the members of the Wicomico County Board of Education and the Superintendent of Schools, believe the following:

- All students can learn.
- Each student should be challenged to reach his or her full potential.
- The diversity of each individual, including his or her unique and innate characteristics, should be respected.
- Students should be exposed to a wide array of academic, co-curricular and extracurricular experiences.
- Students should experience rigorous content and achieve high standards.
- Each student should acquire a core body of knowledge and a set of definable skills prior to graduation.
- Community based values should be reinforced.
- Parents or guardians should be intimately involved in the education of their children.
- Schools should welcome and encourage parental and community involvement.
- Students benefit when those closest to the action are involved in the decision-making process.
- Continual evaluations of the school system should be made to ensure the effective and efficient delivery of high quality public education.
- Public education should be governed by local boards of education.
- The Maryland State Board of Education, the Maryland State Department of Education and the U.S. Department of Education should be supportive of the local boards of education.

Source: WCPS Website

Certain Oversight Has Been Put in Place Regarding WCPS Operations

The Board uses a number of methods to oversee the operations of WCPS. For example, the Board contracts with an independent certified public accounting firm to perform audits of its financial

statements, student activity funds, cafeteria funds, and federally funded grant program. The Board has also established an audit committee which periodically meets with that firm to review the results. The Board is also actively involved in the development of the WCPS annual budgets.

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

The Board should consider establishing an internal auditor

Function – WCPS does not have an internal auditor reporting to the Board. The use of an internal auditor, independent of direct management, is a recommended best practice of the Government Finance Officers Association (GFOA). The GFOA notes that internal auditors commonly assist management in monitoring the design and proper functioning of internal controls and procedures, and can play a valuable role in conducting performance audits, special investigations, and studies. As cited in this report, our audit identified certain deficiencies in the WCPS system of internal control such as procedures over the approvals of credit card disbursements and security over information technology systems. We also noted that a confidential hotline had not been implemented to enable employees and others to report suspected fraud, waste, or mismanagement. If such a process was established, the internal audit position could conduct the initial investigations of information received via the hotline or direct the information to appropriate officials, such as law enforcement.

The Board should implement financial performance

measures to assist it in managing WCPS – The WCPS budget does not contain specific goals, objectives, and financial-related performance measures. Performance information can assist the Board in overseeing and evaluating the progress of its budget and Master Plan. Examples of useful performance measures may include comparisons such as transportation and facility cost per student, number of school bus accidents, and cost per school meal served. 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 Adopt a Detailed Ethics Policy

WCPS currently uses the Wicomico County Ethics Code to govern employee behavior. However, this policy has not been formally adopted as a Board policy nor has it been distributed to all employees. Also, while the County policy requires certain staff to disclose the receipt of gifts, the policy does not require the filing of annual financial disclosure statements which would help identify and resolve any potential conflicts of interest. During the audit, we reviewed the gift disclosure statements that had been filed and did not identify any issues of audit significance. In auditing other school systems in Maryland, we have noted that the other systems generally have formally adopted ethics policies.

Recommendations

12. The Board should consider the feasibility of establishing an internal audit position and a hotline for the confidential reporting of operational issues and suspected fraud, waste, and mismanagement. The Board should also implement reporting of formal performance measures in key operational areas, such as transportation, food service, and facilities management, to assist in its oversight duties.
13. The Board should adopt a detailed ethics policy that is distributed to all employees, and consider establishing annual financial disclosure requirements for key employees.

Chapter 11

Other Financial Controls

This chapter addresses the management of cash, risk, and long-term debt such as lease/purchase agreements (WCPS is not permitted to issue bonds or other long-term debt instruments to finance capital or operational needs). WCPS had procedures in place to govern its cash, debt, and risk management.

Risk Management Best Practices Were in Place

WCPS has various procedures in place to protect the school system from losses. For example, the Board has issued a risk management policy which requires WCPS to only do business with insurance companies which have at least an "excellent" rating by a national insurance company rating service. WCPS has workers' compensation insurance through its participation in the Maryland Association of Boards of Education Group Workers' Compensation Group Insurance Fund. In addition, WCPS has commercial insurance for all other risks of loss including general liability and accident insurance. The notes to the fiscal year 2007 audited financial statements stated that settled claims had not exceeded coverage in any of the past three fiscal years.

Cash Management Best Practices Were in Place

WCPS has adopted adequate practices to govern cash and investments. For example the Board has issued investment policies restricting the type of allowable investments. In accordance with this policy, WCPS invests in the Maryland Local Government Investment Pool (MLGIP) which is under administrative control of

the State Treasurer. According to the fiscal year 2007 audited financial statements, the MLGIP was rated "AAAm" by Standard and Poor's (their highest rating). The audited financial statements also state that WCPS deposits and investments were fully insured or collateralized at the end of fiscal year 2007.

Recommendations

None

Audit Scope, Objectives, and Methodology

Scope

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Wicomico 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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives

We had two broad audit objectives:

1. To evaluate whether the 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, 2006 through February 28, 2008. For our audit work on revenue and federal grants, we primarily relied on the results of an independent audit of fiscal year 2007 activity; accordingly, our revenue and federal grants work was limited to this period.

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

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

were neither audited nor independently verified by us. Finally, information provided in this report was obtained from various reports readily available during our fieldwork.

Other Independent Auditors

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

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

Limitations of Internal Control

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.

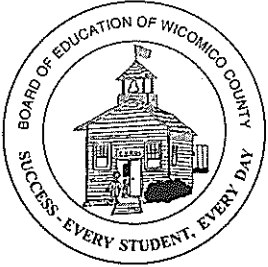
In addition to the conditions included in this report, other less significant findings were communicated to WCPS that did not warrant inclusion in this report.

Fieldwork and WCPS Responses

We conducted our fieldwork from September 2007 to February 2008. The WCPS response to our findings and recommendations is included as an appendix to this report.

APPENDIX

BOARD OF EDUCATION OF WICOMICO COUNTY



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Superintendent of Schools

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December 4, 2008

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

Dear Mr. Myers:

Enclosed please find Wicomico County Public Schools responses to the draft performance audit report recommendations received from your office. As required, we have included in our responses a plan and timetable with implementation dates for each recommendation.

As requested an electronic version was sent to response@ola.state.md.us. If you should have additional questions please feel free to call.

Thank you.

Respectfully,

John E. Fredericksen, Ph.D.
Superintendent

Charles I. Bounds
Assistant Superintendent for Administrative Services

CAB/mcv

cc: Robin Holloway, WCPS Board President

Finance responses to the Maryland Legislative Audits Recommendations

RECOMMENDATIONS:

1. WCPS should ensure that all contracts are properly approved by the Board in accordance with WCPS policy. WCPS should also utilize and retain documents to ensure vendors are paid the correct amount(s) based on agreed upon prices.
2. WCPS should strengthen controls over its credit card program by enforcing its policy that only authorized card holders use the cards and by requiring that all purchases be approved by supervisory personnel. In addition, WCPS should periodically evaluate card usage and limits and make appropriate adjustments.
4. WCPS should develop and implement the procedures to ensure that accountability and effective control is maintained over its equipment.

RESPONSES:

- 1.A. WCBOE Procurement Manager will monitor purchase requisitions to ensure that all purchases comply with COMAR and current Procurement procedures and that all contracts requiring Board approval will be submitted to the Board in a timely manner.
- 1.B. WCBOE Procurement Manager has already modified departmental procedures to retain obsolete price books and any other documentation necessary to support contract pricing as part of the contract file.
- 2.A. WCBOE has established a well defined procurement card program in conjunction with our corporate business partner US Bank. The program was designed to limit and in most cases eliminate the Board's risk of improper expenditures, excess expenditures or fraudulent expenditures, due to lost or stolen cards. The program was also established to comply with the Board's current procurement guidelines. These guidelines are reviewed with cardholders annually to ensure the proper use of all cards. Necessary budgetary controls exist for all procurement card purchases at hierarchical levels sufficient to provide proper supervisory review. The Board's guidelines and controls have been reviewed in detail with the Legislative Auditors.

RESPONSES: (continued)

- 2.B. WCBOE has established an annual process and completed a review in October 2008 of all procard merchant category code assignments and monthly and single transaction limits in order to make adjustments, as necessary, to reduce risk.

4. WCBOE currently has fixed asset accounting guidelines and capitalization policies that comply with generally accepted accounting principles to ensure proper accounting for the addition and disposal of fixed assets. Our guidelines include a requirement that our independent auditors, on an annual basis, physically observe a randomly selected group of fixed assets from our fixed asset database. Current staffing levels do not provide for the ability to perform a complete physical inventory of all fixed assets. However, the Board's implementation of our new ERP software system, IFAS, will provide enhanced ability to track fixed assets in compliance with current guidelines. Complete roll-out of the IFAS system for fixed assets is expected by September 30, 2009.

Human Resources and Payroll responses to the Maryland Legislative Audits Recommendations

Chapter 4 – Human Resources and Payroll

Recommendation #3:

WPS should expand its workforce planning to include non-instructional positions in critical operational units.

Human Resources Response to #3:

The Human Resources Department will include this recommendation with other workforce strategies in the WCPS Master Plan at the next required update of the Master Plan which will occur prior to the end of the school year 2009.

MIS responses to the Maryland Legislative Audits Recommendations

Recommendations:

5. WCPS should implement appropriate security measures to safeguard its applications and data systems, in part through eliminating inappropriate access privileges and capabilities and improving password protection. WCPS should establish environmental controls and safeguards over its computer operations and also should install and use anti-virus software on all of its servers.
6. WCPS should develop and implement a comprehensive disaster recovery plan and ensure that critical back-up files are maintained at a secure location.

Responses:

5. WCPS agrees with the need to implement appropriate security measures to safeguard its applications and data systems. Many security measures and safeguards are in place and we continue to enhance and improve them as time and resources are available. Fire sensors and controls have been installed in the server room area and additional environmental controls and safeguards are planned for installation by December 31, 2009. All WCPS servers have anti-virus software installed and operational to protect against viruses.
6. WCPS agrees with the need to have a disaster recovery plan to ensure continued operation in case of a disaster. There are already in place many components of the disaster recovery plan. WCPS has a secured alternate site with hardware, software, storage, and file backup and recovery procedures. We continue to discuss, plan, and enhance the completeness of our recovery components by June 30, 2010.

Facilities responses to the Maryland Legislative Audits Recommendations

Recommendation 7:

WCPS should develop a documented energy management program with stated goals and objectives, and conduct periodic evaluation of the energy and cost savings to determine the effectiveness of the program and to identify areas for further improvement.

Response:

WCPS agrees with the recommendation. While we agree that more can be done to develop a documented and comprehensive energy management program to encourage conservation it should not be assumed that WCPS does not have in place any energy use standards of practice, tracking of utility costs or maintain operational guidelines or temperature controls within its facilities. In fact over the last several years WCPS has been able to extend its systems to more school locations and improve its monitoring and control capabilities which have resulted in improved operational efficiencies.

While we recognize that there remain opportunities for improvements in this area however, the development of an adopted comprehensive program complete with documentation has been somewhat lacking. Providing the additional resources necessary to develop, implement, manage, monitor and sustain such a program has been difficult given the existing resources available to this effort.

WCPS recognizes the importance of this recommendation and will explore creative ways to address this recommendation within the next budget cycle for FY11. Additional staffing and/or contract support personnel would be necessary to support such an effort.

Recommendation 8:

WCPS should implement a formal training program for maintenance employees to help ensure that maintenance is safely and competently performed. WCPS also should consider expanding the use of its work order system and implementing a formal customer feedback program to assist in evaluating performance and improving operations.

Response:

WCPS agrees with some aspects of this recommendation.

Both the WCPS Maintenance and Operation groups participate in formal safety training programs as part of their operation. While new hire and annual refresher programs are offered, the program as it currently exists could be improved and expanded upon.

While maintenance staff training may not be provided for through formal in-house training, additional training and employee skill development is encouraged and monitored through our annual employee performance evaluation assessment model. Employees are encouraged to develop their annual goals around this objective with the assistance of the Maintenance Group manager. WCPS maintenance workers have the opportunity to make themselves highly skilled individuals

by taking advantage of class offerings from the local community college which is supported through our continuing education benefits program and other programs arranged through various vendor organizations which target specific skill sets related to the unique trade or industry as may be appropriate.

WCPS does nonetheless understand the importance of a highly trained workforce and will continue to provide for the continuous improvement and training of WCPS maintenance employees. Over this next fiscal year (FY10) WCPS will work to incorporate more formal training opportunities and tracking procedures for the maintenance staff.

With regard to expanding the use of the WCPS work order system and implementing a formal customer feedback program again WCPS agrees with some aspects of this recommendation.

While it may be advantageous to have actual and projected cost modeling data to provide feedback to assist the management team in the monitoring the service performance of the teams, WCPS believes the expense associated with providing the additional staff and estimating resources needed to implement and analyze the data may not be a cost effective expenditure at this time. It should be noted that WCPS has just received superior ratings on 3 out of 5 schools that were recently inspected as part of the annual Maryland State School Maintenance Inspection program which provides significant feedback to the WCPS Maintenance program. Also, it is worthy to note, that the data as provided on table 3 "Plant Cost Comparison Per Student and Per Square Foot FY 2006" on page 30 of the report indicates that in FY 2006 WCPS maintained the lowest physical plant cost for services provided when figured on both a cost per square foot and a cost per student basis when compared to comparable schools and the state average.

In response to the issue related to implementing a formal customer feedback program WCPS agrees with the audit recommendation and appreciates the value of customer feedback in the service industry. Beginning spring 2009 the WCPS Facility Service management team will reestablish this practice and develop guidelines for the implementation of a more formal customer feedback program related to our maintenance and operation groups.

Transportation responses to the Maryland Legislative Audits **Recommendations**

Recommendation 9

“WCPS should take action to increase cost effectiveness of student transportation operations, including (a) the use of its electronic software to assist in developing more efficient routes, (b) analyzing bus contractors pay (including the ROI and cost reimbursement rates) for reasonableness and adequacy, and (c) performing and presenting to the board a cost analysis that shows the most appropriate mix of system and vendor provided transportation services. WCPS should also ensure that its bus contractor selection requirements comply with all applicable laws and regulations.”

WCBOE Response to Recommendation 9 (a)

WCBOE agrees with this recommendation. WCBOE has access to Transfinder routing and MapInfo GIS software. Based on current staffing and training needs, WCBOE will commit to a four year plan resulting in the full implementation of electronic routing software for school year 2012-2013.

WCBOE Response to Recommendation 9 (b)

WCBOE agrees with this recommendation. WCBOE is committed to providing safe, adequate, efficient and economical transportation services for students to access their instruction. WCBOE continually evaluates the school bus contractors’ table of rates by comparing its table of rates with the table of rates of seventeen Maryland Public School systems using contracted school bus services. WCBOE also monitors the Bureau of Labor Statistics Consumer Price Index for vehicle parts, labor, maintenance and repair. The impact of fluctuating fuel costs and Federal emissions requirements on the cost of equipment are also monitored. WCBOE continues to explore alternative methods of reimbursing school bus contractors for transportation services.

WCBOE Response to Recommendation 9 (c)

WCBOE agrees with this recommendation. WCBOE will identify alternative methods of providing transportation services. Once identified, each will be evaluated to determine the pros and cons of each method. A recommendation will be made to the Board of Education before July 2010, as to which method or combination of methods best serves the goals and objectives of WCBOE. WCBOE will evaluate the feasibility of securing the services of an outside organization to complete a performance audit on transportation operations and make recommendations.

WCBOE Response to Recommendation 9

WCBOE agrees with this recommendation. WCBOE will consult with legal council to insure bus contractor selection requirements comply with all applicable laws and regulations and report to Board members prior to July 2009.

Recommendation 10

“WCPS should develop track and routinely report to the Board appropriate and reliable performance measures for transportation services and related results.”

WCBOE Response to Recommendation 10

WCBOE agrees with this recommendation. The WCBOE Transportation Office has identified the following “bench marks” to be used to evaluate efficiency of operation:

- Transportation’s percentage of entire operating budget
- Cost per student for regular education and special education
- Cost per bus for regular education and special education
- Cost per mile for regular education and special education
- Number of buses per 100 students
- Average bus route cost for special education routes and regular education routes
- Percentage of school bus capacity utilized base on ridership and eligibility.
- Class B school bus inspection results
- Average ride time for regular routes and special education routes
- Average bus age
- School bus accidents per miles ratio

These performance measures will be presented in written form and/or verbally during a scheduled Board work session during the Fall of each school year beginning Fall 2009.

Food Service responses to the Maryland Legislative Audits
Recommendations

Recommendation:

11. WCPS should review its cafeteria operations to determine if additional efficiencies can be realized to improve the number of meals produced per labor hour. In addition, WCPS should calculate and allocate indirect costs to food service operations so that the true cost of the food service operations can be determined.

Response:

11. **Food Service Operations Discussion Notes – Meals per Labor Hour (MPLH)**

Determining the proper labor hours is being reworked because of the significant changes in hiring a large number of part time employees. Hiring part time employees reduces the cost of health benefits and other fixed charges but it does slightly increase labor hours since most part time employees will work no less than 4 hours per day.

The auditor was given the Wicomico Food Service procedure for determining labor hours in schools. There are no industry standards for determining MPLH and MSDE does not have standards for Food Service departments to utilize. Wicomico satellite schools are not convenience meal systems only which means there is a combination of types of preparations needed for meals in satellite schools vs. prep kitchens. Meals prepared by prep schools for satellite schools require additional labor production in the prep schools. The number of employees needed and the labor hours will be influenced by a number of factors as type of foodservice operation, number of meals to be served at the locations and the menu choices.

The supervisor is currently making changes in the formula used based upon the schools and the menus designed. The formula does not currently include additional labor needed for other programs as Maryland Meals for Achievement breakfast programs and after school snacks. The Food Nutrition Supervisor will provide an updated report to the Board by February 28, 2009 and will continue providing quarterly reports.

She will continue to complete a monthly Statistical Analysis Report disclosing various performance measures by school which is shared with the Finance Department.

We do not agree with adding the indirect costs to the food service budget, although we will continue to monitor these costs to evaluate the effectiveness of the overall program. The food service budget is not a part of the operating budget and is an enterprise account other than a small amount of funds for equipment and the dollars to cover indirect costs. The Board voted in June 2007 to cover the indirect costs for health insurance from the Board's operating budget.

Board responses to the Maryland Legislative Audits Recommendations

Recommendations:

12. The Board should consider the feasibility of establishing an internal audit position and a hotline for the confidential reporting of operational issues and suspected fraud, waste, and mismanagement. The Board should also implement reporting of formal performance measures in key operational areas, such as transportation, food service, and facilities management, to assist in its oversight duties.
13. The Board should adopt a detailed ethics policy that is distributed to all employees, and consider establishing annual financial disclosure requirements for key employees.

Responses:

- 12.A. The Board has discussed the position of an internal auditor through the Board's Audit and Budget Subcommittee. The Board's recommendation is to continue with the auditing committee to serve this purpose. The Board will review annually prior to March 1 the position of an internal auditor.

The Board feels it allows employees and the public many opportunities to share concerns related to operational issues, suspected fraud, waste and mismanagement.

1. The Superintendent conducts a monthly open door meeting
 2. Email comments on Board website (Questions & Answers)
 3. Advisory committee meetings
 4. Board member contact information is posted on the website and is published annually in the employee directory.
 5. Board members are actively engaged in the schools and community and provide ample opportunities for accessibility by the public and employees.
- 12.B. Formal performance measures in transportation, food service, and facilities management have been addressed in each department's responses.
 13. The Board will continue "piggy backing" on the county's ethics policy. Employees are required to do a formal signoff each year and this information will continue to be maintained.

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