

Financial Management Practices Audit Report

Washington County Public Schools

May 2019



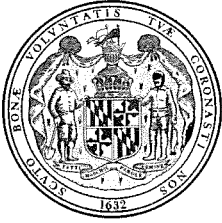
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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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May 14, 2019

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate Shelly L. Hettleman, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Washington County Public Schools (WCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. 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 WCPS needs to improve internal controls and accountability in a number of areas including contracts, payroll processing, and information systems. In the transportation services area, we identified certain practices where there were opportunities for achieving possible cost savings.

Specifically, we found that WCPS continued to receive information systems data backup services from a vendor after the related contract expired, so that WCPS had no recourse against the vendor when a disaster event occurred that resulted in lost data. In addition, there was no process in place to ensure that employee access to critical human resources and payroll functions was appropriate; and certain transactions, such as overtime payments and salary increases, were not subject to supervisory review.

We also identified significant security and control risks that existed within the WCPS computer network. For example, WCPS had not identified and protected sensitive personally identifiable information maintained in one computer system, as we noted over 17,000 unique social security numbers along with names, dates of births, and addresses were stored without

encryption. In addition, monitoring of security activities and password and account controls over a critical system were not sufficient, and WCPS did not have a complete information technology disaster recovery plan for recovering computer operations from disaster scenarios. Furthermore, the intrusion detection prevention system that secures against untrusted traffic entering the network had substantial gaps, and malware protection controls were not sufficient to provide WCPS with adequate assurance that its computers were properly protected.

We also determined that, while certain statistics indicated that WCPS' student transportation costs were lower than several other similarly sized school systems, WCPS could not ensure its methodology for determining payments to its bus contractors resulted in the best value. For example, we estimated that payments to bus contractors for the purchase price and investment return of private buses placed in service since 2013, could have been up to \$643,000 more than necessary. In addition, payments to bus contractors for operational (taxes, utilities, and insurance) and bus maintenance costs were made without determining the appropriateness of the rates based on independently derived estimates. We also found WCPS did not perform a system-wide route analysis, and some bus routes were operating at less than 50 percent of the desired capacity.

Furthermore, we found a lack of comprehensive procedures or internal controls in the areas of cash receipts, equipment, energy use and management, and bus contractor payment processing. In addition, WCPS did not ensure the accuracy of payments to their third-party health plan administrator for administrative fees and stop-loss insurance coverage, which totaled \$2.5 million in fiscal year 2017.

Finally, based on our current audit assessment of significance and risk to our audit objectives, our audit included a review to determine the status of 17 of the 18 findings contained in our preceding audit report. We determined that WCPS satisfactorily addressed 9 of these findings. The remaining 8 findings are repeated in this report.

WCPS' response to this audit is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations, and we will advise the Joint Audit Committee of any outstanding issues that we cannot resolve with WCPS.

We wish to acknowledge the cooperation extended to us during the audit by WCPS, and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

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

Gregory A. Hook, CPA
Legislative Auditor

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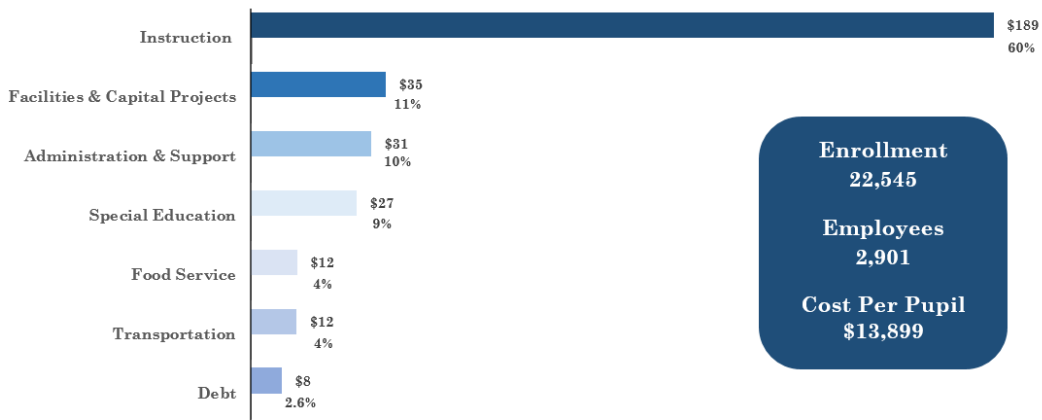
Background Information

Statistical Overview

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Washington County Public Schools (WCPS) ranks 11th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2017 full-time student enrollment was 22,545 students. WCPS has 45 schools, consisting of 26 elementary, 7 middle schools, 1 combined middle/high school, 8 high schools, and 3 other types of schools (an alternative, a special education, and an outdoors center).

According to WCPS' audited financial statements, fiscal year 2017 revenues and expenditures were approximately \$311 million and \$313 million, respectively. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 77 percent of total expenditures during fiscal year 2017. See the chart below for WCPS' expenditures by category in fiscal year 2017 according to its audited financial statements. According to MSDE records, during the 2016-2017 school year, WCPS had 2,901 full-time equivalent positions, which consisted of 1,998 instructional and 903 non-instructional positions.

WCPS' Expenditures by Category and Selected Statistical Data
Fiscal Year 2017
(amounts in millions)



Source: WCPS' Fiscal Year 2017 Audited Financial Statements and MSDE Data

Oversight

WCPS is governed by a local school board, consisting of seven elected voting members and a non-voting student member. The State and Washington County provide the vast majority of WCPS funding. In addition, MSDE exercises considerable oversight through the establishment and monitoring of various financial and academic policies and regulations, in accordance with certain provisions of the Annotated Code of Maryland. MSDE also works with WCPS to comply with the requirements and mandates of federal law. Washington County exercises authority over WCPS primarily through the review and approval of WCPS' annual operating and capital budgets.

External Audits

WCPS engages a certified public accounting firm to independently audit its annual financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of WCPS' federal grant programs (as required by federal regulations). We reviewed the resulting financial statement audit and Single Audit reports for fiscal years 2013 through 2017, and examined the related work papers for fiscal year 2017, which were the latest available at the time we performed our audit fieldwork.

There were similarities between the work of the independent certified public accounting firm that audited WCPS' financial statements and conducted the Single Audit, and the risks and scope of our audit in certain areas. As a result, we reduced the scope of our audit work related to State and local government revenues received via wire transfer, accounts receivable, and federal grant activity.

Status of Findings From Preceding Audit Report

Based on our current audit assessment of significance and risk to our audit objectives, our audit included a review to determine the status of 17 of the 18 findings contained in our preceding audit report dated June 10, 2013. As disclosed in the following table, we determined that WCPS satisfactorily addressed 9 of these findings. The remaining 8 findings are repeated in this report.

Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	Internal controls over cash receipts handled at the Central Business Office were not adequate.	Repeated (Current Finding 1)
Finding 2	WCPS procurement policies did not require competitive procurements for purchases that cost less than \$20,000.	Not repeated
Finding 3	Blanket purchase orders were processed without obtaining bids, documenting prices, and obtaining required Board approval.	Not repeated
Finding 4	WCPS did not properly secure vendor bids and certain bid opening controls were lacking.	Not repeated
Finding 5	WCPS did not ensure the propriety of payments for employee and retiree health care costs.	Repeated (Current Finding 13)
Finding 6	WCPS did not always use a competitive procurement process to obtain stop-loss insurance coverage for its employee health care coverage.	Not repeated
Finding 7	WCPS did not adequately restrict access to its automated human resources and payroll system.	Repeated (Current Finding 3)
Finding 8	WCPS certified sick leave to the Maryland State Retirement and Pension System as unused for the portion that was previously paid to employees upon separation, resulting in increased pension benefits.	Not repeated (Not followed up on)
Finding 9	Internal controls and record keeping over equipment were not adequate.	Repeated (Current Finding 4)
Finding 10	Certain system access, monitoring, and authentication controls were not adequate.	Not repeated
Finding 11	The WCPS network was not properly secured.	Not repeated
Finding 12	WCPS' information technology disaster recovery plan was not comprehensive and backups of several critical network devices were not current.	Repeated (Current Finding 7)
Finding 13	WCPS' energy management program was not sufficiently comprehensive.	Repeated (Current Finding 9)
Finding 14	Certain payments to bus contractors were not based on market conditions or actual cost.	Repeated (Current Finding 11)
Finding 15	WCPS did not verify contractor provided operational data that formed the basis for certain payments to the contractors.	Not repeated
Finding 16	WCPS did not fully use its automated routing software capabilities to develop more efficient routes or formalize certain ridership goals.	Repeated (Current Finding 10)
Finding 17	WCPS had not performed a system-wide cost benefit analysis of outsourcing bus services. Results of WCPS analyses of the cost to operate certain buses indicate that potentially significant cost savings could be identified from the preparation of a system-wide analysis.	Not repeated
Finding 18	Fuel purchases were not always supported or verified prior to payment.	Not repeated

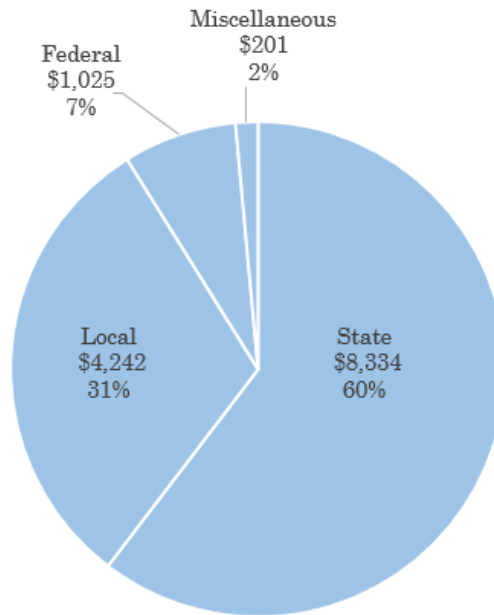
Findings and Recommendations

Revenue and Billing Cycle

Background

Washington County Public Schools (WCPS) revenues consist primarily of funds received from the State, Washington County, and the federal government. According to WCPS' audited financial statements, revenues from governmental sources totaled approximately \$311 million in fiscal year 2017; including approximately \$188 million from the State. See the Chart below for WCPS' revenue sources per enrolled student in fiscal year 2017 according to its audited financial statements.

**WCPS' Revenue Sources Per Enrolled Student
Fiscal Year 2017**



Source: WCPS' Fiscal Year 2017 Audited Financial Statements

In addition, schools collect funds for other purposes such as student activities, clubs, and school publications. Because they are not considered school revenue, these school activity funds are accounted for separately by each school and reported in summary in the audited financial statements. Although this revenue is raised through student-related activities, WCPS has a fiduciary duty to safeguard these funds. For fiscal year 2017, school activity

fund collections totaled \$5.0 million and the June 30, 2017 balance was \$3.4 million.

External Audits

There were similarities between the work of the independent certified public accounting firm that audited the WCPS financial statements and the objectives of our audit of certain revenue activities. As a result, we reduced the scope of our audit work related to State and local government revenues received via wire transfer and accounts receivable, for which the auditor's procedural review and testing disclosed no material weaknesses or significant deficiencies.

Reviews of School Activity Funds

WCPS engaged a consultant to review the student activity funds at each of the schools on an annual basis. This review consisted of evaluating and testing internal controls over cash receipts and disbursements. The results of the consultant's reviews were provided to the Executive Director of Finance. Our review of the consultant's procedures for one elementary, one middle, and one high school disclosed that the reviews were conducted in accordance with Board policies and the *School Accounting Manual*. The *Manual* establishes a uniform method for reporting all receipts, expenditures, and balances related to school sponsored activities. Furthermore, our review of the consultant's findings disclosed that any internal control weaknesses identified were not prevalent. In addition, the consultant's testing did not identify any improprieties.

Finding 1

Adequate accountability and control had not been established over cash receipts, as checks were not always restrictively endorsed, collections were not recorded immediately upon receipt, and there was no independent verification that collections were deposited.

Analysis

WCPS had not established adequate accountability and control over cash receipts, which according to its records totaled \$4.3 million in fiscal year 2017. As a result, assurance was lacking that all collections were properly deposited. Approximately 80 percent of collections were received directly by the Finance Department, with the remainder being received by seven other departments. Collections consisted mostly of checks received through the mail from various government sources (such as the Washington County Board of Education for the school lunch program) and private parties and organizations for health insurance, grants and scholarships, and its schools for expense reimbursements and student activities.

- Collections were not adequately controlled by the seven departments within school system headquarters. The collections, which totaled approximately \$840,000 in fiscal year 2017, were subsequently transferred to the Finance Department. Specifically, six of the seven departments did not record the collections, and four departments did not restrictively endorse checks received immediately upon receipt. In addition, five departments did not adequately secure collections prior to transferring them to the Finance Department, and none of the seven departments received documentation from the Finance Department evidencing receipt when the funds were transferred.
- There was no independent verification to ensure all collections received were deposited. In many cases, such a verification could not be performed because, as noted above, an initial record of collections received was not always prepared. When such a record was prepared, such as for collections received directly by the Finance Department, the record was not used to verify all collections received were deposited. Instead, a Department employee verified that all its deposited funds were properly recorded in WCPS records. Furthermore, not all checks received by the Department were recorded at the time of initial collection. Our test of 10 days of deposits totaling \$1.2 million disclosed that 20 checks from 3 days totaling approximately \$32,000 were not recorded.
- Two Finance Department employees who handled collections, either by recording checks on the log of initial collection or depositing funds, also recorded the related credit entries on accounts receivable records. The collections related to accounts receivables totaled \$1.5 million during fiscal year 2017.

Similar conditions regarding the failure to record and restrictively endorse checks immediately upon receipt, segregate collection and accounts receivable duties, secure and document the transfer of funds, and perform independent deposit verifications were commented upon in our preceding report. These controls are necessary to protect collections and ensure all amounts received are deposited.

Recommendation 1

We recommend that WCPS

- record all collections immediately upon receipt (repeat);**
- restrictively endorse all checks immediately upon receipt (repeat);**
- document the chain of custody when transferring collections to other departments (repeat);**

- d. ensure proper separation of duties over cash collections, deposit preparation, and accounts receivable functions (repeat); and
- e. independently verify that all collections were subsequently deposited through the comparison of the initial receipt of collection and validated deposit documents.

We advised WCPS on accomplishing the necessary separation of duties using existing personnel.

Federal Funds

Background

WCPS receives funds pertaining to federal government programs that are generally restricted for use for a specific program (such as the School Lunch Program or Special Education). According to the audited Schedule of Expenditures of Federal Awards, fiscal year 2017 expenditures totaled \$21.9 million, not including federally funded fee-for-service programs such as Medicaid reimbursement for special education services.

Single Audit Report Disclosed No Reportable Conditions Regarding Federal Grant Management

Due to the work performed by the independent certified public accounting firm that conducted the Single Audit of WCPS' federal grants and the objectives of our audit in this area, we reduced the scope of our audit work related to federal grants. Besides expressing an opinion on WCPS' compliance with the terms of several grant programs, the auditors also considered the existing internal control structure's impact on compliance and audited the required Schedule of Federal Awards (which includes claimed and reported grant expenditures) for fiscal year 2017. The related reports stated that WCPS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with, and the operation of, major federal programs, the auditors did not identify any material weaknesses or significant deficiencies.

Medicaid Funds for Eligible Services

Medicaid is an entitlement program for which certain service costs can be reimbursed to WCPS. Medicaid activity is not covered by the Single Audit of federal grants. According to the audited financial statements, WCPS received approximately \$1.3 million in Medicaid funding during fiscal year 2017. Based on our current audit assessment of significance and risk, we did not perform any audit work in the area of Medicaid-subsidized services.

Procurement and Disbursement Cycle

Background

According to WCPS records, operating, non-payroll disbursements totaled \$69 million during fiscal year 2017. Requisitions for goods and services are manually generated by the requesting department and must be approved by supervisory personnel (such as the respective department head or principal). The Procurement Department creates all purchase orders from approved requisitions. Board approval is required for purchases exceeding \$50,000, except for school buildings, improvements, supplies, and equipment that require Board approval when exceeding \$25,000. All invoices are submitted by vendors directly to the Finance Department. The receipt of goods and services is confirmed by the requesting department, before payments are processed by the Finance Department using an automated system that prints vendor checks and posts the payments to the financial records.

Finding 2

WCPS paid a vendor to perform data backup services for its student information system without a properly executed contract for more than two years. Consequently, WCPS' interests were not adequately protected when a disaster event occurred at its datacenter.

Analysis

WCPS paid a vendor to perform data backup services for its student information system without a properly executed contract for more than two years. Specifically, during the period from January 2016 to June 2018, WCPS paid the vendor \$114,000 without an executed contract. Prior to January 2016, WCPS had contracted with this vendor for the same services since September 2011. The prior contract did include certain insurance provisions, but they were inadequate as WCPS was not named as an insured party. Additionally, since the contract was expired, the insurance was no longer in effect. Moreover, WCPS failed to include other contract provisions (such as, liquidated damages penalty) designed to ensure vendor compliance and protect WCPS against damages due to data loss resulting from the vendor failing to perform required data backups.

This situation became significant, because in April 2018 WCPS experienced a disaster event at its datacenter resulting in lost data, including grades, attendance data, class schedules, disciplinary incidents, and other critical student personal identifiable information. Although WCPS was not monitoring the performance of the backup function, after the disaster, WCPS determined that data backups were not performed by the vendor for the 85 days prior to the disaster. WCPS was eventually able to restore a substantial portion of the

lost data from another data storage medium. However, certain data (such as student grades for 19 school days in the fourth marking period) had to be manually re-entered by teachers or substituted with grades from the third marking period. Additionally, the student information system was unavailable for a 25-day period. In a public statement released by WCPS, it acknowledged the impact of the loss of data on the reliability of grades and loss of system use by students, parents, and guardians. WCPS also stated that student information was not compromised and that it was taking appropriate steps to prevent this situation from reoccurring.

We were advised by WCPS legal counsel in June 2018 that, in addition to the cost of repairing and replacing equipment, damages from the disaster include an estimated \$84,000 in additional payroll expenses for teachers and secretaries to restore grades. We were also advised that a claim would be filed with the Maryland Association of Boards of Education's insurance program to recover the damages, minus a \$10,000 deductible.

Recommendation 2

We recommend that WCPS ensure

- a. contracts are properly executed and monitored and contain sufficient clauses to protect WCPS' interests; and**
- b. the cost of the damages identified above be recovered, to the extent possible.**

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the WCPS budget. According to WCPS records, fiscal year 2017 salary, wage, and benefit costs were approximately 77 percent of the total operating expenditures. According to Maryland State Department of Education reports, during the 2016 – 2017 school year WCPS had 2,901 full-time positions, which consisted of 1,998 instructional positions and 903 non-instructional positions.

WCPS uses an automated system to maintain human resources information, record employee time, track leave usage, and to process and record payroll transactions. Employees submit attendance reports bi-weekly and leave is recorded and adjustments are processed on the system by central payroll personnel. The system also generates payroll checks and direct deposit advices.

Finding 3

WCPS did not ensure that employee access to its human resources and payroll system was appropriate. Additionally, critical human resources and payroll transactions were not independently reviewed for propriety.

Analysis

WCPS did not ensure that employee access to its human resources (HR) and payroll system was appropriate. Additionally, critical HR and payroll transactions were not independently reviewed for propriety.

- WCPS did not periodically review system access to ensure access to critical HR or payroll capabilities assigned to employees was appropriate. Our review of critical HR or payroll access capabilities (such as changing employee salary information or leave balances) assigned to 15 employees disclosed that 6 of these employees had unnecessary access.
- A documented independent supervisory review of critical HR and payroll transactions, such as hiring and terminating employees, salary increases and recording benefit and direct deposit information, was not performed. Specifically, although the recording of transactions in the HR and payroll system was reviewed by supervisory personnel, such reviews were not always independent and/or based on a review of source documents. Additionally, payroll adjustments were not subject to any supervisory review. Specifically, one employee was responsible for calculating and entering payroll adjustments (such as overtime, summer school, vacation and sick leave payouts), valued at \$2.4 million in fiscal year 2017, without supervisory review or approval. Furthermore, a report of critical HR and payroll transactions and adjustments was not generated for supervisory review.

Our test of payroll transactions and adjustments, including those processed by the 6 employees with unnecessary access, did not disclose any inappropriate or erroneous transactions. Similar conditions regarding the assignment of system access capabilities and the lack of supervisory review and approval of critical transactions were commented upon in our preceding audit report.

Recommendation 3

We recommend that WCPS

- a. periodically (such as annually) review human resources and payroll system capabilities assigned to employees to ensure critical system functions are assigned to employees who need those capabilities to perform their job duties, and remove any unnecessary employee access (repeat); and**

- b. **generate a system report to perform a documented independent supervisory review of all critical human resources and payroll transactions and adjustments to ensure that they are appropriate and properly supported (repeat).**

Equipment Control and Accountability

Background

According to WCPS audited financial statements, the undepreciated value of its capital equipment inventory totaled approximately \$54.2 million as of June 30, 2017. WCPS maintains centralized automated records to track equipment inventory with a cost of \$1,000 or more (including assets capitalized for financial statement purposes).

Finding 4

WCPS had not established comprehensive equipment policies and adequate recordkeeping practices and controls over equipment.

Analysis

Although WCPS had established written equipment policies and procedures, they were not comprehensive and appropriate recordkeeping practices and controls were not in place that would ensure adequate accountability over its equipment inventory. Specifically, WCPS capital equipment policies did not include specific requirements for conducting annual physical inventories, investigating missing items, reporting lost or stolen items, and separating the duties of equipment custody, inventorying, and recordkeeping. Further, while the current policy requires equipment with a cost of \$1,000 or more to be capitalized for financial reporting purposes, it did not address the subject of sensitive items or establish related recordkeeping requirements. Sensitive items, often cost less than \$1,000, but are subject to theft (such as laptops and certain information technology equipment).

- One employee was primarily responsible for recording additions, disposals, and adjustments for capital equipment items on the automated equipment records, and a documented independent supervisory verification of the entries to supporting documents was not performed. Specifically, we were advised that although system reports of the transactions entered were generated, they were reviewed by the same employee who made the system entries and were not retained on file.

- WCPS' physical inventory of capital equipment did not include all locations. Specifically, no inventory was performed at its headquarters and transportation facilities, which had recorded assets (valued over \$1,000) totaling \$35 million during fiscal year 2017. In addition, WCPS did not always adequately investigate the differences between physical counts and the detail records to determine the disposition of missing equipment. For example, our review of 10 missing items totaling \$26,600 from the May 2017 inventory disclosed that 4 items totaling \$5,000 had not been pursued and resolved a year later.
- Although WCPS' Information Technology Department maintains a database of all computers, tablet/notebook devices, and televisions purchased or leased centrally through its primary vendor, it does not include such items purchased by individual schools. Further, while the database includes certain information such as make, model and serial number, it does not include the purchase date and cost of the items. For example, the database lists over 24,000 tablet/notebook devices as of May 2018, which includes 9,800 tablet/notebook devices leased during fiscal year 2017 at a cost of \$4.5 million and 5,000 tablet/notebook devices purchased during fiscal years 2016 and 2017 for \$2.1 million.

As a result of the deficiencies cited above, equipment could be lost or misappropriated without detection. A similar condition regarding the lack of adequate policies and procedures governing sensitive equipment was commented upon in our preceding audit report.

Recommendation 4

We recommend that WCPS establish policies and procedures to ensure accountability and control over its equipment inventory. Specifically, we recommend that WCPS establish a comprehensive policy, that includes sensitive equipment, with specific requirements such as conducting periodic physical inventories at all locations, investigating missing items, separating recordkeeping duties, and recording equipment information (including cost and purchase date) in the detail records (repeat).

Information Technology

Background

WCPS' Information Technology Department maintains and administers the WCPS computer network, computer operations, and information systems applications. WCPS operates a wide-area network, with Internet connectivity. The WCPS network connects the individual schools with the WCPS' primary

data center and an additional secondary data center for disaster recovery purposes, which contains additional network equipment and servers used to support WCPS' operations.

Finding 5

Sensitive personally identifiable information (PII) maintained by WCPS was stored without adequate safeguards.

Analysis

Sensitive PII maintained by WCPS was stored without adequate safeguards. Specifically, we reviewed one application and determined that as of February 2018 one table within WCPS' Food and Nutrition database contained 17,157 unique student social security numbers stored in clear text along with associated names, dates of birth, and addresses. In addition, we were advised that this sensitive PII was not protected by other substantial mitigating controls. Furthermore, WCPS had not performed an inventory of its systems to identify all stored sensitive PII, determined if it was necessary to retain the PII, and deleted PII identified as unnecessary.

PII is commonly associated with identity theft and typically includes demographic information for individuals such as name and social security number, address, and date of birth. Accordingly, appropriate information system security controls need to exist to ensure that such confidential information is safeguarded and not improperly disclosed. Best practices identified in the State of Maryland *Information Security Policy* state that confidential data should be protected using encryption and/or other substantial mitigating controls.

Recommendation 5

We recommend that WCPS

- a. perform an inventory of its systems, identify all stored sensitive PII, and delete all unnecessary PII; and**
- b. use approved encryption methods or other substantial mitigating controls to properly protect all necessary PII.**

Finding 6

Security activity monitoring, password controls, and database software maintenance for the WCPS student information system were not sufficient.

Analysis

Security activity monitoring, password controls, and database software maintenance for the WCPS student information system were not sufficient.

- The student information system database was not configured to log any database security activity except for failed account logins. Furthermore, direct changes to certain critical student information system database tables containing grades or demographic information were not logged for monitoring purposes. These conditions precluded the effective monitoring of security events applicable to the student information system.

Best practices identified in the State of Maryland *Information Security Policy* require that information systems generate audit records for all security-relevant events, including all security and system administrator accesses. In addition, procedures must be developed to routinely (for example daily or weekly) review audit records for indications of unusual activities, suspicious activities, or suspected violations, and to report findings to appropriate officials for prompt resolution.

- Password controls over WCPS' student information system application did not meet the minimum recommended settings in the State's *Information Security Policy*. For example, password aging, length, and complexity control settings were either not enforced or did not provide a sufficient level of security for many of the WCPS' student information system application's user accounts.
- The student information system application database was running a software version that was no longer supported by the database vendor. Specifically, the database software version in use as of January 2018 had not been supported by the vendor since October 2015. As a result, the database vendor was no longer monitoring or issuing patches for newly discovered security vulnerabilities for the database software in use. This out-of-date database software may expose WCPS to security vulnerabilities discovered since the date vendor support ended.

Recommendation 6

We recommend that WCPS, in conjunction with the system vendor, as necessary,

- a. set the student information database to log all critical security related events, regularly review these logs, document these reviews, and retain this documentation for future reference;
- b. establish password controls over the student information system application that comply with the recommended controls prescribed by the State's *Information Security Policy*; and
- c. ensure that all databases are fully supported by the database vendors and kept current for all critical security-related updates.

Finding 7

WCPS did not have a complete information technology (IT) disaster recovery plan (DRP) for recovering computer operations, and had not properly monitored a vendor responsible for certain IT backup operations immediately before a disaster event occurred.

Analysis

WCPS did not have a complete information technology DRP for recovering computer operations from disaster scenarios (for example a fire), and had not properly monitored a vendor responsible for certain IT backup operations before a disaster event occurred.

- WCPS' DRP did not address several of the minimum best practice requirements contained in the State of Maryland *IT Disaster Recovery Guidelines*. For example, the WCPS DRP did not contain an alternate processing site, listings of needed hardware and software, or a prioritized applications schedule. In addition, the DRP had not been tested. Without a complete and tested DRP, a disaster could cause significant delays (for an undetermined time period) in restoring information systems operations above and beyond the expected delays that would exist in a planned recovery scenario. A similar condition was commented upon in our preceding audit report.
- WCPS relied upon a vendor to perform regular backups of its student information system environment. As previously mentioned in Finding 2, WCPS experienced a disaster event at its datacenter in April 2018, which resulted in a loss of certain information from its student information system. From reviewing related recovery efforts, we determined that WCPS had not properly monitored and tracked resolution of known issues for the vendor's backup services performed. Data storage backup

procedures are cited in the aforementioned *Guidelines*, are critical to a DRP for recovery efforts and, as such, should be regularly monitored to confirm successful completion.

Recommendation 7

We recommend that WCPS

- a. **develop and implement a comprehensive DRP that includes the provisions of the aforementioned *IT Disaster Recovery Guidelines* (repeat);**
- b. **periodically test the DRP, document the testing, and retain the documentation for future reference; and**
- c. **regularly review data storage backup operations to ensure that all critical data are successfully backed up, with such reviews being documented and retained for future reference.**

Finding 8

Intrusion detection prevention system coverage for the WCPS network had substantial gaps, and malware protection controls were not sufficient to provide WCPS with adequate assurance that its computers were properly protected.

Analysis

Intrusion detection prevention system (IDPS) coverage for the WCPS network had substantial gaps, and malware protection controls were not sufficient to provide WCPS with adequate assurance that its computers were properly protected.

- IDPS coverage did not exist for substantial amounts of untrusted traffic (both unencrypted and encrypted) entering the WCPS network. For example, neither server host-based intrusion prevention system (HIPS) coverage, nor network device decryption and inspection coverage occurred for encrypted traffic. We identified 13 firewall rules that allowed traffic from any source to 17 unique WCPS network destinations via encrypted methods without IDPS coverage. The absence of IDPS coverage for untrusted traffic entering the network creates network security risk as such traffic could contain undetected malicious data.
- WCPS did not have malware protection software installed on all of its active computers. Our review determined that per agency records, as of June 2018, WCPS operated 2,698 computers using a specific operating system, which did not have malware protection software installed.

- Local administrator rights were not properly restricted. For a certain WCPS building location, 47 of 63 active workstations tested were configured to allow an extensive number of WCPS employees to be improperly defined as local administrators. Specifically, for these 47 workstations, we found that administrative rights were ultimately granted to approximately 4,600 employees on the 47 workstations. Administrative rights are the highest permission level that can be granted and allow users to install software and change configuration settings. As a result, if these workstations were infected with malware, the malware would run with administrative rights and expose these workstations to a greater risk of compromise.

Best practices stated in the State of Maryland's *Information Security Policy* require protection against malicious code and attacks by using IDPS to monitor system events, detect attacks, and identify unauthorized use of information systems and/or confidential information. The *Policy* also states that agencies, at a minimum, must protect against malicious code (viruses, worms, Trojan horses) by implementing anti-malware solutions that, to the extent possible, include a capability for automatic updates. Industry best practice also recommends that workstation accounts for regular employees (non-administrators) run with standard user rights to lessen the risk of compromise from malware.

Recommendation 8

We recommend that WCPS

- a. perform a documented review and assessment of network security risks and identify how IDPS coverage (which may include HIPS) should be best applied to the network and, based on this review and assessment, implement the necessary coverage;**
- b. ensure that malware protection software is installed and maintained on all managed computers; and**
- c. limit administrative privileges on workstations to only to those individuals required to have such capabilities for their job responsibilities.**

Facilities Construction, Renovation, and Maintenance

Background

WCPS maintains 49 schools and other administrative and support offices with a staff of 197 custodial and 35 maintenance personnel. According to the fiscal year 2019 Capital Improvement Plan (CIP), planned construction, major renovations, and systemic improvements to WCPS facilities over the next five

years (fiscal year 2020 through fiscal year 2024) are estimated to cost \$69 million.

WCPS Capital Projects Were Competitively Procured and Related Expenditures Were Generally Properly Supported

Our review of nine construction-related procurements during fiscal years 2014 to 2017 totaling approximately \$29.6 million disclosed they were competitively procured and were properly awarded. Our test of 16 invoices totaling \$9.9 million for these contracts disclosed that generally, the invoices were properly reviewed and approved and the amounts invoiced were in accordance with the related contract terms.

Processes are in Place to Support Maintenance of Facilities

WCPS has processes in place to maintain the physical condition and functionality of its schools and facilities. For example, WCPS provides scheduled and preventive maintenance of its buildings and equipment and monitors its equipment to prevent emergency repairs.

Finding 9

WCPS' energy use and conservation program was not comprehensive.

Analysis

WCPS did not establish goals for energy cost savings, document efforts to control and reduce energy costs, evaluate cost savings related to electricity purchases, and document energy audits. WCPS does use energy management systems to monitor heating and air conditioning systems and control temperature settings, has a dedicated energy program coordinator, has written policies that encourage both students and employees to limit energy use, and requires semi-annual energy audits of its facilities. However, WCPS did not develop specific goals for its energy management program (such as, reducing energy consumption by a specified percentage), establish a necessary baseline of all energy usage of its buildings on which to measure attainment of goals, in order to support strategies to reduce the use of energy as required by its policy, or establish the scope of the facility energy audits. When we questioned WCPS management about the status of its energy audits, WCPS was only able to provide us with one report that covered recent facility site visits for energy audits. The report did not indicate that all its schools had been visited for audit or document any corrective actions taken as a result of the audits. Similar conditions were commented upon in our preceding audit report. According to WCPS records, energy costs totaled approximately \$4.9 million during fiscal year 2017.

Recommendation 9

We recommend that WCPS

- a. develop a comprehensive energy management program that includes specific goals (repeat);**
- b. establish a baseline to measure, monitor, and evaluate the progress of its energy cost savings; and**
- c. conduct and document all required energy audits, and prepare related reports describing the audit scope and the monitoring efforts related to any identified corrective actions (repeat).**

Transportation Services

Background

WCPS has approximately 19,100 students eligible to receive student transportation services. These students were transported on 132 school system-owned buses and 57 contractor-owned buses during fiscal year 2017. According to WCPS' audited financial statements, fiscal year 2017 transportation costs totaled \$11.8 million, with \$3.2 million (27 percent) representing payments for contracted bus services. WCPS reported that 3.1 million route miles were traveled to transport students for the 2016-2017 school year. According to statistics compiled by the Maryland State Department of Education (MSDE), WCPS had the lowest fiscal year 2017 transportation costs per mile (\$3.81) and per rider (\$615) when compared to four other similarly sized school systems.

Payments to bus contractors consist of amounts for the purchase of a bus (known as a per-vehicle allotment or PVA, intended as reimbursement for the cost of a bus and a flat rate for return on investment), hourly reimbursements for drivers, a per-mile operation (fuel) and maintenance fee, and an annual operations and administrative fee. WCPS bus contracts are for an initial 6-year term with the option to renew each year thereafter over the 12-year useful life of the bus, unless terminated by either party by giving 60 days written notice.

Finding 10

WCPS had not established comprehensive bus routing procedures and did not periodically perform a system-wide analysis of routes and related bus capacities to maximize efficiency.

Analysis

WCPS had not established comprehensive bus routing procedures and did not periodically perform a system-wide analysis of routes and related bus capacities to maximize efficiency.

Lack of Comprehensive Bus Routing Procedures

WCPS had not established comprehensive bus routing procedures that specified target bus capacities, ridership goals, and student ride-time limits. When we inquired about the existence of comprehensive bus routing procedures, WCPS provided us with an October 2012 document listing target bus capacities and student ride-time goals. However, this document did not appear to be formal policy that had been approved by the Board. Additionally, current Transportation Department employees responsible for establishing bus routes were not using the target bus capacities and student ride-time goals listed on the October 2012 document. For example, according to the October 2012 document, a 70-passenger bus should be limited to 64 elementary students and the maximum ride-time goal was no more than one hour. However, we were advised by two different Transportation Department employees, that for the same size bus, they used different limits of 55 and 60 elementary students, and the ride-time goal was 50 minutes.

Lack of Periodic System-Wide Route Analysis

WCPS did not periodically perform a system-wide analysis of bus routes and related bus capacities to maximize the efficiency of its bus routes and address bus routes with low ridership. In addition, although WCPS has an automated bus routing software tool, it did not fully use this tool to calculate alternative routes, consolidate routes, or stop consolidations that may reduce costs. Transportation Department staff advised us that it attempted to use the software in 2015 to optimize bus routes, but could not achieve acceptable results in the rural parts of the county since the ride times were too long. However, this effort was not documented. Instead, WCPS continued to use a manual process to plan, review, and revise bus routes and did not document how this manual process ensured that all appropriate factors (such as, ride time, bus capacities) were considered for meeting its goals.

Our analysis of the routing system data disclosed that there might be opportunities to increase ridership on certain bus routes. Our review of 406 regular routes (we included rural routes, but excluded certain special runs) for

the 2017–2018 school year, disclosed that 173 routes were designed to transport students at less than 75 percent of customary capacity goals; including 64 routes that transported students at less than 50 percent of the capacity goals based on bus sizes¹. We reviewed 32 of these routes with Transportation Department personnel who agreed that 6 of the routes should be combined with other existing routes, while 4 other routes had incorrect student ridership data making analysis problematic. For the remaining 22 routes, WCPS had reasonable explanations (such as, routes were to transfer students to specialized schools) for the ridership being below its capacity goals. While we recognize that Washington County includes large rural areas, which can make it difficult to meet target capacities (which have not been formally established) in all cases, our analysis included all regular routes, so the buses cited were not isolated to only rural regions of the country.

A similar condition was commented upon in our preceding audit report.

Recommendation 10

We recommend that WCPS take steps to use buses more efficiently.

Specifically, we recommend that WCPS

- a. develop detailed policies and procedures to provide guidance for determining and revising bus routes (repeat) that include Board approved bus capacities, ridership goals, and student ride time limits; and**
- b. document its use of its automated routing software to develop system-wide efficient bus routes that ensure capacity goals are met to the extent practical (repeat).**

Finding 11

Certain elements used to calculate WCPS' payments to bus contractors did not consider market conditions, actual costs, or were not properly documented.

Analysis

Certain elements used to calculate WCPS' payments to bus contractors did not consider market conditions, actual costs, or were not properly documented. Our review of the contract payments disclosed the following conditions:

¹ It is customary for school bus capacities to be lower than manufacturer stated capacities and differ depending on the school level. For example, in Maryland school systems the capacity for high school and elementary school routes is often 48 and 55 students, respectively based on 72-passenger buses (manufacturer stated capacity). The capacity goals used for our test were developed with the agreement of WCPS Transportation management.

- Although WCPS transportations costs were lower than certain similarly sized school systems, WCPS may be able to achieve further costs savings. For example, WCPS' basis for the annual return on investment (ROI) used in the PVA payment formula was higher than the ROI suggested by certain studies². ROI provides a financial return for the contractor investing in the purchase of a bus instead of another investment option over the 12-year life of the bus. WCPS' payment formula resulted in a ROI that ranged from 6.72 to 7.81 percent for the 30 buses placed in service by contractors from fiscal years 2013 through 2018. Each ROI also included an operations fee element of \$5,200.

If WCPS would have used an ROI methodology based on the recommendation of a consultant hired by another Maryland school system, we estimated that its annual PVA payments for each of the 30 buses would have ranged from \$939 to \$2,251 lower. Over the 12-year life of those buses, this means that WCPS could have paid out approximately \$643,000 more than if actual costs and a reasonable ROI had been used. Our calculation considered the actual cost of purchasing a bus (excluding the operations fee) and the prime rate (which ranged from 3.25 percent to 4.25 percent) plus 2 percent as recommended by the consultant, compared to the ROI used by WCPS during that period.

- WCPS could not document the reasonableness of the annual operations fee element of \$5,200 per bus it added to the PVA calculation. WCPS advised us that the operations fee element was intended to cover the bus contractors costs for taxes, buildings, utilities, insurance, substitutes, inspections, and other administrative and managerial functions. However, WCPS did not document the cost estimates used for these individual cost components. For the 12-year lives of the 30 buses placed into service during fiscal years 2013 to 2018, the operations fee element will total \$1.9 million.

² There is no generally agreed upon formula or method for determining ROI. In 1975, an MSDE study recommended the prime rate as a reasonable ROI interest rate. The prime rate is actually a lending rate that nearly always exceeds the available market investment rate; therefore, it was deemed reasonable for the ROI calculation. The use of the prime interest rate was again recommended in a November 1999 study commissioned by another local Maryland school system. In 2012, another school system's consultant's report recommended the prime rate plus 2 percent as a reasonable ROI, which serves as the basis for our calculations. In WCPS' case, the use of prime plus 2 percent indicated that its various ROIs were still potentially excessive. Finally, a May 2010 MSDE PVA Workgroup commented that the profit (or ROI) to be included in the PVA should reflect what a reasonable investor or businessperson would expect on a long-term investment, and not necessarily the prime rate. Under that assumption, we noted that as of January 2018, the current 10 and 30-year US Treasury Note rates, which could be reflective of a reasonable long-term investment option, were 2.5 and 2.8 percent, respectively.

- WCPS could not show that the \$0.72 to \$0.76 per-mile fees paid to reimburse bus contractors for maintenance costs during fiscal years 2013 to 2018 were reasonable. Specifically, WCPS had not established a means for documenting the appropriateness of the rates based on independently derived estimates.

In fiscal year 2017, WCPS paid \$787,000 to reimburse bus contractors for maintenance costs based on a rate of \$0.76 per mile. However, WCPS paid \$0.65 per mile to maintain its system-owned buses. If the maintenance rate for system-owned buses was applied to the total fiscal year 2017 contractor mileage, the costs would have been \$676,000 (or \$111,000 less than actually paid). While the system-owned bus rate is not necessarily comparable to a contractor's cost, the difference suggests that there could be an opportunity to reduce contractor maintenance payments if actual cost data were considered.

- Although the standard contracts that WCPS executes with its bus contractors include a provision that establishes the right of WCPS to set rates and allows contractors to submit audited financials to resolve disputes, it did not include a right to audit provision. Such a provision would allow WCPS to verify the contractor's actual costs of purchasing and maintaining the buses when negotiating the PVA, hourly reimbursements for drivers, the per-mile maintenance fee, fuel costs, and the annual administrative fees. The State of Maryland has established a preference in regulation that all contracts require contractors to make their records available for audit by authorized representatives of the state at all reasonable times.

Similar conditions regarding payments to bus contractors not being based on market conditions or actual costs were commented upon in our preceding audit report.

Recommendation 11

We recommend that WCPS ensure that the bus contractor payment methodology has a documented and justified basis. Specifically, we recommend that WCPS

- a. use a reasonable market investment rate as a basis for establishing contractor rates for the annual PVA (repeat);**
- b. use actual bus operating costs or develop supportable cost estimates, through a comprehensive study, as the basis for establishing contractor rates for the operations fee and the per-mile maintenance costs (repeat); and**
- c. include a right to audit provision in its bus contracts.**

Finding 12**Payments to bus contractors were not adequately verified for accuracy.****Analysis**

Payments to bus contractors were not adequately verified for accuracy. Specifically, data (such as, route miles, time, PVA, and adjustments) entered into the Transportation Department's management system that is used as the basis for payments to bus contractors was not independently verified for accuracy and support. Consequently, there was a lack of assurance that payments to bus contractors were accurate. According to WCPS financial records, payments to bus contractors totaled \$3.2 million in fiscal year 2017. Our test of payments to 15 bus contractors totaling \$84,000 and 9 payment adjustments totaling \$24,000 did not disclose any inappropriate or erroneous payments.

Recommendation 12

We recommend that an employee independent of the payment processing verifies the accuracy of bus contractor payments, by performing a documented comparison of the amounts paid to supporting documentation.

Food Services**Background**

WCPS has a cooking cafeteria at 18 of its schools. Food and related supplies are received and stored in each school. In fiscal year 2017, WCPS had 138 cafeteria positions (consisting of 135 cafeteria positions and 3 administrative positions). According to its 2017 audited financial statements, WCPS' food services operation revenues exceeded food service operation expenditures by \$270,700.

According to MSDE records, 45 percent of WCPS' students qualified for free and reduced-price meals as of October 31, 2017. Additionally, WCPS participates in the federal Community Eligibility Program (CEP) for 11 of its schools, which allows schools that are in high poverty districts to serve meals to all students at no cost without collecting applications for free and reduced-price meals. Through CEP, WCPS is reimbursed for meals using a formula based on the percentage of students eligible for free meals because of their participation in other specific means-tested programs (such as the Supplemental Nutrition Assistance Program and Temporary Assistance for Needy Families). WCPS is currently reimbursed for 37 percent of its cost through CEP at its 11 participating schools.

Cash Handling Procedures Were Established for Cafeteria Sales

WCPS' Board of Education has a responsibility to ensure that cafeteria sales are appropriately controlled, recorded, and safeguarded. WCPS' *Food & Nutrition Services Cash Register Procedures* manual provides a uniform policy for the handling of all cafeteria sales. The *Procedures* outline responsibilities for meal counting, collections and reporting, and deposits that are applicable to every school.

Since food service operation revenues exceed expenditures, 45 percent of its students qualify for free and reduced-price meals, and WCPS participates in CEP, we did not audit the food service operations.

School Board Oversight

Background

The Washington County Board of Education (the Board) is composed of seven elected members and one non-voting student representative. In its oversight responsibilities, the Board contracted with a certified public accounting firm for independent audits of the WCPS financial statements and federal programs. The Board is organized into five committees having oversight responsibilities for specific functional areas: Curriculum, Facilities, Finance, Human Resources, and Policy. Additionally, the Board is supported by several citizen advisory committees, which provide the Board with recommendations related to their areas of specialty including Budget, Calendar, Technology, Ethics, Facilities and Enrollment, Family Life, Finance and Audit Review, and Safe Schools.

Management of Other Risks

Health Insurance

WCPS is self-insured and uses a third-party administrator (TPA) to oversee and administer its employee and retiree healthcare plans. Specifically, for medical coverage, WCPS contracts with a TPA to provide administrative services, such as claims processing for participants' medical costs (including drug costs) and for stop-loss coverage. Stop-loss coverage indemnifies WCPS against health insurance claim amounts that exceed a certain threshold for a member. WCPS has separate dental and vision contracts with a different TPA.

Medical providers submit claims to the TPA who pays them on behalf of WCPS. WCPS reimburses the TPAs for the claims it reports as paid on behalf of WCPS and pays an administrative fee for these services. According to

WCPS records, health care expenditures totaled \$53 million in fiscal year 2017, including administrative fees and stop-loss insurance coverage totaling \$2.5 million.

WCPS contracts with a consultant to help manage the health plans. The consultant performs data analysis of the utilization of health services and costs, and provides recommendations on potential rate changes, and the merits of health plan proposals. WCPS last bid out its medical and pharmacy health care coverage for plan year 2015. It awarded the three-year contract estimated at a cost of \$7.1 million, with two one-year renewal options, to the low bidder. As of June 30, 2017, WCPS provided health insurance benefits to 3,750 enrolled employees and retirees.

Finding 13

WCPS did not verify that stop-loss insurance was correctly applied by the TPA and plan administrative fees and stop-loss premiums were properly charged.

Analysis

WCPS did not verify that stop-loss insurance was correctly applied by the TPA, and plan administrative fees and stop-loss premiums were properly charged. Our review of the contract and WCPS' oversight of healthcare costs disclosed the following conditions.

- WCPS did not perform a documented verification that individual claims exceeding the \$300,000 stop-loss limit were reimbursed by the TPA. We were advised by WCPS that it received and reviewed a report from the TPA of those claims that exceeded the stop-loss threshold, but there was no documentation of this review. Further, it did not receive a report of detailed claims data paid by the TPA to ensure no claims over the stop-loss threshold had been paid. In fiscal year 2017, WCPS paid \$1.4 million in stop-loss premiums and received \$1.7 million in stop-loss coverage.
- WCPS did not compare the number of plan participants billed against its own payroll records to ensure that the TPAs' administrative fees and stop-loss premiums paid by WCPS were for enrolled participants. Additionally, the monthly fees charged by the TPAs for the various coverage categories (medical, vision, dental) and stop-loss insurance were not verified for agreement with the related signed contracts. However, our review of the administrative fees and stop-loss premiums paid to the TPA for medical claims in fiscal years 2015 to 2017 disclosed that the rates paid agreed with related contract agreements on file.

A similar condition regarding the lack of a process to verify the propriety of invoices for health care claims and administrative fees was commented upon in our preceding audit report.

Recommendation 13

We recommend that WCPS establish procedures to verify the amounts paid for TPA administrative fees and stop-loss premiums. Specifically, we recommend that WCPS

- a. obtain and use detailed claim payment data to ensure that claims paid above the stop-loss limit are reimbursed by the TPA; and**
- b. compare its records of enrolled employees, retirees, and dependents to TPA invoices and contract rates to determine the propriety of related fees (repeat) and premiums billed.**

Audit Scope, Objectives, and Methodology

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

We had two broad audit objectives:

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

In planning and conducting our audit of WCPS, we focused on 11 major financial-related areas of operations as approved on December 6, 2016 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of findings included in our preceding audit report on WCPS dated June 10, 2013, included those findings that were applicable to the current audit scope for each of the 11 areas.

The audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. Also, we did not evaluate the WCPS Comprehensive Education Master Plan or related updates, and we did not review the activities, financial or other, of any parent teacher association, group, or funds not under the local board of education's direct control or management.

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by WCPS. We also interviewed personnel at WCPS and the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate). 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, 2015 through October 31, 2017. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits WCPS' financial statements and conducts the federal Single Audit.

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

We also extracted data from the WCPS automated financial management system for the purpose of testing expenditure and payroll transactions. We performed various audit procedures on the relevant data and determined the data were sufficiently reliable for the purposes the data were used during the audit.

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 findings were communicated to WCPS that were not deemed significant and, consequently, did not warrant inclusion in this report.

We conducted our fieldwork from November 2017 to July 2018. The WCPS response to our findings and recommendations is included as an Appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise WCPS regarding the results of our review of its response.

APPENDIX



10435 Downsville Pike
Hagerstown, MD 21740
301-766-2800

May 1, 2019

Thomas J. Barnickel III, CPA
Legislative Auditor
Department of Legislative Services
301 West Preston Street, Room 1202
Baltimore, Maryland 21021

Dear Mr. Barnickel,

Enclosed is the hard copy of Washington County Public Schools' response to the draft report of the Financial Practices Performance Audit that was issued on April 16, 2019. You should have already received the response electronically.

Please give me a call at (301) 766-2827 if you have any questions or need additional information.

Sincerely,

A handwritten signature in blue ink that reads "Jeffrey M. Proulx".

Jeffrey M. Proulx, SNS
Chief Operating Officer

Enclosure

Cc: Dr. Boyd J. Michael III, Superintendent of Schools

Building a Community That Inspires Curiosity, Creativity, and Achievement.

www.wcpsmd.com

Washington County Public Schools

Agency Response Form

Revenue and Billing Cycle

Finding 1
 Adequate accountability and control had not been established over cash receipts, as checks were not always restrictively endorsed, collections were not recorded immediately upon receipt, and there was no independent verification that collections were deposited.

We recommend that WCPS

- a. record all collections immediately upon receipt (repeat);
- b. restrictively endorse all checks immediately upon receipt (repeat);
- c. document the chain of custody when transferring collections to other departments (repeat);
- d. ensure proper separation of duties over cash collections, deposit preparation, and accounts receivable functions (repeat); and
- e. independently verify that all collections were subsequently deposited through the comparison of the initial receipt of collection and validated deposit documents.

We advised WCPS on accomplishing the necessary separation of duties using existing personnel.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1a	Agree	Estimated Completion Date:	February, 2019
Please provide details of corrective action or explain disagreement.	The process for handling receipts from Transportation has been changed so that payments come to Accounting directly from the schools and other organizations. Other departments have been instructed to prepare an initial listing of collections when received.		
Recommendation 1b	Agree	Estimated Completion Date:	March, 2019
Please provide details of corrective action or explain disagreement.	Those departments which did not restrictively endorse checks have been provided a stamp and instructed to modify their process, accordingly.		
Recommendation 1c	Agree	Estimated Completion Date:	February, 2019

Washington County Public Schools

Agency Response Form

Please provide details of corrective action or explain disagreement.	Receipts are given for funds transferred. Workflow has been modified to provide receipts on a daily basis.		
Recommendation 1d	Agree	Estimated Completion Date:	May, 2018
Please provide details of corrective action or explain disagreement.	Responsibility for receiving collections was transferred to an employee who cannot adjust accounts receivable. During the period under audit, WCPS had compensating controls such as review of revenue accounts to budgets and reminders on accounts receivable.		
Recommendation 1e	Agree	Estimated Completion Date:	April, 2019
Please provide details of corrective action or explain disagreement.	An additional procedure for verifying that all collections were deposited has been adopted.		

Washington County Public Schools

Agency Response Form

Procurement and Disbursement Cycle

Finding 2
 WCPS paid a vendor to perform data backup services for its student information system without a properly executed contract for more than two years. Consequently, WCPS' interests were not adequately protected when a disaster event occurred at its datacenter.

We recommend that WCPS ensure

- a. contracts are properly executed and monitored and contain sufficient clauses to protect WCPS' interests; and
- b. the cost of the damages identified above be recovered, to the extent possible.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	WCPS was able to recover almost all data from the student information system.		
Recommendation 2a	Agree	Estimated Completion Date:	May 2018
Please provide details of corrective action or explain disagreement.	Recovery of the full amount of the loss, less the deductible, was received in August, 2018. Vendors of this nature are to sign a Professional Services Agreement which includes insurance coverage and hold harmless language to protect the school system. WCPS will ensure that contracts are executed with appropriate time periods for the services provided. WCPS will further investigate providing sufficient loss prevention in those contracts, but those services may be cost prohibitive and not provide value, which will be evaluated in each instance.		
Recommendation 2b	Agree	Estimated Completion Date:	August, 2018
Please provide details of corrective action or explain disagreement.	Recovery of the full amount of the loss, less the deductible, was received in August, 2018.		

Washington County Public Schools

Agency Response Form

Human Resources and Payroll

Finding 3
 WCPS did not ensure that employee access to its human resources and payroll system was appropriate. Additionally, critical human resources and payroll transactions were not independently reviewed for propriety.

We recommend that WCPS

- a. periodically (such as annually) review human resources and payroll system capabilities assigned to employees to ensure critical system functions are assigned to employees who need those capabilities to perform their job duties, and remove any unnecessary employee access (repeat); and
- b. generate a system report to perform a documented independent supervisory review of all critical human resources and payroll transactions and adjustments to ensure that they are appropriate and properly supported (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	The finding includes access given to certain employees, as required, during the implementation of the HR/Payroll module of the new MUNIS software.		
Recommendation 3a	Agree	Estimated Completion Date:	June, 2019
Please provide details of corrective action or explain disagreement.	An initial review of access will be performed. Subsequent reviews of access to human resource and payroll system capabilities will be performed annually by IT and key staff.		
Recommendation 3b	Agree	Estimated Completion Date:	May, 2019
Please provide details of corrective action or explain disagreement.	Supervisory review of critical or unusual payroll transactions will be implemented within a short time period following their completion, through the use of an actions history report. The review will be documented.		

Washington County Public Schools

Agency Response Form

Equipment Control and Accountability

Finding 4
 WCPS had not established comprehensive equipment policies and adequate recordkeeping practices and controls over equipment.

We recommend that WCPS establish policies and procedures to ensure accountability and control over its equipment inventory. Specifically, we recommend that WCPS establish a comprehensive policy, that includes sensitive equipment, with specific requirements such as conducting periodic physical inventories at all locations, investigating missing items, separating recordkeeping duties, and recording equipment information (including cost and purchase date) in the detail records (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	WCPS currently tags and tracks sensitive items but those records do not include cost or acquisition date. Annual physical inventories occur at all schools.		
Recommendation 4	Agree	Estimated Completion Date:	July, 2019
Please provide details of corrective action or explain disagreement.	A comprehensive procedure will be developed to include provisions for annual physical inventory inquiries, including the facilities that were missing from our current practice, and sensitive items meeting MSDE criteria. WCPS will account for future purchases of these assets, including cost and acquisition date, by adding them to the fixed asset system. The procedure will also require a response related to missing items and separate recordkeeping duties.		

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Information Technology

Finding 5

Sensitive personally identifiable information (PII) maintained by WCPS was stored without adequate safeguards.

We recommend that WCPS

- a. perform an inventory of its systems, identify all stored sensitive PII, and delete all unnecessary PII; and
- b. use approved encryption methods or other substantial mitigating controls to properly protect all necessary PII.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 5a	Agree	Estimated Completion Date:	June, 2018 - August, 2019
Please provide details of corrective action or explain disagreement.	WCPS has completed the inventory audit and deleted all unnecessary PII data that was being stored. Additional processes are being put into place to review this on a regular basis.		
Recommendation 5b	Agree	Estimated Completion Date:	September, 2019
Please provide details of corrective action or explain disagreement.	WCPS has taken steps to incorporate substantial mitigating controls. WCPS is reviewing DLP tools in order to expand the security footprint within our environment.		

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Finding 6
 Security activity monitoring, password controls, and database software maintenance for the WCPS student information system were not sufficient.

- We recommend that WCPS, in conjunction with the system vendor, as necessary,
- a. set the student information database to log all critical security related events, regularly review these logs, document these reviews, and retain this documentation for future reference;
 - b. establish password controls over the student information system application that comply with the recommended controls prescribed by the State's *Information Security Policy*; and
 - c. ensure that all databases are fully supported by the database vendors and kept current for all critical security-related updates.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 6a	Agree	Estimated Completion Date:	May, 2018 – December, 2019
Please provide details of corrective action or explain disagreement.	WCPS has implemented audit specifications with the recommended audit event classes in May 2018. These logs are reviewed on a regular basis for any abnormal activity. Audit logging is turned on within the systems to identify alterations to core data elements. WCPS is further refining our processes and procedures regarding audit logging for systems.		
Recommendation 6b	Agree	Estimated Completion Date:	December, 2019
Please provide details of corrective action or explain disagreement.	WCPS has requested that vendors improve the password controls in various software that WCPS uses. WCPS will continue to investigate options that balance the security of accounts with usability for students at all levels.		
Recommendation 6c	Agree	Estimated Completion Date:	May, 2018
Please provide details of corrective action or explain disagreement.	WCPS is monitoring and upgrading all databases to supported levels. Servers are also patched monthly with rollups and immediately with any critical security updates.		

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Finding 7
 WCPS did not have a complete information technology (IT) disaster recovery plan (DRP) for recovering computer operations, and had not properly monitored a vendor responsible for certain IT backup operations immediately before a disaster event occurred.

We recommend that WCPS

- a. develop and implement a comprehensive DRP that includes the provisions of the aforementioned *IT Disaster Recovery Guidelines* (repeat);
- b. periodically test the DRP, document the testing, and retain the documentation for future reference; and
- c. regularly review data storage backup operations to ensure that all critical data are successfully backed up, with such reviews being documented and retained for future reference.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 7a	Agree	Estimated Completion Date:	October, 2019
Please provide details of corrective action or explain disagreement.	A new, more detailed DRP, taking into consideration the provisions of the <i>IT Disaster Recovery Guidelines</i> , is in the process of being created to include tiered levels of critical systems, who is responsible for which task at specific intervals, and any exceptions or lessons learned from each test performed.		
Recommendation 7b	Agree	Estimated Completion Date:	October, 2019
Please provide details of corrective action or explain disagreement.	WCPS is in the process of coordinating full site impact testing and the results will be part of this documentation as well. WCPS is in the process of developing procedures for the regular testing and updating of the DRP.		
Recommendation 7c	Agree	Estimated Completion Date:	October, 2018
Please provide details of corrective action or explain disagreement.	A daily record is used to track that the review and confirmation of any failures and resolution to those deemed required has been completed. The staff who validates it for that day is required to update the record of verification. WCPS will regularly review and verify that data is backed up properly and will document this review for future reference.		

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Finding 8
 Intrusion detection prevention system coverage for the WCPS network had substantial gaps, and malware protection controls were not sufficient to provide WCPS with adequate assurance that its computers were properly protected.

We recommend that WCPS

- a. perform a documented review and assessment of network security risks and identify how IDPS coverage (which may include HIPS) should be best applied to the network and, based on this review and assessment, implement the necessary coverage;
- b. ensure that malware protection software is installed and maintained on all managed computers; and
- c. limit administrative privileges on workstations to only to those individuals required to have such capabilities for their job responsibilities.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 8a	Agree	Estimated Completion Date:	March, 2019 – August 2021
Please provide details of corrective action or explain disagreement.	WCPS is working on a network redesign that will provide for additional traffic segmentation to allow for additional security controls within the internal network. WCPS is reviewing firewall policies in order to provide for IDPS coverage where it is not already implemented.		
Recommendation 8b	Agree	Estimated Completion Date:	February, 2019
Please provide details of corrective action or explain disagreement.	WCPS has installed malware protection on all devices.		
Recommendation 8c	Agree	Estimated Completion Date:	June, 2019
Please provide details of corrective action or explain disagreement.	WCPS will limit administrative privileges on workstations.		

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Facilities Construction, Renovation, and Maintenance

Finding 9
WCPS' energy use and conservation program was not comprehensive.

We recommend that WCPS

- a. develop a comprehensive energy management program that includes specific goals (repeat);
- b. establish a baseline to measure, monitor, and evaluate the progress of its energy cost savings; and
- c. conduct and document all required energy audits, and prepare related reports describing the audit scope and the monitoring efforts related to any identified corrective actions (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 9a	Agree	Estimated Completion Date:	August, 2019
Please provide details of corrective action or explain disagreement.	The current policy and comprehensive energy management procedure will be amended to include the specific goals based on energy star ratings.		
Recommendation 9b	Agree	Estimated Completion Date:	August, 2019
Please provide details of corrective action or explain disagreement.	The monitoring, measurement and evaluation of the energy cost savings will be determined by the specific goals based on energy star ratings and the cost of the commodity purchased.		
Recommendation 9c	Agree	Estimated Completion Date:	June, 2019
Please provide details of corrective action or explain disagreement.	A more detailed energy audit was created in the computerized maintenance management system with a hydronic audit, lighting and power audit, and mechanical audit checklists. The scope and recommendations will be tracked in the current work order system. The work order system will include labor hours to conduct the audits and corrective measures. The system will also track repair costs and span of time to correct the audit exception.		

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Transportation Services

Finding 10
 WCPS had not established comprehensive bus routing procedures and did not periodically perform a system-wide analysis of routes and related bus capacities to maximize efficiency.

We recommend that WCPS take steps to use buses more efficiently. Specifically, we recommend that WCPS

- a. develop detailed policies and procedures to provide guidance for determining and revising bus routes (repeat) that include Board approved bus capacities, ridership goals, and student ride time limits; and
- b. document its use of its automated routing software to develop system-wide efficient bus routes that ensure capacity goals are met to the extent practical (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 10a	Agree	Estimated Completion Date:	June, 2020
Please provide details of corrective action or explain disagreement.	WCPS will review, modify and seek Board approval of policies to ensure appropriate detail and guidance is included for the determination and revision of school bus routes. Approvals will be sought for bus capacities, ridership goals and student ride time limits.		
Recommendation 10b	Agree	Estimated Completion Date:	September, 2019
Please provide details of corrective action or explain disagreement.	WCPS will document the use of the automated routing system in its periodic system-wide analysis of school bus routes.		

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Finding 11

Certain elements used to calculate WCPS' payments to bus contractors did not consider market conditions, actual costs, or were not properly documented.

We recommend that WCPS ensure that the bus contractor payment methodology has a documented and justified basis. Specifically, we recommend that WCPS

- a. use a reasonable market investment rate as a basis for establishing contractor rates for the annual PVA (repeat);
- b. use actual bus operating costs or develop supportable cost estimates, through a comprehensive study, as the basis for establishing contractor rates for the operations fee and the per-mile maintenance costs (repeat); and
- c. include a right to audit provision in its bus contracts.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	According to MSDE data, WCPS has lower bus contractor reimbursement rates than most school systems in the State. Analysis of bus routes results in choosing the best alternative between contractor or employee staffing based on cost, among other considerations.		
Recommendation 11a	Agree	Estimated Completion Date:	January, 2020
Please provide details of corrective action or explain disagreement.	WCPS agrees that a reasonable market investment rate should be used. Currently, the documented ROI rate is determined by averaging current market rates from two local bus dealers and two local financial institutions. Based on a recent formula comparison, WCPS has the lowest per/year contractor reimbursement for standard time and mileage. Further, the MSDE report "Per Vehicle Allowance Workgroup Report 2010" concluded that how to "fairly and equitably determine compensation to school bus contractors... is the choice of the local jurisdiction as each best knows its own unique transportation needs." WCPS will review and document the potential impact of implementing a ROI investment rate of the prime rate plus 2 percent.		
Recommendation 11b	Agree	Estimated Completion Date:	January, 2020
Please provide details of corrective action or explain disagreement.	WCPS agrees contractor reimbursements rates should be supportable. Currently, WCPS has the lowest per mile maintenance rate in the state based on a recent formula comparison. Additionally, any increase in the maintenance rate is at the discretion of WCPS based on the annual CPI and/or documented actual costs in local parts, labor, and equipment. WCPS agrees to review current part, labor, and equipment rates while monitoring the impact of our maintenance rate on the local community of contractors, who are		

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	increasingly leaving the industry. This leaves WCPS to believe that the contractors do not perceive value in the contracts as written.		
Recommendation 11c	Agree	Estimated Completion Date:	July, 2020
Please provide details of corrective action or explain disagreement.	WCPS will include an audit provision in its contracts.		

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Finding 12
Payments to bus contractors were not adequately verified for accuracy.

We recommend that an employee independent of the payment processing verifies the accuracy of bus contractor payments, by performing a documented comparison of the amounts paid to supporting documentation.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 12	Agree	Estimated Completion Date:	September, 2019
Please provide details of corrective action or explain disagreement.	WCPS agrees that contractor payments should be reviewed on a sample basis. WCPS will develop a process to verify manifest documents are correctly entered into the payment system and audited for accuracy.		

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Management of Other Risks

Finding 13
 WCPS did not verify that stop-loss insurance was correctly applied by the TPA and plan administrative fees and stop-loss premiums were properly charged.

We recommend that WCPS establish procedures to verify the amounts paid for TPA administrative fees and stop-loss premiums. Specifically, we recommend that WCPS

- a. obtain and use detailed claim payment data to ensure that claims paid above the stop-loss limit are reimbursed by the TPA; and
- b. compare its records of enrolled employees, retirees, and dependents to TPA invoices and contract rates to determine the propriety of related fees (repeat) and premiums billed.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 13a	Agree	Estimated Completion Date:	May, 2019
Please provide details of corrective action or explain disagreement.	A claims audit is performed every several years and SOC internal control reports are obtained annually. The claims audit includes claims paid above the stop-loss limit to ensure excess amounts are reimbursed by the TPA. Claims totals are reviewed throughout the year by staff and significant increases are investigated. In addition, detailed claim payment data will be used to ensure that stop loss limits continue to be applied accurately.		
Recommendation 13b	Agree	Estimated Completion Date:	July, 2019
Please provide details of corrective action or explain disagreement.	WCPS had a thorough review of administrative fee billings done by its consultant early in the first contract with the current TPA. Currently, after close review of the initial billing following a rate change, subsequent months are reviewed for reasonableness prior to payment. WCPS will document subsequent reviews. Enrollment and the monthly administrative fee billings varies very slightly from month to month.		

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