

Financial Management Practices Audit Report

Frederick County Public Schools

December 2019



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MARYLAND GENERAL ASSEMBLY

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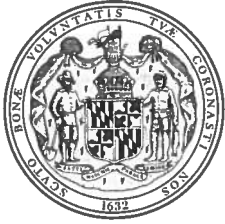
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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Legislative Auditor

December 5, 2019

Senator Craig J. Zucker, Senate Chair, Joint Audit and Evaluation Committee
Delegate Shelly L. Hettleman, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Frederick County Public Schools (FCPS) 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 FCPS' 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 a limited number of reportable conditions. Specifically, we identified certain security and control risks that existed within the FCPS computer network allowing untrusted traffic to enter the network without an intrusion detection prevention system to monitor system events, detect attacks, and identify unauthorized use of information systems and/or confidential information. In addition, FCPS did not remove inactive domain user accounts on a timely basis. We also found that FCPS operated 12 buses that exceeded the 15-year maximum service life allowed by State law and regulations, and operated 21 school buses beyond the 12-year normal service life without obtaining the approval of the Maryland State Department of Education as required. Furthermore, modifications to bus route manifests were not subject to independent supervisory review to ensure changes agreed to approved route verification forms and to ensure the accuracy of related payroll payments.

Finally, our audit included a review to determine the status of the 18 findings contained in our preceding audit report. We determined that FCPS satisfactorily addressed 17 of these findings. It is noteworthy that FCPS resolved almost all of

our preceding audit report findings, while limiting new findings during the current audit.

FCPS' response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by FCPS. We also wish to acknowledge FCPS' willingness to address the audit issues and to implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large, stylized initial 'G'.

Gregory A. Hook, CPA
Legislative Auditor

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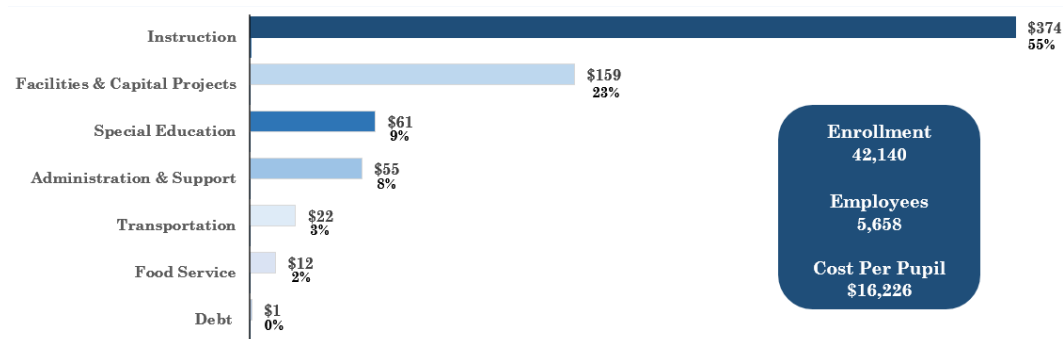
Background Information

Statistical Overview

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Frederick County Public Schools (FCPS) ranks 7th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2018 full-time student enrollment was 42,140 students. FCPS had 68 schools, consisting of 38 elementary schools, 13 middle schools, 10 high schools, and 7 other types of schools (including vocational, charter, alternative, and special education).

According to FCPS’ audited financial statements, fiscal year 2018 expenditures were approximately \$684 million and revenues were approximately \$682 million. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 73 percent of total expenditures during fiscal year 2018. According to MSDE records, during the 2017-2018 school year, FCPS had 5,658 full-time equivalent positions, which consisted of 3,960 instructional and 1,698 non-instructional positions.

Table 1
FCPS Expenditures by Category and Selected Statistical Data
Fiscal Year 2018
(amounts in millions)



Source: FCPS’ Fiscal Year 2018 Audited Financial Statements and MSDE Data

Oversight

FCPS is governed by a local school board, consisting of seven elected voting members and a non-voting student member. The State and the Frederick County government provide the vast majority of FCPS 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 FCPS to comply with the requirements and mandates of federal law. The Frederick County government exercises authority over FCPS primarily through the review and approval of FCPS' annual operating and capital budgets.

External Audits

FCPS 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 FCPS' federal grant programs (as required by federal regulations). We reviewed the resulting financial statement audit and Single Audit reports for fiscal years 2015 through 2018, and examined the related work papers for fiscal year 2018, 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 FCPS' 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, federal grant activity, purchasing card transactions, and inventory.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the 18 findings contained in our preceding audit report dated April 7, 2015. As disclosed in Table 2, we determined that FCPS satisfactorily addressed 17 of these findings, with 1 finding repeated in this report.

Table 2
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	FCPS did not adequately monitor the work performed by the accountant contracted to review Student Activity Funds.	Not repeated
Finding 2	FCPS had not established proper controls over non-cash credits.	Not repeated
Finding 3	FCPS' controls over obtaining and retaining corporate purchasing cards were not adequate.	Not repeated
Finding 4	FCPS' procurement policies requiring Board approval of purchases over \$25,000 was delegated for certain types of purchases without a formal corresponding Board reporting process.	Not repeated
Finding 5	Capabilities assigned to users who would perform critical human resources and payroll system functions were not adequately monitored and restricted. In addition, reviews of human resources transactions were not always independently performed.	Not repeated
Finding 6	Adequate controls had not been established over a certain high-risk access capability that enabled users to change or delete historical personnel and payroll records.	Not repeated
Finding 7	Physical inventories were not conducted as required by FCPS policy.	Not repeated
Finding 8	Proper access, account, and password controls were not established over critical applications, servers, and a database.	Repeated (see current finding 1)
Finding 9	Frederick County Government had unnecessary network access to the entire FCPS network over all ports.	Not repeated
Finding 10	Malware protection on FCPS workstations was not comprehensive.	Not repeated
Finding 11	Monitoring controls over a database and application were not sufficient to protect critical data.	Not repeated
Finding 12	Policies were not always adhered to and documentation was not always retained for certain professional services procurements.	Not repeated
Finding 13	FCPS did not adequately document preventive maintenance work performed.	Not repeated
Finding 14	Inventory controls over Transportation Department parts were inadequate.	Not repeated
Finding 15	Independent reviews of school cafeteria cash handling procedures were not performed timely.	Not repeated
Finding 16	Cash receipt duties were not properly segregated as transactions could be voided by cashiers without independent review or approval at the schools we reviewed.	Not repeated
Finding 17	FCPS' controls over food services inventory were not adequate.	Not repeated
Finding 18	FCPS did not verify the propriety of health claim reimbursements amounts paid to a third party administrator to the actual medical paid claims and service fees earned.	Not repeated

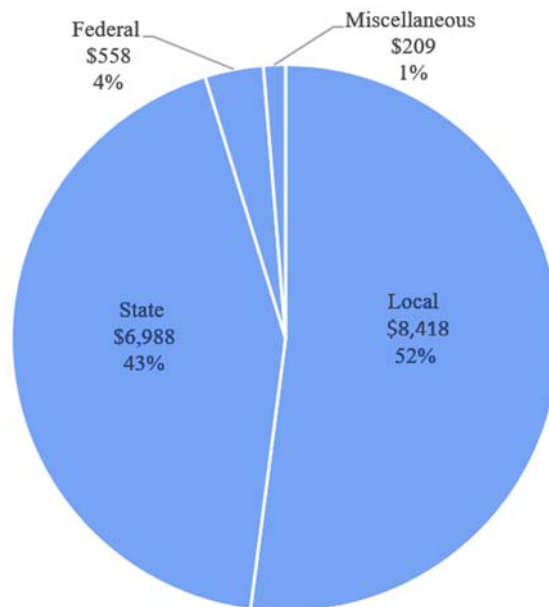
Findings and Recommendations

Revenue and Billing Cycle

Background

Frederick County Public Schools (FCPS) revenues consist primarily of funds received from Fredrick County, the State, and the federal government. According to the FCPS audited financial statements, revenues from all sources totaled approximately \$682 million during fiscal year 2018, including approximately \$294 million from the State. See Table 3 below for FCPS revenue sources per enrolled student in fiscal year 2018 according to its audited financial statements.

Table 3
FCPS' Revenue Sources Per Enrolled Student
Fiscal Year 2018



Source: FCPS' Fiscal Year 2018 Audited Financial Statements and MSDE Data

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, FCPS has a fiduciary duty to safeguard these funds. For fiscal year 2018, student activity fund collections totaled \$6.6 million and the June 30, 2018 balance was \$3.3 million.

External Audits

There were similarities between the work of the independent certified public accounting firm that audited the FCPS financial statements and the objectives of our audit for 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

FCPS contracts with an independent certified public accountant (CPA) to conduct annual reviews of the school activity funds at each of its schools. The reviews consisted of evaluating and testing compliance with the FCPS *School Activity Funds Accounting Manual*. The *Manual* establishes standard procedures for all schools to follow to ensure school activity funds are adequately safeguarded and accounted for in a uniform manner. The results of the CPA's reviews were provided to the respective school's principal and FCPS management to be addressed. Our review of the CPA's findings during fiscal years 2017 and 2018 generally found the management of these funds to be adequate. Furthermore, our review of the CPA's findings disclosed that any control weaknesses identified were not prevalent. In addition, the CPA's testing did not identify any improprieties in regards to the misuse of funds.

In addition to the annual reviews performed by the CPA, the Interagency Internal Audit Authority,¹ which functions as FCPS' internal auditor, contracted with a CPA firm in fiscal year 2018 to perform an audit of school activity funds. The audit covered the period from July 1, 2016 through June 30, 2017 and consisted of determining whether proper controls had been established over collections and disbursements, and funds had been properly accounted for in accordance with the FCPS *School Activity Funds Accounting Manual*. The audit disclosed some internal control weaknesses at certain schools; however, these were not prevalent and were similar in nature to weaknesses identified in the annual reviews.

Conclusion

Based on our current assessment of significance and risk relative to our audit objectives, and the consideration of the work of the independent certified public accounting firm and FCPS' Interagency Internal Audit Authority, we relied on the

¹ The Authority is a collaboration between Frederick County government, FCPS, and Frederick Community College, and provides internal audit services to each entity.

work of these other auditors to provide audit coverage pertaining to the procedures and controls related to the accounting for and safeguarding of cash receipts with respect to revenue and billing.

Federal Funds

Background

FCPS 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 in the FCPS Single Audit, fiscal year 2018 expenditures totaled \$22.0 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

There were similarities in the work performed by the independent certified public accounting firm that conducted the Single Audit of FCPS' federal grants and the objectives of our audit in this area; therefore, we reduced the scope of our audit work for federal grants. In addition to expressing an opinion on FCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the required Schedule of Expenditures of Federal Awards (which includes claimed and reported grant expenditures) for fiscal years 2016 to 2018.

The related reports stated that FCPS 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

FCPS has established a procedure to identify children for Medicaid-subsidized services and the services rendered. Medicaid is an entitlement program for which certain service costs can be reimbursed to FCPS. Medicaid activity is not covered by the Single Audit of federal grants.

In addition to our review, we noted that the Maryland State Department of Education's Interagency Medicaid Monitoring Team issued a report in June 2018 of the results of its review of 20 student case files for 24 criteria (including the correct billing of Medicaid for eligible services). The report found that FCPS was 100 percent compliant with 21 criteria and between 86 percent and 99 percent

compliant with the remaining 3 criteria. According to FCPS records, fiscal year 2018 state and federal reimbursements for Medicaid-subsidized services totaling approximately \$3.1 million.

Conclusion

Based on our current assessment of significance and risk relative to our audit objectives, and in consideration of the work performed by the independent certified public accounting firm that conducted the Single Audits, we relied on the work of the firm pertaining to policies, procedures, and controls with respect to federal grants and expenditures.

Procurement and Disbursement Cycle

Background

According to the audited financial statements and FCPS' records, its disbursements, excluding payroll, totaled \$185.3 million during fiscal year 2018. FCPS uses an automated system for purchases and disbursements. Requisitions entered into the system by departments are subject to on-line departmental and purchasing office approval. Approved requisitions are then converted to purchase orders by the purchasing office, which also generally handles the solicitation, bid evaluation, and establishment of contracts. The receipt of goods and services is entered into the automated system by the receiving school or department. Payments are then processed by the Accounting Department through the automated system that matches receiving reports to appropriate purchasing documents and then prints vendor checks and posts the payment to the financial records.

The FCPS written procurement policies require that procurements exceeding \$25,000 be competitively bid in accordance with Section 5-112 of the Education Article of the Annotated Code of Maryland. Contracts and agreements exceeding \$25,000 that FCPS procures are to be approved by the Board.

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of FCPS' internal control over the procurement and disbursement areas of operations reviewed. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the FCPS budget. According to FCPS' records, fiscal year 2018 salary, wage, and benefit costs totaled approximately \$498.4 million, representing 73 percent of the total expenditures. According to Maryland State Department of Education reports, during the 2017-2018 school year FCPS had 5,658 full-time positions, which consisted of 3,960 instructional and 1,698 non-instructional positions.

FCPS uses an automated system to maintain human resources information, record employee time, track employee leave usage, and process and record payroll transactions. The system also generates payroll checks and direct deposit advices. Individual departments and schools are responsible for processing timesheets and leave data for employees. Payroll processing involves both automated processes (such as compiling leave and running edit reports) and manual processes (such as data entry of new employee information).

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of FCPS' internal control over the human resources and payroll areas of operations reviewed. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Equipment Control and Accountability

Background

According to FCPS' audited financial statements, the undepreciated value of its capital equipment inventory totaled \$54.3 million as of June 30, 2018. FCPS maintains centralized automated records for equipment with a cost of \$5,000 or more (including assets capitalized for financial statement purposes). In addition, FCPS' Accounting and Technology Infrastructure Departments maintain inventory records for sensitive items with a cost of \$500 or more that are susceptible to theft, such as computers (desktops, laptops, tablets) and other small items (cameras and building maintenance equipment).

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of FCPS' internal control over the equipment area of operations reviewed. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Information Technology

Background

FCPS' Department of Technology Infrastructure (DTI) maintains and administers the FCPS telecommunications network, email system, help desk, technology support, and computer operations. DTI also operates a wide-area network for FCPS' headquarters and schools and maintains the critical core networking equipment and servers used to support the FCPS operations.

Additionally, various FCPS departments or divisions are responsible for managing information system applications used for supporting their respective operations. For example, the FCPS Fiscal Services Division technical staff manages the FCPS financial and human resources applications and related databases, while DTI maintains the servers and infrastructure that support the applications and databases. Finally, per a cooperative agreement, the separate networks for FCPS and Frederick County Government are inter-connected for purposes of allowing both agencies to share certain computer resources.

Finding 1

Intrusion detection prevention system coverage for the FCPS network included a protection gap, and FCPS did not remove inactive domain user accounts on a timely basis.

Analysis

Intrusion detection prevention system (IDPS) coverage for the FCPS network included a protection gap, and FCPS did not remove inactive domain user accounts on a timely basis.

- Network device IDPS inspection coverage did not exist for substantial amounts of untrusted traffic entering the FCPS network. Specifically, we identified 40 firewall rules that allowed traffic from any source to FCPS internal or certain other network destinations without defined network IDPS coverage applied. The absence of network IDPS coverage for this untrusted traffic creates security risk as such traffic could contain undetected malicious data.

As a best practice, the State of Maryland *Information Technology Security Manual* requires protection against malicious code and attacks by using IDPS coverage to monitor system events, detect attacks, and identify unauthorized use of information systems and/or confidential information. IDPS is an element of strong network security, which uses a layered approach, relying on various resources, and is structured according to assessed network security

risk. Properly configured network IDPS protection can aid significantly in the detection/prevention of and response to potential network security breaches and attacks.

- For the FCPS financial and human resources applications and their databases, we identified 333 and 286 active user accounts, respectively, (assigned to 319 and 276 unique individuals) that had not been used for extended periods to log into the domain. Specifically, as of our test dates of February 26, 2019 and October 17, 2018 respectively, inactivity periods ranged from approximately 1 to 9 years for these accounts and applications. The continued existence of these unused active accounts increases the risk of possible unauthorized account access and processing activity, which could affect the integrity of the related systems' databases. As a best practice, the State of Maryland *Information Technology Security Manual* requires that accounts be disabled after 60 days of inactivity. A similar condition was commented upon in our preceding audit report.

Recommendation 1

We recommend that FCPS

- a. perform a documented review and assessment of its network security risks and identify how network IDPS coverage should be applied to all untrusted traffic entering its network, and implement this coverage; and**
- b. disable unused domain accounts after 60 days of inactivity (repeat).**

Facilities Construction, Renovation, and Maintenance

Background

FCPS employs a staff of 517 employees to maintain 65 of its 68 schools (including vocational, alternative, and special education) and other administrative and support offices. The maintenance for FCPS' 3 charter schools is the responsibility of the operators of those schools. According to its fiscal year 2018 Capital Improvement Program, planned construction, major renovations, and systemic improvements to FCPS facilities over the next six years (fiscal year 2018 through fiscal year 2023) are estimated to cost \$264.9 million.

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

Our review of five construction-related procurements during fiscal years 2014 to 2019 totaling approximately \$162.3 million disclosed they were competitively procured and were properly approved. In addition, our test of 14 invoices totaling \$7.5 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 and Minimize Energy Costs

FCPS has processes in place to maintain the physical condition and functionality of its schools and facilities and to minimize energy costs. For example, FCPS provides scheduled and preventive maintenance of its buildings and equipment and monitors its equipment to prevent emergency repairs. In addition, to minimize energy costs, FCPS utilizes an energy management system that monitors and accounts for energy usage and employs an energy management program manager trained in conservation techniques and monitoring of energy practices (such as usage reports and year-to-year comparisons).

FCPS also entered into an energy savings performance contract in May 2018, which is expected to generate \$20.3 million in energy savings over a 15-year period starting in fiscal year 2020, and has contracted with a third-party firm to ensure that guaranteed savings are realized. According to reports prepared by FCPS (which we did not audit), FCPS reduced energy usage by 13.1 percent from fiscal years 2017 to 2018.

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of FCPS' internal control over the facilities construction, renovation, and maintenance areas of operations reviewed. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Transportation Services

Background

FCPS has approximately 30,000 students eligible to receive student transportation services. According to FCPS' audited financial statements, fiscal year 2018 transportation costs totaled \$22.3 million. According to statistics compiled by the Maryland State Department of Education (MSDE), these students were transported using 351 school system-owned buses. FCPS reported that 7.5 million route miles were traveled to transport students for the 2017-2018 school year, including 2.9 million traveled to transport disabled students. Using the statistics compiled by MSDE and other sources, we determined that FCPS had the lowest fiscal year 2018 transportation cost per mile (\$2.89) and per rider (\$723) when compared to four similarly sized school systems.

Finding 2

FCPS operated buses that had exceeded the maximum 15 years of service or had not been approved for operation beyond 12 years of service as required by State law and regulations.

Analysis

FCPS operated buses that had exceeded the maximum 15 years of service or had not been approved for operation beyond 12 years of service as required by State law and regulations. Specifically, during the 2018-2019 school year, FCPS operated 12 school buses that had exceeded the 15-year maximum service life allowed by State law and regulations, and operated 21 school buses beyond the 12-year normal service life (but less than 15 years) without obtaining the approval of MSDE, as required.

For the 12 buses, which included 3 designated as spares, that exceeded the maximum 15 years of service, FCPS should have retired the buses on August 25, 2018, prior to the start of the 2018-2019 school year. After we brought this situation to FCPS management's attention, FCPS discontinued operating the buses, effective March 11, 2019, after consulting with MSDE's Office of Pupil Transportation.

For the 21 buses for which FCPS had not obtained approval from MSDE to operate beyond 12 years of service, FCPS should have obtained an inspection and requested approval prior to August 28, 2018. According to State law and regulations, certain local education agencies (including FCPS) are allowed to operate school buses beyond their 12-year normal life cycle if maintenance and inspection requirements are completed and approval is obtained from MSDE. FCPS advised us that it had misinterpreted the aforementioned requirements of the State law and regulations.

According to FCPS' records, the bus fleet for school year 2017-2018 consisted of 433 school buses including 350 buses assigned to routes and 83 other buses used for various purposes, such as spares and field trips.

Recommendation 2

We recommend that FCPS

- a. ensure that the operation of buses does not exceed the 15 years of service allowed by State law and regulations, and**
- b. obtain proper approvals from MSDE when it operates buses beyond 12 years of service.**

Finding 3

Modifications to bus route manifests were not subject to an independent supervisory review to ensure that changes agreed to approved route verification forms and to ensure the accuracy of related payroll payments.

Analysis

Modifications to bus route manifests were not subject to an independent supervisory review to ensure that the changes agreed to approved route verification forms. Bus route manifests provided the support for the number of hours worked by bus drivers and assistants and, therefore, determined the related payroll payments.

Without an independent review of the modifications to bus route manifests, there was a lack of assurance regarding the accuracy of related payroll payments to bus drivers or assistants. Our test of 11 route changes recorded in the manifest database, which impacted 11 employees, disclosed that, while all route changes were supported by a driver-prepared and supervisor-approved route verification form, none of the changes had been independently reviewed and approved after being entered into the manifest database to ensure that the changes agreed to the approved forms. Information from the manifest database is uploaded into FCPS automated payroll system each pay period for payroll processing.

During fiscal year 2018, there were 465 adjustments to the original bus route manifests for 252 bus drivers and bus assistants, increasing daily payroll hours by 331.5 hours. According to FCPS management, the average hourly wage for bus drivers is \$21 per hour. For fiscal year 2018, the Transportation Department's payroll expenditures for school bus drivers and bus assistants totaled approximately \$10.3 million.

Recommendation 3

We recommend FCPS ensure that a documented independent verification of the accuracy of all changes to permanent route assignments be performed and ensure that all changes are supported by approved manifests.

Food Services**Background**

Food and related supplies are received and stored at FCPS' central warehouse or at individual schools depending on the type of food being delivered. Food is then prepared at each school. According to MDSE records, FCPS had 104 food services positions in fiscal year 2018, consisting of 99 cafeteria positions and 5

administrative positions. According to its fiscal year 2018 audited financial statements, FCPS food service operation expenditures exceeded food service revenues by \$142,100.

According to MSDE records, 26 percent of FCPS students qualified for free and reduced-price meals as of October 31, 2018. FCPS also participates in the federal Community Eligibility Provision (CEP) for two of its schools, which is a meal service option that 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, FCPS 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). FCPS is currently reimbursed for approximately 100 percent of its cost related to its two participating schools through the CEP.

Cash Handling Procedures for Cafeteria Sales Provided Sufficient Accountability

FCPS' Board of Education has a responsibility to ensure that cafeteria sales are appropriately controlled, recorded, and safeguarded. FCPS has implemented procedures and controls designed to ensure that cafeteria receipts were properly accounted for, processed, and deposited. The procedures and controls require that collections be independently reconciled to sales recorded in an automated point-of-sale system and deposited on a daily basis by various schools. Each school is assigned to one of eleven regions within Frederick County and is supervised by a regional manager. This manager monitors daily collections, including their deposit and verification to the sales records, and a fiscal services central office employee is required to independently verify deposits to sales reports generated from the system.

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of FCPS' internal control over the food service areas of operations reviewed. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

School Board Oversight

Background

The Frederick County Board of Education (the Board) consists of seven elected voting 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 FCPS financial statements and federal programs. The Board has established several committees that discuss and provide advice on various areas of FCPS operations and governance (including Board Policy, School Calendar, Curriculum and Instruction, Ethics, Family Life, Career and Technology Education, Gifts for Education, and Investment of the Other Post-Employment Benefits Trust Fund). Additionally, the Board has established citizen advisory committees (such as the Citizen Advisory Council and the Special Education Citizens Advisory Committee), which serve as channels for public concerns, advice, and information for FCPS' overall operations.

FCPS Adopted an Ethics Policy that Met the Requirements of State Law

The Board has adopted a detailed ethics policy that conforms to State law, includes provisions for conflicts of interest and financial disclosure, and was approved by the State Ethics Commission. Provisions of this policy are applicable to Board members as well as all FCPS employees. FCPS established an Ethics Panel consisting of seven members who are appointed by the Board to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. According to the ethics policy, annual financial disclosure statements are required to be filed by Board members, candidates for the Board, the Superintendent, and a number of other administrators (such as school principals and agency buyers) by April 30th of each year. Our review of the records for Board members and FCPS employees required to submit financial disclosure forms for the period May 1, 2017 through April 30, 2018 disclosed that forms were submitted as required.

FCPS Established a Confidential Hotline to Enable Employees to Report Suspected Fraud, Waste, or Abuse

The Board has implemented a third-party hotline and confidential reporting process for allegations of financial fraud, waste, abuse, or other illegal activities that may impact the school system's operations. The Board also approved a policy identifying the process for investigating these confidential allegations and reporting the investigatory results.

Conclusion

Our audit did not disclose any reportable conditions in the school board oversight area.

Management of Other Risks

Healthcare Background

FCPS is self-insured and uses three third-party administrators (TPA) for health care claims processing services for employee and retiree medical (including vision), dental, and pharmacy costs. FCPS also contracts with an insurance carrier for stop-loss coverage to protect against the risk of large claims each year. Stop-loss coverage indemnifies FCPS against health insurance claim amounts that exceed a certain threshold for a member.

Medical providers submit claims to the TPAs who pay them on behalf of FCPS. FCPS reimburses the TPAs for the claims reported as paid on behalf of FCPS employees and retirees, and pays an administrative fee for these services. According to FCPS records, during fiscal year 2018, health care expenditures totaled \$99.2 million, including administrative fees totaling \$4.6 million and stop-loss insurance expenditures totaling \$720,000.

FCPS contracts with a consultant to help manage its health plans. The consultant performs data analysis of the utilization of health services and a verification of related TPA billed costs, provides recommendations on potential rate changes, and reviews the merit of health plan proposals. FCPS most recently competitively bid for its multi-year contracts for medical and pharmacy health care coverage for plan years 2019 and 2020, respectively. In addition, FCPS last bid out its three-year contract for dental health care coverage for plan year 2018. As of June 30, 2018, FCPS provided health insurance benefits to approximately 15,200 enrolled employees, dependents, and retirees.

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of FCPS' internal control over the management of other risks area of operations reviewed. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Audit Scope, Objectives, and Methodology

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Frederick County Public Schools (FCPS). 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 FCPS procedures and controls were effective in accounting for and safeguarding its assets.
2. Evaluate whether the FCPS policies provided for the efficient use of financial resources.

In planning and conducting our audit of FCPS, we focused on 11 major financial-related areas of operations as approved on December 6, 2016 by the Joint Audit and Evaluation 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 FCPS dated April 7, 2015, 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 FCPS 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 FCPS. We also interviewed personnel at FCPS 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 FCPS 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 to September 30, 2018. 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 FCPS' 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 FCPS 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.

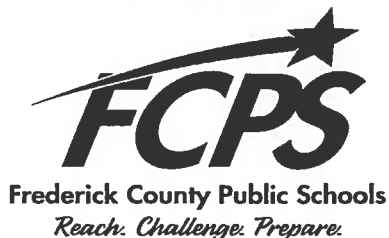
FCPS' management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations including safeguarding of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

We conducted our fieldwork from September 2018 to May 2019. The FCPS 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 FCPS regarding the results of our review of its response.

APPENDIX

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November 20, 2019

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Hook:

Enclosed are the management responses to the draft legislative audit on the Financial Management Practices of Frederick County Public Schools (FCPS). As directed, management responses have been populated in the Agency Response Form/Template provided by the Office of Legislative Audits. An electronic submission of the management responses was made Wednesday, November 20th to the response@ola.state.md.us email address as instructed.

Please feel free to reach out to me if you have questions regarding the management responses provided.


Chief Financial Officer

11/20/19
Date


Financial Reporting Manager

11/20/19
Date

Frederick County Public Schools

Agency Response Form

Information Technology

Finding 1
Intrusion detection prevention system coverage for the FCPS network included a protection gap, and FCPS did not remove inactive domain user accounts on a timely basis.

We recommend that FCPS

- a. perform a documented review and assessment of its network security risks and identify how network IDPS coverage should be applied to all untrusted traffic entering its network, and implement this coverage; and
- b. disable unused domain accounts after 60 days of inactivity (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1a	Agree	Estimated Completion Date:	May 2019
Please provide details of corrective action or explain disagreement.	<p>As a result of this recommendation, FCPS is now also applying firewall IDPS functionality to the traffic inbound through the Internet/DMZ boundary interface, adding to the IDPS architecture.</p> <p>The FCPS IDPS services, provided at multiple points throughout the traffic flow architecture by various service delivery mechanisms, are configured to block all identified high risk traffic and log/report all other risky traffic.</p>		
Recommendation 1b	Agree	Estimated Completion Date:	September 2019
Please provide details of corrective action or explain disagreement.	<p>The student system service accounts have been configured to be automatically disabled after a period of 60 days of inactivity.</p> <p>Finance and Human Resource ERP software application account inactivity processes have altered the lock user accounts after 60 days of inactivity. Corrective action went into effect on 09/25/19.</p>		

Frederick County Public Schools

Agency Response Form

Transportation Services

Finding 2
FCPS operated buses that had exceeded the maximum 15 years of service or had not been approved for operation beyond 12 years of service as required by State law and regulations.

We recommend that FCPS

- a. ensure that the operation of buses does not exceed the 15 years of service allowed by State law and regulations, and**
- b. obtain proper approvals from MSDE when it operates buses beyond 12 years of service.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	FCPS received clarification of State law; Section 7-804 of the Education Article, Annotated Code of Maryland, and took immediate action.		
Recommendation 2a	Agree	Estimated Completion Date:	March 2019
Please provide details of corrective action or explain disagreement.	Corrective action taken: School buses that exceeded 15 years of service were taken off the road in March 2019. All buses in the FCPS fleet have been checked for proper in-service dates. New reports have been created and will be reviewed annually to ensure aged buses comply with required State law and regulations.		
Recommendation 2b	Agree	Estimated Completion Date:	March/April 2019
Please provide details of corrective action or explain disagreement.	<p>Corrective action taken: With gained clarity of State law, FCPS acknowledged the 13-year service buses did not have proper approvals from MSDE. FCPS submitted a revised letter for use of modified extended life buses to MSDE, for the 2018-2019 school year operation dates, seeking approval to bring them into compliance. This revised request was dated March 28, 2019.</p> <p>FCPS received MSDE approval through formal communications dated April 18, 2019.</p>		

Frederick County Public Schools

Agency Response Form

Finding 3
Modifications to bus route manifests were not subject to an independent supervisory review to ensure that changes agreed to approved route verification forms and to ensure the accuracy of related payroll payments.

We recommend FCPS ensure that a documented independent verification of the accuracy of all changes to permanent route assignments be performed and ensure that all changes are supported by approved manifests.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	At the time of the Legislative Audit, the transportation department managers and the routers signed off on all manifest changes. The form then went to the Transportation Payroll Specialist to enter the new route assignment times. The modification to the route verification forms is a job duty assigned to the Transportation Payroll Specialist. FCPS concurs there was no supervisory review being done to verify the Payroll Specialist's data entry.		
Recommendation 3	Agree	Estimated Completion Date:	August 2019
Please provide details of corrective action or explain disagreement.	The FCPS Transportation Department upgraded to a new transportation software system, that was implemented effective August 1, 2019. The manifest details are imported or are manually entered into the transportation software and are then uploaded to the Human Resource ERP system, which require manager approval through an electronic workflow process.		

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