Financial Management Practices Performance Audit Report

Cecil County Public Schools

September 2009

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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September 10, 2009

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

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Cecil County Public Schools (CCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. CCPS is the fourteenth largest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 30 schools, with fiscal year 2008 expenditures of $202.5 million. The objectives of this audit were to evaluate whether CCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

Our audit disclosed that, in many cases, CCPS had procedures and controls in place to ensure the safeguarding of assets and the efficient use of financial resources. Nevertheless, our report contains 20 recommendations to CCPS to enhance controls and to implement best practices used to improve operations in such areas as transportation, food services, procurement, facilities, and equipment inventory. For example, we identified certain components of the formula used to establish bus transportation vendor payment rates that should be reevaluated, as the rates appear to result in unnecessarily high reimbursements, and could cost CCPS approximately $4.3 million over the life of the new buses put into service since 1997. Also, CCPS should establish better controls over critical information technology systems. In addition, CCPS should ensure that County government approval of construction projects funded by alternative-financing arrangements is adequately documented.

An Executive Summary of our findings can be found on page i, immediately following this cover letter, and our audit scope, objectives and methodology are explained on page 55. CCPS' response to this audit is included in Appendix A to this report. Auditor comments related to certain of CCPS' responses can be found in Appendix B. We wish to acknowledge the cooperation extended to us during our audit by CCPS.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Executive Summary

The Office of Legislative Audits has conducted an audit to evaluate the effectiveness and efficiency of the financial management practices of the Cecil County Public Schools (CCPS) in accordance with the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. State law requires the Office to conduct such an audit of each of the 24 public school systems in Maryland and provides that the related audit process be approved by the Joint Audit Committee. Since the Committee approved the audit process in September 2004, we have issued audit reports related to 16 school systems; CCPS represents the seventeenth to date. The approved process included 11 functional areas to be audited at each system. The following are summaries of the findings in these areas at CCPS.

Revenue and Billing Cycle (see pages 9 through 12)

According to CCPS' audited June 30, 2008 financial statements, $195.3 million in revenue was received from all sources (excluding capital lease proceeds of $7.3 million) during fiscal year 2008, the vast majority of which was received via electronic fund transfers from other governmental entities. Procedures and controls for revenue sources and accounts receivable were generally found to be adequate. However, based on our audit, checks received at the central business office were not always deposited promptly and intact, nor independently verified to deposit documentation.

Federal Funds (see pages 13 through 15)

Annually, CCPS is subject to an audit of its federally-funded programs (often referred to as the Single Audit, a requirement of Circular A-133, which is issued by the U.S. Office of Management and Budget). Due to parallels between that work and the scope of our audit, we placed significant reliance on the results of the independent audit of the fiscal year 2008 grant activity, for which reported expenditures totaled $9.5 million. The related report stated that CCPS complied, in all material respects, with the requirements applicable to its major federal programs. In addition, with respect to internal controls over compliance with, and the operation of, major federal programs, the auditors reported no matters considered to be material weaknesses and no significant deficiencies. Our audit disclosed that CCPS had an adequate process for the identification of students eligible for Medicaid-subsidized services; however, Medicaid funds were not always fully recovered for eligible services provided to Medicaid recipients.

Procurement and Disbursement Cycle (see pages 17 through 20)

According to CCPS records, non-payroll disbursements totaled approximately $60.2 million during fiscal year 2008. CCPS often used existing governmental contracts as a way to obtain discounts and reduce procurement costs, and had appropriate processes in place to control travel expenditures. However, CCPS should improve controls over its automated financial management system used for purchasing and invoice processing. In addition, CCPS should obtain competitive bids for purchases or document why competitive bids could not be obtained in accordance with its policies. CCPS should also restrict credit card purchases to only certain vendor categories and periodically evaluate card spending limits.

Human Resources and Payroll (see pages 21 through 23)

According to its records, CCPS employed 2,276 full-time equivalent employees during 2008 and had associated payroll costs of $142.3 million. CCPS uses a centralized hiring and approval process to help control payroll costs. CCPS should improve controls over its automated human resources and payroll systems. Although CCPS had implemented workforce planning for teachers and other instructional personnel, such planning was not documented for non-instructional personnel.

Inventory Control and Accountability (see pages 25 through 27)

CCPS should improve its procedures to ensure that accountability and control is effectively maintained for its equipment inventory. In addition, procedures to maintain a comprehensive inventory of textbooks need improvement. According to CCPS' audited financial statements, equipment inventory had a June 30, 2008 undepreciated cost of $23.1 million.

Information Technology (see pages 29 through 31)

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

Facilities Construction, Renovation, and Maintenance (see pages 33 through 38)

CCPS maintains 30 schools and several other facilities (such as administration and support offices) with a staff of 187 custodial and maintenance personnel. CCPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Plans are long-term, updated annually, and reflect input from the Board. However, CCPS did not adequately document County government approval for a $9.3 million contract for energy savings at its headquarters building and various schools, as required by State law. CCPS should develop a formal process to address its deferred maintenance needs. Lastly, CCPS should expand the use of its work order system to manage its maintenance operations and consider establishing a formal customer feedback program.

Transportation Services (see pages 39 through 43)

CCPS is responsible for the safe transportation of approximately 15,000 eligible students, of which two percent are disabled. CCPS uses several best practices to increase the efficiency of transporting students, such as staggering school start and stop times so buses can provide multiple trips on the same day. However, CCPS should reevaluate the formula used to determine payments to bus contractors. For example, the bus contractor payment methodology results in reimbursing the contractors 150 percent of each bus' actual cost over a 12-year period. Consequently, CCPS may end up paying $4.3 million more than necessary for new buses put into service since 1996. Also, CCPS has not performed an analysis to determine if it is cost beneficial to continue outsourcing its transportation services. Finally, CCPS should expand its use of performance measures to evaluate the transportation operations.

Food Services Operations (see pages 45 through 48)

CCPS currently uses a number of best practices in its food services operations. For example, it uses available USDA commodities and has procedures in place designed to maximize participation in the National School Meal Program. However, CCPS should improve controls over its food services collections and obtain competitive bids for food services purchases.

School Board Operations and Oversight (see pages 49 through 52)

The five-member Board has adopted policies governing certain operations of the Board and CCPS and exercised reasonable oversight of financial activities through independent audits. Nevertheless, the Board could improve oversight of operations by establishing an internal audit function. Additionally, the Board should consider establishing a confidential reporting process to receive reports of possible fraud, waste, or mismanagement. The Board should also enhance its formal performance measure reporting for operational areas, such as transportation, facilities, and food service, to assist in its oversight duties.

Other Financial Controls (see pages 53 through 54)

CCPS has appropriate practices in place to govern its cash and risk management. However, CCPS should develop a policy on long-term lease obligations.

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Background Information

Oversight

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

Statistical Overview

According to MSDE student enrollment records, CCPS is the fourteenth largest school system based on student enrollment among the 24 public school systems in Maryland. From fiscal year 1998 through 2008, the total full-time regular and special education pupil population has increased 6 percent from 15,327 to 16,290, with further projected increases to 18,920 by 2017. Presently, CCPS has 30 schools, consisting of 17 elementary, 6 middle, 5 high schools and 2 other schools. According to the fiscal year 2008 audited financial statements, total expenditures were $202.5 million. The largest expenditure category is salaries and wages, including benefits, which accounted for approximately 70 percent of total expenditures during fiscal year 2008. According to its records, during fiscal year 2008, CCPS had 2,276 full-time equivalent employees, which consisted of 1,620 instructional and 656 non-instructional employees.

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

External Audit of Fiscal Year 2008 Activity

Annually, CCPS engages a certified public accounting firm to independently audit its fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of CCPS federal grant programs (as required by federal regulations). The two resulting audit reports for the 2008 fiscal year were issued in September 2008. Neither report disclosed any material weaknesses or significant deficiencies on CCPS record keeping, processes, and controls.

Chapter 1

Revenue and Billing Cycle

According to CCPS' audited financial statements for the fiscal year ended June 30, 2008, $195.3 million of revenue was received by CCPS during fiscal year 2008. Due to similarities between the work of the independent certified public accounting firm that audited CCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the audit of the fiscal year 2008 financial statements for revenue transactions, including State, local, and federal sources and other sources of revenue (such as student activity fund[1] cash receipts of $2.9 million) and for accounts receivable (for example, amounts due from other governments). The firm's procedural review and testing for the most significant revenue types (the majority of which was received via electronic fund transfer from other government agencies) and for accounts receivable disclosed no significant deficiencies or material weaknesses.

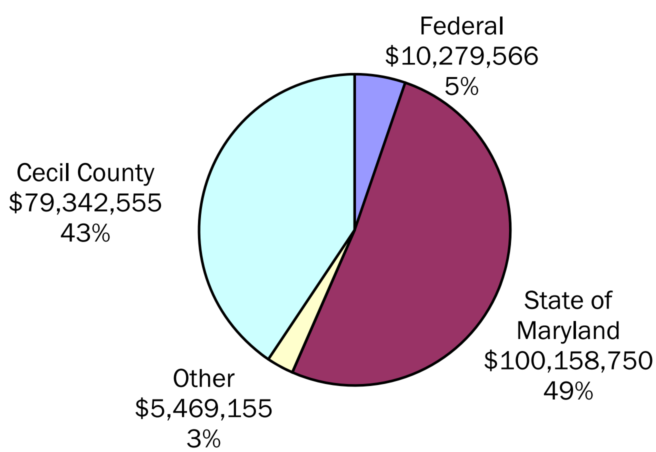
Our audit of certain revenues received by check, which totaled $20.3 million during fiscal year 2008, disclosed that controls over the collection of these revenues need to be improved.

[1] The Board has a fiduciary responsibility to ensure that the school activity fund is used only for intended purposes by those to whom the assets belong. Receipts for the school activity fund are not included in the $195.3 million revenue total because the Board cannot use these assets to finance its operations.

Background

CCPS revenues consist primarily of funds received from the State, Cecil County, and the federal government. Other sources include receipts from the sale of food, facility rentals, and interest income. Chart 1 (see below) shows the breakdown of CCPS fiscal year 2008 revenues of $195.3 million by major source (excludes capital lease proceeds of $7.3 million).

Chart 1
Sources of Fiscal Year 2008 Revenues
($195.3 Million)



Source: CCPS fiscal year 2008 audited financial statements and supporting CCPS records

In addition to the revenues in Chart 1, schools also collected funds for various purposes, such as student activity groups including yearbook and student activity funds. These school activity funds are accounted for separately by each school and are reported in summary in the audited financial statements. According to the audited financial statements, fiscal year 2008 school activity fund revenue totaled $2.9 million, and the June 30, 2008 balance was $1.4 million.

Revenue and Billing Cycle Activity Was Generally Adequate

Due to similarities between the work of the independent certified public accounting firm that audited the CCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the independent audit of the fiscal year 2008 financial statements. The auditor's procedural review and testing disclosed no material weaknesses[2] or significant deficiencies[3] regarding the collection of any accounts receivable or revenues from local, State, federal and other sources (such as food service operations), including electronic fund transfer transactions. Student activity funds and cafeteria cash operations were also audited by the firm, including a review of internal controls and bank account reconciliations. The results of this work similarly disclosed no material weaknesses or significant deficiencies.

Controls Over Collections Received at the Central Business Office Need to Be Improved

Receipts received by the central business office were not properly controlled. Checks received by the central business office totaled $20.3 million during fiscal year 2008. Specifically, independent verifications that recorded collections were subsequently deposited were not performed. Furthermore, daily cash receipts were not always deposited promptly and intact. This occurred because the office delayed depositing checks from debtor third parties until the accounts that should be credited for the payments were determined.

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

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

Recommendation

1. CCPS should ensure that an employee independent of the cash receipts process verifies that all recorded receipts were deposited. In addition, all receipts should be deposited timely and intact. Receipts that require additional information in order to be credited to the proper account should still be promptly deposited and credited to a suspense account while being researched.

Chapter 2

Federal Funds

Annually, CCPS is subject to an audit of its federally-funded grant programs (often referred to as the Single Audit, and required by Circular A-133, which is issued by the U.S. Office of Management and Budget). The report on the audit of fiscal year 2008 federal grant activity was issued by an independent certified public accounting firm on September 22, 2008.

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

CCPS had an adequate process to identify children eligible for Medicaid-subsidized[4] services but needs to improve procedures for recovering all of the related costs. CCPS also had a process in place to request appropriate funding under the federal E-Rate program.

Background

CCPS receives funds primarily from the State, Cecil County, and the federal government. Most funds received from Cecil County and from the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the

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[4] The Federal Medical Assistance Program, or Medicaid, is not a grant program under Circular A-133 and is not included in the Single Audit.

School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2008 expenditures of federal award funds totaled $9.5 million.

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

Because of the accounting firm's work on CCPS federal fund expenditures, we relied on the auditor's results. Besides expressing an opinion on CCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the fiscal year 2008 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). In its report, the firm stated that CCPS complied, in all material respects, with the requirements applicable to its major federal grant programs. In addition, with respect to internal controls over compliance with, and the operation of, major federal programs, the auditors noted no material weaknesses and no significant deficiencies.

Improvement Should Be Made to Ensure All Costs for Medicaid-Subsidized Services Are Recovered

Although CCPS had adequate processes in place to identify students eligible for Medicaid-subsidized services, CCPS management should ensure that all eligible costs for Medicaid-subsidized services are billed and the reimbursements are received. Our test of 10 students who were eligible to receive Medicaid-subsidized services during September 2007 and April 2008 disclosed that, for 3 of the students, CCPS had not billed and obtained reimbursement for certain eligible services as of January 2009. These services included case management, physical therapy, speech therapy, and occupational therapy. In certain cases, the services had not been billed because the reports specifying the services provided had not been received from the providers. Specifically, while CCPS had received the service reports for September 2007, as of January 26, 2009, the reports for April 2008 still had not been received from the providers.

According to CCPS records, as of January 26, 2009, there were 826 students eligible for Medicaid-subsidized services. In fiscal year 2008, CCPS received approximately $1.1 million in cost recoveries for Medicaid-eligible services.

CCPS Participated in the Federal E-Rate Program to the Extent Authorized

CCPS had a process in place to request and receive reimbursement for technology expenditures from the federal School and Libraries Universal Service Program (E-Rate). CCPS was approved for $114,752 in federal E-Rate funding for fiscal year 2008, most of which has already been received. The E-Rate program provides funding to schools for telecommunications expenses (such as, internet access). The funding is based on the level of poverty and the rural status of the school district.

Recommendation

2. CCPS should ensure that all eligible costs for providing Medicaid-subsidized services are recovered.

Chapter 3

Procurement and Disbursement Cycle

CCPS often used existing governmental contracts (referred to as "piggybacking") as a way to obtain discounts and reduce procurement costs and had established policies and procedures to control travel costs. However, controls over its automated financial management system were not sufficient to ensure that purchases of goods and services and vendor payments were proper. For example, numerous employees had incompatible capabilities, including the ability to individually add vendors, generate purchase orders, and process payments. We also noted that competitive bids were not always obtained for services, and decisions not to obtain competitive bids were not documented. Furthermore, improvements could be made to reduce risks regarding the use of CCPS credit cards.

Background

CCPS used an automated system for purchasing and disbursements. Requisitions were entered by departments and were subject to departmental and purchasing office approvals. Purchase orders, contracts, solicitations, and bids were handled by the purchasing office. CCPS procurement policies required that purchases over $25,000 be formally bid and approved by the Board. The receipt of goods and services was recorded in the automated system by the receiving school or department and payments were then processed by the finance office using the automated system. According to CCPS records, non-payroll disbursements totaled approximately $60.2 million during fiscal year 2008.

CCPS Used Several Best Practices to Address Its Procurement Needs and Control Travel Costs

CCPS had instituted certain best practices that should enhance the cost effectiveness of its procurements. These include "piggybacking" onto contracts already procured by the State and other local governments, and participating in cooperative purchasing organizations. These practices saved CCPS certain costs associated with the procurement of the contracts and may provide larger discounts as a result of the combined purchasing power of multiple entities. In addition, CCPS had written policies and procedures for the procurement of goods and services and the disbursement of funds.

Furthermore, CCPS had established adequate policies and procedures to control employee travel costs, including requirements that all travel reimbursements be approved by departmental directors or an assistant superintendent, that expenses be documented with itemized receipts, and that expenses, such as meals and mileage, be subject to certain limits. Our test of travel transactions indicated compliance with travel policies, and travel expenditures for fiscal year 2008 totaled approximately $209,000 according to CCPS records.

CCPS Had Not Established Adequate Controls Over Its Automated Purchasing and Invoice Processing Applications

CCPS had not established adequate controls over its automated purchasing and invoice processing applications. Specifically, 23 employees had been granted access to menus in the automated system that allowed them to perform critical incompatible functions. These employees could individually add new vendors, approve purchase orders, enter invoices, and authorize the disbursement of funds without online approvals. Furthermore, there were no documented manual approvals of data entered into the accounts payable system.

CCPS Should Comply with its Procurement Policies

CCPS did not always comply with its policies by obtaining services through a competitive procurement process or documenting why the use of such a process was not appropriate. Our test of 25 fiscal year 2007 and 2008 disbursements totaling $2.6 million disclosed that there were 3 disbursements totaling $153,000 that were not competitively bid. These purchases were for a one-week camp for students ($95,000), computer software ($50,000), and transportation services for one month for a child with special needs ($8,000). No contract existed for the vendor that provided the transportation services although the vendor was paid a total of $131,000 for all services during fiscal year 2008. CCPS policies require the use of competitive bids for purchases over $25,000. However, CCPS management advised that bids were not solicited for these services because, in each case, it believed that only one vendor could provide the services. Nevertheless, written sole-source justifications were not prepared, as required by CCPS procurement procedures, for any of the purchases.

CCPS Should Improve Controls Over Its Credit Card Program

CCPS purchasing card procedures indicated that users of the cards will be restricted to merchant codes that have been preselected by CCPS. However, the only merchant codes restricted were the few selected by the bank. While our testing did not disclose any improper purchases, we noted that cardholders could make purchases from merchants listed under several codes (such as liquor stores) that appeared inappropriate.

We also identified a number of credit cards with limits which appeared excessive. For example, our review identified 107 cards on which the highest monthly purchases during fiscal year 2008 were less than 50 percent of the monthly limit placed on the card. The monthly limits on these cards ranged from $5,000 to $100,000. We also noted 97 cards that had no activity for 6 months or more, including 31 cards that had no activity for periods ranging from 12 to 40 months. Excessive credit card limits and issuance of unneeded cards result in unnecessary risks of incurring unauthorized charges.

According to CCPS records, during fiscal year 2008, its credit card expenditures totaled $5.2 million and, as of July 2008, CCPS had 741 active cards, which, in general, is more than other local school systems.

Recommendations

3. CCPS should improve controls over its purchasing and accounts payable systems by segregating incompatible functions and restricting access to critical system functions to only those who need those capabilities to perform their job duties. Furthermore, manual reviews of critical data entered into the accounts payable system should be documented.

4. CCPS should obtain services through a competitive procurement process or document justifications when a competitive procurement process is not appropriate (such as when only one vendor can provide the required services), in accordance with its policies.

5. CCPS should improve control and reduce risks over credit card usage by expanding automated restrictions for inappropriate vendor categories and by conducting periodic spending and credit limit reviews for each card issued and making appropriate adjustments.

Chapter 4

Human Resources and Payroll

CCPS used automated systems to maintain human resources information and to record employee time, track leave, and process payroll transactions. However, CCPS should address certain procedural deficiencies with respect to payroll processing. These deficiencies included unnecessary and incompatible access capabilities given to certain personnel on the CCPS human resources and payroll system and a lack of supervisory review of certain human resources and payroll transactions. CCPS had implemented comprehensive workforce planning, which adequately addressed long-term trends for teachers and other instructional personnel. Although we were advised that workforce planning also addressed non-instructional personnel, this aspect of the plan was not documented.

Background

Payroll costs represent the largest single cost component in the CCPS budget. According to CCPS records for fiscal year 2008, salary, wage and benefit costs totaled $142.3 million. As of September 2007, CCPS had 2,276 full-time equivalent employees, of which 656 (29 percent) were non-instructional. The 7.2 to 1 ratio of CCPS students to full-time equivalent employees (both instructional and non-instructional) is reasonable when compared with similar-sized school systems (see Table 1 on the next page).

Table 1 Comparison of Student to Employee Ratios – Fall 2007 (Unaudited)			
School System	Number of Students (as of September 30, 2007)	Number of Full-Time Equivalent Employees (as of October 1, 2007)	Student to Employee Ratio
Cecil Co.	16,290	2,276	7.2 to 1
St. Mary's Co.	16,890	2,033	8.3 to 1
Calvert Co.	17,394	2,229	7.8 to 1
Allegany Co.	9,436	1,394	6.8 to 1
Wicomico Co.	14,399	2,244	6.4 to 1

Source: MSDE 2007-2008 Fact Book

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

Human Resources and Payroll Internal Controls Need to Be Strengthened

CCPS did not establish adequate internal control over its automated human resource and payroll system and related processes. Fourteen employees had system access to certain human resource and payroll functions that were not required for their job responsibilities. Four of the employees could add and delete employees, change salaries, prepare and post payroll as well as prepare payroll checks and the electronic file for direct deposits. Eight of the employees could add and delete employees and change salaries. Two of the employees could change attendance data. As a result of these incompatible access capabilities, critical transactions could be processed without supervisory review and approval.

Workforce Planning Efforts for Non-Instructional Positions Should Be Documented

CCPS should document all aspects of its workforce planning efforts by including non-instructional personnel. The CCPS Master Plan sets the strategic direction of the school system and provides coordination and focus for initiatives to address challenges faced by

CCPS. The Plan includes a number of objectives and strategies to address human resource needs – which is evidence of workforce planning. However, it addresses only the recruitment and retention of highly qualified instructional staff (that is, teachers and certain instructional aides). The Plan does not address other personnel employed by CCPS, such as central office and critical support staff. About 29 percent (656 employees) of CCPS employees occupy non-instructional positions. These support functions play a key role in the ultimate success of CCPS in providing quality education and, therefore, CCPS workforce planning should include these functions. CCPS management maintained that workforce planning was performed for non-instructional positions but this planning was not formally documented.

Recommendations

6. CCPS should restrict critical system access capabilities to those employees whose job duties require such access and all transactions (such as adding an employee or changing salaries) should be subject to independent review and approval.

7. CCPS should document its workforce planning that includes non-instructional positions in critical operational units.

Chapter 5

Inventory Control and Accountability

Our audit disclosed that CCPS has developed written procedures and policies for the acquisition and disposal of assets. However, CCPS could improve its controls and procedures which govern accountability over its equipment inventory. Additionally, while CCPS had established formal procedures for selecting and purchasing textbooks, processes established to maintain a comprehensive inventory of textbooks need improvement.

Background

According to CCPS audited financial statements, as of June 30, 2008, the undepreciated cost of its furniture, equipment, and vehicles was $23.1 million. Equipment items include computers, audio and video items, athletic equipment, and various other items. All furniture and equipment with a cost of $1,000 or sensitive items with a cost of $500 or greater are to be included in the centralized inventory system. Generally, CCPS orders materials and supplies on an as-needed basis and does not store excess inventory in a centralized location.

Existing Controls and Procedures Over Equipment Should Be Improved

While CCPS had written policies regarding the acquisition and disposal of assets, we noted several areas where controls and procedures over equipment were in need of improvement. Specifically, we noted the following conditions:

- Record keeping, custody, and physical inventory responsibilities were not adequately separated. For example, the individual responsible for maintaining the detailed equipment records also performed certain physical inventories and was also responsible for following up on missing items.

- Items not located during annual physical inventories had not been resolved as of November 2008. CCPS equipment records included 960 unlocated items at a total cost of approximately $1.9 million; the status of those items (such as lost, moved to another location) had not been determined. The records did not indicate how long the items had been identified as being unlocated.

- Adjustments made to the equipment detail records were not independently reviewed and approved.

- Two employees had unrestricted access to the equipment detail record system; however, their job responsibilities did not require such access.

Textbook Procedures Should Be Enhanced

While CCPS had established formal procedures for selecting and purchasing textbooks, existing policies regarding textbook accountability could be enhanced. Textbooks are inventoried within the individual schools; however, no centralized process existed for controlling and accounting for the inventory. Schools purchase textbooks primarily to replace missing or damaged textbooks. CCPS should consider establishing procedures that are similar to other Maryland LEAs, where periodic physical inventories are performed to control and centrally account for textbooks, and where the inventory records are used to make purchasing decisions or to maximize redistribution of excess books to other schools instead of making new purchases. During fiscal year 2008, textbook expenditures totaled approximately $611,000, according to CCPS records.

Recommendations

8. CCPS should improve procedures to ensure that accountability and control is effectively maintained over its equipment. Specifically, CCPS should separate equipment recordkeeping and physical inventory duties, investigate and resolve unlocated items, independently review adjustments to the detail records, and restrict access to the detail records to only employees whose job duties require such access.

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

Chapter 6

Information Technology Services

CCPS maintains and administers a computer network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at the CCPS central offices. We found that CCPS has established a written technology plan, which includes a comprehensive assessment of the technical needs of the schools. The plan provides a vision and mission for technology in CCPS and includes measurable goals and objectives.

Nevertheless, we identified deficiencies in a number of areas, including system user access and security, safeguarding computer center operations, and disaster recovery planning. For example, CCPS was not making full use of certain IT system features designed to restrict or detect unauthorized or unnecessary access to systems and programs, and security logs were not always generated.

Background

CCPS operates a wide area network connecting the various schools within Cecil County. The CCPS Technology Services Office maintains and administers the CCPS network, academic, financial and human resources information applications, and other general computer operations.

Technology Plans Were Developed to Address Current and Future Needs of CCPS

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

Steps Should Be Taken to Ensure Adequate Security Over IT Applications

Enhancements should be made to existing procedures to ensure that all access is appropriate – User access to computer resources is commonly controlled through the use of individual passwords and user logon ids; however, these tools could be more effectively used. For example, 19 users were assigned inappropriate or unnecessary access privileges and capabilities to production programs and critical data files. Also, the security access rules on the server that contained the financial and human resources applications were improperly configured and unnecessary services were installed on the server that contained the academic applications, such as grade reporting. These vulnerabilities could be exploited to compromise the servers.

Additionally, there were a number of security issues related to password and user account settings. For example, there were four passwords that were the same as the related user ids. Also, password expiration requirements were frequently not used. Furthermore, the monitoring of security audit events for both servers did not record all security events. As a result, unauthorized modifications to critical production data files (such as grade files) and system files could occur without detection by management.

Physical controls over data processing functions should be improved – The server room was not locked during business hours. Furthermore, although the room was locked after business hours, the key to the room was readily accessible. In addition, although critical back-up files were created and stored off-site, the files were not maintained at a secure location.

Process used to remove critical data from discarded computers needs to be more effective – Data were not removed from all discarded computers and the procedure used to remove data from computers did not prevent the recovery of data. As a result, sensitive data could be improperly accessed.

CCPS Should Develop a Comprehensive Disaster Recovery Plan

CCPS did not have a comprehensive disaster recovery plan (DRP) for its computer systems. Specifically, CCPS had made no provision for the following critical elements of a DRP:

- Identification of an alternate site for computer operations in the event of a disaster
- Applications prioritized for recovery
- Team designations and areas of responsibility
- Testing of the DRP
- Restoration of network connectivity

Recommendations

10. CCPS should implement appropriate security measures to safeguard its applications and data systems, in part, through eliminating inappropriate access privileges and capabilities, improving password protection, and ensuring all critical security events are recorded and reviewed. CCPS should establish adequate physical controls and safeguards over its computer operations and ensure that the process used to permanently remove data from discarded computers is effective.

11. CCPS should develop and implement a comprehensive disaster recovery plan.

Chapter 7

Facilities Construction, Renovation, and Maintenance

CCPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Plans are long-term and are updated annually and reflect input from the Board. CCPS has followed a number of best practices that should enhance project results and cost effectiveness in its facilities and maintenance department.

Nevertheless, CCPS did not adequately document County government approval of a $9.3 million contract to install a system-wide energy management system as well as to make certain renovations to its headquarters building and various schools. County approval was required by State law for this contract since the project was to be funded by an alternative-financing arrangement. CCPS also did not have a formal process to address its deferred maintenance needs. With respect to its maintenance and custodial operations, CCPS had not established formal performance measures and related benchmarks, a formal customer feedback program, and did not establish estimated time and cost amounts to assess program efficiency for both custodial and maintenance operations.

Background

CCPS maintains 30 schools and other administrative and support offices with a staff of 187 custodial and maintenance personnel. CCPS uses a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. In the fiscal year 2009 CIP, necessary major renovations, repairs, and systemic improvements to existing schools over the next six years were estimated to cost $284 million.

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

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

School System	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student ❶	Per Square Foot		
Cecil Co.	$15,116,584	$927.06	$7.40	125.29	2,043,028
Calvert Co.	16,907,198	970.56	7.78	124.67	2,171,819
St. Mary's Co.	14,682,221	883.83	6.91	127.88	2,124,422
Allegany Co.	9,616,452	1,016.54	5.97	170.16	1,609,700
Wicomico Co.	11,756,421	816.70	5.68	143.84	2,070,624
Average of Comparable Schools	$13,240,573	$914.93	$6.64	137.80	1,994,141

Sources: MSDE Selected Financial Data
❶ - Based on Average Daily Enrollment 2006-2007

A Number of Best Practices Were in Place to Enhance the Efficiency and Effectiveness of the CCPS Facilities and Maintenance Department

CCPS has instituted several best practices to enhance project results and cost effectiveness in its facilities and maintenance department:

- Supervisory operations personnel conduct inspections of all facilities, documenting current conditions and needs. The results of these inspections are used to prioritize future construction and maintenance projects.

- Various processes have been implemented in order to reduce the need for additional construction, including the use of portable classrooms and the periodic evaluation of school district boundaries.

- CCPS recently implemented an in-house energy conservation program directed toward reducing energy costs.

- CCPS participates in a consortium with other State entities to purchase energy at the best possible terms for the members of the consortium.

County Government Approval Was Not Adequately Documented for Construction Projects Totaling $9.3 Million Funded by an Alternative-Financing Arrangement

In July 2005, CCPS entered into a $9.3 million contract to make energy management and other improvements to its headquarters buildings and many schools. This was a performance-based contract with the expected project benefits (such as energy savings), as guaranteed by the contractor, to be used to finance the cost of the projects. Such alternative financing is authorized by Section 4-126 of the Education Article of the Annotated Code of Maryland as relates to public school construction, with the law requiring County government approval for such projects. However, there was limited documentation that the Cecil County government approved the projects or was aware of all significant aspects of the projects. The only evidence of County government involvement was its approval of the CCPS budgets which included the annual payments to the bank under the related 15-year equipment lease/purchase agreement.

No documentation was provided to substantiate that the Cecil County government was advised of the project scope and related details, including the nature of the estimated savings. Specifically, 40 percent ($3.7 million) of the project's cost was for renovations to the CCPS headquarters buildings which were projected to yield only $165,000 (1.3 percent) of the contractor's $13.2 million guaranteed project benefit. Also, 7.5 percent ($707,000) of the project's cost was for installation of Internet infrastructure and a change in internet providers to support energy management operations. However, the change of Internet providers alone resulted in $6.4 million in projected savings over the 15-year term of the lease, or 48 percent of the contractor's guaranteed project benefit. Such information is important for the County government to know when considering approval for construction projects and related financing arrangements.

Also, as commented upon in Chapter 11, CCPS has not adopted a policy to govern its use of long-term lease obligations to finance operations.

CCPS Should Develop a Formal Process to Address Its Deferred Maintenance Needs

CCPS capital improvement planning process did not adequately consider the impact of deferred maintenance. For reporting purposes, CCPS only reported, as deferred maintenance, the difference between the capital budget request and the amount actually funded by the county. For example, the fiscal year 2009 Comprehensive Maintenance Plan only reported $255,000 as the deferred maintenance for school year 2007–2008. Furthermore, CCPS did not report any amount as deferred maintenance in its Capital Improvement Plan (CIP). Specifically, only a list of potential long-range projects (for example, renovations to existing schools), categorized by location and the school year in which the projects might occur, was included in the CIP. CCPS provided us with other documentation of a list of maintenance projects compiled by the facilities department and school administrators that needed to be completed for fiscal year 2009. The list was prioritized and certain items were included in the budget request. However, there were numerous projects on the list that were not included in the budget request, and some of these projects had associated cost estimates and some did not. The projects that had cost estimates totaled $1.7 million. A comprehensive list of all deferred maintenance projects, with estimated costs, should be maintained and prioritized so that available funding is used for the most essential projects.

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

CCPS should develop a performance measurement system that establishes standards and expectations for maintenance and custodial operations – CCPS had not implemented a performance measurement system to measure and assess the efficiency of its maintenance and custodial operations (such as maintenance expenditures per square foot), both for internal self-evaluation purposes and for comparisons with other systems. Furthermore, we were informed that CCPS had not compared the costs of custodial and maintenance operations to similarly-sized districts in Maryland or other states. Comparability with other systems in Maryland could not necessarily be done unilaterally since there would need to be a consensus on the measures and methodology; however, other states (for example, Michigan and Florida) have mandated the establishment and use of measures and benchmarks to assist schools in the evaluation of costs and practices.

CCPS should consider implementing a formal customer feedback program for facilities operations and maintenance – CCPS does not use a formal customer feedback program to address matters pertaining to the care and upkeep of its facilities. A formal feedback program can be an effective tool to gauge how well the departments are serving the customers and to make needed adjustments to improve service.

Use of the automated work order system could be enhanced to improve management of maintenance operations – CCPS uses an automated work order system to assign maintenance work and track completion of assigned tasks. However, CCPS does not use the full capabilities of the system to control costs and assess performance. In this regard, we noted that, although work orders are logged, the estimated cost and hours are not entered in the automated work order system. As a result, actual time and costs were not compared to estimated time and costs of performing routine tasks. Recording and tracking estimated time and costs can assist in the allocation of resources, development of productivity standards, evaluation of staff, and the budgeting and planning processes.

Recommendations

12. CCPS should adequately document County government approval for construction projects funded under alternate financing methods, including the aforementioned projects, as required by law, and ensure all substantive details of the projects are provided to the County government when seeking the approval.

13. CCPS should develop a formal process to plan, prioritize, and report all deferred maintenance.

14. CCPS should develop a performance measurement system that establishes standards and expectations for maintenance and custodial operations. CCPS should also enhance its use of the automated work order system by recording the estimated labor and materials and using the system as a performance measurement and budgeting tool. Furthermore, CCPS should consider implementing a formal customer feedback program to assist in evaluating performance and improving maintenance and custodial operations.

Chapter 8

Transportation Services

CCPS used a number of best practices in an effort to reduce costs and increase efficiency in transporting students. Such practices included use of staggered start and dismissal times so buses can perform multiple runs in the morning and afternoon and combining middle school and high school bus runs to take advantage of the close proximity of certain schools. CCPS also used its routing software to assist in the development and revision of bus routes.

Nevertheless, we did note that CCPS had not adequately evaluated bus contractor payment rates as the rates appear to result in unnecessarily high reimbursements, which could cost approximately $4.3 million over the life of the buses put into service since 1996. Additionally, CCPS had not formally evaluated the costs and benefits of continued outsourcing of the majority of bus services. Furthermore, access to the automated system used to process bus contractor payments was not adequately restricted. Finally, CCPS did not use formal performance measures to periodically evaluate transportation operations.

Background

CCPS is the fourteenth largest school system in Maryland based on student enrollment. Approximately 15,000 students are eligible for student transportation. CCPS students were transported on a fleet of 178 buses owned by contractors, and 13 of its own buses that are primarily used to transport disabled students. Fiscal year 2008 transportation costs totaled $8.7 million. Of the 2,465,412 reported route miles for the 2007-2008 school year, 17 percent were for transporting disabled students.

Table 3 below shows that CCPS' cost per rider is among the lowest of the four school systems that are of comparable size. However, CCPS cost per mile is higher than three of the four comparable school systems.

Table 3 Comparison of Transportation Costs per Rider and per Mile Fiscal Year 2008 (Unaudited)							
School System	Number of Eligible Riders		Miles (in thousands)		Expenditures (in thousands)	Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
Cecil Co.	14,927	219	2,043	422	$8,657	$572	$3.51
Allegany Co.	6,105	203	1,284	222	5,685	901	3.78
Wicomico Co.	12,333	365	1,641	380	6,905	544	3.42
Calvert Co.	13,039	300	2,478	722	10,544	790	3.30
St. Mary's Co.	16,370	378	3,139	833	11,732	701	2.95
Average of Comparable Schools	11,962	312	2,136	539	$8,717	$710	$3.26

Source: MSDE 2007-2008 Fact Book

Several Best Practices Were In Place to Enhance Student Transportation Services

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

- Staggering school arrival and dismissal times so buses can make multiple runs on the same day.
- Combining middle school and high school students on the same bus to take advantage of the close proximity of the schools and to avoid sending multiple buses.
- Using routing and mapping software to assist in the development and revision of bus routes.
- Minimizing deadhead miles (the distance traveled by buses when not transporting students) by assigning bus routes to contractors that started and finished as close as possible to the contractors' bus depots.

More Can Be Done To Ensure Cost-Effective Operations

Contractor pay should be periodically revised based on current market conditions – CCPS pays contractors an annual per vehicle allotment (PVA) for each bus. The PVA formula includes reimbursement for the cost of the bus and a flat rate of return on the investment (ROI). CCPS contractors receive the annual PVA payment for the life of the bus or 12 years.[5] However, the cost reimbursement component of the PVA is calculated as if the bus will only be in operation for 8 years. Thus, bus contractors are paid 150 percent of the bus' cost over the life of each bus (12.5 percent of the cost each year for 12 years). In addition to paying 150 percent of the bus cost, CCPS contractors are paid a flat ROI rate of 7 percent annually based on the purchase price of the bus. Specifically, when new buses are purchased, CCPS does not change its ROI to reflect the market interest rate conditions at the acquisition dates. The rate set in the year of acquisition is used to pay the ROI over the life of the bus.

To estimate the financial impact to CCPS of paying 150 percent of the bus cost and using the 7 percent ROI over the life of a bus, we calculated the PVA for each of the past 12 years (1997 to 2008) using a 12-year cost reimbursement rate and the prime interest rate[6] as the ROI. The effect is that, over the 12-year life of the 145 new buses put into service by contractors since 1996, we estimate that CCPS will pay out approximately $4.3 million more than if the prime rate and a 12-year cost reimbursement rate had been used. Of the $4.3 million, $1.7 million has already been paid out through fiscal year 2008 and, unless changes are implemented, the remaining $2.6 million will be paid out during fiscal years 2009 to 2019. This analysis does not include the effects for any new bus purchases that may be made after fiscal year 2008 and the lost interest income that could have been earned by CCPS on the excess amounts paid.

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

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

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

CCPS Should Strengthen Controls Over Its Automated Payment System for Bus Contractors

Access to the automated system used to process bus contractor payments was not adequately restricted. We noted that eight transportation employees had update access to the system, including the capability to adjust contractor payments. In addition, there were 13 userids on the system that were not needed.

Formal Performance Measures for Student Transportation Should Be Expanded

CCPS did not have a comprehensive performance measurement system for its transportation services. While certain transportation performance data (such as percentage of on-time arrivals and accident data) were compiled and reported to the Board annually, additional performance measures (such as cost per mile, ridership compared to capacity) should be developed and reported more frequently to the Board. This data should also be used to provide ongoing monitoring of performance and ensure overall accountability. The Government Finance Officers Association recommends that program and service performance measures be developed and used as an important component of long-term strategic planning and decision making.

Recommendations

15. CCPS should take action to increase the cost effectiveness of student transportation operations by analyzing bus contractors

pay (including the PVA) to determine whether the rates are reasonable and necessary. Furthermore, CCPS should periodically prepare a documented analysis to determine whether continued use of outside contractors to provide student bus services is, in fact, cost beneficial for the school system.

16. CCPS should improve internal control by restricting access to the automated system used to process contractor payments.

17. CCPS should expand its use of performance measure data for transportation services and periodically report the results to the Board.

Chapter 9

Food Services Operations

CCPS has implemented a number of best practices to help reduce food service costs, such as participation in the United States Department of Agriculture (USDA) commodity program and membership in a multi-county food-purchasing cooperative. CCPS also has adequate procedures in place to identify students eligible for free and reduced-price meals under the federal National School Meals Programs. However, CCPS should improve controls over its food services collections and obtain competitive bids for food services purchases.

Background

CCPS has 17 cooking cafeterias, in which food is prepared and served, and 12 finishing cafeterias, in which food is received and served, at its 30 schools (1 middle school and 1 high school share a cafeteria). CCPS has 118 full-time-equivalent cafeteria employees (as of June 2007). Fiscal year 2007 food service sales totaled $2.8 million. CCPS reports for food service operations indicated that food service expenditures exceeded revenues by $459,044 for fiscal year 2007. See Table 5 on the next page for information regarding food services.

Table 4
Food Service Facts for Fiscal Year 2007

Average Cost per Meal				$2.52
Number of Meals Served				
Breakfast	Paid	156,393		
	Free	153,504		
	Reduced price	31,232		
			341,129	
Lunch	Paid	853,427		
	Free	443,808		
	Reduced price	123,418		
			1,420,653	
Meal Equivalents				
Snacks			134	
A la Carte Sales			494,374	
Total Meals Served				2,256,290
Schools				30
Preparation kitchens/cafeterias				17
Finishing kitchens/cafeterias				12
Full-time equivalent employees				118
Revenues:				
Federal	Grants	$1,964,065		
	USDA commodities	199,317		
			$2,163,382	
Sales and other sources			2,840,490	
State aid			226,194	
Total Revenue (all sources)				$5,230,066
Total Expenditures				5,689,110
Excess of Expenditures over Revenues				$(459,044)

Sources: CCPS 2007 Audited Financial Statements, MSDE 2007 Data, and CCPS data

Certain Best Practices Were in Place

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

- CCPS participated in the United States Department of Agriculture (USDA) commodities program, which is a free food program. According to CCPS records, $243,000 in USDA commodities were received in fiscal year 2008.
- CCPS used performance data, such as meals per labor hour, to track and monitor the operating efficiency at each of its school cafeterias. Based on MSDE information, CCPS has the second lowest cost per meal compared to similarly-sized Maryland school systems.
- CCPS participated in a food purchasing cooperative in order to maximize its buying power and reduce food costs.
- CCPS maximized the use of convenience foods (heat and serve items) to reduce the labor needed to prepare foods.
- CCPS monitored food consumption, adjusted food production, and reheated certain items to reduce waste.

CCPS used several best practices to encourage participation in the free and reduced-price meal programs – These practices included the use of a family application process (instead of individual student applications) to simultaneously qualify more students for the free or reduced-priced meal programs, use of scanning software to process the applications, and direct enrollment for children receiving services from the State Department of Human Resources. CCPS also used an automated point-of-sale system in cafeterias which helps to prevent easy identification of participating students thereby reducing any stigma associated with participating in the program. For fiscal year 2007, 82 percent of CCPS students eligible to receive free lunches and 74 percent of the students eligible to receive reduced-price lunches actually participated in the programs, which was higher than the averages of similarly-sized school systems.

Internal Controls and Other Financial Practices Should Be Improved

Controls over collections should be improved. We noted that, at two of the three schools we visited, collections were not always properly secured and that, at the remaining school, cashiering duties were not segregated because the same individual received collections, prepared the deposit, and recorded the collections in CCPS' automated system. In addition, of the five food service vendors tested, contracts did not exist for two vendors, which were paid a total of $242,000 during fiscal year 2008, and these vendors were not selected by competitive bids. Finally, for one of these two vendors, CCPS did not always compare the price on the vendor order form to the invoice price to verify that it was charged the proper price for food.

Recommendation

18. CCPS should improve controls over its cash receipts processing by adequately separating duties and securing collections. In addition, CCPS should select food vendors by competitive bid, execute written contracts and verify that vendors charge the proper prices.

Chapter 10

School Board Operations and Oversight

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

Several opportunities exist for the Board to improve operations and oversight. The Board should consider establishing an internal audit function. In addition, formal performance measures should be implemented to assist the Board in its oversight function.

Background

CCPS is governed by a five-member board elected by the voters of Cecil County (not including a student representative). The Board does not have an established committee structure due to its size and generally acts in whole to carry out its oversight duties. To assist in its oversight function, the Board has contracted with an independent auditor to conduct independent audits of the CCPS financial statements, federal programs, student activity funds, and cafeteria funds.

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

Vision

The Cecil County Public School System is a diverse learning community where all stakeholders are respected and valued and contribute to an excellent education program in an ever-changing global society.

- Students are caring citizens who take responsibility to demonstrate the skills, knowledge and attitudes to excel academically and to be prepared for future challenges.
- Teachers and staff understand their primary responsibility is the success of all students. They collaborate in the creation, development, implementation and assessment of an excellent pre-kindergarten through graduation learning experience. They share in decisions that have significant impact on the school and community in the cognitive, affective, physical and social domains.
- Parents and other citizens provide a nurturing environment that supports student learning. They actively participate in the decision-making process and contribute time and resources that assist in fulfilling the mission of the school.
- The school organization is flexible and designed to meet the complexities of life in the twenty-first century. The school is a vital part of the community and is used to further the ongoing education of all citizens.
- School administrators are instructional leaders who manage the school environment and use their expertise to facilitate learning and continuous improvement.
- Central office support personnel provide leadership, resources and services to schools and departments to promote the accomplishment of the vision.

Mission

Our mission is to provide an excellent Pre-Kindergarten through graduation learning experience that enables ALL students to demonstrate the skills, knowledge and attitudes required for lifelong learning and productive citizenship in an ever-changing, global society.

System Goals

- All students will meet or exceed high academic standards.
- All students will learn in safe, secure and inviting environments.
- All students will benefit from effective and efficient support and services provided by a learning organization.

Source: CCPS *Strategic Plan for Student Services*

Certain Oversight Has Been Put in Place Regarding CCPS Operations

The Board uses a number of methods to oversee the operations of CCPS –

- The Board contracts annually for the audit of its Comprehensive Annual Financial Report.
- The Board receives and discusses detailed budget and expenditure information as part of the budget approval process. In addition, members receive an expenditure report each month with comparisons to budget amounts.
- The Board reviews and monitors certain key performance indicators related to both the academic and financial operations of CCPS.

A detailed ethics policy has been established - The Cecil County Board of Education has adopted a detailed conflict of interest policy that covers Board members as well as employees. CCPS policy details conflicts of interest and ethics requirements conforming to State law in those areas. CCPS maintains an Ethics Panel to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. The policy identifies a number of supervisory employees required to file annual financial disclosure statements. We reviewed the related statements for calendar year 2007 and did not note any issues of audit significance.

The Board Could Take Additional Steps to Assist in Governance of CCPS

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

The Board should ensure that comprehensive performance measures are adopted for key operations, and should periodically receive that data, to assist it in managing CCPS – The CCPS budget only contains limited goals and objectives for non-financial-related performance measures, such as percentage of on-time arrivals and accident data related to student transportation. Performance information can assist the Board in overseeing and evaluating the progress of its budget and Master Plan. Examples of useful performance measures may include comparisons, such as transportation and facility cost per student and cost per school meal served. When implemented correctly, financial and efficiency performance measures can be used to assist in decision-making processes, such as allocating resources and budgeting, and to report on departmental effectiveness and efficiency.

Recommendation

19. The Board should enhance its oversight of CCPS operations by establishing an internal audit function. The Board should also consider establishing a hotline for the confidential reporting of operational issues and suspected fraud, waste, and mismanagement. Furthermore, the Board should adopt comprehensive performance measures in key operational areas, such as transportation, food service, and facilities management, to assist in its oversight duties; such data should be periodically reviewed by the Board.

Chapter 11

Other Financial Controls

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

Risk and Cash Management Best Practices Were in Place

For risk management, CCPS uses a combination of self-insurance and membership in the Maryland Association of Boards of Education (MABE) Workers Compensation Pool. CCPS self insures for its core health insurance. The school system participates in the MABE Group Insurance Pool and the Workmen's Compensation Group Self-Insurance Fund for its general liability, property, and workmen's compensation insurance coverage. According to the audited financial statements as of June 30, 2008, settlements have not exceeded insurance coverage for the past three years. CCPS used workers compensation loss data provided by MABE to enhance safety training in areas with the greatest claims and has established initiatives, such as a return-to-work program, to help reduce workers compensation costs.

Furthermore, CCPS has adopted adequate practices to govern cash and investments. As allowed by State Law, CCPS primarily invests in the Maryland Local Government Investment Pool which is under administrative control of the State Treasurer. The audited financial statements also state that CCPS deposits and investments were fully insured or collateralized at the end of fiscal year 2008.

CCPS Needs to Develop a Policy on Long-Term Lease Obligations

CCPS has not adopted a policy to govern its use of long-term lease obligations to finance operations, as recommended by the GFOA. Long-term liability levels and the related annual costs are important long-term obligations that must be managed within available resources. By law, CCPS is not authorized to issue bonds or similar debt instruments to finance capital or operational needs. However, CCPS used a lease/purchase agreement to finance the costs of a $9.3 million project to install various upgrades to 29 buildings. Leases have also been used to finance the acquisition of technology equipment and portable classrooms. According to CCPS audited financial statements for fiscal year 2008, the present value of capital lease payments to be made through 2021 was $11.4 million, with approximately $1.6 million due within one year.

Recommendation

20. CCPS should adopt a formal policy governing long-term obligations.

Audit Scope, Objectives, and Methodology

Scope

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

Objectives

We had two broad audit objectives:

1. To evaluate whether the CCPS procedures and controls were effective in accounting for and safeguarding its assets

2. To evaluate whether the CCPS policies provided for the efficient use of financial resources

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit approach, including the specific objectives of our local school system audits, was approved on September 14, 2004 by the Joint Audit Committee of the Maryland

General Assembly in accordance with the enabling legislation. As approved, the audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. We also did not review the activities, financial or other, of any parent teacher association, group, or funds not under the local board of education's direct control or management. Finally, we did not evaluate the CCPS Comprehensive Education Master Plan or related updates.

Methodology

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by CCPS. We also interviewed personnel at CCPS, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate[7]). Our audit procedures included inspections of documents and records, and observations of CCPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from January 1, 2007 through June 30, 2008. For our audit work on revenue and federal grants, we primarily relied on the results of an independent audit of fiscal year 2008 activity.

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

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

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

Other Independent Auditors

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

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

Limitations of Internal Control

CCPS management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

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

Fieldwork and CCPS Responses

We conducted our fieldwork from July 2008 to February 2009. The CCPS response to our findings and recommendations is included as an appendix to this report.

APPENDIX A

"Building a Foundation for Lifelong Learning"

CECIL COUNTY PUBLIC SCHOOLS
DEPARTMENT OF BUSINESS SERVICES
GEORGE WASHINGTON CARVER EDUCATION LEADERSHIP CENTER
201 Booth Street • Elkton, MD 21921
410-996-5497 • FAX 410-996-5137 • www.ccps.org

Henry A. Shaffer
Superintendent of Schools

Christine M. Sopa
President, Board of Education

August 31, 2009

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

Dear Mr. Myers:

Enclosed please find Cecil County Public Schools responses to the draft audit report recommendations. We have marked our responses with check boxes to indicate the following:

- ☑ We agree with the recommendation and have implemented corrective action.
- ☐ We agree with the recommendation and will implement corrective action by the specified timeline.
- ☒ We do not agree with the recommendation.

I would like to thank you and your staff for assisting us identify areas where we can improve our system's performance and efficiency.

Please do not hesitate to contact me if you have any questions or require any additional information.

Sincerely,

Henry A. Shaffer
Superintendent

cc: Board of Education Members
Thomas Kappra, CFO

Revenue and Billing Cycle

1. **Recommendation:** CCPS should ensure that an employee independent of the cash receipts process verifies that all recorded receipts were deposited. In addition, all receipts should be deposited timely and intact. Receipts that require additional information in order to be credited to the proper account should still be promptly deposited and credited to a suspense account while being researched.

   ☑ In March 2009, the Finance Department reassigned job responsibilities to allow for independent recording of daily receipts, daily cash deposits and independent verification that deposits were made timely and intact.

Federal Funds

2. **Recommendation:** CCPS should ensure that all eligible costs for providing Medicaid-subsidized services are recovered.

   ☑ Effective with the 2008-2009 school year, CCPS developed a monitoring database to track the percentage of allowable claims that are submitted. The database identifies the number of eligible students in each school or program and the percentage of claims submitted by case managers on a monthly basis. The Special Education office sends quarterly reports to case managers and related service providers that have not submitted claims for eligible students. The email reminder identifies individual students for which claims have not been submitted.

Procurement and Disbursement Cycle

3. **Recommendation:** CCPS should improve controls over its purchasing and accounts payable systems by segregating incompatible functions and restricting access to critical system functions to only those who need those capabilities to perform their job duties. Furthermore, manual reviews of critical data entered into the accounts payable system should be documented.

   ☑ In May 2009, Information Technology aligned all user system capabilities with their job duties.

   ☑ In April 2009 Business Services revised the accounts payable process to provide independent review of batch totals, output reports, printed checks and corresponding invoices.

4. **Recommendation:** CCPS should obtain services through a competitive procurement process or document justifications when a competitive procurement process is not appropriate (such as when only one vendor can provide the required services), in accordance with its policies.

   ☑ CCPS Regulation DJC-RA has specific procedures to be followed for competitive bids and sole source procurements. The Purchasing Department has taken steps to ensure that all departments are aware of and follow these procedures. Documentation of the rationale for contract extensions or justification of sole-source procurements is being attached to all contracts as appropriate. The examples noted were for sole source services, and as such do not require a competitive bid.

5. **Recommendation:** CCPS should improve control and reduce risks over credit card usage by expanding automated restrictions for inappropriate vendor categories and by conducting periodic spending and credit limit reviews for each card issued and making appropriate adjustments.

   ☑ When the purchase card program was first implemented seven years ago, only one general ledger code could be associated with a card. As a result, many cards were issued to single employees. In addition, the only option to restrict Merchant Category Codes (MCCs) was on a system wide basis. Enhancements to the system over the years have added functionality for individual card holders to allocate charges to a specific general ledger account and restrict MCCs by individual card holder. In August 2009 we completed an analysis of all card holders' spending and adjusted credit limits and cancelled all cards not used in the past year. In September 2009 we will complete transitioning to a "one card" system which will eliminate multiple cards per individual.

   The table below indicates the recent history of our purchase card program:

Fiscal	No. of Cards	No. of Card Holders	Total Spend
2007	966	486	$4.3 million
2008	794	497	$5.1 million
2009	622	491	$6.1 million
Current	431	431	

6. **Recommendation:** CCPS should restrict critical system access capabilities to those employees whose job duties require such access and all transactions (such as adding an employee or changing salaries) should be subject to independent review and approval.

   ☑ All unnecessary user access to payroll and human resources systems has been removed or limited to read only.

   ☒ Payroll utilizes a hash total for verifying that all changes made to employee pay records have been properly approved and entered in the system by authorized personnel.*

7. **Recommendation:** CCPS should document its workforce planning that includes non-instructional positions in critical operational units.

   ☑ In terms of workforce planning, we require our new support services supervisory personnel to participate in a leadership academy which provides training on a wide variety of key topics that lends leaders support in the performance of their daily duties. Additionally, we provide training to all supervisors on a semi-yearly basis. Some of our administrators have also been participants in the Cecil Leadership initiative and some are members of the Association of School Business Managers attending their conferences twice yearly.

   ☐ In fiscal 2010 we will include an assessment of leadership potential as a component in our support services evaluation tool. This will further enhance our succession planning.

   ☐ We will update our Master Plan to reflect our workforce planning initiatives in fiscal 2010.

8. **Recommendation:** CCPS should improve procedures to ensure that accountability and control is effectively maintained over its equipment. Specifically, CCPS should separate equipment recordkeeping and physical inventory duties, investigate and resolve unallocated items, independently review adjustments to the detail records, and restrict access to the detail records to only employees whose job duties require such access.

   ☑ In April 2009 a physical inventory was conducted in all CCPS locations. Unresolved items were subsequently reviewed against any available source (work order systems, movement paperwork, archived email, etc.). The list of unresolved items was pared down to 4 items county-wide, all of which remain because we believe we will find them in subsequent physical inventories. Approximately half of the 960 items were retired because details indicated they were no longer in service. The remaining items were found.

***See Appendix B for related auditor comment.**

- ☑ Procedures were established in August 2009 to address conducting future physical inventories by teams of personnel not directly related to equipment recordkeeping and an on-going resolution process.
- ☑ Unrestricted access to the equipment detail record system has been limited to employees whose job responsibilities require such access.
- ☐ We are in the process of developing a comprehensive equipment inventory application with a planned implementation in October 2009.

9. **Recommendation:** CCPS should establish more accountability over textbooks. Specifically, CCPS should consider using a comprehensive, centralized inventory record keeping system and using the results of textbook physical inventories to enhance purchasing decisions.

- ☐ We will develop and implement a textbook inventory tracking system in fiscal 2010.

Information Technology Services

10. **Recommendation:** CCPS should implement appropriate security measures to safeguard its applications and data systems, in part, through eliminating inappropriate access privileges and capabilities, improving password protection and ensuring all critical security events are recorded and reviewed. CCPS should establish adequate physical controls and safeguards over its computer operations and ensure that the process used to permanently remove data from discarded computers is effective.

- ☑ The nineteen users with unnecessary access and the use of inappropriate passwords were disabled in May 2009.
- ☑ Unnecessary services (Office 2003) on the grading and reporting server were removed in April 2009.
- ☑ A card access system on the server room with access by essential personnel only was installed in May 2009.
- ☐ A policy and process for removing data from discarded computers to prevent unauthorized data recovery and offsite storage of backup disks will be implemented in fiscal 2010.

11. **Recommendation:** CCPS should develop and implement a comprehensive disaster recovery plan.

- ☐ Review process will begin during 2009-2010 school year and a phased implementation will continue thereafter, based on system criticality and other requirements.

Facilities Construction, Renovation and Maintenance

12. **Recommendation:** CCPS should adequately document County government approval for construction projects funded under alternate financing methods, including the aforementioned projects, as required by law, and ensure all substantive details of the projects are provided to the County government when seeking the approval.

- ☒ We followed our Policy for Performance Contracting which we believe is in compliance with the law.

- ☒ This project was planned and discussed with the Board of County Commissioners and other County representatives in detail prior to implementation. An affidavit from Mr. Al Wein, County Administration was provided at the discussion meeting. The ISP implementation (utilizing the State of Maryland's Sailor internet service) was a joint venture with the County libraries. The savings to the County as a result of utilizing the Sailor network was not included in the justification of this project.

- ☒ The Board of Education has no authority to commit the County Government to a long-term debt obligation and as such, this lease includes a non-appropriation clause. This project is funded by County pay-go construction funds with the lease payment included in our School Construction Fund, approved by the County Commissioners annually. The savings accrue to the General Fund with real savings to date exceeding projections by more than twenty percent.

- ☒ There were no State funds associated with this contract, therefore approval from the Interagency Committee on School Construction (IAC) was not required; however, Dr. David Lever, Executive Director for the IAC, did include this project as an example of a successful performance-based financing project in a report to the IAC.*****

13. **Recommendation:** CCPS should develop a formal process to plan, prioritize and report all deferred maintenance.

- ☑ Currently deferred maintenance in CCPS is quantified as all projects or repairs that are requested by maintenance staff, supervisors, custodians and building administrators that do not get funded. Each request is not separated or

*****See Appendix B for related auditor comment.

categorized to reflect which items are strictly maintenance items that cannot be addressed due to lack of funding and which are needed items that address capacity and instructional issues at the buildings.

- ☐ A formal plan for identifying and separating these requests or findings will be developed for the fiscal 2011 planning year and data will be tracked and monitored as part of the required Comprehensive Maintenance Plan.

14. **Recommendation:** CCPS should develop a performance measurement system that establishes standards and expectations for maintenance and custodial operations. CCPS should also enhance its use of the automated work order system by recording the estimated labor and materials and using the system as a performance measurement and budgeting tool. Furthermore, CCPS should consider implementing a formal customer feedback program to assist in evaluating performance and improving maintenance and custodial operations.

- ☒ External performance measurements are documented through yearly State public schools construction program (IAC) inspections and Maryland Association of Boards of Education inspections thus establishing high standards and expectations for the Facilities Department.

- ☒ All facilities are inspected and scored twice per year and operations employees are evaluated once per year. Both evaluation tools include administration from the select building and from district wide staff.

- ☒ Surveys completed over the past several years by students, parents, teachers, administrators and the public ranked maintenance and operations high in providing a clean safe learning environment for students.

- ☒ Within each building during the fall, the Faculty Advisory Committee from each school completes a survey to outline concerns and provide issues and opinions of the facility so that they may be addressed during the year or through the budget process.*

- ☑ We have implemented reporting and analyzing the actual hours required to complete work orders to evaluate overall efficiency.

Transportation Services

15. **Recommendation:** CCPS should take action to increase the cost effectiveness of student transportation operations by analyzing bus contractors pay (including the PVA) to determine whether the rates are reasonable and necessary. Furthermore, CCPS should periodically prepare a documented analysis to determine whether continued use of outside contractors to provide student bus services is, in fact, cost beneficial for the school system.

* See Appendix B for related auditor comment.

- ☒ Cecil County has analyzed and compared the cost of contracting transportation services versus ownership of the bus fleet. This analysis did not take into consideration the potential capital outlay costs associated with the purchase of the current contracted fleet, the cost of parts and tire inventory, the purchase of tools to service the buses and acquiring additional land and operational facilities.

- ☒ Operating and maintaining our own fleet of ten buses allows us to effectively evaluate the current cost burden incurred by our contracted fleet on an ongoing basis. We consider this experience more effective than comparing to how systems operate in other counties or states. As noted in this report, Cecil County is ranked among the lowest cost per student transported among Maryland Counties of similar size and only two Counties, Wicomico and Washington, have a lower cost per student in the State.

- ☒ PVA allows for a return on investment and does not only cover the cost of a bus. It includes a profit margin and certain overhead costs that are not specifically addressed elsewhere in the rate formula.*****

- ☐ While the life of a bus is twelve years by state law, almost all buses during their 12th year function as a spare and the contractor does not receive a PVA. We will adjust the PVA formula to be consistent with the twelve year life for fiscal 2011 purchases. We will continue to analyze the PVA factor in relation to the total cost of transportation services annually.

16. **Recommendation:** CCPS should improve internal control by restricting access to the automated system used to process contractor payments.

    - ☑ We have removed all unnecessary user ids that were placed in the system for training purposes by the vendor. Those who are not directly involved and authorized in the payment process now have read-only access to those sections that control contractor pay.

17. **Recommendation:** CCPS should expand its use of performance measure data for transportation services and periodically report the results to the Board.

    - ☐ We will include data for transportation services as part of the broader performance measurement reporting process noted under School Board Operations and Oversight, to be implemented in fiscal 2010.

*****See Appendix B for related auditor comment.

Food Services Operations

18. **Recommendation:** CCPS should improve controls over its cash receipts processing by adequately separating duties and securing collections. In addition, CCPS should select food vendors by competitive bid, execute written contracts and verify that vendors charge the proper prices.

    ☑ A revised cash handling policy has been developed and will be implemented in September 2009.

    ☐ We will follow our procurement policy and select food vendors by competitive bid, execute written contracts and verify vendor charges against the contract pricing in fiscal 2010.

School Board Operations and Oversight

19. **Recommendation:** The Board should enhance its oversight of CCPS operations by establishing an internal audit function. The Board should also consider establishing a hotline for the confidential reporting of operational issues and suspected fraud, waste, and mismanagement. Furthermore, the Board should adopt comprehensive performance measures in key operational areas, such as transportation, food service, and facilities management, to assist in its oversight duties; such data should be periodically reviewed by the Board.

    ☐ The Board will establish an Audit Committee by January 2010 to:

    - Provide oversight to the school system's financial reporting process and internal control system.
    - Review and appraise the audit efforts of the Board's independent auditors, outside agency auditors and internal reporting.
    - Provide an open avenue of communication among the independent auditors, financial and senior management and the Board.
    - Recommend policies, regulations or processes to the Board to strengthen financial reporting, internal controls and compliance.
    - Adopt and review comprehensive performance measures in key operational areas.

    ☐ CCPS is currently evaluating utilizing a third party fraud hotline service versus an internal mechanism. A recommendation will be made to a newly formed audit committee on the best option.

20. **Recommendation:** CCPS should adopt a formal policy governing long-term obligations.

- ☐ CCPS will establish a long-term lease purchase and debt policy in accordance with best practices recommended by GFOA in fiscal 2010.

APPENDIX B

Auditor’s Comments on CCPS Response

The Cecil County Public Schools (CCPS) disagreed with certain of our comments in its response (Appendix A) to the audit report. We continue to believe that the comments made in the report are valid. In accordance with State law, all areas of disagreement will be addressed through separate correspondence between this Office and CCPS. Auditor’s comments are presented below about CCPS’ responses to certain of the findings in this report.

Finding 6: The use of hash totals enables the identification of changes to payroll amounts but does not ensure the propriety of individual changes made to the payroll records.

Finding 12: CCPS’ response addressed a number of conditions that were not commented upon in our audit report or recommendations. We continue to believe that the comments made in the report are valid since neither formal documentation of county government approval nor documentation of what specific information was provided to the county about the project has been provided. The March 20, 2009 letter from the County Administrator contains only general statements and does not establish that the County government approved the project or that the County government was aware of the specific aspects of the project, such as those disclosed in our report.

Finding 14: Periodic inspections of facilities do not constitute a performance measurements system. For example, physical inspections do not evaluate efficiency. Furthermore, the surveys referred to by CCPS were very general and included only limited questions regarding facilities. We continue to believe that CCPS could improve efficiencies in its maintenance and custodial operations through a formal performance measurement system, enhanced use of its automated work order system including estimates of project material needs, and a formal customer feedback program that is more comprehensive and could help identify specific issues that need to be addressed.

Finding 15: CCPS’ cost benefit analysis of its bus operations was not comprehensive since it did not consider all relevant costs. Additionally, CCPS has not evaluated all elements of its payments to its bus contractors, including the factors making up the PVA.

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