Financial Management Practices Performance Audit Report

Charles County Public Schools

July 2010

Office of Legislative Audits
Department of Legislative Services
Maryland General Assembly

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OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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July 1, 2010

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

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Charles 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 10th largest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 37 schools, with fiscal year 2009 expenditures of $338 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.

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 17 recommendations to enhance controls in its existing financial management systems and processes in areas such as procurement, payroll, and student transportation. For example, CCPS did not have a process in place to ensure that only appropriate employees had access to its payroll and vendor payment systems. In addition, certain components of the formula used to establish bus contractor payment rates should be reevaluated, as the rates used appear to result in unnecessarily high payments, and could cost CCPS approximately $8.3 million over the life of the new buses put into service since 1998. Also, CCPS should establish better controls over access to critical information technology resources.

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 61. 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 Charles 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 20 school systems; CCPS represents the twenty-first to date. The approved process included 11 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 7 through 9)

According to the audited CCPS financial statements, $356 million in revenue was received from all sources during fiscal year 2009, the vast majority of which was received via electronic fund transfers from other governmental entities. Procedures and controls for these revenue sources and accounts receivable were generally found to be adequate.

Federal Funds (see pages 11 through 13)

Annually, CCPS is subject to an audit of its federally funded programs (often referred to as the Single Audit, and required by Circular A-133, which is issued by the U.S. Office of Management and Budget). Due to parallels between that work and the scope of our audit, we placed significant reliance on the results of the independent audit of the fiscal year 2009 federal grant activity, for which reported expenditures totaled $14.5 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 firm noted no matters considered to be significant deficiencies or material weaknesses.

CCPS had an adequate process for identifying children eligible for Medicaid-subsidized services, and for recovering the related costs. CCPS also obtained applicable rebates under the Medicare Part D pharmacy rebate program for retirees, and participated in the E-Rate program.

Procurement and Disbursement Cycle (see pages 15 through 19)

According to CCPS records, non-payroll disbursements totaled $91 million during fiscal year 2009. The audit disclosed that, although CCPS established processes to enhance the cost effectiveness of procurements (such as "piggybacking" on the contracts of other entities), it needs to improve its controls over procurements and disbursements. For example, CCPS could not readily determine what system capabilities (such as generating purchase orders and making related payments) were assigned to users. In addition, CCPS should ensure that purchases comply with its existing policies over procurement.

Human Resources and Payroll (see pages 21 through 24)

CCPS employed 3,367 full-time equivalent employees as of October 2008 and payroll and benefit costs during fiscal year 2009 totaled approximately $247 million. CCPS had implemented workforce planning measures for all staff. However, internal controls over critical human resources and payroll functions need to be strengthened. For example, certain employees were assigned unnecessary and/or inappropriate computer system access capabilities without effective compensating controls. In addition, there was a lack of an independent review of payroll adjustments, and severance payments were made without a formal policy.

Inventory Control and Accountability (see pages 25 through 26)

CCPS has formal policies and procedures to control equipment, which had an undepreciated cost of $26.2 million as of June 2009. However, CCPS should improve its controls over non-capital sensitive equipment. Although accountability for this equipment was delegated to the schools, we were advised that the schools were responsible for deciding whether and how to implement the related written procedures designed to control this equipment. In addition, those procedures did not include requirements for physical inventories.

Information Technology Services (see pages 27 through 28)

CCPS maintains and administers a computer network, computer operations, and a number of significant financial and academic information system applications. CCPS developed and periodically updates a written technology plan that is part of the school system's Master Plan. In addition, CCPS has developed and documented information technology security and disaster recovery plans. However, we identified several areas in need of improvement, including the strengthening of policies over passwords and the logging and review of various security events.

Facilities Construction, Renovation, and Maintenance (see pages 29 through 33)

CCPS maintains 37 schools and several other facilities (such as administration and support offices) with a staff of 260 custodial and maintenance personnel. CCPS has implemented several best practices to help reduce construction and maintenance costs for its facilities. However, CCPS had not established formal performance measures and related benchmarks, and did not track estimated time and cost amounts on its work order system to assess maintenance staff efficiency. Additionally, CCPS could enhance its existing energy conservation program by establishing measurable savings goals and implementing incentive programs for individual school participation.

Transportation Services (see pages 35 through 42)

CCPS is responsible for the safe transportation of more than 25,000 eligible students, of which two percent are disabled. CCPS uses a number of recognized best practices to increase student transportation efficiency, such as staggering school arrival and dismissal times to enable certain buses to perform multiple runs. However, CCPS did not fully use automated routing software to help efficiently plan bus routes. In addition, CCPS had not conducted a recent analysis of its decision to outsource transportation services, nor of the reasonableness of the rates paid to bus contractors. In that regard, CCPS did not periodically adjust certain rates based on market conditions; those rates were used to provide the bus contractors with a return on their initial investment of funds to purchase buses. Consequently, CCPS may end up paying $8.3 million more than necessary over a 12-year period. Finally, CCPS had not developed formal performance measures to monitor and evaluate the efficiency and effectiveness of transportation services.

Food Services Operations (see pages 43 through 50)

CCPS has implemented a number of best practices to help reduce food service costs, such as participating in a food-purchasing cooperative, and using available USDA commodities. CCPS has adequate procedures in place to identify students eligible for free meals and reduced-price meals under the federal national school meals programs. However, CCPS needs to comply with procurement approval requirements and improve controls over the ordering and receiving of food supplies. CCPS should also analyze whether barriers exist that have resulted in actual participation in the free and reduced-price breakfast program being below the average of comparable school systems. Finally, CCPS should enhance its use of performance measures and periodically evaluate its current practice of using full service kitchens in all of its 37 schools.

School Board Operations and Oversight (see pages 51 through 55)

Oversight of CCPS fiscal operations included the seven-member Board receiving financial updates, such as monthly budget variances, to assist it in monitoring the use of funds. The Board is also actively involved in the budgeting process. CCPS has a detailed ethics policy and had established a process to independently investigate ethics issues and complaints. Nevertheless, the Board could improve oversight of operations by expanding the role of its internal auditor and by requiring the internal auditor to report directly to the Board, and adopting and receiving performance measurement data for key operations. Finally, the Board should also consider establishing a confidential hotline for employees and others to report operational concerns and suspected fraud and waste.

Other Financial Controls (see pages 57 through 59)

While CCPS had certain policies and procedures in place to govern its risk and cash management, it should also develop written policies governing its use of long-term liabilities, such as financing agreements, and establish sufficient controls to verify the propriety of health care costs.

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Background Information

Oversight

Charles County Public Schools (CCPS) is governed by a local school board, consisting of seven elected voting members and a non-voting student member. The vast majority of CCPS funding is provided by the Charles County government and the State. 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 Charles County government is limited, although the CCPS annual operational and capital budgets require County approval.

Statistical Overview

According to MSDE student enrollment records, CCPS ranks 10th in student enrollment among the 24 public school systems in Maryland. From fiscal year 2000 through 2009, the total full-time regular and special education pupil population has increased 18 percent from 22,720 to 26,727, with further projected increases to 30,280 by 2017. For the 2009–2010 school year, CCPS had 37 schools, consisting of 21 elementary, 8 middle, 6 high, and 2 alternative schools. According to its audited financial statements, CCPS expenditures were $338 million in fiscal year 2009. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 73 percent of total expenditures during fiscal year 2009. CCPS budgeted full-time positions in fiscal year 2009 totaled 3,367, which consisted of 2,482 instructional and 885 non-instructional employees.

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

External Audit of Fiscal Year 2009 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 2009 fiscal year were issued in September 2009. Neither report included any significant deficiencies nor material weaknesses in CCPS record keeping, processes, and controls.

Chapter 1

Revenue and Billing Cycle

According to the CCPS audited financial statements, $356 million of revenue was received by CCPS during fiscal year 2009. 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 that audit for revenues and accounts receivable (for example, amounts due from other governments). The auditor's procedural review and testing disclosed no significant deficiencies[1] or material weaknesses[2] in accounting for revenues and accounts receivable. Such testing included the most significant revenue types—the majority of which related to electronic fund transfers from other government entities—as well as school activity funds and food service cash receipts.

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[1] A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more that a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. With respect to Single Audit, 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.

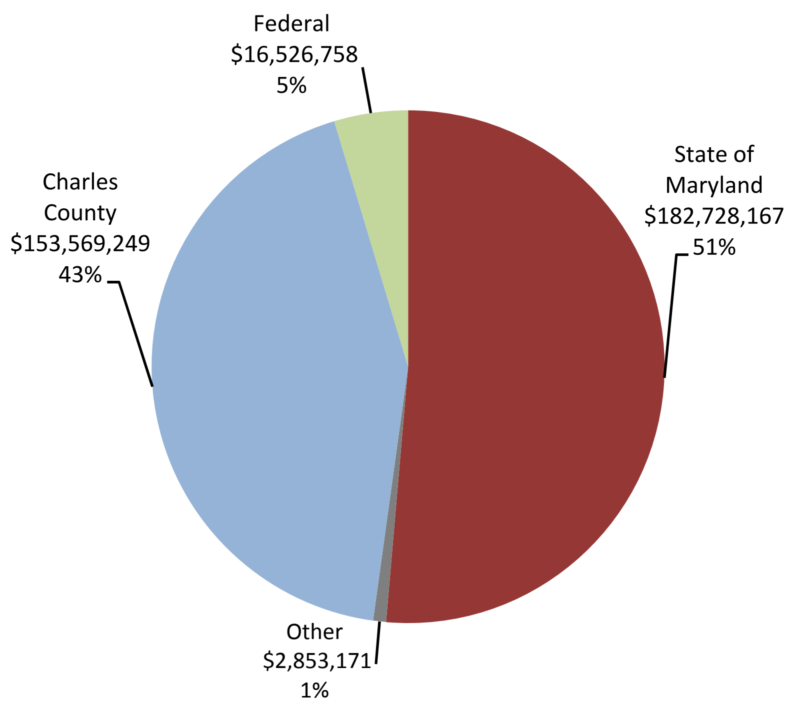
[2] A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements (or, with respect to Single Audit, material noncompliance with a type of compliance requirement of a federal program) will not be prevented or detected by an entity's internal control.

CCPS also conducts reviews of school activity funds. Those reviews identified some control weaknesses at certain schools. These control weaknesses did not appear to be prevalent and we were advised that they were addressed by school management.

Background

CCPS revenues consist primarily of funds received from Charles County and the State. Other sources include federal grant funds, receipts from the sale of food, interest income, and other miscellaneous sources. Chart 1 (below) shows CCPS fiscal year 2009 revenues of $356 million by major source.

Chart 1
Sources of Fiscal Year 2009 Revenue
($356 Million)



Sources: CCPS fiscal year 2009 audited financial statements and supporting CCPS records

In addition to the revenues in Chart 1 on page 8, schools also collect funds for various purposes, such as yearbook and band. These school activity funds[3] 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 2009 school activity fund revenues totaled $7.2 million, and the June 30, 2009 balance was $2.5 million.

Controls Over Revenue and Billing Cycle Activities Were Generally Adequate for Significant Revenue Types

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 fiscal year 2009 financial statement audit. The firm's procedural review and testing disclosed no significant deficiencies or material weaknesses regarding significant revenue types and related accounts receivable. The majority of this revenue was received via electronic funds transfers from other government entities.

Recommendations

None

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[3] The Board has a fiduciary responsibility to ensure that school activity funds are used only for intended purposes by those to whom the assets belong. Receipts for the school activity funds, which totaled $7.2 million during fiscal year 2009, are not included in the $356 million revenue total because the Board cannot use these assets to finance CCPS operations.

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 issued by the U.S. Office of Management and Budget). The report on the audit of fiscal year 2009 federal grant activity was issued by an independent certified public accounting firm on September 30, 2009.

In that report the auditor stated that CCPS complied, in all material respects, with the requirements applicable to each of its major federal programs for the year ended June 30, 2009. With respect to internal controls over compliance with and the operation of major federal programs, the auditors disclosed no material weaknesses and no significant deficiencies in the internal control over compliance.

CCPS had established an adequate procedure for the identification of children eligible for Medicaid-subsidized[4] services, and for recovering the related costs. In addition, CCPS participated in the federally funded E-Rate program. This program provides discounts for school systems related to telecommunications and Internet access. CCPS also obtained applicable rebates under Medicare Part D pharmacy rebate program for retirees.

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

Background

CCPS receives funds primarily from Charles County, the State, and the federal government. Most funds received from Charles County and the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2009 expenditures of federal award funds totaled $14.5 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 2009 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). In its report dated September 30, 2009, the auditor stated that CCPS complied, in all material respects, with the requirements applicable to each of its major federal grant programs for the year ended June 30, 2009. In addition, with respect to internal controls over compliance with and the operation of major federal programs, no material weaknesses or significant deficiencies were noted.

Processes Were in Place to Identify Students Eligible for Medicaid Services and to Obtain Federal Cost Reimbursements

Our review of Medicaid-subsidized services disclosed that CCPS has adequate processes in place to identify students eligible for Medicaid services and to recover the related costs. Specifically, CCPS manually reviews Medical Assistance records for all students receiving special education services to determine if the students are eligible for Medicaid-subsidized services. In addition, CCPS ensures that all services provided are billed and recoveries subsequently received. According to CCPS records, CCPS received $1.5 million of federal fee-for-service payments during fiscal year 2009 for Medicaid-subsidized services for qualified students.

CCPS Participated in Other Federal Programs

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). 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. CCPS was approved for $261,000 in federal E-Rate funds for funding year 2008, about half of which had been received as of July 2009. In addition, according to CCPS records, CCPS obtained $309,000 under the Medicare Part D pharmacy rebate program for fiscal year 2008 costs for retirees on the CCPS prescription drug program.

Recommendations

None

Chapter 3

Procurement and Disbursement Cycle

CCPS used certain best practices in procuring goods and services, such as purchasing items through contracts already procured by other jurisdictions (referred to as "piggybacking") when it was beneficial to do so. In addition, CCPS has adequate policies and procedures over travel and procurement card programs. However, CCPS needs to improve its controls over procurements and disbursements. For example, CCPS could not readily determine what system capabilities (such as to generate purchase orders and to make related payments) were assigned to users. In addition, the employee who was responsible for comparing checks to be disbursed to supporting documentation also had access to the automated system. Furthermore, CCPS should comply with its existing policies and procedures over procurement.

Background

CCPS uses an automated system for purchasing and related disbursements. Requisitions are entered by schools or departments and are subject to departmental and purchasing office approval. Purchase orders, contracts, solicitations, and bids are generally managed by the purchasing office. CCPS procurement regulations are similar to State regulations in that purchases over $25,000 typically are required to be formally bid. Additionally, purchases and contracts exceeding $25,000 must be approved by the Superintendent. The receipt of goods and services is entered into the automated system by the receiving school or department and payments are then processed by the finance office. Vendor payments are processed using the automated system. According to CCPS records, non-payroll disbursements totaled $91 million during fiscal year 2009.

CCPS established a pilot purchasing card program in December 2008. During the first nine months (December 2008 through August 2009), employees used credit cards to make $350,000 in purchases. According to CCPS records, 116 employees have been issued credit cards whose monthly charges are paid directly by the school system.

CCPS Used Certain Best Practices to Address its Procurement and Disbursement Needs

CCPS had instituted certain best practices to enhance the cost effectiveness of its procurement and disbursement transactions.

- When it is beneficial to do so, CCPS "piggybacks" onto contracts already procured by the State and other local governments. This practice saves CCPS certain costs associated with the procurement of the contracts and may provide larger discounts because of the combined purchasing power of multiple entities.

- CCPS participates in purchasing consortiums with other government entities (such as Charles County government and other school systems) for items such as energy, fuel supplies, instructional supplies, and food.

- CCPS maintains travel reimbursement policies for Board members and employees. These policies include requirements for pre-approval of out-of-state travel, limits on expenses, proper documentation of all related expenses, and review and approval of expense reports by supervisory personnel. Our limited testing of related disbursements disclosed that payments were made in accordance with these established policies. According to its records, CCPS travel expenditures for fiscal year 2009 totaled $264,000.

- In advance of implementing its procurement card program, CCPS developed detailed procedures, which established requirements pertaining to documentation, supervisory review and approval of transactions, card limits, and appropriate use.

CCPS Should Strengthen Internal Controls Over Its Procurements and Disbursements

Procurement and disbursement controls need to be strengthened. Specifically, we were advised that CCPS had not evaluated the propriety of user access in the 26 years it had been using its current automated procurement and disbursement system. The system is menu driven and access to a particular menu provides full access to all functions within that menu. According to CCPS personnel, customized menus were established for certain employees to grant access to system screens, but the existing automated system software did not have the capability to generate security reports detailing user access. As a result, CCPS management acknowledged that some employees were provided with improper or unnecessary access to critical purchasing and accounts payable screens, such as to process vendor changes and invoice payments, and allowed certain employees to perform incompatible functions. For example, all three accounts payable clerks had total access to accounts payable screens, which allowed them to both process and release invoices for payment. According to CCPS records, there were 348 employees with system logon IDs, including those with payroll and human resource capabilities. Some employee IDs may have "read only" access capabilities, but we could not readily determine this due to the lack of user access reports.

In addition, the person responsible for comparing checks to be issued with supporting documentation also had system access and, therefore, was not independent. This procedure also did not include a review to determine the numerical continuity of issued checks as a means to ensure that all checks were received for review.

Finally, although current procedures require staff to enter the receipt of goods in the automated system (which serves as the approval to pay), the system does not identify the individual who records the entry. Accordingly, the individual(s) responsible for any discrepancies might not be readily identifiable.

CCPS Should Ensure That Procurements Are Made in Accordance with Existing Policies

Procurements were not always made in accordance with existing CCPS policies. CCPS procurement policies are similar to State regulations in that purchases over $25,000 typically are required to be formally bid. The policies also require Superintendent approval for all contracts over $25,000. Our tests of procurements disclosed the following instances in which CCPS did not follow its own policies:

- Our test of 9 contracts and 18 related invoices processed in fiscal years 2009 and 2010 (the invoices totaled $1.8 million) disclosed that, for one contract, CCPS could not provide documentation that the Superintendent approved the decision to piggyback on an existing purchasing alliance contract with other local government agencies. Payments to this vendor in fiscal year 2009 totaled $700,000.

- Our separate test of 15 small procurements totaling $58,000 made from 13 vendors in fiscal years 2009 and 2010 disclosed that the Superintendent did not approve the related contract with one vendor, as required. Total payments under the contract to the vendor exceeded $50,000. In addition, we found two procurements, with related vendor payments totaling $20,750, where CCPS did not obtain competitive bids. CCPS procurement policy requires that three quotes, preferably written, be obtained for purchases costing between $2,500 and $25,000. CCPS considered the items to be materials of instruction (which are exempt from bidding requirements by State law). However, we question whether these procurements— for gym uniforms and award letters for school jackets—fit the definition of materials of instruction, which CCPS has defined, for example, as classroom supplies and related items used to teach students.

Recommendations

1. CCPS should improve its controls over purchasing and the invoice payment process by determining system access capabilities, separating incompatible duties, and restricting capabilities to critical system functions to only those who need the capabilities to perform their job duties. CCPS should also determine if system reports of user access capabilities could be

generated for periodic review. Furthermore, CCPS should establish a process to ensure that a proper and independent review of disbursement checks is performed. Finally, CCPS should determine if the current system could be modified to identify the employee who records receipt of goods in the system or should develop alternate procedures to adequately document the receipt of goods.

2. CCPS should ensure that all purchases are made in accordance with existing policies. Specifically, CCPS should ensure that contracts are properly approved and that purchases are competitively bid, when appropriate.

Chapter 4

Human Resources and Payroll

CCPS has taken steps to address workforce planning for all employees of the System. However, CCPS should address certain procedural and control deficiencies with respect to human resources and payroll functions. These deficiencies include the assignment of unnecessary or inappropriate access capabilities to employees on the CCPS human resource and payroll system, the inability to generate reports from the system of the assigned capabilities, and a lack of an independent review of payroll adjustments and severance payments.

Background

Payroll expense represents the largest single cost component in the CCPS budget. According to CCPS records, for fiscal year 2009, salary, wage, and benefit costs totaled approximately $247 million. As of October 2008, CCPS had 3,367 full-time equivalent employees, of which 885 (26 percent) were non-instructional. The 7.9 to 1 ratio of CCPS students to full-time equivalent employees (both instructional and non-instructional) is reasonable when compared with similarly sized school systems (see Table 1 on the following page).

CCPS uses an automated integrated human resources and payroll system to maintain human resources information, record employee time, and track leave usage. The system automatically generates biweekly time records, and any adjustments are processed by CCPS central payroll personnel. The system generates payroll checks and direct deposit advices. Payroll processing involves both automated (such as for compiling leave and running edit reports) and manual processes (such as the data entry of new employee information).

Table 1
Comparison of Employee to Student Ratios – Fall 2008
(Unaudited)

School System	Number of Students (as of September 30, 2008)	Number of Full-Time Equivalent Employees (as of October 1, 2008)	Student to Employee Ratio
Charles County	26,727	3,367	7.9 to 1
Carroll County	27,964	3,594	7.8 to 1
Washington County	21,734	2,851	7.6 to 1
Calvert County	17,052	2,255	7.6 to 1
Harford County	38,610	5,340	7.2 to 1

Source: MSDE Student/Staff Publications

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

Workforce Planning Addressed Future Critical Needs

CCPS has established a number of methods to identify and address workforce needs. For example, CCPS projects staff retirements for both instructional and non-instructional staff and includes this information in its Master Plan, which is updated annually. 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 also includes a number of objectives and strategies to address human resource needs and the recruitment and retention of highly qualified instructional staff (that is, teachers and certain instructional aides).

In addition, CCPS has programs designed to develop its professional staff. For example, CCPS has a formal teacher mentoring program and uses a formal leadership training program to assist CCPS personnel interested in transitioning into administrative positions, such as assistant principal.

Human Resource 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.

- The automated human resource and payroll system is menu-driven and each user with access to a particular menu will have access to all functions within that menu. In addition, according to CCPS personnel, customized menus were established to grant access to system screens, but the existing automated system software did not have the capability to generate security reports detailing user access. As a result, CCPS management acknowledged that some employees were provided with improper or unnecessary access and, therefore, we were unable to readily determine how many users had the ability to add, delete, or modify human resources and payroll-related data on the system, and what access users required for their job responsibilities. According to CCPS records, there were 348 employees with system logon IDs, including those with procurement and disbursement capabilities.

- The same employees who reviewed bi-weekly payroll adjustments for propriety also had the capability to process such adjustments. The responsibility for reviewing payroll adjustments rotated among three employees, each of whom was also responsible for processing a portion of the related transactions each pay period.

CCPS Should Establish a Policy for Severance Payments

CCPS needs to establish a formal severance payment program. Specifically, CCPS routinely made severance payments to terminated employees when not contractually obligated to do so, and had no documented rationale for the amounts of the payments and no established approval requirements. CCPS made severance payments totaling approximately $13,500 to 11 former employees in 2008 and 2009. Our detailed review disclosed these payments were made even when the employees were terminated for adverse performance (such as misconduct in office or willful neglect of duty).

Recommendations

3. CCPS should improve internal controls over its automated human resource and payroll system by determining system access capabilities, separating incompatible duties, and restricting capabilities to critical system functions to only those who need the capabilities to perform their job duties. CCPS should also determine if system reports of user access capabilities could be generated. In addition, CCPS should ensure that biweekly payroll-related changes recorded in the system are reviewed and approved, at least on a test basis, by an employee independent of the payroll processing function.

4. CCPS should establish a formal severance payment policy that specifies, at a minimum, the eligibility requirements, the methodology for calculating such payments, and the related approval requirements. This policy should be reviewed and approved by the Board.

Chapter 5

Inventory Control and Accountability

Our audit disclosed that CCPS has formal policies and procedures governing the purchase, recordkeeping, and disposal of all property, including sensitive equipment. However, CCPS should improve its controls over non-capital sensitive equipment. Specifically, although CCPS had developed written procedures for such equipment that delegates the responsibility for control to the individual schools, the schools were given flexibility on whether and how to follow these procedures, and the procedures did not include certain inventory requirements.

Background

According to the audited financial statements, the undepreciated cost of the CCPS capital equipment inventory totaled $26.2 million as of June 30, 2009. CCPS uses an automated system to track its equipment inventory for items with a cost of $1,000 or greater. (Effective fiscal year 2010, this threshold was increased to $5,000.) In addition, the Information Technology group maintains automated records for all computers, including laptops, regardless of cost.

Policies, Controls, and Record Keeping Over Certain Equipment Need Improvement

CCPS policy defines sensitive equipment as theft-sensitive equipment (such as televisions, VCRs, computers, and laser disc players), and requires that all computers be maintained in a separate inventory by the Information Technology group. CCPS policy directs individual departments and schools to track other non-capital sensitive equipment (that is, sensitive items not recorded in CCPS' official equipment records). In this regard, at the beginning of the 2009-2010 school year, CCPS issued written procedures on non-capital sensitive equipment to the schools specifying the type of equipment to track and related record keeping requirements. However, we were advised that the decision of whether and how to implement these rules (such as what sensitive items to track) was delegated to the individual schools. In addition, the policy was not comprehensive because it did not require the schools to periodically inventory this equipment and compare it to the related inventory records. This issue takes on additional significance since, effective with fiscal year 2010, CCPS increased its capital equipment level from $1,000 to $5,000. As a result, the number of non-capital sensitive equipment items to be accounted for by the individual schools will increase.

Recommendation

5. CCPS should modify its existing non-capital sensitive equipment procedures by requiring all schools to maintain inventory records for specific equipment as determined by CCPS. In addition, the policy should include a requirement to periodically inventory these equipment items, reconcile those results with the related inventory records, and conduct investigations for items that cannot be located.

Chapter 6

Information Technology Services

CCPS maintains and administers a computer network, computer operations, and a number of significant financial, human resource, and academic information system applications. CCPS developed and periodically updates a written technology plan that is part of the school system's Master Plan. CCPS has also developed and documented information technology security and disaster recovery plans.

However, we identified several areas in need of improvement, including the strengthening of policies over passwords and the logging and review of various security events.

Background

The CCPS Information Technology (IT) group provides information systems services to the System. The IT group maintains and administers the CCPS academic, financial, and human resources information applications and computer operations. The IT group also operates the CCPS network (with Internet connectivity) which links the individual schools' local networks to the computer resources located at the CCPS headquarters in the CCPS Board of Education building.

Technology Plans Are Regularly Developed to Address Current and Future Needs of CCPS

CCPS prepared a detailed long-term technology plan (the current plan is for fiscal years 2009 to 2013) and includes annual updates as part of the school system's Master Plan. The technology plan establishes a vision and mission for technology within CCPS and has defined goals. As it relates to IT resources, the plan addresses various topics including system security, hardware and software replacement, professional development, and training. In addition, CCPS had developed and documented IT security and disaster recovery plans.

Steps Should Be Taken to Ensure Access to IT Resources Are Appropriate and Controlled

Our review disclosed several deficiencies in computer security which increased the vulnerability of various CCPS automated systems, programs, and data. Enhancements should be made to existing procedures to ensure that controls over computer resources are appropriate. For example, automatic password expiration periods were either excessive or were not enabled for certain user profiles, and the CCPS minimum password length was set to only six characters. In addition, CCPS did not log a number of security events (such as authorization failures) and did not generate reports of logged security events for review. CCPS assigned users to groups that allowed users to perform common tasks but did not allow for unique identification of individual users. Finally, eight system users had inappropriate and unnecessary modification access to critical production data and program files.

Recommendation

6. CCPS should take steps to enhance its IT security. Specifically, CCPS should establish and enforce stricter password requirements, log all appropriate security events, and conduct documented reviews of logged system activity. CCPS should also ensure that users are given only the access necessary for their job functions and should establish unique IDs for each user.

Chapter 7

Facilities Construction, Renovation, and Maintenance

CCPS used a number of best practices in its capital planning process, as well as to control costs. These include (1) the development of a six-year Capital Improvement Plan based on a comprehensive and public process, (2) the development of a specifications document for new construction that addresses the necessary building requirements, (3) participation in energy cooperatives to reduce the cost of purchasing fuel and electricity, and (4) performing preventive maintenance in accordance with documented requirements.

However, CCPS should implement certain processes to help monitor and further promote operational efficiency and effectiveness. For example, CCPS had not established formal performance measures and related benchmarks to measure and assess the efficiency of its maintenance and custodial operations. In addition, CCPS did not track estimated time and cost amounts on its work order system to assess maintenance staff efficiency. Finally, CCPS could enhance its existing energy conservation program by establishing measurable savings goals and by implementing incentive programs for individual school participation.

Background

CCPS maintains 37 schools and several other facilities (such as administration and support offices) with a staff of approximately 206 custodial and 54 maintenance personnel for fiscal year 2010. CCPS uses a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. The annual CIP was developed using student demographic data and input from various sources, including public meetings, and was approved by the Board. In the fiscal year 2010 CIP (prepared in fiscal year 2008), necessary major renovations, repairs, and systemic improvements to existing schools over the next six years were estimated to cost $191 million.

CCPS regularly used a significant number of relocatable classrooms (also known as "portables") to supplement its fixed instructional facilities. According to CCPS records, portables accounted for approximately 16 percent of its classroom space. For example, during fiscal year 2009, CCPS used 248 portables at 31 different schools. Seventy-six of the portables were used at CCPS' six high schools, which operated, on average, at 114 percent of State-rated capacity.

Certain Best Practices Were in Place to Enhance the Efficiency and Effectiveness of the CCPS Facility Construction and Maintenance Department

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

- CCPS develops a six-year Capital Improvement Plan that reflects a comprehensive process involving the Board, and public and county officials.

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

- CCPS uses portable classrooms and periodically evaluates school district boundaries in order to reduce the need for additional construction.

- CCPS develops an educational specifications document for all new construction that addresses all building requirements, including educational components mandated by the State.

- CCPS has implemented a comprehensive preventive maintenance program, which includes periodic inspections of a number of building components (such as fire extinguishers, roof cleaning, and various mechanical equipment items) and performing tasks at required intervals.

To help control energy costs, CCPS employs an energy management program coordinator who is trained in conservation techniques and monitors energy practices within the System. CCPS has also implemented in-house energy management practices to reduce energy costs, such as the implementation of an automated system to monitor and regulate heating and air conditioning in all of its schools and the central office complex, and the installation of energy-saving equipment in new school construction. CCPS also participates in two purchasing cooperatives in an effort to reduce costs. Specifically, for fuel purchases, CCPS is a member of the Southern Maryland Cooperative Purchasing Committee, along with the surrounding counties and boards of education. For electric supply purchases, CCPS is a member of the Southern Maryland Electric Cooperative.

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

CCPS should develop a performance measurement system and should use available information to determine staffing needs – CCPS had not implemented a performance system to measure and assess the efficiency of its maintenance and custodial operations, both for internal self-evaluation purposes and for comparisons with other systems, which could identify other best practices. Comparability with other systems in Maryland could not necessarily be done unilaterally since there would need to be a consensus on the measures and methodology; however, other states (for example, Michigan and Florida) have mandated the establishment and use of measures and benchmarks to assist schools in the evaluation of costs and practices.

We also noted that CCPS did not use a staffing formula to periodically determine the number of maintenance and custodial employees required to efficiently meet its needs. Our comparison disclosed that CCPS maintenance and custodial staffing levels are higher than national medians, as reported in the April 2009 issue of *American School and University Magazine*. These national medians specify one maintenance and one custodial employee per 92,074 and 32,100 of square feet of building maintained, respectively. Using current staffing and square footage for all CCPS buildings (including administrative facilities and relocatable classrooms), we calculated that CCPS had one maintenance employee and one custodial employee per 74,325 and 19,311 square feet of building maintained, respectively. Although numerous factors could influence this staffing formula, such as the age of buildings and the use of contractual services, this comparison suggests that the size of the Department's staff and the efficiency of its operations should be evaluated.

CCPS could more fully use the automated work order system – Maintenance work orders are logged into an automated system including information related to the actual resources used to perform the tasks (such as labor hours and equipment expenditures). However, this information is not compared to resources expected to be used to perform each task, based on either history or industry guidebooks. As a result, completed work orders are not used to assess the performance of individual employees and of the entire maintenance department, or to determine budgets for future needs. An effective work order system can be used to generate a variety of statistical data including employee productivity, cost reports, and facility assessments, all of which are key pieces of a performance measurement system. According to the work order system, CCPS' maintenance staff of approximately 52 employees (excluding management) completed over 12,000 work orders in fiscal year 2009.

Energy conservation and management programs could be enhanced - Although CCPS had instituted several practices designed to help control energy costs, it lacked a comprehensive energy management and conservation program. Such a program is an accepted industry best practice and includes goals, strategies, and measures to determine program success (such as reducing total energy use by a stated percentage). We also noted that CCPS did not use any school incentive programs to encourage energy conservation. We found some school systems that, as an incentive to conserve, allow dollars saved by individual schools to be used by them in other areas (such as instruction).

Recommendation

7. CCPS should develop a performance assessment system for maintenance and custodial operations and include in its work order system a comparison of actual to budgeted resources. This assessment should include a periodic evaluation of the maintenance and custodial staff sizes. CCPS should also institute a comprehensive energy management program, including school-based incentive programs.

Chapter 8

Transportation Services

CCPS used a number of recognized best practices to increase student transportation efficiency, such as staggering school arrival and dismissal times to enable certain buses to perform multiple runs on the same route. However, in several areas, improvements should be made in an effort to reduce CCPS transportation costs. For example, CCPS did not fully use automated routing software to help efficiently plan bus routes and had not developed formal performance measures to monitor and evaluate the efficiency and effectiveness of transportation services. Also, CCPS had not conducted a recent cost benefit analysis of its decision to continue contracting for student transportation services, and may end up paying $8.3 million more than necessary over a 12-year period for the cost of contractors' buses because of generous reimbursement rates used. Finally, internal controls over the processing of bus contractor payments were deficient.

Background

CCPS is the 10th largest public school system in Maryland, based on student enrollment. CCPS is responsible for the safe transportation of more than 25,000 eligible students, including two percent who are disabled. In fiscal year 2009, the majority of CCPS students were transported on one of 272 buses owned by 28 bus contractors hired by the school system. According to CCPS records, fiscal year 2009 pupil transportation operating costs totaled approximately $21 million. Of the 6,183,967 reported route miles for the 2008–2009 school year, 24 percent were for transporting disabled students.

Table 2 below shows that the fiscal year 2008 CCPS cost per rider was higher than the average of similarly sized school systems; however, the cost per mile was below the average of these same school systems.

Table 2
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)	Average Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
Charles County	24,634	446	4,837	1,316	$20,868	$832	$3.39
Harford County	33,643	754	5,432	1,904	26,889	782	3.67
Carroll County	27,221	600	3,444	1,823	19,125	687	3.63
Calvert County	13,039	300	2,478	722	11,532	865	3.60
Average of Similarly Sized School Systems	24,634	551	3,785	1,483	$19,182	$778	$3.63

Sources: MSDE 2007-2008 Fact Book, LEA Reported Expenditures

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

The CCPS transportation department had several practices in place to help improve route efficiency and reduce student transportation costs:

- Staggering school arrival and dismissal times to enable certain buses to perform multiple runs, thereby reducing the need for CCPS to obtain additional buses through bus contractors
- Using central collection points for transporting students to technical high schools to reduce the ride time on these buses
- 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

Routing Software Should Be Fully Used and Routing Procedures Should Be More Comprehensive

Guidelines used to plan, review, and revise bus routes did not include all appropriate factors – Existing documented procedures provided guidance regarding bus transportation scheduling (such as analyzing existing routes, and remaining alert for road network changes). However, CCPS current procedures did not address factors such as busloads (that is, capacity) and student ride times when determining the most appropriate bus routes.

CCPS did not fully use its automated routing software – CCPS did not fully use automated bus routing software. For example, we were advised that, while the software had been interfaced with automated student information records to transfer student demographic information beginning with the 2009-2010 school year, the department had not begun using the updated information to complete routes. Rather, staff manually adjusted existing routes for these changes, as deemed necessary. As a result, the process for developing bus routes could be more efficient.

For example, we noted that, for fiscal year 2009, 71 of 216 buses that we reviewed (33 percent) operated at levels significantly below desired capacities. Specifically, according to driver manifests, none of the runs for these buses exceeded 75 percent of the CCPS desired capacities.[5] Automated routing software would enable staff to plan, review, and revise bus routes in a more efficient and effective manner by providing student data quickly and bus routes in a visual format.

We were advised by another school system that a concerted effort to maximize the use of routing software (along with supplemental manual processes) for the 2008-2009 school year allowed it to eliminate 13 percent of existing bus stops, eliminate 6 buses due to

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[5] Capacities are lower than manufacturer stated capacity and differ depending on the school. For example, the desired capacity for high, middle, and elementary school routes is 44, 51, and 58 students, respectively based on 64-passenger buses (manufacturer stated capacity).

route consolidation, and avoid the purchase of 10 new buses. This other system provides transportation services to a larger population (that is, has a ridership that is about one and one-half times the size of CCPS) using its own bus fleet; therefore, the extent to which CCPS could realize efficiencies may differ.

The Cost and Benefits of Outsourcing the Bus Services Should Be Determined and Payment Factors Should Be Analyzed to Ensure Cost-Effective Operations

CCPS should determine the cost and benefits of outsourcing regular bus services – CCPS had not recently reevaluated its decision to have a bus fleet owned by contractors. A cost/benefit study conducted in 1987 found that contractor ownership is the most beneficial and disclosed no incentive for CCPS to change its policy of contracting for school bus services. A subsequent cost/benefit analysis performed by CCPS in 1995 recommended that CCPS competitively bid and award routes; however, a pilot program determined that actual costs would increase under a bid process. Currently, CCPS awards new school bus contracts to existing bus contractors. CCPS has not performed any analysis subsequent to the 1995 study.

Under current arrangements with bus contractors, CCPS assumes nearly all of the risks for bus operations while essentially guaranteeing a profit to the contractors each year for the expected 12-year[6] life of each bus. Specifically, contractors are paid a "per vehicle allotment" (PVA) over a 12-year period, which is designed to cover the full acquisition cost of the bus, with the assumption that there is no residual value. (Concerns with the PVA calculation are noted in the following report comment.) The PVA also provides an additional annual payment as a return on investment (ROI) to the contractors, which is established when a bus is purchased and remains fixed over the life of each bus. In addition, the contractors receive a per-mile rate for operating and maintenance costs (which includes fuel costs), a driver per-hour payment to cover the contractor's labor costs, and an annual administrative cost

[6] 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.

payment. Additionally, as provided for in the bus contracts, CCPS pays the contractor for costs associated with a number of employee benefits (including the majority of costs for health and life insurance and a flat rate contribution to a retirement plan). Furthermore, the bus contracts require CCPS to incur the costs associated with mandated leave benefits for the drivers and attendants, ranging from 3 to 10 days per year depending on time of service, and to pay an insurer directly for the liability insurance for bus operations. According to a transportation cost comparison for fiscal year 2009 prepared by another school system (that we did not verify), CCPS had the highest cost per bus, considering all payment components, of the 16 systems in the State that use this payment method.

CCPS continues to believe that contracting for these services benefits the school system since it does not require an up-front capital outlay for buses and for costs associated with providing maintenance and storage facilities. Considering CCPS' relatively higher student transportation costs and the fact that an analysis has not been conducted in 15 years, this conclusion cannot be assured.

Certain payments to bus contractors should be re-evaluated and 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. However, the cost reimbursement component of the PVA is calculated as if the bus will only be in operation for 10 years. Thus, bus contractors are paid 100 percent of the bus' cost over the 10-year period (10 percent of the cost each year for 10 years). After 10 years, CCPS pays contractors 80 percent of the PVA rate for the final 2 years of the life of the bus, which results in CCPS paying the equivalent of approximately 116 percent of the bus cost. In addition to overpaying the bus acquisition costs, CCPS contractors are paid a flat ROI rate of 10.25 percent annually based on the purchase price of the bus. Specifically, when each new bus is purchased, CCPS does not change its ROI to reflect the market interest rate conditions at the acquisition dates. Although CCPS did not have documentation to support how the ROI rate of 10.25 percent was established, CCPS advised that the rate was based on the prime rate at the time the formula was developed, plus a factor for profit. CCPS has used this rate to pay contractors since at least 1998.

To estimate the financial impact to CCPS of paying 116 percent of the bus cost over 12 years and using the 10.25 percent ROI over the life of a bus, we calculated the PVA for each of the past 12 years (1998 to 2009) using a 100 percent cost reimbursement rate over 12 years and the prime interest rate[7] as the ROI. Comparing the actual payments with our calculated payments, we estimated that, over the 12-year life of the 272 new buses put into service by contractors since 1998, CCPS will pay out $8.3 million more than if the prime rate and a 12-year 100 percent cost reimbursement rate had been used. Of the $8.3 million, $5 million has already been paid through fiscal year 2009 and, unless changes are implemented, the remaining $3.3 million will be paid during fiscal years 2010 to 2020. This analysis does not include the effects for any new bus purchases that may be made after fiscal year 2009 and the lost interest income that could have been earned by CCPS on the excess amounts paid.

Controls Over Payments to Bus Contractors Should Be Enhanced

Internal controls over the automated system used to compute bus contractor payments were not adequate. Specifically, all ten employees in the transportation department had complete access to the system, including the capability to alter route miles and times—which were used as the basis for routine monthly payments—and to record pay adjustments. In this regard, the employee who was responsible for verifying changes in payments made during the year had the ability to make changes in the system. In addition, payment amounts calculated by the transportation department were not independently reviewed prior to recording and disbursement by the Finance Office. As a result, there was a lack of assurance that payments were accurate. While our limited test of fiscal year 2009 route payments did not disclose any errors, this control weakness could result in overpayments to the contractors. According to CCPS

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[7] 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. The prime rates used in the aforementioned calculations ranged from 4.00 percent to 9.05 percent.

records, during fiscal year 2009, payments to bus contractors totaled $21 million.

Performance Should Be Measured

CCPS had not adopted a comprehensive performance measurement system for transportation services. We were advised that the transportation department was considering establishing a number of measures (such as cost per bus and cost per mile) to monitor the department; however, these measures had not been formally adopted even though we were initially advised that the related data would be developed for the 2009–2010 school year. Such data should be used to monitor 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

8. CCPS should enhance its bus routing procedures and should more fully use its automated routing system to help plan more efficient services.

9. CCPS should periodically prepare a documented analysis to determine whether continued use of outside vendors to provide student bus services is cost beneficial for the school system. This analysis should include an evaluation of each pay element (including the ROI component of the PVA, as well as bus drivers benefit and liability insurance costs) of the current bus contracts to determine whether the rates are reasonable and necessary.

10. CCPS should restrict access to the automated system to only those employees who need the capabilities to perform their job duties, and ensure that job duties are adequately segregated. CCPS should also independently verify, at least on a test basis, the accuracy and propriety of payments to contractors.

11. CCPS should establish a performance measurement system for its transportation services.

Chapter 9

Food Services Operations

CCPS has implemented a number of best practices, which include participation in the United States Department of Agriculture (USDA) commodity program, and membership in food-purchasing cooperatives. CCPS also has adequate procedures in place to identify students eligible for the federal national school meals programs. However, we noted that CCPS needs to comply with its procurement approval requirements and improve controls over the ordering and receiving of food supplies. CCPS should also review the number of students participating in the federal free and reduced-price breakfast program to determine if policies and procedures could be modified to improve participation in that program. Furthermore, CCPS could improve its operations by enhancing its use of performance data. Finally, CCPS should periodically evaluate its current practice of using full-service kitchens in all of its 37 schools, rather than using a combination of full-service and satellite operations.

Background

CCPS has a cooking cafeteria at each of its 37 schools. Food and related supplies are maintained in a central warehouse and items are shipped to cafeteria storerooms as needed. CCPS has 134 full-time and 69 part-time cafeteria employees as of June 2009. According to the fiscal year 2009 audited financial statements, food service sales, including other revenue sources (such as rebates) totaled $6.1 million, and food service revenues exceeded expenditures by $62,575. However, expenditures do not include all costs associated with food service operations. In this regard, Board policy acknowledges that certain expenditures of the food service program (such as utilities and custodial services) will not be charged to the program, but will be absorbed by other departments and the general fund. As noted in Table 3 below, the fiscal year 2009 cost per meal for CCPS was slightly higher than the average cost per meal of similarly sized school systems. See Table 4 on page 46 for information regarding fiscal year CCPS 2009 food services.

Table 3
Comparison of Cost per Meal
Fiscal Year 2009 (Unaudited)

School System	Total Expenditures	Meals Served				Cost per Meal
		Breakfast	Lunch	A La Carte / Snacks	Total	
Charles County	$9,978,027	353,196	2,533,661	664,171	3,551,028	$2.81
Carroll County	6,545,583	137,773	1,828,059	216,048	2,181,880	3.00
Washington County	9,799,925	840,544	2,238,831	562,753	3,642,128	2.69
Calvert County	5,298,940	101,518	908,405	966,621	1,976,544	2.68
Harford County	14,461,090	607,922	3,533,566	1,321,559	5,463,048	2.65
Average of Similarly Sized School Systems	$9,026,385	421,939	2,127,215	766,745	3,315,900	$2.76

Note: Breakfast and a la carte sales represent meal equivalents based on actual meals and sales using National Food Service Management Institute guidelines.

Sources: Local Education Agencies and MSDE 2008-2009 Fact Book

Certain Best Practices Were in Place

CCPS 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 USDA commodities free food program. Per CCPS records, $503,469 in USDA commodities was received in fiscal year 2009.
- CCPS participated in a food-purchasing cooperative to maximize its buying power and to reduce food costs. According to CCPS records, payments to the cooperative-selected wholesale vendor totaled $2.6 million during fiscal year 2009.

- Various methods were used to reduce waste, such as reevaluating menus based on student food choices.
- CCPS used performance data, such as staffing calculations, to monitor the operating efficiency of the cafeterias.

CCPS used several best practices to encourage participation in the federal 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 programs, and the use of a keypad system in cafeterias to eliminate the easy identification (and any perceived stigma) of students in the free and reduced-price meal programs. For fiscal year 2008, 79 percent of CCPS students eligible to receive free lunches and 73 percent of the students eligible to receive reduced-price lunches actually participated in the programs, which (as shown in Table 5 on page 48) was similar to the averages of similarly sized school systems.

Table 4
Food Service Activity for Fiscal Year 2009

Average Cost per Meal					$ 2.81
Number of Meals Served:					
	Breakfast	Paid	136,899		
		Free	180,190		
		Reduced Price	36,107		
				353,196	
	Lunch	Paid	1,627,872		
		Free	694,386		
		Reduced Price	211,403		
				2,533,661	
Meal Equivalents					
A La Carte Sales				618,832	
Snacks				13,160	
Summer				32,179	
Total Meals Served					3,551,028
Schools					37
Full Kitchens					37
Full-time employees					134
Part-time employees					69
Revenues:					
	Federal	Cash payments	$3,275,457		
		USDA Commodities	503,469		
				$3,778,926	
	Sales and other sources			6,078,670	
	State aid			183,006	
Total Revenue (all sources)					$10,040,602
Total Expenditures					9,978,027
Excess of Revenues over Expenditures					$ 62,575

Sources: CCPS Food Service Reports, MSDE Fact Book and Fiscal Year 2009 Audited Financial Statements

CCPS Needs to Comply with Procurement Approval Requirements and Improve Controls

CCPS should follow existing policies when purchasing food supplies – Our test of 20 fiscal year 2009 purchases related to 10 vendor contracts disclosed the following deficiencies:

- Although total expenditures paid to each vendor exceeded $25,000 in fiscal year 2009, the related contracts were not approved by the Superintendent as required by CCPS policy. Payments made to these 10 vendors in fiscal year 2009 totaled $3.9 million.

- Two of the contracts were procured as sole-source procurements, with fiscal year 2009 payments totaling $49,000 and 34,000, respectively; however, neither contract was approved in accordance with CCPS policies, which require that the Assistant Superintendent approve such contracts.

CCPS should strengthen its internal controls over the purchasing of food supplies – We found that the same individuals who were responsible for ordering food items and supplies were also responsible for receiving the orders and maintaining related inventory records. Consequently, there was a lack of assurance that all items purchased were necessary, received, and used at the schools. According to CCPS records, food service purchases totaled $4.3 million during fiscal year 2009.

CCPS Should Analyze Whether Barriers Exist to Participation in the Free and Reduced-Price Breakfast Programs

CCPS should take specific steps to determine what barriers exist to participation in its meals programs and to increase participation in the federal free and reduced-price breakfast program. Specifically, as shown in Table 5 on the following page, we found that the CCPS participation rate in the breakfast program was below three similarly sized school systems. In addition, a national study found that 45.6 percent of students who participated in the lunch program also participated in the breakfast programs, well above the combined CCPS participation rate of 32.5 percent.

CCPS staff advised that several factors impact students' ability to participate, including limited time to serve breakfast, and late school start times as compared to lunch periods.

Table 5
Fiscal Year 2008 Lunch and Breakfast Participation Rates (Unaudited)
(based on students eligible to receive free and reduced price meals)

School System[3]	Lunch Participation[1]		Breakfast Participation[2]		
	Free	Reduced	Free	Reduced	Overall Breakfast Participation
Charles County	79.8%	73.4%	36.2%	21.5%	32.5%
Washington County	77.4%	74.1%	68.3%	61.1%	66.6%
Harford County	82.5%	77.1%	47.5%	32.4%	43.5%
Calvert County	69.5%	61.6%	37.1%	21.1%	33.1%
Carroll County	78.3%	68.9%	30.3%	18.8%	27.2%

Notes: [1] Lunch participation is based on the total number of students eligible for participation in the Free and Reduced Price Meal Program. In fiscal year 2008, 15 percent of CCPS students were eligible to participate.
[2] Breakfast participation is based on the number of students who participate in the lunch program.
[3] All school systems in the comparison group have multiple schools participating in the State-funded Maryland Meals for Achievement program, which provides free breakfast to all students in the participating schools. CCPS has no schools that qualify for the program, which could contribute to its lower participation rate.

Sources: 2007-2008 MSDE Fact Book, School Systems, MSDE School and Community Nutrition Program

Efforts to Increase Operational Efficiency Could Be Enhanced

CCPS should enhance its use of benchmarks in evaluating the operations of its food service operations - Although CCPS calculated certain performance measures, such as meal costs, program participation, and staffing ratios to monitor its operations (previously cited as a best practice), it could enhance its use of this information. For example, although CCPS calculated staff needs based on meal equivalents served (a variation of the meals per labor hour calculation), there was no documentation that the results were used in any meaningful way to improve food service operations. However, we were advised that, based on these calculations, CCPS has modified staffing at individual kitchens (such as not filling vacant positions).

CCPS has not formally evaluated operational efficiency of food service operations - As previously noted, CCPS does not use satellite cafeterias (as all 37 schools have full service kitchens). Although CCPS determined the advantages and disadvantages of using central kitchens upon our request, CCPS had not previously conducted a formal review to determine the financial and operational impact of satellite versus full service kitchens. As already noted in Table 3 on page 44, CCPS has the second highest cost per meal ($2.81) among similarly sized school systems.

Based on its evaluation of the advantages and disadvantages of central kitchens, CCPS believes that it should continue with full service kitchens for all schools. Specifically, CCPS management stated that the disadvantages of using production and satellite kitchens included (1) satellite schools not having ordered enough meals to meet the demand, (2) quality of product, (3) having to rely on timely delivery, and (4) fewer choices. It also stated that the advantages included (1) minimizing staff at satellite kitchens, (2) consistency of base product, (3) control of portion costs, and (4) control of inventory. However, the aforementioned evaluation did not include the higher costs associated with equipping each school with the equipment necessary to produce meals (that is, full service kitchens).

Moreover, three of the four peer school systems in Table 3 use satellite kitchens, and their average meal costs are 5 percent less than the average meal cost for CCPS. Finally, according to staffing statistics (meals per labor hour) calculated by CCPS for fiscal year 2009, food services operations are overstaffed, especially at the middle and high schools. For example, at one high school, these statistics showed that actual labor hours exceeded, by almost 16 hours per day, the projected need based on meal equivalents served.

Recommendations

12. CCPS should ensure that all food services contracts are approved in accordance with existing CCPS policies. CCPS should also segregate the duties of ordering and receiving food service items.

13. CCPS should review participation in the free and reduced-price breakfast program to determine if barriers exist that reduce participation. If CCPS identifies potential barriers, it should work with the schools to address the identified issues.

14. CCPS should enhance its performance measurement system to assist in monitoring the efficiency of food service operations, and should document actions taken based on performance measure results. In addition, CCPS should formally evaluate the use of full service versus satellite kitchens.

Chapter 10

School Board Operations and Oversight

Oversight of CCPS fiscal operations includes a comprehensive budget process. The Board also receives regular financial updates, including monthly budget variances, to assist it in monitoring the efficient use of funds. The Board also meets with the CCPS certified public accounting firm to review the results of the annual financial statement audit and the federal Single Audit. In addition, CCPS has a detailed ethics policy and has established a process to independently investigate ethics issues and complaints.

Nevertheless, several opportunities exist for the Board to improve operations and oversight. The Board should consider requiring the CCPS internal auditor to present reports directly to the Board, rather than to CCPS management, and should consider expanding the role of the internal auditor to include areas other than school activity funds. Also, a formal performance measurement system should be implemented to assist the Board in its oversight function. Finally, consideration should be given to establishing a confidential hotline to enable employees and others to report operational concerns and suspected fraud, waste, and mismanagement.

Background

CCPS is governed by a seven-member board (not including a student representative) elected by the voters of Charles County. By law, the members must be residents and registered voters of Charles County. The Board does not have an established committee structure, instead wishing to act in whole to carry out its oversight duties. In its oversight responsibilities, the Board contracts with a certified public accounting firm for independent audits of the CCPS financial statements and federal grant programs. CCPS employs a part-time internal auditor, and management provides the Board regular updates on a broad range of financial, administrative, and academic topics.

The Board is ultimately accountable for the success of CCPS in providing the children of Charles County with a quality education, while wisely spending local, State, and federal funds. Following is the CCPS stated policy on educational philosophy, according to the CCPS website:

Vision for the Charles County Public Schools

Beliefs

- The Board believes parents/legal guardians, students, teachers, staff and administrators, board members, state and local elected officials, and the community share in the success of each individual student and the school system as a whole and, therefore, strives to create and nurture a collaborative relationship among all stakeholders.
- All students deserve an equal opportunity for a quality education.
- Intellectual growth occurs best:
  - Through a comprehensive and challenging curriculum that incorporates scientifically proven pedagogical techniques.
  - When parents/legal guardians, teachers, and students work collaboratively as equal partners in education.
- A wide range of co-curricular and extra-curricular activities affords students, families and employees additional opportunities for intellectual, social, physical, and emotional growth.
- There is value in diversity, and every student is endowed with unique talents and entitled to mutual respect.
- The ability of Charles County Public Schools to fulfill its mission is dependent upon comprehensive long- and short-term planning and appropriate and efficient managerial organization.
- A fiduciary responsibility to taxpayers exists and requires services rendered be appropriately tempered by fiscal responsibility.

Mission

The mission of Charles County Public Schools is to provide an opportunity for all school-aged children to receive an academically challenging, quality education that builds character, equips for leadership, and prepares for life, in an environment that is safe and conducive to learning.

Vision

The vision of Charles County Public Schools is to create the best environment where all students experience academic success, develop personal responsibility and achieve career readiness for the 21st century.

Certain Oversight Has Been Put in Place Regarding CCPS Operations

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

- The Board is actively involved in the development of the budget.
- The Board receives monthly expenditure data, including budget variances.
- The Board hires an independent certified public accounting firm to perform audits of its financial statements and federally funded grant programs, and annually meets with that firm to review the results.
- The Board adopted a detailed conflict of interest and ethics policy to cover Board members and appropriate CCPS employees. The policy requires annual financial disclosure statements and establishes an independent process to interpret policy and investigate any complaints. We verified that all employees required to file disclosure statements filed the statements for calendar year 2008.

The Board Could Take Additional Steps to Assist It in Governing CCPS

The internal auditor function was not sufficiently independent and the scope was limited to student activity funds – The CCPS internal auditor was not sufficiently independent because the auditor did not report to the Board for administrative purposes and for review and oversight of audit findings and the audit reports. Instead, the internal auditor was organizationally part of and reported directly to, the Assistant Superintendent for Finance, Business, Administration, and Technology. As a result, the unit could be subject to management influence that could diminish independence in its audit activities.

In addition, the auditor's work was limited exclusively to audits of student activity funds. Although there are unique risks associated with student activity funds, which are also subject to review by independent auditors, the dollar amounts involved are not as significant as with other CCPS operations. As noted elsewhere in this report, there are other significant operational areas (such as transportation and procurement) which should be considered for review. Student activity fund expenditures totaled $7.2 million per the CCPS records for fiscal year 2009, while CCPS expenditures totaled $338 million for fiscal year 2009.

The Board should ensure that comprehensive performance measures are adopted and reported for key operations – The Board had not adopted any key performance indicators for financial operations of CCPS. While some departments collected performance measurement data (such as food services), the measure results were not fully used to improve operations and were not reported to the Board. 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 monitoring departmental effectiveness and efficiency.

The CCPS Board should consider establishing a confidential hotline – A method, such as a confidential hotline, had not been implemented to enable employees and others to confidentially report operational concerns and suspected fraud, waste, and mismanagement. In addition, a whistleblower policy had not been established. Typically, such confidential mechanisms bring to light matters and issues previously unknown and unsuspected by organizational managers. If such a process were established, in conjunction with the establishment of a whistleblower policy and an expanded internal audit function, the internal auditor could conduct the initial reviews of information received via the hotline or direct the information to other appropriate officials, such as law enforcement.

Recommendation

15. The Board should enhance its oversight of CCPS operations by allocating more internal auditor resources towards significant financial areas other than student activity funds and should consider requiring the internal auditor to report directly to the Board. 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 reported to the Board. The Board should also consider establishing a confidential hotline, with formal follow-up procedures, and an employee whistleblower protection policy.

Chapter 11

Other Financial Controls

This chapter addresses the management of risk, cash, debt (for example, long-term lease-leaseback agreements), and health care costs within CCPS. While CCPS had procedures in place to govern its risk and cash management, it did not have written policies governing its use of long-term liabilities, such as financing agreements, nor did it establish sufficient controls to verify the propriety of health care costs.

Risk and Cash Management Best Practices Were in Place

CCPS used a combination of commercial insurance and self-insurance to manage its risks. CCPS insured its liability, property, and workers' compensation coverage through participation in the Maryland Association of Boards of Education (MABE) Group Insurance Pool and the Workmen's Compensation Self Insurance Fund. The notes to the fiscal year 2009 audited financial statements stated that settled claims had not exceeded coverage in any of the past three fiscal years.

To control workers' compensation costs, CCPS utilized workers' compensation loss data provided by MABE to enhance safety training in areas with the greatest claims, and established initiatives such as a return-to-work program to help reduce workers' compensation costs.

With respect to cash management, CCPS invested its cash in the Maryland Local Government Investment Pool (MLGIP), certificates of deposits, or short-term United States Government Securities as specified by its cash management policy (which requires CCPS to comply with the Charles County Government Investment Policy). According to the CCPS audited financial statements, all cash and investments, which totaled $45.2 million as of June 30, 2009, were covered by federal depository insurance or fully collateralized and covered by collateral held in either the pledging bank's trust department or by the pledging bank's agent in the Board's name.

CCPS Needs to Establish Capital Lease and Financing Policies

CCPS had not adopted a policy to govern its use of long-term lease obligations to finance operations, as recommended by the Government Finance Officers Association (GFOA). Long-term liability levels and their related annual costs are important obligations that must be managed within available resources. An effective policy should provide guidelines to ensure CCPS manages its long-term liabilities accordingly. By law, CCPS is not authorized to issue bonds or similar debt instruments to finance capital or operational needs. However, CCPS is authorized to use long-term financing agreements and did use a financing agreement of $7 million, in 2003, to finance the acquisition and installation of technology equipment. According to CCPS' fiscal year 2009 audited financial statements, the capital leases were paid in full in May 2009.

CCPS Should Take Steps to Verify the Propriety of Health Care Costs

CCPS did not take certain steps to verify the propriety of health care costs incurred for employees and their dependents. Specifically, CCPS did not have a process in place to verify the authenticity of program participants and their listed dependents or audit the propriety of claims paid by program administrators. CCPS provides health benefit coverage to active and retired employees through a modified billing arrangement with a commercial insurance carrier. CCPS underwrites 75 percent of the cost of health insurance based on estimated costs with employees contributing the remaining 25 percent. Actual contribution rates by the Board may vary based on actual results. For fiscal year 2009, according to CCPS financial records, healthcare costs totaled $23 million and CCPS recorded a liability in the amount of $2.3 million for the estimated claims incurred but not reported at the end of the year.

As a result of our audit of another school system (which has about six times the number of employees as CCPS), that system conducted a health care coverage eligibility review. We were advised by the system that the review identified approximately 970 inappropriate dependents that were removed from the health care coverage it provides to employees and retirees, resulting in an estimated annual savings of $1.8 million.

According to recommended practices published by the Government Finance Officers Association (GFOA), health care cost containment is a critical component of long-term financial planning and budgeting. The GFOA recommends the establishment of a cost containment program that includes managing health care vendors. CCPS has instituted certain cost savings measures (such as moving to a self-insured plan) and has entered into a contract with a third party vendor to examine existing health care programs to determine potential cost savings and strategies.

Recommendations

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

17. CCPS should institute processes to verify the authenticity of health care program participants and their listed dependents and to verify the propriety of related claims paid by health program administrators.

Audit Scope, Objectives, and Methodology

Scope

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Charles 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).[8] 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, 2008 through June 30, 2009. For our audit work on revenue and federal grants, we primarily relied on the results of independent audits of fiscal year 2009 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. We also used certain statistical data—including financial and operational—compiled by MSDE from various informational reports submitted by the Maryland local school systems. This information was used in this audit report for background or informational purposes, and was deemed reasonable. For comparison purposes, information provided in this report was generally limited to those Maryland school systems of similar sizes, based on student enrollment and/or system

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

budget. In many cases, this information was self-reported by the school systems. The data 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 two distinct audit reports: one related to the administration of its federal grants and the other, the management letter from the audit of its Comprehensive Annual Financial Report.

During the course of this audit, we relied on these results. We performed certain steps to satisfy ourselves as to the reliability of the reported results of the independent federal grants audits of the CCPS federal financial assistance programs for the evaluation of internal controls and for compliance with federal laws and regulations and of the CCPS financial statement 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 June 2009 to December 2009. The CCPS response to our findings and recommendations is included as an appendix to this report.

APPENDIX

CHARLES COUNTY PUBLIC SCHOOLS

JAMES E. RICHMOND
Superintendent

PAUL T. BALIDES
Assistant Superintendent for Finance, Business Administration & Technology

June 28, 2010

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

Dear Mr. Myers:

Enclosed is our response to the performance audit report on Charles County Schools. We have provided a schedule indicating our concurrence with the recommendations and expected completion dates.

We have noted exceptions to certain language in the report for which we request modification.* Please call me if you have any questions, or additional suggestions for our responses.

Sincerely,

Paul T. Balides

Enclosures

Cc: Roberta S. Wise, Chair Charles County Board of Education
James E. Richmond, Superintendent

*__Auditor's Comment__: None of the suggested modifications affected the report's findings. Nevertheless, certain revisions were made as deemed appropriate.

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
PROCUREMENT AND DISBURSEMENT CYCLE					
CCPS Should Strengthen Internal Controls Over Its Procurements and Disbursements	1	A. CCPS should improve its controls over purchasing and the invoice payment process by determining system access capabilities, separating incompatible duties, and restricting capabilities to critical system functions to only those who need the capabilities to perform their job duties. B. CCPS should also determine if system reports of user access capabilities could be generated for periodic review. C. Furthermore, CCPS should establish a process to ensure that a proper and independent review of disbursement checks is performed. D. Finally, CCPS should determine if the current system could be modified to identify the employee who records receipt of goods in the system or should develop alternate procedures to adequately document the receipt of goods.	A. We plan to incorporate additional testing in the annual audit and the internal audit. We will also add additional automated control features through current financial systems software. The Accounts Payable staff have been restricted to critical system functions specific to job duties. B. Develop a critical use access list in Finance, Business Administration, Technology and Human Resources, The Director of Technology will review this list monthly to ensure appropriate system access is based on user roles. C. Disbursement of checks will be done by a staff member who does not have access to create payments. An independent review of disbursement checks will be performed by staff accountants. D. The system report for receipts has the user name, date and amount received.	6/30/10	Yes
CCPS Should Ensure That Procurements Are Made in Accordance with Existing Policies	2	CCPS should ensure that all purchases are made in accordance with existing policies. Specifically, CCPS should ensure that contracts are properly approved and that purchases are competitively bid, when appropriate.	We will continue to apply current policies and practices. To monitor our compliance with procedures, we will incorporate additional audit testing through internal/external audits.	6/30/10	Yes

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
HUMAN RESOURCES AND PAYROLL					
Human Resource and Payroll Internal Controls Need to Be Strengthened	3	A. CCPS should improve internal controls over its automated human resource and payroll system by determining system access capabilities, separating incompatible duties, and restricting capabilities to critical system functions to only those who need the capabilities to perform their job duties. B. CCPS should also determine if system reports of user access capabilities could be generated. C. In addition, CCPS should ensure that all biweekly payroll-related changes recorded in the system are reviewed and approved, at least on a test basis, by an employee independent of the payroll processing function.	A. We will incorporate additional audit testing and limit screen access. B. Develop a critical use access list in Finance, Business Administration, Technology and Human Resources, The Director of Technology will review this list monthly to ensure appropriate system access is based on user roles. C. We currently issue quarterly overtime reports and they will continue to be sent to managers for review. Weekly testing of payroll changes will be performed by Staff Accountants. The process will be documented with a check list that will include follow-up for any discrepancies.	6/30/10	Yes
CCPS Should Establish a Policy for Severance Payments	4	CCPS should establish a formal severance payment policy that specifies, at a minimum, the eligibility requirements, the methodology for calculating such payments, and the related approval requirements. This policy should be reviewed and approved by the Board.	We will develop and incorporate a formal severance payment policy into Board policy and procedures. Any exceptions will be approved by the Superintendent and reported to the Board of Education.	6/1/10	Yes

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
INVENTORY CONTROL AND ACCOUNTABILITY Policies, Controls and Record Keeping Over Certain Equipment Need Improvement	5	CCPS should modify its existing non-capital sensitive equipment procedures by requiring all schools to maintain inventory records for specific equipment as determined by CCPS. In addition, the policy should include a requirement to periodically inventory these equipment items, reconcile those results with the related inventory records, and conduct investigations for items that cannot be located.	In addition to current policy, we will review and confirm inventory collection at the school level. We will refine the definition of sensitive equipment items. We will incorporate a review into school audits (external and internal). The following requirements will be added to the current policy for sensitive equipment inventory. • Develop a list that distinguishes between required and optional equipment to be inventoried. • A standard excel spreadsheet/form will be developed by internal auditor and the fixed asset analyst that lists inventoried items. The spreadsheet will include beginning inventory, additions, deletions (lost/stolen) and an ending inventory total. This will be updated by the custodian of the specific inventory. • A physical inventory of the required items will be performed annually at the end of each school year. The person that will perform the inventory will be assigned by the principal. • The results of the inventories will be compared to the inventory records by the school staff, as assigned by the principal. An explanation will be required for any discrepancies. • A copy of the year end inventories will be maintained by the school's financial secretary and subject to review by the internal auditor and fixed asset analyst. • An independent review of year end inventories will be done during the school's internal audits and scheduled fixed asset inventory.	9/30/10	Yes

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
INFORMATION TECHNOLOGY					
Steps Should Be Taken to Ensure Access to IT Resources Are Appropriate and Controlled	6	CCPS should take steps to enhance its IT security. Specifically, CCPS should establish and enforce stricter password requirements, log all appropriate security events, and conduct documented reviews of logged system activity. CCPS should also ensure that users are given only the access necessary for their job functions and should establish unique IDs for each user.	As per the OLA audit recommendation we have identified and completed testing the following six server reports. These reports are scheduled to run once a week and will then be saved to a document imaging system for future review. The OLA recommendations are based on the best practices guidelines from DoIT Information Security Policy. Issues such as: minimum password length, disallow reusing old passwords, mandatory password expiration, display session inactivity timeout threshold have been addressed. Several libraries have ALL access given to "Public." The current policy restricts access to these same libraries via User ID and password as well as menu driven confines and restrictions. However, based on computer industry standards and best practices, we will also begin to restrict access by implementing NO "PUBLIC" access. These recommendations have been effective since February 1, 2010.	2/1/10	Yes

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
Facilities Construction, Renovation, and Maintenance					
Certain Processes Should Be Implemented to Increase the Effectiveness of Maintenance and Custodial Operations • CCPS should develop a performance measurement system and should use available information to determine staffing needs • CCPS could more fully use the automated work order system • Energy conservation and management programs could be enhanced	7	A. CCPS should develop a performance assessment system for maintenance and custodial operations and include in its work order system a comparison of actual to budgeted resources.	A. CCPS has recently upgraded its TMA® work order system and is now utilizing appropriate Management Reports in evaluating the upkeep costs for its facilities and the performance of the maintenance and operations departments and maintenance and operations staff, and is using RSMeans® estimates for major project.	6/30/10	Yes
		B. This assessment should include a periodic evaluation of the maintenance and custodial staff sizes.	B. CCPS has recently upgraded its TMA® work order system to include an electronic customer survey as work orders are completed, to measure and assess the efficiency of its maintenance and custodial operations. The benchmarks evaluated are response time, communications and professional conduct, planning and scheduling process, schedule and performance, and overall results.	6/30/10	Yes
		C. CCPS should also institute a comprehensive energy management program, including school-based incentive programs.	C. Beginning in July 2010, CCPS will begin utilizing EPA's Energy Star Portfolio Manager® to track and measure energy consumption, performance and cost information for all CCPS schools. Those buildings that demonstrate continuous improvement or top performance system-wide will apply for recognition as Energy Star Leaders.	9/1/10	Yes

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
TRANSPORTATION SERVICES					
Routing Software Should Be Fully Used and Routing Procedures Should Be More Comprehensive • Guidelines used to plan, review, and revise bus routes did not include all appropriate factors • CCPS did not fully use its automated routing software	8	CCPS should enhance its bus routing procedures and should more fully use its automated routing system to help plan more efficient services.	CCPS will implement Phase 2 of its routing software package in SY 2010-11. Computerized routing will then generate AM and PM bus routes. CCPS recognizes that in order to evaluate time and mileage manifests effectively, an afternoon route which includes time and mileage from beginning to end of route is essential in evaluating each bus manifest for contractor payments.	9/1/10	Yes
The Cost and Benefits of Outsourcing the Bus Services Should Be Determined and Payment Factors Should Be Analyzed to Ensure Cost-Effective Operations • CCPS should determine the cost and benefits of outsourcing regular bus services Certain payments to bus contractors should be re-evaluated and periodically revised based on current market conditions	9	A. CCPS should periodically prepare a documented analysis to determine whether continued use of outside vendors to provide student bus services is cost beneficial for the school system.	A. CCPS currently has an RFP for an independent evaluation to determine if continued use of outside vendors to provide student bus services is cost beneficial. The evaluation will be completed and reported by December 31, 2010.	12/31/10	Yes

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
		B. This analysis should include an evaluation of each pay element (including the ROI component of the PVA, as well as bus drivers benefit and liability insurance costs) of the current bus contracts to determine whether the rates are reasonable and necessary.	B. CCPS has maintained a consistent PVA formula as part of the bus contractor compensation package. CCPS does not evaluate PVA independently but as part of the whole compensation package. The current PVA factor is based on a depreciation of 12% and an ROI of 8.25%. An independent work group will be formed to evaluate the current school bus contract including the ROI and Depreciation components of the PVA. This study will be completed by December 31, 2010.		
Controls Over Payments to Bus Contractors Should Be Enhanced	10	A. CCPS should restrict access to the automated system to only those employees who need the capabilities to perform their job duties, and ensure that job duties are adequately segregated. B. CCPS should also independently verify, at least on a test basis, the accuracy and propriety of payments to contractors.	A. Working now with current software provider on regulating proprietary access to specific areas of the Transportation Services System software and segregation of certain key duties. B. Comparison reports on any changes made to existing monthly contract payments will be reviewed by a supervisory transportation staff member who does not have access to the system.	6/30/10	Yes
Performance Should Be Measured	11	CCPS should establish a performance measurement system for its transportation services.	Approved performance measures will be established and presented as part of the annual budget to the BOE.	9/1/10	Yes

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
FOOD SERVICES OPERATIONS					
CCPS Needs to Comply with Procurement Approval Requirements and Improve Controls • CCPS should follow existing policies when purchasing food supplies CCPS should strengthen its internal controls over the purchasing of food supplies	12	A. CCPS should ensure that all food services contracts are approved in accordance with existing CCPS policies. B. CCPS should also segregate the duties of ordering and receiving food service items.	A. Procedures reaffirmed in current policy. Incorporate additional audit testing as necessary. Will review small PO's that may cumulatively exceed $25K. B. Secondary level of approval added to receipt procedures, reaffirmed and formalized with school managers. All orders printed and signed, with invoice verified by second employee. Incorporate additional audit testing as necessary.	6/30/10	Yes
CCPS Should Analyze Whether Barriers Exist to Participation in the Free and Reduced-Price Breakfast Programs	13	CCPS should review participation in the free and reduced-price breakfast program to determine if barriers exist that reduce participation. If CCPS identifies potential barriers, it should work with the schools to address the identified issues.	A study is underway. Best practices at higher participating breakfast schools will be discussed with other locations, and all principals.	9/1/10	Yes
Efforts to Increase Operational Efficiency Could Be Enhanced • CCPS should enhance its use of benchmarks in evaluating the operations of its food service operations • CCPS has not formally evaluated operational efficiency of food service operations	14	A. CCPS should enhance its performance measurement system to assist in monitoring the efficiency of food service operations, and should document actions taken based on performance measure results. B. In addition, CCPS should formally evaluate the use of full service versus satellite kitchens.	A. A study is underway. Review of the School Nutrition Association Keys to Excellence, review efficiencies and effectiveness. B. We will conduct a study and report results to management.	9/30/10 11/30/10	Yes Yes

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
SCHOOL BOARD OPERATIONS AND OVERSIGHT					
The internal auditor function was not sufficiently independent and the scope was limited to student activity funds The internal auditor function was not sufficiently independent and the scope was limited to student activity funds The internal auditor function was not sufficiently independent and the scope was limited to student activity funds	15	A. The Board should enhance its oversight of CCPS operations by allocating more internal auditor resources towards significant financial areas other than student activity funds and should consider requiring the internal auditor to report directly to the Board. B. 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 reported to the Board. C. The Board should also consider establishing a confidential hotline, with formal follow-up procedures, and an employee whistleblower protection policy.	A. Internal audit committee was established in FY2009. We plan to outsource the independent audit function. B. We will incorporate performance measures into the annual budget proposals and review annually with the budget process. In addition, monthly financial reports are sent to the Board. C. The fraud awareness/whistle blower policy will be incorporated in the employee manual. A hotline phone line has been established and is operational. Communication to employees on personal responsibility to report fraud, misappropriation of funds or any ethics violations will be made via e-mail, school newsletter and the website. An employee whistle blower protection policy will be established and communicated to all employees.	6/30/10 6/30/10 6/30/10 6/18/10 6/1/10	Yes Yes Yes

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE (Yes or No)
OTHER FINANCIAL CONTROLS					
CCPS Needs to Establish Capital Lease and Financing Policies	16	CCPS should adopt a formal policy governing long-term obligations.	Board policy was developed and approved.	6/1/10	Yes
CCPS Should take Steps to Verify the Propriety of Health Care Costs	17	CCPS should institute processes to verify the authenticity of health care program participants and their listed dependents and to verify the propriety of related claims paid by health program administrators.	An independent cost/benefit study was completed in January 2010. A participant audit will be conducted, and then confirmed every 3 years. An insurance committee will review the recommendations of the cost/benefit study, and make recommendations to the negotiations team.	9/1/10	Yes

Audit Team

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