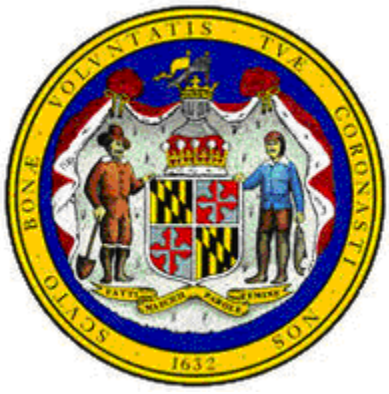
Financial Management Practices Performance Audit Report

Queen Anne's County Public Schools

October 2006



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
- Electronic copies of our audit reports can be viewed or downloaded from our website at http://www.ola.state.md.us.
- Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
- The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

October 23, 2006

Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Delegate Charles E. Barkley, 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 Queen Anne's County Public Schools (QACPS) in accordance with the requirements of the State Government Article, Section 2-1220(f) of the Annotated Code of Maryland. QACPS is the 17th largest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 13 schools, with an annual budget of $70 million. The objectives of this audit were to evaluate whether QACPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

Our report contains 12 recommendations. QACPS needs to make certain enhancements to its existing financial management systems and processes, implement adequate safeguards over procurement and payroll, and improve oversight of student fund activity. Furthermore, the Board should establish formal policies addressing certain critical areas such as cash receipts, procurement, and inventory. This report also identifies several instances in which processes and best practices are already in place that help ensure the efficient use of financial 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 59. We wish to acknowledge the cooperation extended to us during our audit by QACPS.

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 Queen Anne's County Public Schools (QACPS) in accordance with the State Government Article, Section 2-1220(f) 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, provided that the related audit process is approved by the Joint Audit Committee. The Committee approved the audit process in September 2004. The approved process included 11 functional areas to be audited at each system. The following are summaries of the findings in these areas at QACPS.

Revenue and Billing Cycle (see pages 9 through 12)

The procedures in place for the vast majority of revenue, which was received via wire transfer from other governmental entities, provided sufficient controls to ensure proper accounting and safeguarding of those funds. However, we found a lack of formal policy or oversight for student activity funds, for which collections totaled $1.2 million in fiscal year 2005. For example, at one school reviewed, we found that deposits must be made timelier, all receipts should be accounted for, and plans should be made to address recurring deficit fund balances.

Federal Funds (see pages 13 through 15)

QACPS is subject to an annual audit of many of its federally-funded programs. 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 2005 grant activity, for which reported expenditures totaled $4.9 million. That report did not disclose any material weaknesses, reportable conditions, or questioned costs. We also noted that, for Medicaid-subsidized services totaling $316,000, QACPS had several processes in place to identify and recover eligible costs.

Procurement and Disbursement Cycle (see pages 17 through 20)

QACPS lacked a comprehensive policies and procedures manual for procurement and invoice processing. For example, QACPS needs to develop written procurement policies including when to use competitive bidding and to obtain Board approval (this is addressed in Chapter 10 – Board Operations). According to QACPS records, during fiscal year 2005, non-payroll disbursements totaled $23 million. From our review and testing we noted that supervisory review and approval of disbursements were often not documented and that key documentation (purchase orders and receiving reports) was sometimes missing. We also noted that controls need to be improved over the issuance and use of purchasing cards.

Human Resources and Payroll (see pages 21 through 25)

QACPS employs 1,200 full and part-time employees at an annual payroll cost of over $50 million. We noted that QACPS had a highly centralized process to monitor vacancies and to control the hiring of new employees. However, we also noted that the methodology for determining employee compensation should be better documented and that workforce planning should be expanded to include non-instructional personnel. We also identified certain enhancements needed to controls over the automated human resources and payroll system, such as supervisory review and approval of payroll changes and employee system access capabilities.

Inventory Control and Accountability (see pages 27 through 28)

QACPS recordkeeping and control need to be improved for equipment which, according to the audited financial statements, had a June 30, 2005 value of $11.6 million. Necessary actions needed include the establishment of a formal policy addressing such issues as recordkeeping, physical inventory procedures, and equipment disposals. Additionally, a policy governing the textbook inventory should be established.

Information Technology (see pages 29 through 32)

We identified several improvements that QACPS should implement with respect to IT system user access and security, and computer center operations. An example of the suggested improvements includes developing a formal IT security policy and disaster recovery plan and storing critical backup data offsite.

Facilities Construction, Renovation, and Maintenance (see pages 33 through 37)

QACPS uses a staff of 70 custodial and maintenance personnel to maintain its 13 schools. We identified several best practices that QACPS has put in place to assist in facilities construction, renovation, and operation. These best practices include the preparation of a six-year Capital Improvement Plan (CIP), the adoption of State guidelines and laws regarding procurement, the monitoring of major school construction and renovation projects, and the use of an comprehensive energy management program. We also identified two issues that could increase operational efficiency. First, QACPS should develop performance standards and measures for maintenance and custodial operations, and second, QACPS should develop formal staffing levels for the maintenance department. Although QACPS has a preventive maintenance program in place, it could not document adherence to the program.

Transportation Services (see pages 39 through 43)

QACPS transports more students more miles than any other similarly-sized public school system[1] in Maryland, using primarily third party contractors. QACPS has the lowest costs per mile among similar sized systems and uses a number of best practices, such as automated routing software and staggered school start and stop times, to enable buses to provide multiple trips during the day. Having noted that, we did identify two issues for further review by QACPS that could further improve efficiency. A number of buses appear to be operating at well below their physical capacity and the desired capacity of 70 percent. In addition, QACPS should

[1] Similarly-sized public school systems are systems with average daily membership under 10,000 students.

document its decision to outsource certain transportation services without the benefit of competitive bidding.

Food Services Operations (see pages 45 through 51)

QACPS is the only system that has outsourced its entire food service operation. Even though it receives an annual payment from the vendor for excess revenues, QACPS should establish performance benchmarks to assist in the delivery of quality low-cost meals. According to Maryland State Department of Education (MSDE) data, the $3.40 average meal cost in QACPS is higher than both the similar sized systems and the State average, and QACPS has not formally analyzed the high cost per meal to determine if this is the result of outsourcing operations or of other contributing factors. We also found that QACPS should take a more active role in monitoring the vendor for compliance with all provisions of the related contract. Finally, although QACPS has established a comprehensive approach to identify all students eligible for participation in the National School Meals Program (a federally-funded program), the actual participation rate for breakfast was well below the national average.

School Board Operations and Oversight (see pages 53 through 56)

The five-member board takes an active role in monitoring financial and academic indicators and has established an ethics policy consistent with the State's policy. However, formal policies addressing virtually every significant financial area should be established, such as cash handling, procurement, and human resources. Additionally, the Board may want to consider creating an internal audit position to aid in its oversight mission.

Other Financial Controls (see pages 57 through 58)

We found that QACPS has policies in place to govern its risk management practices, while it needs to adopt policies on cash and debt management practices.

Table of Contents

Executive Summary i

Background Information 5

Chapter 1: Revenue and Billing Cycle 9

- Background 9
- Collection Procedures Over Student Activity Funds Need to be Improved 11
- Recommendation 12

Chapter 2: Federal Funds 13

- Background 14
- Processes Are in Place to Identify Students Eligible for Medicaid-Subsidized Services and to Recover Costs 14

Chapter 3: Procurement and Disbursement Cycle 17

- Background 18
- Controls and Procedures Over Procurement and Invoice Payment Need to be Improved 19
- QACPS Has an Employee Travel Policy in Place 20
- Recommendation 20

Chapter 4: Human Resources and Payroll 21

- Background 22
- Certain Policies Should be Enforced or Developed 23
- Controls Over Payroll-Related Procedures Need to be Strengthened 25
- Recommendations 25

Table of Contents

Chapter 5: Inventory Control and Accountability 27

Background 27

Record Keeping and Physical Inventory Processes Need to be Enhanced to Safeguard Equipment Items 28

Recommendation 28

Chapter 6: Information Technology 29

Background 30

Steps Should be Taken to Ensure Access to IT Software Applications is Appropriate and Controlled 30

Data Processing Functions Should be Better Safeguarded From Disruption 31

Recommendations 32

Chapter 7: Facilities Construction, Renovation, and Maintenance 33

Background 34

A Number of Best Practices Were in Place 35

Certain Processes Should be Implemented to Increase the Effectiveness of Maintenance and Custodial Operations 36

Recommendation 37

Chapter 8: Transportation Services 39

Background 40

Certain Best Practices Were in Place 41

More Can be Done to Ensure Cost Effective Operation 41

Recommendation 43

Table of Contents

Chapter 9: Food Services Operations 45

Background 46

Certain Best Practices Were in Place 49

Operations Could be More Effectively Monitored 49

Recommendation 51

Chapter 10: School Board Operations and Oversight 53

Background 53

Certain Oversight Has Been Put in Place 54

Additional Actions Should be Taken to Provide Guidance to Management 55

Recommendation 56

Chapter 11: Other Financial Controls 57

Risk Management Best Practices 57

Cash and Debt Management Policies Should be Established 58

Recommendation 58

Audit Scope, Objectives, and Methodology 59

Response of Queen Anne's County Public Schools Appendix

Background Information

Oversight

Although Queen Anne's County Public Schools (QACPS) is governed by a local school board (consisting of five members appointed by the Governor), the Maryland State Department of Education (MSDE) exercises considerable oversight. In addition, the State and the Queen Anne's County government provide the vast majority of QACPS funding. MSDE oversight consists of 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 the local school systems to comply with the requirements and mandates of the federal No Child Left Behind Act of 2001. Oversight by the Queen Anne's County government is limited, although the QACPS annual operational and capital budgets require County approval.

Statistical Overview

According to MSDE student enrollment records, QACPS ranks 17th in student enrollment among the 24 school systems in Maryland. From 1995 to 2004, the total full-time regular and special education pupil population has increased 23 percent from 6,271 to 7,713, with MSDE projecting further increases in the coming years (to in excess of 8,400 by 2014). Presently, QACPS has 13 schools, consisting of 8 elementary, 3 middle, and 2 high schools. A review of the budget history, excluding capital costs, disclosed an increase in the QACPS operating budget from $33 million in fiscal year 1995 to $60 million in fiscal year 2004. The largest expense category is salaries, wages, and benefits, accounting for 71 percent, which supported about 900 budgeted full-time positions in fiscal year 2005, consisting of 623 instructional and 271 non-instructional employees.[2]

[2] The primary source for this background data is MSDE statistical data, including the annual Fact Book.

Certain statistical information contained in this report was taken from reports distributed by MSDE and represents the most current comparable information available at the time of our audit.

Legislative Changes Affecting the School Board

On May 2, 2006, the Governor signed House Bill 338 (Chapter 313, Laws of Maryland 2006), which submits to referendum vote the question of whether the Queen Anne's County Board of Education should remain an appointed board or should change to an elected board. The referendum must be on the ballot in Queen Anne's County for the 2006 general election. If county residents vote for an elected board, new board members will be selected at the 2008 general election.

External audit of fiscal year 2005 activity

Annually, QACPS engages an independent auditor to audit its fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of QACPS federal grant programs (as required by federal regulations). The two resulting audit reports for the 2005 fiscal year were issued in August and November 2005. Neither report included any reportable conditions nor any significant findings on QACPS record keeping, processes, and controls. Furthermore, in the related audit report of financial statements, the auditor stated that the financial statements presented fairly, in all material respects, the financial position of QACPS, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Maryland Quality Award

In March 2006, QACPS was awarded the Bronze Maryland Quality Award for 2005 from the Maryland Technology Enterprise Institute (MTECH) of the University of Maryland. Recipients of this award, which is part of the Maryland Performance Excellence Award Program, have shown evidence of the beginnings of positive performance trends in customer, operational, and financial

measures. Additionally, recipients have demonstrated early stage implementation of leadership practices, a process for setting strategic direction, information systems that permit fact-based decision making, and human resource systems that lead to employee growth and development. Four recipients earned a Maryland Quality Award or a certificate of recognition in 2005. Among these four, QACPS was the only school system to be recognized.

According to MTECH, the purpose of this Program is to recognize organizations whose performance is worthy of emulation and to encourage organizations to learn and continuously improve, culminating locally with the U. S. Senate Productivity Award and nationally with the Malcolm Baldrige National Quality Award. QACPS administration advised us that, within the next several years, its goal is to progress through the Program, and its ultimate goal is to receive the Malcolm Baldrige National Quality Award, the nation's highest Presidential honor for quality and organizational performance excellence.

Chapter 1

Revenue and Billing Cycle

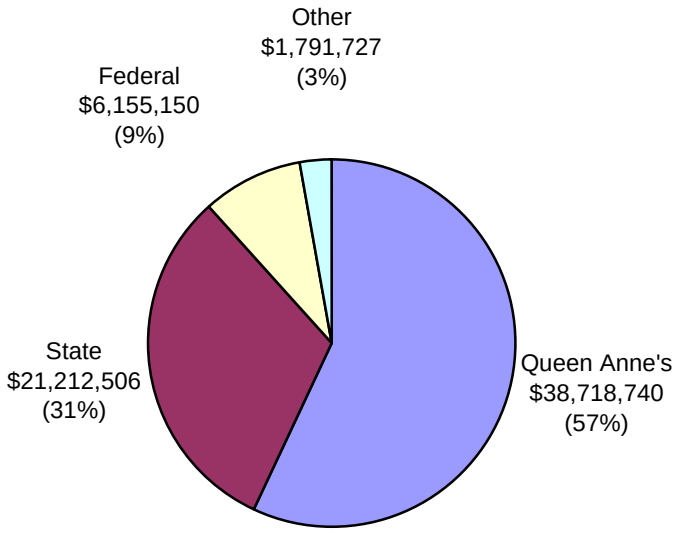
According to the audited June 30, 2005 QACPS financial statements, $67.9 million in revenue was received from all sources during fiscal year 2005, the vast majority of which was received via wire transfer from other governmental entities. Procedures and controls for the majority of revenue sources and accounts receivable were found to be adequate. However formal policies and procedures regarding the accountability and control of student activity funds, for which fiscal year 2005 collections totaled $1.2 million, had not been established. Our review of student fund activity at one high school, which accounted for about one quarter of the student activity funds collected system-wide during fiscal year 2005, disclosed a lack of internal controls over the recordation, processing, and deposit functions, and that recurring deficit fund balances had not been addressed.

Background

QACPS revenues consist primarily of funds received from Queen Anne's County, the State, and the federal government. Other revenue sources include food sales and facilities rentals. Revenues from all sources for fiscal year 2005 totaled $67.9 million,

according to the audited financial statements, as shown in the following chart.

Chart 1
Sources of Fiscal Year 2005 Revenue



Source: QACPS fiscal year 2005 audited financial statements

In addition to the revenues noted in Chart 1, schools collect funds for various purposes, such as for student activity groups. Because they are not considered school revenue, these student activity funds are accounted for separately by each school and reported in summary in the audited financial statements. For fiscal year 2005, student activity fund collections totaled $1.2 million. These funds are raised by various student groups (such as Yearbook and Future Farmers of America) to fund group-related activities, such as field trips and national organization dues. These groups operate under the supervision of faculty advisors and are usually responsible for the initial collection of funds, which are to be forwarded to the respective school's central office for processing and deposit. Financial records of student activity funds are maintained by each

school. Although this revenue is raised through student-related activities, QACPS has a fiduciary duty to safeguard these funds, and the school principals exercise the final authority over expenditures from these funds.

Collection Procedures Over Student Activity Funds Need to be Improved

QACPS should ensure its cash handling procedures safeguard all receipts – We reviewed certain student fund activity at one high school, which collected $338,000 or 28 percent of the total student activity funds collected by QACPS in fiscal year 2005, and we found a number of control and process issues that need to be addressed. The primary cause for these deficiencies appeared to be that QACPS did not have policies and oversight in place. Other school systems have detailed accounting manuals designed to enhance the control over these funds, or employ frequent monitoring by internal audit units (which QACPS lacks) or independent CPAs.

- The two student groups we reviewed did not maintain documentation of the initial receipt of funds from students and parents and of the subsequent transfer of these funds to the central office employee responsible for processing and depositing receipts. While an initial recordation of collections may not always be appropriate (such as for sales at concession stands), a policy should be developed to identify these situations and the subsequent controls over the collections.

- The use of prenumbered cash receipt forms to document the receipt of collections by the school's central office was inconsistent.

- Receipts did not appear to be deposited in a timely manner. When we were able to locate initial collection documentation, we often found deposit delays of three to eight months, which increases the risk of loss or theft.

- Student groups often operated with deficit balances, meaning different groups might have been subsidizing the activities of

others. Based on year-end financial reports prepared by the school, 16 of the 72 student groups had deficit fund balances, which totaled $56,000 as of June 2005, and 9 of these 16 also had deficits at the end of the previous school year. There was no formal policy requiring the school to monitor this situation and to require groups to develop plans to eliminate the deficits and to identify the specific cause(s), which could include the untimely deposit issue previously noted. Although there may be reasons to permit temporary deficit operations, recurring deficit operations should be discouraged.

We believe the abovementioned issues point to the need for formal policies and periodic oversight, as does another issue that came to our attention. Specifically, we were initially unable to agree amounts recorded on the prenumbered cash receipt forms with subsequent deposits, noting an $8,000 difference during a two-month period. Although school staff members were unable to explain the difference, subsequent to our audit, headquarters staff researched the situation and advised us that they had resolved the issue, and had accounted for all funds.

Recommendation[3]

1. QACPS should develop specific policies and procedures governing student activity funds, including the establishment of controls to ensure that all funds received are recorded and deposited in a timely and intact manner, as well as the periodic reporting and review of student activity fund balances. Additionally, QACPS should use these periodic reports to identify groups with deficit balances and should take appropriate corrective actions.

[3] Recommendations are numbered consecutively through the entire report.

Chapter 2

Federal Funds

Annually, QACPS 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). The report on the audit of fiscal year 2005 federal grant activity was issued by the QACPS external auditor on November 9, 2005.

In that report, the auditor stated that QACPS complied, in all material respects, with the requirements applicable to its major federal programs. In addition, with respect to internal controls over compliance with and the operation of major federal programs, the auditors noted no reportable conditions[4] and no matters considered to be material weaknesses.[5]

[4] Reportable conditions are issues relating to a significant deficiency in the design or operation of the internal control over compliance that, in the auditor's judgment, could adversely affect the grantee's ability to administer a major federal program.

[5] Material weaknesses, which are more severe problems, are reportable conditions in which the existing internal control components might not detect, in a timely manner, a significant instance of noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud.

We also noted that QACPS has an adequate process for the identification of children eligible for Medicaid-subsidized services, as well as for recovering the related costs.

Background

QACPS receives funds primarily from Queen Anne's County, the State, and the federal government. Most funds received from Queen Anne's County and from the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the School Lunch Program or Special Education).

Because of the external auditor's work in this area, with the exception of Medicaid funding,[6] we relied on the auditor's results, as is permitted by Government Auditing Standards. Besides expressing an opinion on QACPS 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 2005 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). According to the audited Schedule of Federal Awards, fiscal year 2005 expenditures of federal funds totaled $4.9 million. According to QACPS records, fiscal year 2005 reimbursement for Medicaid-subsidized services totaled $316,000.

Processes Are in Place to Identify Students Eligible for Medicaid-Subsidized Services and to Recover Costs

To identify students who are eligible for Medicaid-subsidized services, QACPS obtains listings from the Department of Human Resources of all children whose families are participating in Medicaid. These listings are regularly compared to the student information system to identify newly-eligible students and to verify the continued eligibility of previously identified students. In addition, QACPS performs participation outreach to families during meetings to discuss educational services for special needs students.

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

Processes are in place for timely comparisons of services provided to each Medicaid-eligible student (including transportation) with the master list of eligible students and with each student's individual education plan (IEP).

Additionally, safeguards are in place to ensure that federal reimbursement requests are only submitted for students transported for eligible services.

Recommendations

None

Chapter 3

Procurement and Disbursement Cycle

QACPS did not maintain a comprehensive policies and procedures manual for procurement and invoice processing. Specifically, as addressed in Chapter 10, School Board Operations and Oversight, QACPS did not have any written policies or procedures to govern the procurement of goods, including when and how to use a formal bidding process or when Board approval was required. As discussed in this chapter, we also noted that controls over the payment process needed improvement as there was a lack of a documented independent supervisory review and approval of disbursements. Furthermore, our testing of invoices and related contracts disclosed that QACPS sometimes lacked documentation to support all invoices paid (such as original approved purchase orders and signed receiving reports). QACPS often did not competitively bid needed goods and services. Finally, we noted that internal controls over purchasing cards was generally lacking.

We did note that QAPCS requires that all travel be justified in writing and approved in advance.

Background

According to QACPS records, non-payroll disbursements totaled $23 million during fiscal year 2005. Purchase orders are manually generated by the requesting departments and must be approved by both supervisory personnel (such as the respective department head) and the chief financial officer. The finance office submits approved purchase orders to vendors. Purchases anticipated to cost more than $15,000 generally require bidding, which is handled by a central employee in the finance office, with the assistance of the requesting unit. All invoices are submitted directly to the finance office. The ordering departments receive the goods and indicate such receipt by signing the purchase orders, which function as receiving reports, and then submit the signed purchase orders to the finance office. The finance office is responsible for matching each signed purchase order with the original approved purchase order and with the invoice, before payment processing. Payments are processed through an automated system, which prints vendor checks and records the payments in the financial records.

QACPS also has two purchasing card programs: one is used by maintenance and custodial staff, with certain commodity and merchant restrictions, and the other is used by administrative staff, without any such restrictions. According to QACPS records, fiscal year 2006 purchasing card activity was as noted in the following table:

Table 1
FY 2006 Purchasing Card Activity

Purchasing Card Program	FY 2006 Activity through March 31, 2006	
	Cards Issued	FY Purchases
Administrative Staff	11	$71,307
Maintenance/Custodial	19	$52,959
Total	30	$124,266

Source: QACPS Records

Controls and Procedures Over Procurement and Invoice Payment Need to be Improved

Propriety of automated invoice processing needs to be monitored – QACPS did not document that an independent employee ensured that only proper and approved invoices were processed by the QACPS automated financial system by reviewing all submitted invoices and the related automated records.

Invoice processing and payment controls need significant improvements – Our test of 22 payments, totaling $650,000, that were made during fiscal years 2005 and 2006 disclosed that payments were not always properly approved and supported. For 4 of the test items ($204,000), we could not locate critical documentation, such as receiving reports; as a result, we could not ensure the propriety of the payments. For 6 test items ($85,700), QACPS did not prepare purchase orders and there was no evidence that the need for the goods or services was otherwise justified or approved prior to the purchases.

Our review of the procurement methods used for these 22 payments disclosed that, for 8 of the test items, there was no documentation that the related procurement was competitively bid or that sole source procurements were appropriate. For example, for 1 payment tested, which related to a contract in excess of $600,000 for energy management services, no attempt was made to determine if the related service was available from other vendors. This contract was awarded based on an unsolicited vendor presentation made to QACPS employees and to the Board.

Procedures over the issuance and control of purchasing cards need to be established – We identified numerous issues, within both QACPS purchasing card programs, which we believe could lead to, or prevent the detection of, unauthorized purchases. For example, in both programs, the employees responsible for reviewing card activity were also cardholders and were not necessarily the cardholders' supervisors (who would be in the best position to assess the propriety of charges). We also noted other issues with the administrative program, which was not governed by any written rules and procedures, such as the State of Maryland's *Corporate Purchasing Card Program Policy and*

Procedures Manual (which we were advised was adopted for the other program). In addition, prior to receiving cards, cardholders were not required to sign cardholder agreements that would stipulate user responsibilities, users were not required to document purchases in a written log, and all card users in this program were not submitting invoices to the employee responsible for reviewing monthly statements. Specifically, invoices for $9,968 of the $13,840 in purchases made during November and December 2005 were not submitted.

The State's *Corporate Purchasing Card Program Policy and Procedures Manual* contains procedures that, if adopted and followed, would address the aforementioned deficiencies.

QACPS Has An Employee Travel Policy In Place

Policies have been established defining the conditions under which employees may be reimbursed for travel, including the requirement that all travel be approved in advance by the Superintendent or his delegated representative.

Recommendation

2. QACPS should establish appropriate controls to ensure the propriety of procurements and related disbursements, including competitive bidding whenever practical, documenting the independent review of transactions, and ensuring that adequate support exists for each procurement. Also, a formal policy, with controls like those found in the State Comptroller of the Treasury's *Corporate Purchasing Card Program Policy and Procedures Manual,* should be adopted and implemented.

Chapter 4

Human Resources and Payroll

Our review disclosed that QACPS exercised position control and filled vacant positions by use of a centralized hiring and approval process for all new employees. This helped QACPS control payroll costs, which represent its largest category of expenditures. However, our review disclosed that QACPS should address certain deficiencies within payroll processing. These include the documentation and approval of employee compensation, the verification of changes posted to the payroll, and control over access to the payroll and personnel automated systems. We also noted that, while QACPS had implemented workforce planning, this planning did not address QACPS needs and processes for employees other than teachers and related instructional positions. Although QACPS management acknowledged the practicality and necessity of expanding its workforce planning, within its available operating funds, it has been attempting to balance the need for additional support and administrative staff with the need for additional instructional positions.[7]

[7] We have commented elsewhere in this Chapter and in Chapter 7 on conditions (separation of duties and the size of the maintenance staff) that could be impacted by the need for more support/administrative positions.

Background

According to QACPS records for fiscal year 2005, salary, wage, and benefit costs totaled $50.3 million. Payroll processing involves both automated and manual processes. According to the automated system, as of February 2006, QACPS had 1,200 employees, (including substitute teachers and temporary employees), of which 894 were full-time equivalent positions. According to MSDE statistics, QACPS had the highest ratio of students to full-time equivalent employees (both instructional and non-instructional) for similar-sized school systems (see Table 2). Payroll costs represent the largest single cost component in the QACPS budget.

Table 2
Comparison of Employee to Student Ratios – Fall 2004

School System	Number of Full-Time Equivalent Employees	Number of Students (as of September 30, 2004)	Employee to Student Ratio
Queen Anne's Co.	894	7,713	1 to 8.6
Dorchester Co.	580	4,788	1 to 8.3
Caroline Co.	689	5,412	1 to 7.9
Kent Co.	331	2,514	1 to 7.6
Talbot Co.	601	4,505	1 to 7.5
Allegany Co.	1,392	9,840	1 to 7.1
Garrett	667	4,737	1 to 7.1
Somerset Co.	418	2,952	1 to 7.1
Worcester Co.	1,084	6,676	1 to 6.2

Source: MSDE Student/Staff Publications

QACPS uses an automated system to maintain human resources information, to record employee time, to track leave used, and to process and record payroll transactions. The system automatically generates biweekly time records and any adjustments are processed by designated employees—known as timekeepers—at the

various locations (such as schools). Time records are processed electronically by the automated system which generates the related payroll checks and direct deposit advices for distribution by the originating locations. Automated leave records are maintained separately from the time records and leave is manually posted as part of the timekeeping process by the timekeepers.

The hiring of new employees is initiated either directly by the school or program in need (for new positions) or by the human resources office (for vacancies). Position control procedures require that the related paperwork be submitted to QACPS central office staff, including the finance office and superintendent's office, to ensure adequate funding prior to adding employees to the automated personnel and payroll systems.

Certain Policies Should be Enforced or Developed

Documentation of certain payroll transactions should be retained - QACPS could not provide documentation related to certain management personnel's compensation. Employment contracts or similar documentation delineating salary ranges, bonuses, leave earnings and payments, and other benefits, could not be located for certain management personnel. Furthermore, QACPS could not document factors used to determine the salaries of four principals (such as an individual's experience level). Finally, we noted a case of annual leave carryover for another employee that exceeded the contractually allowable 75 days by 85 days (with the excess leave valued at $45,000).

Existing workforce planning [8] should be expanded to non-instructional areas – QACPS should enhance its existing workforce planning efforts to include positions other than instructional personnel. The QACPS Master Plan sets the strategic direction of QACPS and provides coordination and focus for initiatives to address school system challenges. The Plan includes a number of objectives and strategies to address human resource

[8] Workforce planning represents the strategic alignment of an organization's human capital with its business direction. It includes processes such as analyzing the current workforce, determining workforce needs, identifying gaps in the workforce, and implementing necessary solutions.

needs (which is evidence of workforce planning); however, it addresses only the recruitment and retention of highly qualified instructional staff (that is, teachers and certain other instructional aides). The Plan does not address other personnel employed by QACPS, such as central office and critical support staff, the details of which are shown in Table 3. About one-fourth of QACPS employees held non-instructional positions. These support functions also play a key role in the ultimate success of QACPS in providing quality education and, therefore, workforce planning should include them. In addition, although the Plan contained goals, objectives, and related detailed measures, the objectives generally did not include a specific measurement that would define overall success or failure of actions taken.

QACPS acknowledged the need for more comprehensive workforce planning, but questioned the utility of the results, if funding necessary to implement the indicated actions proves to be unavailable.

Table 3
Comparison of Non-instructional Staff Per 1,000 Pupils for Select Categories
Fiscal Year 2005 (Unaudited)

School System	Number of Non-instructional Positions❶		Number of Non-instructional Positions Per 1,000 Pupils❷		
	Professional ❸	Support Staff❹	Professional	Support Staff	Combined
Queen Anne's	94	176	12.19	22.82	35.01
Talbot	70	158	15.54	35.07	50.61
Worcester	92	200	13.78	29.96	43.74
Somerset	38	91	12.87	30.83	43.70
Garrett	48	147	10.13	31.03	41.17
Kent	26	75	10.34	29.83	40.18
Allegany	85	310	8.64	31.50	40.14
Caroline	63	151	11.64	27.90	39.54
Dorchester	47	134	9.82	27.99	37.80
Statewide	8,713	26,218	10.07	30.29	40.36

Source: MSDE 2004/2005 Fact Book
❶ - Excludes contractual and consulting positions
❷ - Based on Fall 2004 student enrollment
❸ - Includes principals, vice principals, social workers, and other administrators
❹ - Includes technicians, secretaries, clerks, trades personnel, etc.

Controls Over Payroll-Related Procedures Need to be Strengthened

Certain safeguards over payroll processing should be established – Controls over the automated system used to maintain human resources information and to process payroll should be evaluated. There was no supervisory review and approval of a system-generated report of changes to bi-weekly payroll amounts to ensure that all changes made to regular payroll amounts were appropriate and properly supported. In addition, two employees, whose duties did not require such capabilities, had been assigned access to all personnel and payroll menus in the automated system, including two menus that provided these employees virtually complete control over the payroll process.

Recommendations

3. QACPS should develop comprehensive policies over various personnel and payroll actions, ensuring that all employee compensation and benefits are documented and approved. Also, QACPS should expand its workforce planning to include all critical operational units and non-instructional positions.

4. QACPS should ensure that adequate controls are in place over payroll processing, including supervisory review and approval of payroll changes and system access capabilities.

Chapter 5

Inventory Control and Accountability

According to its audited financial statements, as of June 30, 2005, the value of QACPS materials and supplies inventory totaled $64,000 and the value of equipment totaled $11.6 million. QACPS generally orders materials and supplies on an as-needed basis, with only minimal inventory (such as paper and janitorial supplies) stored at a central warehouse. Our audit disclosed that QACPS did not have a formal policy governing equipment inventories, including the purchase and disposal of textbooks. We also noted that QACPS should enhance its existing controls and recordkeeping over its equipment inventory.

Background

Equipment items include computers, audio and video items, athletic equipment, and various other items. Items with a cost of $1,000 or more are to be included in the centralized inventory system and capitalized for financial statement reporting purposes.

Record Keeping and Physical Inventory Processes Need to be Enhanced to Safeguard Equipment Items

Policies over equipment need to be established and controls over equipment need to be enhanced – There are no policies or procedures governing equipment, such as requirements for recordkeeping, physical inventory, and equipment disposal. For example, deletions to the records resulting from physical inventories were not formally documented and approved by supervisory personnel. Additionally, sensitive items valued at less than $1,000, such as digital cameras and other electronic gear that are prone to loss or theft, were not recorded in the records or required to be identified as QACPS property. Finally, the employee with custodial responsibility for equipment at each school also conducted the related inventory, although an independent central office employee did assist with the inventory at three schools each year (on a rotating basis).

A formal policy over the textbook inventory should be established – QACPS should adopt a formal policy regarding the purchasing and disposal of textbooks. Although we were informed that the purchasing of new textbooks is based on a detailed, comprehensive review and evaluation process, the use of this process is not documented by any Board or QACPS policy. In addition, QACPS has not established a policy or process for disposing of textbooks considered obsolete, which we were advised are generally stored and not disposed of or resold. According to QACPS records, purchases of textbooks totaled $275,000 during fiscal year 2005.

Recommendation

5. QACPS should put the necessary policies and procedures in place to ensure that accountability and control is established over equipment inventory, including textbooks. Detailed records should be established for sensitive equipment items, and employee duties over equipment record keeping and physical inventories should be segregated wherever possible.

Chapter 6

Information Technology

QACPS maintains and administers a computer network, computer operations, and a number of information systems applications, including administrative and academic applications. We found that, generally, information technology (IT) duties appeared to be adequately segregated and that system administrator capabilities on the administrative applications system were restricted to appropriate employees.

We identified several areas in need of improvement, however, including IT system user access, and security and computer center operations. For example, QACPS did not have a formal IT security policy in place and was not making full use of certain IT system features designed to restrict or detect unauthorized or unnecessary employee access to systems and programs. QACPS also did not have a formal system-wide disaster recovery plan in place in case of catastrophic failure impacting its two computer rooms. In addition, daily backup tapes (in case of emergency) were not stored safely offsite at all times. Finally, physical access to the computer rooms was not strictly controlled.

Background

QACPS operates a wide area network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at the QACPS headquarters. The Technology Department maintains a computer room at the headquarters location in which assorted computer servers operate to support QACPS' academic information system applications. In addition, the Technology Department has a computer system, maintained at headquarters in a second room, which processes several significant administrative information system applications.

Financial and human resources/payroll applications are part of the administrative system and are operated by the QACPS Finance Department. However, QACPS provides only limited computing support for these applications, which are primarily supported by an independent contractor. In addition, the Wicomico County Board of Education - Information Technology Department programming staff continues to support the QACPS administrative system when program changes are required.

Steps Should be Taken to Ensure Access to IT Software Applications is Appropriate and Controlled

Changes should be made to existing procedures to ensure all access is appropriate – User access to computer resources is commonly controlled through the use of individual passwords and user logon ids; however, these tools could be more effectively used in both the financial and human resources/payroll applications. For example, automatic password expirations (requiring periodic password changes) were not enforced for users of the financial application and there was no standard as to the complexity of passwords (to make them more difficult to hack). Also, QACPS did not use existing system audit software that could be used to monitor security events, access permissions, and failed attempts to access certain critical data.

A comprehensive approach to IT security should be developed – QACPS did not have a formal, comprehensive information technology security policy in place. Such a policy should address key aspects of IT, such as access control rules, identification of nonpublic information, workstation security settings, and the use of file encryption. Also, such a policy needs to provide information security guidance with respect to all of an entity's computer applications and operations.

Data Processing Functions Should be Better Safeguarded From Disruption

Physical access to the two computer rooms was not adequately controlled, as one room did not have a lock on the door and the other room's key pad lock combination had not been changed since it was installed four years ago. We also noted that the basement computer room, which houses the academic information system applications, was susceptible to occasional flooding (with wire, cables, and equipment on the floor) and was not equipped with sensors to monitor temperature, humidity, and smoke.

Also affecting QACPS operations was a lack of a formal, comprehensive, disaster recovery plan. Such a plan should include

- the identification of backup data center(s) or hot sites;[9]
- the identification and prioritization of all mission critical applications, with the related software and hardware required to accomplish recovery;
- the description of network restoration plans if the headquarters building was unavailable; and
- a listing of current emergency contact information and responsibilities for staff.

While QACPS had some offsite storage arrangements for backup of critical server data, the process needs improvement. Although backup tapes for the critical administrative applications system were taken offsite at night, they were returned to the computer room the next day, exposing them to destruction in the event of a disaster. Also, although QACPS performed regular backups of its

[9] Hot sites are locations containing equipment necessary to process information.

critical academic applications system, the related backups were not taken offsite. Specifically, the bank safe deposit box rented for offsite storage was not being used.

Recommendations

6. QACPS should implement appropriate measures, including the implementation of an IT security policy, the use of stricter password requirements, and the use of the system's audit function, to ensure that only authorized users have access to applications and data systems.

7. QACPS should establish physical controls and safeguards over its computer rooms, institute appropriate backup procedures, and develop a comprehensive disaster recovery plan.

Chapter 7

Facilities Construction, Renovation, and Maintenance

QACPS maintains 13 schools and support offices with a staff of approximately 70 custodial and maintenance personnel. QACPS uses a comprehensive and public process to plan for construction and renovation of school facilities. Plans are long-term and updated annually and reflect input from the Board. We also noted that QACPS has adopted a number of State required guidelines and practices for the procurement and monitoring of construction and renovation projects. Further, QACPS had developed an energy conservation program and other measures to control energy costs.

However, QACPS had not established formal performance measures and related benchmarks and goals to assess program efficiency for both operations and maintenance. In addition, QACPS could not document the performance of routine preventive maintenance at all school facilities and how it determined its staffing levels for the maintenance department.

Background

QACPS uses a six-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. In the fiscal year 2006 CIP, necessary major renovations, repairs, and systemic improvements to existing schools were estimated to cost $63 million.

Table 4 compares QACPS fiscal year 2004 plant costs (that is, maintenance and operational costs) and square footage with other similar systems in Maryland. It uses two measurement techniques to assess plant costs: plant costs per student, and plant costs per square foot. These statistics generally show that QACPS facilities are more fully utilized based on square footage per student, while the plant costs per student are generally in line with its peer group.

Table 4
Plant Cost Comparison Per Student and Per Square Foot
Fiscal Year 2004 (Unaudited)

School System	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student ❶	Per Square Foot		
Queen Anne's Co.	$5,617,985	$729.80	$4.71	155.00	1,193,161
Somerset Co.	2,796,958	962.15	4.65	207.03	601,848
Kent Co.	2,328,442	934.37	4.10	228.00	568,172
Worcester Co.	5,565,492	825.37	4.87	169.49	1,142,847
Talbot Co.	3,599,551	801.68	5.13	156.28	701,684
Garrett Co.	3,751,254	793.58	4.70	168.84	798,123
Allegany Co.	7,463,021	762.15	3.99	191.10	1,871,207
Dorchester Co.	3,561,741	754.61	4.07	185.36	874,885
Caroline Co.	3,028,615	559.82	3.44	162.87	881,103
Average of Comparable Schools	$4,190,340	$770.00	$4.37	176.26	959,226

Sources: MSDE Selected Financial Data, LEA Capital Improvement and Maintenance Plans, LEA Staff
❶ - Based on Average Daily Membership 2004-2005 (most recent data available)

A Number of Best Practices Were in Place

QACPS uses a comprehensive process to develop its Capital Improvement Plan – QACPS uses a comprehensive process, which includes the solicitation of input from various sources, to plan for future school construction and major renovation and repair projects. For example, QACPS uses public meetings, student demographic data, and other internal sources (such as current curriculum mandates) to develop its six-year Capital Improvement Plan (CIP). The CIP is presented to and approved by the Board, and is also approved by elected local officials. In addition, the QACPS Master Plan, which is used to guide overall QACPS operations, incorporates certain CIP objectives and strategies related to school facilities. A review of the fiscal year 2006-2011 CIP disclosed that it appeared to address the needs of QACPS based on items such as student demographics and facility assessments.

Current construction and renovation procurement and monitoring practices are adequate – QACPS uses a formal process to develop specifications for major construction and renovation projects in accordance with the *Administrative Procedures Guide* issued by the Maryland Public School Construction Program. It also follows State law governing procurement requirements (such as bid posting and minority participation). Our review of a recent construction-related procurement disclosed that the award (valued at $24.7 million) was in accordance with policy and properly approved. We also tested two of the four related invoices that had been paid under this contract at the time of our review (totaling $1.5 million of the $2.3 million paid), and noted that the invoices were accurate (for example, QACPS retained a percentage of the amount invoiced) and that each invoice included documentation of approvals and formal inspection by QACPS personnel prior to payment.

A comprehensive energy management program is in place to control energy costs - QACPS has instituted several steps in order to conserve and manage its energy usage. For example, it participates in a consortium with other Eastern Shore entities to

purchase energy at the best possible terms for the members of the consortium and has entered into a contract with a vendor for energy management consulting, including computer software that monitors and accounts for energy usage at 12 of the 13 schools. QACPS is in the process of analyzing savings from the first complete year under this contract.

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

QACPS should develop performance standards and measures for operational efficiency – QACPS had not implemented a performance measurement 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.

Furthermore, QACPS should fully use its automated work order system when assigning maintenance work and tracking the completion of assigned tasks, to help it control costs and assess performance. We noted that information related to the resources needed to perform tasks (such as time and materials) were not entered on the work order or into the automated system. Consequently, completed work orders could not be used as a basis to determine estimated costs of performing routine tasks and to assess the performance of both individual employees and the entire department. 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.

Staffing levels might be impacting the successful implementation of the preventive maintenance program– QACPS had developed a comprehensive maintenance plan that

included monthly school inspection requirements. However, our review of inspections conducted during the period from September 2005 through February 2006 for all 13 schools disclosed that only 29 of the 78 required inspections were documented. In addition, QACPS personnel did not maintain any documentation that intended preventive maintenance was performed as required by the plan.

We also noted that QACPS does not use a staffing formula to determine the need for maintenance personnel within QACPS, and it could not document how it arrived at the current staffing levels. Furthermore, there is an indication that the maintenance department, which currently includes eight employees, might be understaffed. Specifically, *American School and University Magazine* states that the national median is one maintenance employee per 80,240 square feet of building maintained. If this standard was used by QACPS, the QACPS maintenance department would be understaffed by approximately seven employees.

Recommendation

8. QACPS should develop a performance system with standards and measures, coupled with a detailed work order system and documentation that building inspections and preventative maintenance was performed, to ensure appropriate and timely maintenance is provided to all facilities. Additionally, QACPS should review staffing levels and periodically assess efficiency of operations and staff performance.

Chapter 8

Transportation Services

QACPS provides transportation services to the largest number of students and travels more miles than any other similarly-sized public school system in Maryland. Its an annual cost per mile is well below the Statewide average. Transportation is primarily provided by vendors under contract with QACPS, while QACPS operates a small fleet of its own buses to transport disabled students. Due to certain conditions in the County, such as a lack of sidewalks, QACPS considers all students eligible for transportation, although some students elect not to use those services. This situation complicates route scheduling somewhat, as QACPS contracts for services based on maximum student utilization even though, historically, many buses operate at less than target capacity.

Table 5 Comparison of Transportation Costs per Rider and per Mile Fiscal Year 2005 (Unaudited)							
School System	Number of Eligible Riders		Miles (in thousands)		Expenditures (in thousands)	Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile
Queen Anne's Co.✓	7,597	67	1,686	433	$4,424	$577	$2.09
Allegany Co. ✓	6,124	228	1,365	364	4,753	748	2.75
Somerset Co. ✓	2,774	58	645	100	1,955	690	2.63
Garrett Co. ✓	4,580	39	1,050	71	3,184	689	2.84
Kent Co. ✓	2,178	55	518	92	1,487	666	2.43
Talbot Co.	3,032	14	486	31	1,877	616	3.63
Worcester Co. ✓	6,363	58	1,266	121	3,793	588	2.73
Caroline Co. ✓	4,722	110	897	168	2,788	577	2.62
Dorchester Co. ✓	4,463	86	853	153	2,345	516	2.33
Statewide	589,231	26,608	90,324	40,996	$427,759	$695	$3.26

Source: MSDE 2004/2005 Fact Book
✓ - System contracts for the majority of transportation services.

QACPS has the lowest per mile operating costs among the smaller public school systems in Maryland. QACPS also makes use of a number of best practices, including automated routing software and staggered school start and stop times, to enable buses to provide multiple trips during the day. Nevertheless, QACPS is presented with some challenges. As previously mentioned, student rider counts indicate that buses on some routes are operating at less than the desired 70 percent capacity target set by QACPS, including several at less than 40 percent. If capacity could be better matched to actual ridership, costs may be reduced even further, as fewer or smaller buses might be needed, with the lower costs passed on to QACPS. Additionally, the QACPS practice of contracting out the majority of its student transportation services without bidding those services, but instead negotiating with longstanding vendors, may not result in the lowest possible costs.

Background

QACPS contracts with three vendors which are responsible for operating approximately 130 bus routes. These vendors then

subcontract the actual operations to individual private contractors, each of whom usually own and operate a single bus.

The transportation of disabled students is provided for by QACPS using its own small fleet of buses and accounted for 20 percent of the total reported 2,119,000 route miles from the 2004/2005 school year. Thirteen schools are served by the combined transportation services. The fiscal year 2005 transportation-related expenditures totaled $4.4 million.

Certain Best Practices Were in Place

Several practices were in place to minimize costs and to maximize efficiency – The cost per mile in QACPS is one of the lowest of the 24 public school systems in Maryland. The QACPS Transportation Department has several practices in place to help control costs, including the use of

- automated routing software,
- staggered school arrival and dismissal times,
- a single route for several schools due to their relative proximity, and
- the Queen Anne's County fuel depot for QACPS buses.

In addition, the Department monitors contractors' costs, including the operational mileage and hours billed for each bus route.

More Can be Done to Ensure Cost Effective Operation

Enhancements to bus route scheduling might be possible – QACPS uses automated routing software, along with its Student Information System, to plan the most efficient routes for transporting students. However, even though drivers are instructed to take actual rider counts during the first two weeks of the school year, the results are not used by QACPS to revise bus routes, or to determine if transportation could be handled more efficiently based on actual rider counts and bus capacity. Rider count sheets prepared for the 2005-2006 school year disclosed that 67 of the 132 bus runs averaged less than 65 percent capacity and 11

averaged less than 40 percent capacity,[10] yet no action was taken to modify routes or to otherwise make better use of available capacity. In addition, we noted that the bus vendor contracts stipulated that there should be a routing committee established with membership from the vendors and the Board to promote efficient and effective transportation. No such committee has met since July 2002, when the current contract period began.

Periodic cost benefit analysis should be performed – According to statistics developed by another school system (which we did not verify), QACPS has the second lowest base contractor cost formula of the 16 systems contracting for bus services. Nevertheless, this does not necessarily mean that the current arrangement is the most economical. With Board approval, QACPS has contracted with the same three vendors since 1997 and is currently in the final year of a five-year contract. These contracts were not bid, but were negotiated, and prior to contracting with the three vendors, QACPS contracted with individual owners/drivers that now generally work for one of the three vendors.

QACPS uses a formula to determine the rates paid for the buses based on a number of factors including driver salary, mileage, and the age of the bus. These factors are included in the contract with the vendors and the methodology appears to be similar to that used by a number of other school systems around the State that contract for bus services. Although QACPS personnel advised us that they performed a cost/benefit study approximately 12-15 years ago, that supported the use of contractors, documentation of this study could not be located and, in any event, would likely be of limited value due to its age.

QACPS continues to believe that its current practice for providing transportation services makes the most economic sense; however, this conclusion is not necessarily assured, as it is not based on a recent study of the long-term impact of contracting versus providing these services in-house, nor does it consider the possibility of an

[10] QACPS goal is for each bus to operate at up to at least 70 percent of its capacity. The Board's policy states that no student shall be on a bus for more than one hour (one way).

established large firm contracting for the work at a lower cost due to economies of scale.

Recommendation

9. QACPS should continue in its efforts to find ways to increase operational effectiveness and to identify further efficiencies. It should also document its decisions to outsource transportation-related services without bidding. Finally, QACPS should consider other options to identify the most cost-effective means to deliver such services.

Chapter 9

Food Services Operations

QACPS has the highest cost per meal of any school in its group and the fourth highest in the State. In addition, QACPS is the only one of Maryland's 24 school systems to outsource its entire food services operations. While the high cost per meal may be the result of its decision to outsource food operations, QACPS has not conducted a formal analysis of its meal costs, nor has it established a performance measurement system to judge the effectiveness of its food services operations. With the exception of annually inspecting each food service location and ensuring the deposit of the cafeteria receipts, little vendor monitoring is performed. However, the cost per meal data in Table 6 may not be representative of the true cost per meal. Specifically, for QACPS, it includes expenditures for a la carte sales, but the related sales are not reflected in the meals served. A la carte sales represent 44 percent of total sales revenue. It is unclear whether the cost per meal data for other schools are similarly calculated because this information is self-reported to MSDE. [11]

[11] A comparable true average cost per meal adjusted for a la carte sales is not calculated by QACPS or the vendor and MSDE does not maintain comparable data for the other school systems.

Table 6
Comparison of Cost per Meal
Fiscal Year 2005 (Unaudited)

School System	Total Expenditures	Meals Served❶			Average Cost Per Meal
		Breakfast (paid, free, and reduced)	Lunch, Snacks and Summer Food (paid, free, and reduced)	Total	
Queen Anne's Co.	$1,998,531	66,334	520,824	587,158	$3.40
Garrett Co.	2,319,081	251,762	487,273	739,035	3.14
Caroline Co.	2,229,310	159,667	602,887	762,554	2.92
Allegany Co.	4,651,819	406,001	1,199,387	1,605,388	2.90
Talbot Co.	1,619,726	162,369	400,712	563,081	2.88
Worcester Co.	2,387,197	199,335	642,867	842,202	2.83
Kent Co.	1,111,755	125,918	307,252	433,170	2.57
Dorchester Co.	1,929,731	226,675	535,165	761,840	2.53
Somerset Co.	1,313,512	210,411	349,865	560,276	2.34
Consolidated Totals	$19,560,662	1,808,472	5,046,232	6,854,704	$2.85

Sources: MSDE 2004-2005 Fact Book, Allegany LEA audit, QACPS fiscal year 2005 CAFR
❶ - The number of meals served does not include meals served to non-school entities.

We noted that QACPS had a number of practices in place to identify students eligible for the federally-funded National School Meals Program, although the actual student participation rate among eligible students in the breakfast component of the Program appears low. We also noted a general lack of monitoring of the food service vendor contract by QACPS, including the contractual requirements for the vendor to take actions to maximize participation in the National School Meals Program and the vendor's responsibility to maintain the financial records of food service operations (the vendor pays all operating expenses and is reimbursed by QACPS).

Background

QACPS outsources its food services operations to a third-party vendor and has used a vendor to provide meals since 1992. The vendor provides all meal services in the 13 schools and a café in the Board of Education. Approximately two-thirds of meals served

are paid for at the full price and the remaining meals are served for free or at reduced prices. Food service operations are intended to be self-supporting. In fiscal year 2005, food service sales totaled $1.5 million, with all revenue being deposited into a checking account under QACPS control. From that account, QACPS purchases cafeteria equipment (which is QACPS property) and pays the vendor's monthly bills for reimbursement of operating expenses and for its management fee.

QACPS entered into a contract with the current vendor effective for fiscal year 2003 with four one-year renewals. MSDE oversaw and approved the bid process and contract award. Among other requirements, the contract with the vendor provides for the following:

- QACPS is guaranteed a specific financial return each school year, which is historically about $100,000 per contract year. This guaranteed return is to come from excess revenues; however, if the operations result in a deficit for a given year, the vendor is required to reimburse QACPS up to the amount of the vendor's management fee (which in fiscal year 2006 totaled $107,547).

- All food service employees are employees of the vendor.

- Both the vendor and QACPS have the responsibility to protect the anonymity of students receiving free and reduced price meals.

- Receipts are collected and deposited by vendor employees into a QACPS account and the vendor bills QACPS periodically for all operating expenses plus the pro-rated share of the management fee.

Table 7
Food Service Facts for Fiscal Year 2005

Average cost per meal			$3.40
Number of meals served			
Breakfast			
Paid	19,156		
Free	40,443		
Reduced price	6,735		
			66,334
Lunch			
Paid	336,951		
Free	103,256		
Reduced price	35,115		
		475,322	
Snacks		38,064	
Summer Food		7,438	
			520,824
Total meals served			587,158
Schools			13
Kitchens/cafeterias			14
Full-time employees			*1
Part-time employees			0
Revenues			
Federal			
Reimbursements	$453,526		
USDA commodities	96,624	$ 550,150	
Sales		1,531,236	
State aid		16,411	
Total Revenue (all sources)			$2,097,797
Total Expenditures			1,998,531
Excess of Expenditures over Revenues (retained by QACPS)			$99,266

Sources: Comprehensive Annual Financial Report, MSDE 2004-2005 Fact Book

* - QACPS employs one person to oversee the food services operations vendor. The vendor provides all staff required to run the operations.

Certain Best Practices Were in Place

QACPS attempts to identify all eligible students for participation in the federally-funded meal program – QACPS has several processes in place to identify students eligible for participation in the National School Meal Program, which has the dual benefit of increasing federal funding and ensuring many children receive nutritious meals during the school day. According to MSDE records, as of October 2005, 15 percent of QACPS students qualified for free or reduced-price breakfasts and lunches, with 32 percent of the meals served during the 2004/2005 school year being free or at a reduced price. This was accomplished by annually sending Program application forms home with each student, submitting eligibility guidelines to local newspapers, using family applications (which capture all siblings), and working with the local department of social services to identify eligible students who might otherwise be missed.

Operations Could be More Effectively Monitored

Performance benchmarks should be established – QACPS had not established a performance measurement system to assess the efficiency of its food service operations. Although QACPS, through its contract with its food service vendor, annually receives up to $100,000 from the vendor (which means QACPS incurs no net cost for food services), it does not mean that meals (or food) could not be served in a more economical manner (lower cost) benefiting both students and parents. A performance measurement system, which includes realistic, justifiable benchmarks (or standards) and goals, with a process for periodic measurement and analysis of results could aid in this determination. Examples of standards could include costs per meal and meal participation rates, without which it is difficult to assess the cost effectiveness of the food services operations.

In addition, QACPS did not prepare periodic cost/benefit analyses for the continued use of an outside vendor to provide food services. According to QACPS personnel, food services have been contracted since 1992 and this arrangement benefits QACPS by providing expertise in an area where QACPS personnel have little operational knowledge as well as by guaranteeing an annual return. As

previously noted, QACPS is the only school system in Maryland that outsources its entire food services operation and it appears to have high per meal costs. This indicates that perhaps there are opportunities for improving operations.

More active monitoring of the food services vendor is needed – Our review disclosed that QACPS takes a hands-off approach in overseeing the food services vendor. Although a QACPS employee does an annual inspection of each operation (to comply with federal regulations) and ensures that cafeteria receipts are deposited, QACPS does little else to monitor the contract, including review and verification of the food service financial records maintained by the vendor. We also noted that, contrary to the terms of the contract, QACPS has never established a committee or advisory board to work with the vendor. Furthermore, while the vendor conducts surveys of the food service, QACPS does not receive copies of survey results or participate in addressing survey issues. Finally, QACPS did not monitor actions taken by the vendor to maximize participation in the federal Schools Meal Program as contractually required.

Efforts should be taken to increase student participation in the federally-funded meals program – Two-thirds of QACPS students who were approved for the free and reduced price lunch program actually participated in the program in March 2005; however, only 31 percent of those participating students also participated in the companion breakfast program, which is well below the national average of 44 percent for the 2004-2005 school year. Although legitimate reasons may exist for the lower participation (such as meals provided at day care facilities prior to going to school), neither QACPS nor the vendor has identified the cause(s) and any necessary remedy for the low participation.[12]

We also noted that QACPS is only one of two systems in Maryland that does not participate in the MSDE Meals for Achievement Program, in which participating schools offer breakfast in the

[12] The low breakfast participation is not limited to students eligible for free and reduced price meals. According to MSDE data, QACPS serves many fewer breakfast meals than any other school system including those with substantially fewer students. QACPS data indicates that only 5 percent of students who purchase lunch also purchase breakfast at full price.

classroom each morning to all students in qualifying schools.[13] QACPS cannot participate in the MSDE Meals for Achievement Program because no individual school has met the requirement that at least 40 percent of its enrollment be approved for free or reduced-price meals. The MSDE Meals for Achievement Program was developed because research has shown that students receiving a nutritious classroom breakfast experience improved test scores, attendance, and attention spans. We were also advised that QACPS believes that increased participation in any breakfast program could disrupt transportation scheduling, and could require children to arrive at school earlier. Finally, faculty may resist participation in the MSDE Meals for Achievement Program due to the perceived disruption of serving breakfast in homeroom.

Recommendation

10. QACPS should establish necessary processes to enable it to evaluate and increase efficiencies and effectiveness in its food services operations, including the periodic evaluation of the use of its outside vendor. These include implementing a performance benchmarking system, establishing a monitoring process to ensure vendor compliance with contract provisions, and evaluating the practicality and desirability of increasing participation in the federally-funded breakfast program.

[13] Under state law, any individual school that participates in the federal School Breakfast Program and has at least 40 percent of its enrollment approved for free or reduced-price meals can apply to become a Maryland Meals for Achievement school, provided that funding is available.

Chapter 10

School Board Operations and Oversight

Our audit disclosed that the Board has established an ethics policy that is consistent with the State's policy and has created an Ethics Panel to interpret policies and to provide guidance. Additionally, an independent ombudsman position was created to confidentially investigate referrals of questionable practices. Furthermore, QACPS takes an active role in monitoring financial and academic indicators. However, several issues should be addressed, the most important being a general lack of formal Board policies addressing various financial areas, as well as the accompanying administrative procedures necessary to implement those policies. Another enhancement that could be pursued is the establishment of an internal audit position, reporting to the Board, to assist in the evaluation of controls and adherence to Board policies.

Background

QACPS is governed by a five-member board appointed by the Governor.[14] In its oversight responsibilities, the Board contracts for independent audits of its financial statements and federal programs

[14] This structure will be superseded by an elected board in December 2008, if ratified by the voters of Queen Anne's County as part of the November 2006 general election.

and receives monthly updates from staff on a broad range of financial and academic topics. Due to the size of QACPS and the limited membership of the Board, a committee structure is not used, but rather individual members are periodically informed of and become involved in all aspects of operations and governance. This audit focused on the Board's fiscal oversight responsibilities.

The Board is ultimately accountable for the success of QACPS in providing the children of Queen Anne's County with a quality education, while wisely spending local, State, and federal funds. Following is the QACPS mission, vision, goals, and values:

The **mission** of Queen Anne's County Public Schools is to educate, encourage, and enable all students to become productive and contributing citizens in a diverse and changing world.

The **vision** of Queen Anne's County Public Schools is to provide a quality learning environment for all children.

The **goals** of Queen Anne's County Public Schools are student achievement; teacher retention and recruitment; communication; safe schools and community; family involvement; and preparation for the world of work.

The **values** of Queen Anne's County Public Schools are a safe, respectful, and caring school environment; performance excellence; a learning organization; and synergy.

Source: www.qacps.k12.md.us

Certain Oversight Has Been Put in Place

The Board used a number of methods to broadly oversee the operations of QACPS – We noted that the Board receives and discusses detailed budget and expenditure information as part of the annual budget approval process. In addition, members receive a detailed expenditure report each month with comparisons to budget amounts. The Board also routinely receives and monitors

key performance indicators related to both academic and financial operations of QACPS.

A detailed ethics policy has been established - The Board has adopted a detailed code of ethics, that covers Board members as well as employees, and that specifically identifies those supervisory employees required to file annual financial disclosure statements. This ethics policy also covers conflicts of interest and ethics requirements, which generally conform to the related State law, and an Ethics Panel exists to interpret policies and to provide advice on implementation. The Panel also reviews and rules on any reported complaints of ethics violations.

QACPS also uses an Ombudsman program which provides for an independent and neutral third party to resolve school-related problems in a confidential manner. This program is advertised on the QACPS website and through community outreach. The program can address any QACPS issue (financial or academic) submitted by the public or by QACPS employees. According to QACPS statistics, the program received 289 contacts for the 2004-2005 school year and had resolved 259 of these issues as of the end of the year.

Additional Actions Should be Taken to Provide Guidance to Management

Formal guidance needs to be provided in various financial areas –Our review of the Board's Policy Manual disclosed that formal guidance had not been provided to staff in a number of financial and administrative areas such as cash receipts, procurement, inventory, cash management, and information technology. From such broad guidance, administrative procedures should then be developed covering daily operations. Accordingly, we also noted that QACPS had not developed administrative procedures designed to guide routine operations in corresponding areas, such as cash receipts and deposits, accounts payable, and other daily financial operations. We were informed that, in September 2005, the Board had contracted for assistance in developing such procedures but that, as of April 2006, no manual had been completed.

The Government Finance Officers Association (GFOA) recommends that an entity document its accounting policies and procedures and that these documents be reviewed and updated on a periodic basis. The GFOA also has identified financial and operational best practices that should be considered when developing such policies and procedures.

The Board should consider establishing an internal auditor position – QACPS does not have an internal auditor. The use of an internal auditor, independent of direct management, is a recommended best practice of the GFOA. The GFOA notes that internal auditors commonly assist management in monitoring the design and proper functioning of internal controls and procedures and can play a valuable role in conducting performance audits, special investigations, and studies. For example, an internal auditor could be of value in reviewing student activity funds. Presently, neither the QACPS independent auditors nor central staff evaluates student activity funds maintained by each school, and our review at one school disclosed a number of internal control problems (as addressed further in Chapter 1 – Revenue and Billing Cycle). We noted one similar sized school system that made use of an independent auditor to annually review internal controls over student funds; however, this is a function frequently performed by internal auditors in larger Maryland school systems.

While QACPS may not be able to justify an internal audit position based on its size, it could determine if such a position could be shared with other local Boards (such as Kent and Talbot County Boards of Education). There is a precedent for such an arrangement, as QACPS participates in two consortiums with a number of school systems on the Eastern Shore for various special education services and energy purchases.

Recommendation

11. Formal Board policies should be established for significant financial and administrative areas. In addition, action should be taken to enhance Board oversight, including establishing a process to ensure these policies are current and implemented as intended. QACPS should also consider the feasibility of establishing an internal audit position.

Chapter 11

Other Financial Controls

This chapter addresses the management of cash, risk, and debt within QACPS. We found that QACPS has a policy in place to govern its risk management practices; however, QACPS needs to adopt policies on its cash management (investments) and debt management practices.

Risk Management Best Practices

For risk management, the QACPS policy is to use a combination of self-insurance and commercial insurance to protect itself from losses. QACPS maintains a risk management program that tracks and analyzes loss data. In addition to self insurance, coverage for certain risks (such as catastrophic losses) is provided by commercial insurance obtained through its membership in three pools: the Maryland Association of Boards of Education Group Liability Pool, the Workmen's Compensation Insurance Fund, and the Eastern Shore of Maryland Education Consortium Health Insurance Alliance. QACPS also self insures health, vehicle liability, and property damage related to QACPS motor vehicle use. The notes to the fiscal year 2005 financial statements stated that

settled claims had not exceeded commercial coverage in any of the past three fiscal years.

Cash and Debt Management Policies Should be Established

QACPS had not adopted any policies governing investments or its use of long-term debt to finance operations as recommended by the GFOA and/or required by State law. We were informed that QACPS used the Queen Anne's County Investment Policy but there was no evidence that the Board ever formally adopted that policy. In addition, the QACPS fiscal year 2005 financial statements stated that QACPS was exposed to custodial credit risk because the majority ($8.9 million) of its investments were either not FDIC insured or securities held as collateral were not held in the Board's name. State law requires the collateralization of cash accounts and lists the types of permissible investments and the conditions under which investments may be made. Many local school systems use the Maryland Local Government Investment Pool administered by the Maryland Office of the State Treasurer for investment purposes, which ensures compliance with State law.

QACPS is not permitted to issue bonds or other long-term debt instruments to finance capital or operational needs. QACPS does use lease/purchase agreements to purchase equipment items such as buses. According to the QACPS 2005 financial statements, long-term liabilities related to lease/purchase agreements totaled $1.2 million.

Recommendation

12. QACPS should develop and implement policies addressing acceptable cash management practices and the use of lease/purchase agreements.

Audit Scope, Objectives, and Methodology

Scope

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Queen Anne's County Public Schools (QACPS). We conducted this audit under the authority of the State Government Article, Section 2-1220(f) of the Annotated Code of Maryland and performed it in accordance with generally accepted government auditing standards.

Objectives

We had two broad audit objectives:

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

2. To evaluate whether the QACPS 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 QACPS 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 QACPS. We also interviewed personnel at QACPS, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate[15]). Our audit procedures included inspections of documents and records, and observations of QACPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2004 through March 31, 2006. For our audit work on federal grants, we relied on the results of an independent audit of fiscal year 2005 activity; accordingly, our federal grants work was limited to this period.

In addition, we contacted a number of other state auditors' offices and legislative program evaluation agencies that had a history of conducting audits or reviews of local school systems. We interviewed those officials and inspected their work programs and resultant reports to identify specific audit techniques and operational practices at schools that could be adapted for our school system audits. We also used statistical information from other states to some extent. Finally, we used certain statistical data--including financial and operational--compiled by the MSDE from various informational reports submitted by the Maryland local school systems. This information was used in this audit report for background or informational purposes, and was deemed

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

reasonable. For comparison purposes, information provided was generally limited to those Maryland school systems of similar size, based on student enrollment and/or system budget. In many cases, due to the self-reporting nature of the information, the data was neither audited nor independently verified by us.

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 QACPS, 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 (CAFR).

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 audit of the QACPS fiscal year 2005 federal financial assistance programs for compliance with federal laws and regulations and the QACPS fiscal year 2005 financial statement audit. 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

QACPS 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 QACPS that did not warrant inclusion in this report.

Fieldwork and QACPS Responses

We conducted our fieldwork from December 2005 to May 2006. The QACPS response to our findings and recommendations is included as an appendix to this report.

APPENDIX

Queen Anne's County Public Schools
Educate Encourage Enable
202 Chesterfield Avenue ~ Centreville, MD 21617 ~ Tele: 410-758-2403 ~ Fax: 410-758-8200 ~ www.qacps.k12.md.us

October 17, 2006

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

Dear Mr. Myers:

Enclosed are the responses to the recommendations made in the Financial Management Practices Performance Audit Report for Queen Anne's County Public Schools issued October 2006.

If you have any questions regarding this submission, please do not hesitate to call me.

Sincerely,

Robin H. Landgraf

Robin H. Landgraf
Chief Financial Officer

Enclosure

cc: Dr. Bernard J. Sadusky, Ed.D.
Mr. Mark Cascia

1) QACPS established a committee in September 2006 to develop specific procedures to govern student activity funds, which will include procedures for cash receipts, deposits, cash disbursements, reporting to group advisors, eradication of deficits, monitoring of expenditures and monitoring of fund balances. The committee expects that the procedures will be completed by February 2007 and implemented for the 2007-08 school year. An initiative has been in place for the past year to convert all schools to the same financial software package; only one school remains to be converted. It is expected that this final school will converted by December 2006. We feel the consistency between schools will help to implement county-wide procedures for school activity funds.

2) QACPS follows the state guidelines for competitive bidding, as of July 1, 2006 items under $25,000 are not required to be bid. QACPS will establish additional guidelines to control procurement of items under the state established threshold for competitive bidding, instances where sole source procurements are appropriate, and retention guidelines for supporting documentation of all purchases by July 2007. Purchasing Guides from other Boards of Education will be used to assist in this process. Starting July 1, 2006 a log documenting the independent review of transactions was implemented. This log indicates batch number, total disbursements and the reviewer's signature. The log is reviewed and approved by the Chief Financial Officer or her designee. QACPS already has a policy governing the use of PCards. Guidelines used by the State of Maryland were adapted for this policy. A similar policy is currently in draft form for credit cards to provide reasonable assurance that all purchases are proper and adequate support exists for each procurement. This is expected to be finalized by December 2006.

3) In August 2005 QACPS engaged an independent consultant, Century Business Services (CBIZ) to assist in the development of policies. We have met with these consultants again in October 2006 to resume this effort. The personnel and payroll areas will be addressed as part of this contract. It is anticipated that the policies for these areas will be presented to the Board in the spring of 2007. The HR department will develop a workforce plan to include all employees to be used for budget planning for FY 09.

4) As part of the CBIZ contract, policies will be developed to address controls over payroll processing, supervisory review and approval of changes. Access to the automated personnel and payroll systems are restricted. Only personnel whose job responsibilities require access to the entire system have been given such access. It is anticipated these policies will be presented to the Board in the spring of 2007.

5) Policies and procedures for the accountability and control over equipment, textbooks and sensitive equipment items will be established as part of our overall policy development contract. Due to the size of our operation and the staffing levels in our buildings, accountability for items under our current capitalization threshold of $1,000 will be difficult; however, it will be more fully analyzed as part of the policy development. These policies should be presented to the board in spring of 2007. Where practical, the custodial and accountability duties will be segregated.

6) QACPS will begin the process of developing a comprehensive IT security program that will encompass stricter password requirements, and the use/review of the system's audit function to ensure that only authorized users have access to applications and data system. The committee is expected to convene this winter with implementation anticipated by summer 2007.

7) QACPS have already addressed issues regarding physical controls over the computer rooms. In October 2006, locks were installed on the first floor computer room and the key pad lock combinations were changed on the basement computer room. Comtek has gathered purchase information for a remote monitoring system to be installed in the basement server room. The system will be able to monitor temperature, humidity and water level. It will generate notifications when levels exceed the pre-established tolerance. These items will be included as part of the budget request for fiscal year 2008. The tape backup procedure has been modified to facilitate an offsite tape storage rotation; the use of a school site for secure storage is still under investigation. A comprehensive disaster recovery plan will be a part of the comprehensive IT security program with an anticipated implementation of summer 2007.

8) As part of the continuing Baldrige program, the standards and measures for the entire support services area are in the process of being redefined. As part of this process forms will be developed to track preventative maintenance; such forms will be reviewed by supervisory personnel. The redefined measures are scheduled for presentation to the Board in December 2006 and January 2007. As stated earlier, HR will be developing a comprehensive workforce plan that will address staffing concerns in all areas of support services for the fiscal year 2009 budget cycle.

9) According to Table 5 of this report, QACPS has the lowest cost per mile of all the counties to which it was compared. QACPS will continue its efforts in operational efficiency. As the current transportation contracts approach renewal, comparison data will be collected and presented to the Board. Documentation of their decision to continue negotiating contracts with the current service providers or bidding these services will be maintained. These decisions are anticipated within the next several months as the new contract must be in place by July 2007.

10) QACPS is the only school system in the state of Maryland to outsource its entire food service operation. The food service program is not subsidized in any way with local funds, which enables QACPS to direct available funds to the instructional program. Sodexho Management Services, our service provider is an international food management company. As part of their operation they continually evaluate their performance by pre-established measures. If negative performance or trends are identified, program adjustments are made. By the July renewal date we will establish a process for all program adjustments to be reviewed and approved by QACPS staff. QACPS will evaluate the feasibility of increasing the participation in the school breakfast program. However, we have identified several obstacles, such as increased costs to the transportation program because restrictions would be placed on the tiered bus system, and students could lose instructional time or have their school day extended.

11) QACPS has engaged an independent consultant, Century Business Services (CBIZ) to assist in the development of policies. Current policies will be reviewed, necessary changes made and presented to the Board for approval. The anticipated presentation to the Board is spring 2007. The feasibility of an internal audit position will be evaluated as part of the budget process for FY 2008.

12) QACPS has engaged an independent consultant, Century Business Services (CBIZ) to assist in the development of policies. Cash management practices and use of lease/purchase agreements will be addressed as part of this project. It is anticipated that the policies will be presented to the Board in the spring of 2007. The report indicates that QACPS is exposed to custodial risk regarding collateralization of cash deposits. QACPS is in process of examining this issue with the custodial bank and our external auditors.

AUDIT TEAM

Edward L. Shulder, CPA
Audit Manager

A. Jerome Sokol, CPA
Information Systems Audit Manager

Kari S. Harrison, CPA, CFE
Senior Auditor

Veronica Arze
Information Systems Staff Auditor

Nichole M. Becker
Kelly A. Hammond, CPA
Staff Auditors