

Financial Management Practices Audit Report

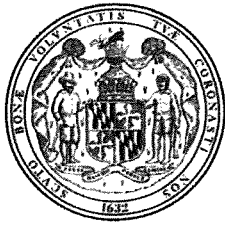
Baltimore City Public School System

September 2012



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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September 28, 2012

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Delegate Guy J. Guzzone, 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 Baltimore City Public School System (BCPSS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. The objectives of this audit were to evaluate whether BCPSS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

Our audit disclosed that BCPSS needs to improve procedures and internal controls over accounts receivable, personnel and payroll, as well as procurement and disbursement activities. For example, BCPSS had not developed formal debt collection procedures that specify when delinquent accounts should be referred to a collection agency. Also, personnel and payroll transactions were not always subject to supervisory review and we identified a number of overpayments and questionable payments to employees. Procurement and disbursement processing duties were not properly separated and payments were made to certain contractors without BCPSS personnel adequately verifying the propriety of the billings or that the services were properly completed. Furthermore, additional measures and monitoring procedures need to be implemented to protect the BCPSS automated systems from security risks.

BCPSS should also implement steps to improve cost-effectiveness and efficiency, especially as it relates to its facilities and student bus transportation. For example, a longstanding issue that has not been sufficiently addressed is the utilization of its school buildings, which are costly to maintain. The space available in its school buildings significantly exceeds that required for its student enrollment. Also, BCPSS did not use automated bus routing software effectively, and ridership on routes we selected for testing was significantly lower than bus capacities.

Finally, BCPSS needs to establish comprehensive personnel policies, as well as policies governing student transportation and school facility use by certain outside organizations.

An executive summary of our findings can be found on page 7 of this report. The BCPSS response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by BCPSS.

Respectfully submitted,



Thomas J. Barnickel III, CPA
Acting Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

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* Denotes item repeated in full or part from preceding audit report

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Executive Summary

Legislative Audit Report on the Baltimore City Public School System (BCPSS) September 2012

According to data compiled by the Maryland State Department of Education, BCPSS ranks fourth in student enrollment among the 24 public school systems in Maryland. In fiscal year 2010-2011, BCPSS had a total full-time regular and special education pupil population of 83,800 at its 191 schools. BCPSS operating and capital expenditures totaled \$1.45 billion during fiscal year 2011, and revenues totaled \$1.43 billion.

The Office of Legislative Audits has conducted its second audit of BCPSS' financial management practices. The results of the first audit were issued in a report dated January 9, 2006. Our current audit disclosed that BCPSS had satisfactorily addressed a number of the prior audit findings; nevertheless, we identified opportunities for BCPSS to improve internal controls, to adopt more cost-effective processes, and to enhance policy direction.

BCPSS Needs To Improve Internal Controls and Accountability

BCPSS needs to improve internal controls in several critical areas. We noted that independent reviews of certain personnel and payroll transactions either were not properly performed or were not performed at all. In addition, we identified a number of overpayments and questionable payments to employees. For example, after being assigned to a position that did not earn vacation leave, one employee was paid \$57,000 twice for the same accumulated annual leave earned in a prior position, and certain overtime payments made to a number of employees were not supported by the time records. Furthermore, because an incorrect overtime rate was used for certain employees, we calculated that overpayments totaling approximately \$206,000 were made over a two-year period.

Controls over procurement and disbursement processing should be improved by properly separating duties to help prevent erroneous or improper payments. Also, BCPSS should adequately verify that contractors providing services (such as tutoring and maintenance) have properly completed their work before paying those contractors.

BCPSS needs to establish formal debt collection procedures that specify when delinquent accounts receivable should be referred to a collection agency. As of May 31, 2011, accounts with balances past due more than 60 days exceeded \$4 million, and included amounts due from former employees. In addition, better controls are needed to ensure that collections received for

renting facilities are properly accounted for and BCPSS needs to perform additional follow-up on computers not located during physical inventories.

BCPSS also needs to implement adequate security measures and monitoring procedures to protect its critical files and network from security risks. For example, network firewall rules allowed insecure and unnecessary connections to BCPSS network devices and a disaster recovery plan had not been developed.

BCPS Should Consider Implementing Certain Steps to Improve Cost Effectiveness

BCPSS needs to develop a long-range facilities master plan to address issues such as facility conditions, capacity, space utilization, and future needs. A longstanding issue that has not been sufficiently addressed is that BCPSS' available facility space significantly exceeds the space required for its enrollment. We estimated the annual cost to operate and maintain excess space in the 50 BCPSS schools that had enrollments of less than 70 percent of the schools' capacities totaled approximately \$7.5 million. BCPSS also should have formally analyzed the costs and benefits of certain changes affecting energy contracts for its facilities whereby the contractors were released from energy savings guarantees so that BCPSS could avoid certain ongoing maintenance costs.

BCPSS needs to take steps to ensure the efficiency of its bus operations. Our tests disclosed that ridership was significantly lower than bus capacity. In addition, BCPSS did not effectively use automated bus routing software. Regarding bus contractor payments, BCPSS could not document how rates paid for school bus routes were developed, and invoices from contractors were not adequately reviewed resulting in questionable and improper payments.

Regarding charter schools, BCPSS needs to execute lease agreements with the organizations that operate schools using BCPSS facilities and ensure that rent is charged as appropriate. We noted that two schools were not charged rent totaling \$580,000 during fiscal year 2010.

BCPSS Needs to Establish Certain Comprehensive Policies

BCPSS needs to establish comprehensive personnel policies for its employees, especially for those employees whose employment terms are not governed by a collective bargaining agreement. Such policies would clarify the Board of School Commissioners' intent regarding certain personnel practices. For example, BCPSS practices for paying accumulated leave to its employees upon separation from service result in higher payments than those made by other local school systems.

In addition, BCPSS needs to develop formal policies pertaining to student bus transportation and the long-term use of its facilities by outside organizations. A number of outside organizations used school facilities for extended periods without leases and without paying rent; one of these organizations had 62 workers who had not been subject to required criminal background checks.

Background Information

Statistical Overview

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), the Baltimore City Public School System (BCPSS) ranks fourth in student enrollment among the 24 public school systems in Maryland. From fiscal year 2001 through 2011, the total full-time regular and special education pupil population has decreased 15 percent from 98,226 to 83,800 students, with a projected increase to 84,190 students by 2019.¹ For the 2010-2011 school year, BCPSS had 191 schools, including 29 charter schools. According to BCPSS' audited financial statements, fiscal year 2011 expenditures were \$1.45 billion, including capital expenditures of \$66 million, and revenues were \$1.43 billion. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 70 percent of the operating expenditures during fiscal year 2011. According to MSDE reports, during the 2010-2011 school year, BCPSS had 11,290 budgeted full-time positions, which consisted of 7,906 instructional and 3,384 non-instructional employees.

Oversight

BCPSS is governed by a Board of School Commissioners, consisting of nine members jointly appointed by the Mayor of Baltimore and the Maryland Governor, and one student member with partial voting rights. The State and the Baltimore City government provide the vast majority of BCPSS funding. In addition, MSDE exercises considerable oversight through the establishment and monitoring of various financial and academic policies and regulations, in accordance with certain provisions of the Annotated Code of Maryland. MSDE also works with BCPSS to ensure compliance with the requirements and mandates of federal law. Baltimore City government exercises authority over the System primarily through the review and approval of BCPSS' annual operating and capital budgets.

External Audits of Fiscal Years 2010 and 2011

BCPSS engages a certified public accounting firm to independently audit its annual fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of BCPSS federal grant programs, as required by federal regulations. The resulting financial statement and Single

¹ Source: Maryland Department of Planning, Planning Data Services.

Audit reports for fiscal year 2010 were issued in September 2010 and December 2010, respectively. The financial statement audit report did not disclose any material weaknesses² or significant deficiencies³ in BCPSS' record keeping, processes, and controls. The Single Audit did not report any material weaknesses but did report two significant deficiencies relating to the requirements for School-Wide Plans and Highly Qualified Teachers.

After our audit fieldwork was completed, the financial statement and Single Audit reports for fiscal year 2011 were issued on September 30, 2011. The financial statement audit report did not disclose any material weaknesses or significant deficiencies. However, the Single Audit reported that the same two significant deficiencies relating to School-Wide Plans and Highly Qualified Teachers were not corrected in fiscal year 2011.

Due to similarities between the work of the independent certified public accounting firm that audited the BCPSS financial statements and conducted the Single Audit, and the risks and scope of our audit in certain areas, we relied on the results of the independent audit of the fiscal year 2010 financial statements and Single Audit to reduce the scope of our audit work related to revenues, certain accounts receivable, and federal grant activity.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of 35 of the 46 findings contained in our preceding audit report dated January 9, 2006 (the 46 findings resulted in 23 detailed recommendations in that report). We followed up on these 35 findings based on our current assessment of significance and risk relative to the audit objectives. We determined that BCPSS satisfactorily addressed 26 of these findings. The remaining 9 findings are repeated in 8 findings in this report.

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

³ A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles (or, with respect to Single Audit, to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program) that is more than inconsequential that will not be prevented or detected by the entity's internal control.

Findings and Recommendations

Revenue and Billing Cycle

Background

Baltimore City Public School System (BCPSS) revenues consist primarily of funds received from Baltimore City, the State, and the federal government. According to the BCPSS audited financial statements, revenues from all sources totaled \$1.4 billion during fiscal year 2011. In addition to these revenue sources, schools also collect school activity funds for various purposes such as student activities, clubs, and school publications. Because they are not considered school revenue, these school activity funds are accounted for separately by each school and reported in summary in the audited financial statements. Although this revenue is raised through student-related activities and cannot be used to fund BCPSS operations, BCPSS has a fiduciary duty to safeguard these funds. According to BCPSS's audited financial statements, school activity fund collections totaled \$5.2 million during fiscal year 2011 and the June 30, 2011 balance was \$1.7 million. These funds were audited by an independent certified public accounting firm.

External Audit Disclosed No Reportable Conditions Regarding Revenue Activities

Due to the similarities between the work of the independent certified public accounting firm that audited the BCPSS financial statements and the objectives of our audit in this area, we placed significant reliance on the results of that audit for revenues and certain accounts receivable (for example, amounts due from other governments and student activity funds). The auditor's procedural review and testing disclosed no material weaknesses or deficiencies regarding significant revenue types or accounts receivable. Such testing included the most significant revenue types, the majority of which related to electronic fund transfers from other government entities, as well as food service cash receipts.

Finding 1

BCPSS had not sufficiently pursued collection of past due accounts.

Analysis

BCPSS had not established procedures specifying when an account should be considered delinquent and forwarded to a collection agency. According to BCPSS records, outstanding accounts receivable totaled approximately \$3.9 million as of May 31, 2011, including accounts more than 60 days past due totaling approximately \$3.5 million.

Of this amount, 216 accounts, totaling approximately \$1.5 million, had been outstanding since at least June 30, 2009 without being referred to a collection agency. Furthermore, 45 of these 216 past due accounts, totaling approximately \$336,000, consisted of amounts due from former employees issued payroll bonuses who left employment with BCPSS before fulfilling their commitments to earn those bonuses (such as to teach a full year at certain schools). According to BCPSS payroll records, these employees left employment with the System as long ago as February 2005.

We were advised by a BCPSS management employee that the delays in referral of delinquent accounts were primarily due to employee turnover in its accounts receivable staff and the lapsing of the contract with a collection agency in 2010. As of July 2011, a new collection agency contract had been executed.

In addition, certain amounts due to BCPSS had not been recorded in the centralized accounts receivable records and were not adequately pursued for collection. The records did not reflect amounts totaling approximately \$599,000 due from outside organizations for BCPSS payroll costs and from former employees required to repay tuition reimbursement. Specifically, BCPSS is required to be reimbursed for the costs paid for salaries and fringe benefits for employees granted a leave of absence to work for outside organizations, such as employee unions. Although the BCPSS Office of Human Capital was tasked with collecting these receivables, there was no oversight to ensure all amounts were billed and collected. According to BCPSS records, as of October 2010, there were 13 employees granted a leave of absence to work for outside organizations.

Our test of five employees who were granted such leave during fiscal years 2009 and 2010 disclosed that salary and benefit costs for four employees, totaling approximately \$445,000, had not been reimbursed by these organizations as of December 14, 2010; furthermore, BCPSS had not billed these organizations for approximately \$378,000 of these unreimbursed costs. BCPSS personnel records also indicated that 90 former employees, who received tuition reimbursements for education courses and who voluntarily resigned prior to fulfilling their related work commitments, still owed \$154,071 as of November 2010. BCPSS did not take adequate actions (such as sending follow-up notices or referring accounts to collections agencies) to collect the amounts owed.

Recommendation 1

We recommend that BCPSS maintain close oversight of accounts receivable. Specifically, we recommend that BCPSS

- a. include all amounts owed to the System in its centralized accounts receivable records;
- b. develop formal debt collection procedures that specify when delinquent accounts should be referred to a collection agency;
- c. ensure that appropriate collection efforts are made on past due amounts, including amounts owed by former employees and outside organizations, by promptly billing amounts due and referring unpaid accounts to the collection agency; and
- d. consider paying bonuses only after service requirements have been fulfilled.

Federal Funds

Background

BCPSS receives federal funds that are generally restricted for use for a specified federal government program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2010 expenditures of federal award funds totaled \$212 million.

Single Audit Report Disclosed Two Significant Deficiencies Regarding Federal Grant Management

Due to the work performed by the independent certified public accounting firm that conducted the Single Audit of BCPSS' federal grant programs and the objectives of our audit in this area, we relied on the auditor's work and results. Besides expressing an opinion on BCPSS 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 2010 required Schedule of Federal Awards (which includes claimed and reported grant-related expenditures). The related report stated that BCPSS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with, and the operation of, major federal programs, the auditors did not identify any material weaknesses. However, the audit reported two significant deficiencies relating to the requirements for School-Wide Plans and Highly Qualified Teachers. Specifically, BCPSS did not properly address certain components of a school-wide plan relating to the No Child Left Behind Act of 2001 and five special education teachers did not meet the highly qualified teacher requirements by the end of fiscal year 2010. BCPSS has shown significant improvement with regards to compliance over federal grant programs since our prior audit. Specifically, as previously reported, the 2004 Single Audit report identified 12 findings of which 3 were material weaknesses.

Medicaid Funds Were Received for Eligible Services

BCPSS had established procedures to identify children eligible for Medicaid-subsidized services and to recover the related funds. Our test of 20 services provided to students receiving Medicaid-subsidized services disclosed that reimbursement was requested for all services provided. According to the fiscal year 2010 audited financial statements, reimbursement for Medicaid-subsidized services totaled approximately \$9.8 million.

Procurement and Disbursement Cycle

Background

According to BCPSS records, non-payroll disbursements totaled \$380 million during fiscal year 2010. BCPSS uses an automated financial system for purchasing and related disbursements. In September 2007, BCPSS implemented an Internet-based procurement system to automate the entire procurement process, which includes requisitioning services and supplies, bidding and awarding contracts, and creating purchase orders. This new procurement system is linked to the automated financial system to encumber funds and pay for purchases. Requisitions are entered by schools or departments into this new Internet-based procurement system and are subject to departmental and procurement office approvals. Purchase orders, contracts, solicitations, and bids are generally managed by the procurement office. BCPSS procurement policies state at least two price quotes should be obtained for purchases of goods or services exceeding \$1,000 and a formal contract and bidding should be used for professional service purchases exceeding \$5,000. Additionally, all contracts for goods and services exceeding \$25,000 must be approved by the Board of School Commissioners. The receipt of goods and services is entered into the automated financial system by the receiving school or department and payments are then processed by the accounts payable office using the automated system.

BCPSS frequently hired contractors to provide instruction and special education services for school students as well as to develop and provide courses for teacher development and mentoring. During fiscal year 2010, payments to contractors for these services totaled approximately \$40 million according to BCPSS records.

Finding 2

Procurement and disbursement processing duties were not properly separated.

Analysis

BCPSS did not establish adequate internal controls over its automated financial system. Our test of system access disclosed that 16 employees had been assigned system capabilities that allowed them to perform incompatible critical functions. Specifically, 12 employees had the ability to create and approve purchase orders, 3 of which could also add and update vendors and addresses. The other 4 employees had the ability to enter invoices, approve payments, and override system matching requirements that help ensure invoices agree with the terms of previously authorized purchase orders. As a result of these incompatible capabilities, improper or erroneous transactions could be processed without detection. Our testing of invoice payments processed by these 4 employees did not disclose any inappropriate or erroneous transactions. A similar condition regarding the lack of segregation of procurement and disbursement duties was commented upon in our preceding audit report.

Recommendation 2

We recommend that BCPSS improve its internal controls over procurements and disbursements by segregating employee duties and restricting system capabilities so that incompatible critical processes cannot be performed by one employee acting alone (repeat).

Finding 3

BCPSS did not comply with procurement requirements for two large contracts.

Analysis

Our test of 20 contract payments totaling approximately \$10.4 million, during fiscal years 2009 and 2010, disclosed one contract for which renewals were not approved by the Board and another contract that was not competitively bid. Specifically, our test disclosed the following conditions:

- A special education services contract was continued during renewal periods without obtaining the required Board of School Commissioners approval for the renewals. The agreement with this contractor, approved by the Board in June 2007, had a one-year term and provided for three one-year renewal options that could be exercised at the discretion of the Board. BCPSS continued to use this contractor after the first year without obtaining the Board's approval. Payments to this contractor totaled \$6.9

million during fiscal years 2009 and 2010, which were in the non-approved renewal periods.

- A \$2.1 million contract approved by the Board was classified as a sole-source procurement but BCPSS could not substantiate that the contract met the BCPSS definition of a sole-source procurement. BCPSS procurement policy defines sole-source procurements as procurements in which only one vendor possesses the unique and singularly available capability to meet the requirement of the solicitation. BCPSS hired this contractor to integrate its budgeting and human resource systems, automate position management and budgeting functions, and provide other related information system development services. Since the contractor provided routine programming services, it is likely that a number of vendors could have provided these services. However, there was no formal documentation available to justify the selection of this vendor. In addition, without a competitive procurement process the reasonableness of the contract cost cannot be assured.

We were advised by a Procurement Office management employee that this vendor was selected because BCPSS was pleased with the vendor's work as a subcontractor during the preliminary consulting phase of the system design and believed it would be inefficient to obtain bids for the actual implementation of the project.

Recommendation 3

We recommend that BCPSS establish controls over procurements and contracts to ensure that

- a. all required Board approvals are obtained, including approvals required for contract renewals; and**
- b. the sole-source procurement method is only used when the conditions specified in its procurement policy have been met, and have been fully documented.**

Finding 4

BCPSS did not always follow proper competitive procurement policies for certain education services nor independently verify supporting documentation to ensure the services paid for were actually provided.

Analysis

BCPSS procedures were not adequate to ensure procurements for certain education services were approved prior to services being provided, and that services paid for were actually provided. Specifically, purchase orders were prepared and approved after the related services were provided. In addition,

schools and departments generally relied on contractor records (such as attendance rosters or employee time records), which were not independently verified, even on a test basis, to support the education services provided when approving related invoices for payment. Our test of 35 payments, totaling \$962,085, made during fiscal years 2009 and 2010 for instruction, special education, and consulting services disclosed the following conditions:

- For 10 of these payments totaling \$25,677 the services were provided from 13 to 270 days before purchase orders had been approved in the automated procurement system. BCPSS did not document that price quotes or formal bids were obtained or how the amounts to be paid to the vendors were determined. Furthermore, these purchase orders lacked the necessary details (such as the number of hours of service to be provided, the hourly rate, and the dates the services were to be provided) for BCPSS to ensure the vendors provided an appropriate level of service for the amounts paid. We were advised that, generally, these purchases were procured by the schools without the involvement of the BCPSS procurement office. The related purchase orders for these 10 payments totaled \$36,647 and individually ranged from \$1,000 to \$13,000. According to BCPSS procurement policies, at least two price quotes should be obtained for purchases of goods or services exceeding \$1,000 and a formal contract and bidding should be used for professional service purchases exceeding \$5,000.
- For 30 payments totaling \$917,835, all supporting documentation used to substantiate these payments was provided by the related contractors. The BCPSS departments that obtained these services could not provide documentation that they had contacted any of the recipients of the services (such as the students or their families) to independently verify that the services were actually provided. Furthermore, for the remaining 5 payments totaling \$44,250, the supporting contractor documentation could not be located.

The lack of verification of services provided was a contributing factor that allowed one contractor to commit a fraudulent billing scheme without detection over a three-year period. As a result of a parent's complaint, it was discovered that this contractor submitted falsified documentation to support billings for special education tutoring services for 250 students for which the contractor was paid approximately \$150,000 during the period from November 2006 to November 2009. In April 2011, this contractor pleaded guilty to felony theft and was subsequently sentenced to 18 months in jail and 10 years of probation, and was ordered to make restitution of \$150,752 to BCPSS.

Recommendation 4

We recommend that BCPSS

- a. obtain contractual services through a properly documented competitive procurement process which includes preparing detailed purchase orders or contracts, as applicable, before the services are provided;**
- b. ensure vendors submit adequate documentation demonstrating that services have been provided prior to approving related payments; and**
- c. require departments that obtain contractors to provide student educational services to document that they have contacted the related students or their families to verify the services were provided, at least on a test basis.**

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the BCPSS budget. Fiscal year 2011, salary, wage, and benefits costs (excluding retirement system contributions) totaled \$926 million. According to MSDE reports, during the 2010-2011 school year, BCPSS had 11,290 full-time equivalent employees, including 3,384 non-instructional employees. The vast majority of BCPSS employees (including teachers, school administrators, and police officers) are represented by various unions that negotiate contracts with the System that specify terms of employment, including salaries. Non-affiliated employees do not belong to a union and include personnel such as school system administrators.

BCPSS uses automated human resources and payroll systems to maintain human resources information, record employee time, calculate employee pay, track employee leave usage, and process payroll. Employees prepare paper timesheets or timecards that are approved by supervisors and forwarded to timekeepers throughout the school system. Timekeepers record adjustments to the standard work schedules on an exception basis, such as overtime, in the automated timekeeping system based on these paper time records. The recorded adjustments are subject to approval by departmental supervisors. The timekeeping system interfaces with the payroll system to process the payroll. Additional adjustments (such as for accumulated leave payments) are processed by BCPSS central payroll personnel. The system generates payroll checks and direct deposit advices.

Finding 5**Critical human resources and payroll transactions were not independently reviewed for propriety.****Analysis**

Critical human resources and payroll transactions were not independently reviewed for propriety. Without an independent review of changes processed, BCPSS lacked assurance that all transactions were properly authorized and were correctly entered into the automated systems. Specifically, we noted the following conditions:

- Seven employees had the ability to record human resources data, such as new employees and employee pay rates, without any independent review. Furthermore, no report of such changes was produced to enable supervisory personnel to review such changes. Similar conditions were included in our preceding audit report.

Our test of 25 salary changes disclosed one change that was processed to increase a salary by \$14,915; while BCPSS asserted that the salary adjustment was appropriate, it was not supported by an approved payroll change form. Another test of hourly pay rates for ten employees disclosed that one employee was paid at a pay grade that was higher than authorized in the employee's personnel records, which resulted in this employee receiving approximately \$2,071 in additional compensation during fiscal year 2010. After bringing this matter to its attention, BCPSS subsequently corrected the employee's pay grade to reduce the salary amount. According to BCPSS records (which we did not verify), its human resources employees entered 1,625 changes to employee salaries and pay rates during the year ended October 20, 2010, resulting in annual pay increases totaling approximately \$5.7 million.

- Ten employees could process additional compensation payments in the payroll system and adjust employee leave balances without independent review. Furthermore, no report of such changes was produced to allow supervisors to review these payments and adjustments. Our test of 26 additional compensation payments made during fiscal years 2009 and 2010, totaling \$1,049,056, disclosed that one employee, upon moving to a position that did not earn vacation leave, was paid \$57,217 twice (first in December 2008 and again in January 2009) for the same accumulated vacation leave earned in the prior position. This duplicate payment was detected as a result of our audit, and the employee repaid BCPSS in January 2011. Additional compensation payments (including

payments for accumulated leave) totaled approximately \$10 million during fiscal year 2010.

Recommendation 5

We recommend that BCPSS establish adequate controls over the various aspects of payroll and human resources processing to ensure the propriety of payments to employees (repeat). Specifically, we recommend that BCPSS

- a. generate output reports of critical changes and adjustments made to human resource and payroll data, including additional compensation payments; and**
- b. at least on a test basis, verify output reports of these critical changes and adjustments to appropriate supporting documentation.**

Finding 6

Certain overtime payments could not be substantiated and certain other payments were improperly calculated.

Analysis

Certain overtime payments tested could not be substantiated by sign-in sheets indicating work hours and/or by overtime approval forms and the employee supervisors who approved the overtime recorded in the automated system could not explain how overtime hours in these records were determined. The overtime approval forms, which are required to be approved in advance by supervisors, and the sign-in sheets should be the basis for recording overtime hours in the timekeeping system. Furthermore, certain department supervisors advised us that they did not always verify the work hours recorded in the timekeeping system, including overtime hours, with supporting documentation. As a result, there was a lack of assurance that employees actually worked all the overtime hours for which they were paid.

Our test of overtime paid in one pay period to 10 employees disclosed that the number of overtime hours paid for all 10 employees exceeded the overtime hours recorded on sign-in sheets and/or overtime approval forms. These 10 employees individually earned overtime pay ranging from \$19,000 to \$62,000 during fiscal year 2010. Our test results for these 10 employees for this one pay period are summarized in the following table:

Table Summary of Overtime Documentation Discrepancies Pay Period Ended February 12, 2010			
Overtime Totals For 10 Tested Employees	Overtime Not Documented on Sign-in Sheets	Overtime Not Documented on Overtime Approval Forms	Overtime Not Documented on Either Sign-in Sheets or Overtime Approval Forms
Overtime Hours			
208.1	138.8	72.8	60.8
Percentage of Overtime Hours			
100%	67%	35%	29%
Overtime Costs			
\$9,377	\$5,593	\$2,861	\$2,138
Percentage of Overtime Costs			
100%	60%	31%	23%

According to BCPSS records, overtime costs during fiscal year 2010 totaled approximately \$2.8 million. Two of the departments where supervisors advised they did not verify the electronic timekeeping records to supporting documents accounted for half of the fiscal year 2010 overtime payments and included 9 of the 10 employees in our test. Due to the extent of the discrepancies disclosed in the test results, BCPSS should investigate the circumstances pertaining to these overtime payments, should determine the extent of overtime discrepancies in other pay periods, and should evaluate if any improprieties occurred.

We also noted that BCPSS paid overtime to employees of one union (that represented approximately 1,170 employees) at an earnings rate that was 9.1 percent higher than provided for under the related collective bargaining agreement. We were advised by a payroll management employee that this incorrect overtime rate for employees of this union dated back to when BCPSS payroll was processed by the Baltimore City government and was never corrected when BCPSS transitioned to processing its own payroll in 2004. We calculated that overpayments to these employees for fiscal years 2009 and 2010 totaled approximately \$206,000. Furthermore, since this error dated back to at least 2004, additional overpayments are likely to have occurred.

Recommendation 6

We recommend that BCPSS

- a. investigate the aforementioned discrepancies and determine the extent of other unsubstantiated payments and take appropriate actions, such as recovery of improper payments and possible referral to law enforcement;
- b. ensure department supervisors verify work hours, including overtime, recorded in the timekeeping system to supporting documentation, at least on a test basis, prior to approving the timekeeping records; and
- c. correct the aforementioned overtime payment calculation in its automated system to reflect the overtime rate provided for in the related union agreement.

Finding 7

BCPSS could not provide sufficient justification as to why salary reductions to certain administrators, in excess of \$300,000, were not processed.

Analysis

The Board of School Commissioners approved an employee demotion and a related \$36,000 reduction to this administrator's annual salary during its July 2008 meeting; however, the employee's salary was never reduced. Consequently, the employee continued to receive an annual salary of \$143,000, resulting in excess payments totaling approximately \$100,000 through March 2011. The employee retired in May 2011. BCPSS management advised us that, due to unique circumstances, the individual's salary should not have been reduced, even though the Board approved the reduction; however, there was no evidence that management requested the Board to reconsider its decision.

Our analysis of all BCPSS teachers identified 35 teachers with annual salaries that exceeded the salaries of their teaching positions by a total of \$729,000 as of October 5, 2010. Our test of 14 of these teachers, with annual aggregate salaries exceeding their teaching position salaries by \$458,000, disclosed that BCPSS could not provide adequate justification to support why 9 of these employees were allowed to retain their higher salaries after the effective dates of their demotions from school administrator to teacher. Specifically, 1 employee retained the higher salary for two school years, 6 employees retained their higher salaries for one school year, and 2 employees retained their higher salaries for two to four months after their demotion effective dates. Excess salary amounts paid to these 9 employees totaled \$209,000. The union agreement for school administrators provides that employees reassigned to a lower level position can retain their higher administrative salary for the remainder of the school year under certain

circumstances, such as when there is a reduction in workforce due to low enrollment or school closings. Otherwise, the salary change is effective immediately. These circumstances did not apply in these 9 cases.

Rather, we were advised by BCPSS management that, generally, it applied the terms of its teacher contract, which allows for teachers to retain their higher salaries for the remainder of the school year after a reassignment occurs. However, the aforementioned employees were administrators at the time the reassignments occurred and, therefore, the provisions of the union agreement applicable to the employees at the time of their reassignment would apply. This understanding was confirmed by legal counsel to the General Assembly. Similar conditions were commented upon in our preceding audit report.

Recommendation 7

We recommend that BCPSS

- a. design controls to ensure that employee compensation is consistent with Board decisions and applicable personnel agreements, such as union agreements (repeat);**
- b. ensure that salary adjustments resulting from personnel actions are immediately processed for the applicable employees; and**
- c. investigate the circumstances regarding the excess salaries paid to the aforementioned teachers and former administrators and determine, in consultation with BCPSS legal counsel, whether any salary adjustments should be made and whether any amounts paid can be recovered (repeat).**

Finding 8

BCPSS personnel policies were not sufficiently comprehensive.

Analysis

BCPSS had not adopted comprehensive personnel policies. While there are union agreements that specify terms of employment for unionized employees, there were no comprehensive policies to address personnel matters for all employees including the employment terms for the approximately 300 (as of October 2010) non-affiliated salaried employees. The Board adopted emergency personnel rules in 1997 for these employees; however, a final and complete version had not been adopted by the Board as of July 31, 2011. Furthermore, the emergency personnel rules are not sufficiently comprehensive. For example, they do not address salaries and benefits, including the payment of accumulated leave upon resignation or retirement. A similar condition was commented upon in our preceding audit report. We were advised by BCPSS management that BCPSS often applies the policies of the Baltimore City government, which previously processed BCPSS' payroll.

Comprehensive policies are needed to clarify the Board's intent regarding various personnel matters, such as accumulated leave payouts upon the retirement of non-affiliated employees. (See Finding 9.)

State laws governing the Baltimore City Board of School Commissioners required that the Board establish a personnel system, and empowered the Board to establish terms of employment, benefits and leave policies, among other things.

Recommendation 8

We recommend that BCPSS establish and implement comprehensive personnel policies (repeat).

Finding 9

BCPSS practices for making accumulated leave payments to employees leaving the System resulted in higher payments compared to other large Maryland public school systems.

Analysis

BCPSS policies and practices for payments for accumulated unused leave when employees separated from service resulted in higher payments for such leave in comparison to certain other large Maryland school systems. Upon separation from employment, BCPSS paid union employees for up to 144 days of accumulated vacation leave, in accordance with union agreements. In comparison, union employees of Montgomery, Prince George's, and Baltimore County public school systems were only paid for up to 45 days of accumulated vacation leave. As a result, BCPSS paid these employees as much as three times as many accumulated vacation days as other large school systems. BCPSS paid non-union employees for up to 192 days of accumulated vacation leave. According to BCPSS records for fiscal year 2010, BCPSS issued accumulated leave payments, individually exceeding \$60,000, to 55 employees (44 union and 11 non-union employees), including payments exceeding \$100,000 to 18 employees (12 union and 6 non-union employees). One non-union employee received an accumulated leave payout of \$215,000.

In addition, BCPSS paid retiring employees for a percentage of their accumulated sick leave while also certifying to the Maryland State Retirement and Pension System (MSRPS) that this sick leave was unused, resulting in an increase in retirement service credit for these employees. Specifically, our review of 10 BCPSS employees paid \$618,000 in fiscal year 2010 for a portion (25 to 33 percent) of their unused sick leave balances disclosed that

BCPSS also certified to MSRPS that all of these employees' accumulated sick leave (compensated and uncompensated) was unused. Accordingly, MSRPS used BCPSS' reported unused sick leave for determining the retirees' annual retirement benefits. Collectively, these 10 retirees have received an additional \$69,000 of cumulative retirement benefits for the reported unused, but paid, sick leave as of April 2012, and they will continue to collectively receive an annual benefit of approximately \$27,000 for that leave.

We were advised by BCPSS personnel that reporting the full unused sick leave balance to MSRPS has occurred for many years. Furthermore, a joint advice from legal counsels assigned to the Maryland General Assembly and MSRPS indicated that the law in this area is ambiguous but that the better interpretation of the law is that BCPSS should not report leave to the MSRPS for which employees have been paid. Unlike the State's personnel policies, which do not allow for sick leave balance payments upon retirement, the practice of making payments to retirees for a portion of their unused sick leave, yet reporting the entire accumulated sick leave balance to MSRPS for retirement service credit purposes, appears common among the school systems. Based on our inquiry of the practices of the 23 other local school systems, we were advised by 17 school systems that they report the full unused sick leave balance to MSRPS while also paying employees for a portion of their sick leave balances. The payment methodologies and maximum payments vary considerably among the school systems; generally BCPSS' methodology results in higher payments.

According to BCPSS records, payments for accumulated leave totaled approximately \$10 million during fiscal year 2010.

Recommendation 9

We recommend that BCPSS reevaluate its accumulated leave payment practices and consider discontinuing certifying unused sick leave to MSRPS for the portion that was paid to employees.

Finding 10

Proper follow-up on employee data match results with SSA was not performed.

Analysis

BCPSS did not properly follow up on the results of automated data matches performed to verify the accuracy of BCPSS personnel records against Social Security Administration (SSA) records for wage and tax reporting purposes. Our review of BCPSS records for the SSA matches completed in November

2009 and October 2010 disclosed that, in 2009, BCPSS did not perform any follow-up to determine the accuracy of the identification information for the 137 employees whose names and/or social security numbers did not match SSA records. In 2010, we were advised by BCPSS personnel that letters were sent to notify the 136 employees identified of the conflicting records and to require that they present their social security cards to the BCPSS Office of Human Capital. However, for matches completed in 2010 and previous years (prior to 2009), BCPSS did not take any further action when employees failed to respond to these or other communication attempts to resolve the differences.

We compared the results of five annual SSA matches completed from November 2006 through October 2010 and identified 28 employees who were reported on each year's match as having an inaccurate name and/or social security number. According to BCPSS records, these 28 employees, who were primarily teachers and school staff, earned compensation totaling approximately \$1.7 million during fiscal year 2010.

Federal law requires employers to submit accurate Form W-2 wage and tax information, including social security numbers, to the Internal Revenue Service (IRS) or face penalties for reporting incorrect information. Furthermore, the lack of valid social security numbers impairs the effectiveness of other governmental collection programs (such as wage withholding to collect unpaid child support). Each year, BCPSS sends a data file of employee information to SSA to verify the accuracy of the information prior to issuing Form W-2 wage and tax information to the IRS. SSA sends back a data file listing all employees whose identification information did not match SSA's records.

Recommendation 10

We recommend that BCPSS

- a. promptly follow up on the results of all automated matches to SSA records to ensure the accuracy of payroll reporting to SSA and the IRS, and**
- b. take appropriate disciplinary action when employees do not respond to identification information requests.**

Inventory Control and Accountability

Background

According to the BCPSS audited financial statements, the undepreciated value of its capital equipment was \$46 million, as of June 30, 2011. BCPSS maintains centralized automated records to track equipment items with a cost of \$5,000 or more (capital equipment), excluding computers. The Information

Technology Department (ITD) maintains separate automated records for all computers, including laptops, regardless of cost.

Equipment control policy and detailed records were established

BCPSS had established a comprehensive policy to control and safeguard equipment, which addressed issues such as record keeping, and accounting for additions, transfers, and deletions. In addition, BCPSS maintained detail records for its capital equipment. Furthermore, periodic physical inventories for certain capital equipment were conducted and reconciled to the detail records.

Finding 11

BCPSS did not adequately follow up on missing computer equipment.

Analysis

BCPSS did not adequately investigate the disposition of numerous computers classified as missing as a result of physical inventories and did not always ensure that employees who left BCPSS returned their assigned computers. As of April 6, 2011, ITD computer inventory records listed 1,238 computers as being unaccounted for during periodic physical inventories conducted since March 2007. There was no indication in the records that follow-up efforts were made by school administrators or ITD to investigate the disposition of these items or to obtain required authorization to remove the items from inventory.

Additionally, ITD records listed 32 laptop computers as stolen as of April 6, 2011, and in the possession of former BCPSS employees who left employment between June 2007 and January 2010. We were advised by a BCPSS Police Department management employee that, as of October 3, 2011, investigations were being conducted.

ITD oversees the physical inventory of all computer equipment, consisting primarily of non-capital equipment (that is, items costing less than \$5,000), at BCPSS schools and departments, which is performed on an ongoing basis by ITD employees and temporary contractual employees. Missing computer equipment is reported by ITD to school administrators and department managers who are responsible for ensuring the missing items are located or for submitting documentation requesting the removal of items from the inventory records. According to ITD records, there were approximately 38,000 computers in active use on the BCPSS network as of April 6, 2011. During fiscal year 2010, expenditures for computers totaled approximately \$5 million, according to BCPSS records.

Recommendation 11

We recommend that BCPSS improve controls over its computer inventory. Specifically, we recommend that BCPSS

- a. require school administrators and department managers to immediately investigate missing computer equipment, report the results to ITD and, for those items that cannot be located or were disposed, request authorization to remove the items from the inventory records; and
- b. ensure that employees return all BCPSS computer equipment when they leave employment.

Information Technology

Background

The BCPSS Information Technology Department (ITD) maintains and administers the System's computer network, computer operations, and instructional information systems applications. BCPSS operates a wide area network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at the BCPSS headquarters location. The ITD maintains a data center at the headquarters location in which numerous devices, including computer servers, operate to support BCPSS information system applications. The ITD also supports BCPSS critical applications including its student management system and its Enterprise Resource Planning (ERP) system which includes financial, human resources, and payroll modules.

Finding 12

Certain database settings for the student management system resulted in security vulnerabilities.

Analysis

Student management system database controls need improvement. Specifically, we noted the following conditions:

- A default administrative database account unnecessarily had full access to the database used for the student management system. Since this account includes local server administrators by default, all local administrators on the database server had full administrative access to this database. Also, anyone able to achieve local administrator privileges would automatically have full administrative access to this database and could perform unauthorized modifications to critical student data. In this regard, we noted 199 accounts which were inappropriately assigned full access to the database as a result of this condition.

- Critical security and audit events (such as to grant database privileges to users and to stop the audit function) on the student management system database were not logged. As a result, an audit trail to ensure accountability and propriety of these events did not exist.
- Database security settings did not establish password length or complexity requirements for nine important accounts, including the system administrator account. Best practices, as prescribed in the State of Maryland Department of Information Technology's *Information Security Policy*, require that passwords be a minimum of eight characters and meet complexity requirements (to make them more difficult to hack).

Recommendation 12

We recommend that BCPSS

- a. restrict access to all critical databases to users whose job duties require such access;**
- b. log critical security and audit events on the student management system database, regularly review these logs, investigate unusual or questionable items, and document and retain these reviews and investigations; and**
- c. establish appropriate password length and complexity requirements for all database accounts.**

Finding 13

Proper monitoring, account, and password controls were not established over the ERP system.

Analysis

BCPSS had not established proper monitoring, account, and password controls over its ERP system, as noted in the following conditions:

- ERP database logging did not include operations performed by several critical accounts with powerful database privileges. In addition, the system auditing options were not configured to log direct changes to critical data and security database tables for four database administrators. Furthermore, the audit logs that were created were accessible to database administrators who could modify these logs, these logs were not regularly reviewed, and any reviews performed were not documented.

- The account and password controls over the ERP database, as well as the server which hosts the ERP database, were not in accordance with accepted best practices with respect to account lockout and password age, length, and history.

Recommendation 13

We recommend that BCPSS implement appropriate monitoring, account, and password controls pertaining to the ERP database system. Specifically, we recommend that BCPSS

- a. log and monitor changes to critical data and security events on the ERP database; ensure independent, regular reviews of these logs; document these reviews; and retain the documentation for audit verification purposes; and**
- b. establish appropriate account and password controls over the ERP database and the server hosting this database.**

Finding 14

BCPSS had not developed a disaster recovery plan.

Analysis

BCPSS did not have a disaster recovery plan for recovering from disaster scenarios (for example, a fire). Without a complete recovery plan, a disaster could cause significant delays, for an undetermined period of time, in restoring information systems operations above and beyond the expected delays that would exist in a planned recovery scenario. Specifically, the following critical elements of a recovery plan should be addressed according to the best practices outlined in the State of Maryland *Information Technology Disaster Recovery Guidelines*, dated July 2006:

- Concept of operations
- Notification and activation procedures
- Recovery strategies (including use of alternate sites)
- Reconstitution procedures
- Periodic testing of the disaster recovery plan

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

Recommendation 14

We recommend that BCPSS develop and implement a comprehensive information systems disaster recovery plan (repeat).

Finding 15
The BCPSS network was not properly secured.

Analysis

The BCPSS network was not properly secured. Specifically, we noted the following conditions:

- Firewall rules allowed numerous insecure and unnecessary connections to critical network devices. For example, firewall rules were not configured to adequately secure connections into the BCPSS network from the Internet and from systems of the Baltimore City government.
- Students connected to the BCPSS wide area network had unrestricted network level access to the entire BCPSS network. Such access should be limited to the devices and ports necessary for these users to perform their required tasks.

Recommendation 15

We recommend that BCPSS amend its firewall rules and properly restrict access to adequately protect its internal network.

Facilities Construction, Renovation, and Maintenance

Background

BCPSS maintains 191 schools (totaling 18.3 million square feet) with a staff of approximately 447 custodial and 124 maintenance personnel. BCPSS currently uses a one-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for major renovations. BCPSS expenditures for major renovations, repairs, and systemic improvements to existing schools totaled \$66 million during fiscal year 2011.

Finding 16
BCPSS had not prepared a long-term facilities master plan to address issues such as facility conditions, utilization, and future needs.

Analysis

BCPSS's annual facilities master plans did not include long-term facility needs analyses as required by the State's Interagency Committee for the Public School Construction Program. Rather, BCPSS's annual plans for 2008 through 2011, which were approved by the Board of School Commissioners, only included one-year plans for capital improvements. As a result, BCPSS lacked a long-term plan that considered critical issues such as facility

conditions, capacity, and space utilization, and an analysis of future school facility needs. In two reports dated June 24, 2010 and July 7, 2011, the Baltimore City Planning Commission stated that BCPSS cannot continue to plan for facilities one year at a time and must create a long-term plan for its facilities.

A longstanding issue that has not been sufficiently addressed is that BCPSS' available facility space far exceeds the space required for its enrollment. As was commented upon in our January 2006 audit report, BCPSS has maintained significant excess capacity since at least 2001 when a consultant hired by BCPSS recommended the closure of 18 schools. Since our January 2006 audit report, the System closed 28 schools and transferred ownership of 5 of these schools to the Baltimore City Government. As of February 2011, of the remaining 23 closed schools under the System's control, 20 have reopened as charter schools or for other school programs and 3 are vacant.

As of September 30, 2010, the excess capacity in BCPSS schools could accommodate approximately 28,000 students based on our comparison of the state-rated capacity for BCPSS schools and enrollment. For example, 50 BCPSS schools had enrollments of less than 70 percent of the schools' capacities.

The failure to address the excess capacity is costly. We estimated that the annual plant operation and maintenance costs approximate \$7.5 million for the excess square footage in 50 schools with capacities of 70 percent or less, based on student enrollments. Specifically, we calculated that these schools had approximately 1.5 million excess square feet, which we multiplied by the average system-wide plant costs per square foot of approximately \$5, according to BCPSS records.

Furthermore, as commented upon in our preceding report, BCPSS does not have a list of deferred maintenance projects and associated costs (that is, the costs to eliminate the backlog of overdue building maintenance projects that have not been completed). BCPSS estimated its 2011 deferred maintenance costs at approximately \$1 billion. However, this estimate was based on a facility assessment performed 13 years ago that has been adjusted for inflation and estimates of further facility deterioration, and has not considered any renovations during this period.

In June 2012, a consultant issued a facilities condition assessment report on BCPSS facilities. The consultant inventoried all BCPSS facilities, and for each facility, assessed the educational adequacy, determined functional capacity, and assessed the physical condition. The consultant also determined the costs to maintain and improve the facilities for the next 10 years. The report

concluded that the costs to correct current facility deficiencies, including general condition and educational adequacy deficiencies, totaled \$1.441 billion, and that the costs to maintain these facilities over the next 10 years totaled \$1.011 billion. The report also stated that the BCPSS had excess capacity for 42,791 students. (Our excess capacity, calculated at 28,000, was based on state-rated capacity for each facility, which is generally less than the capacity amounts used in the consultant's report.) Finally, the report stated that 50 facilities should be considered for replacement as it would not be cost-effective to repair them.

BCPSS could use the assessment report as a basis for preparing a long-term facilities master plan to address its needs. Specifically, with respect to planning for facility improvements, the report stated that, "Many different scenarios are possible that take into account facilities condition, capacity issues, and other factors to determine ultimate disposition of facilities. Each scenario would have a different impact on the actual costs related to facilities condition improvements, educational adequacy improvements, ten year life cycle costs and costs of replacing some facilities in poor condition with new buildings."

Recommendation 16

We recommend that BCPSS

- a. prepare a long-term educational facilities master plan, which is updated annually, to address the facility needs of the System and to meet State requirements; and**
- b. ensure the efficient use of resources from a capital planning and maintenance perspective, including establishing planned major maintenance and renovation priorities, identifying excess capacity, and closing unneeded schools (repeat).**

Finding 17

BCPSS did not formally analyze the costs and benefits of certain changes affecting its energy contracts nor fully advise the Board of these changes. Furthermore, a comprehensive energy management program to monitor usage and control costs had not been established.

Analysis

BCPSS released energy service companies (ESCOs) from contract guarantees, in exchange for the elimination of certain contract payments, without preparing a formal cost-benefit analysis. The contract guarantees stipulated that work they had performed would result in energy savings totaling \$80

million over 15 years. Furthermore, BCPSS was not monitoring energy consumption to determine if the ESCOs' work was achieving the intended savings.

Our analysis of energy usage at 15 schools where the ESCOs had made renovations, which accounted for approximately 10 percent of the System's electricity usage, disclosed that the intended savings may not have been achieved. Specifically, we compared electricity usage (in terms of kilowatt hours used) at these 15 schools from September through December 2005, before the energy performance contract improvements were made, with electricity usage from September through December 2010. We found that, in the aggregate, usage increased by 12.6 percent at these schools, ranging individually from a decrease of 37 percent to an increase of 48 percent. During this same period, overall student enrollment at these 15 schools declined by 14 percent.

The guarantees were terminated in exchange for the elimination of contractually required preventive maintenance payments from BCPSS to the ESCOs of approximately \$36 million over the next 12 years. While other factors (such as weather) can affect utility usage, our review of electricity usage at the 15 schools, before and after the energy improvements, suggests that a cost-benefit analysis may have influenced BCPSS' decision regarding the guarantees. Furthermore, although the Board approved the contract modifications that eliminated the preventive maintenance payments, there was no evidence, either in the agenda item describing the contract modifications or in the related minutes, that the Board was advised that the guarantees of energy savings were terminated as a result.

An Energy Performance Contract (EPC) is a financing mechanism that provides infrastructure improvements to applicable facilities, energy and water savings, monitoring and verification of effectiveness, training, maintenance, and environmental benefits. Under an EPC, project construction costs incurred are to be recovered from savings realized over the life of the contract. These savings commonly come from reductions in energy consumption, and reduced operation and maintenance costs. Specifically, project contractors are required to guarantee that the improvements will realize certain future minimum reductions in energy consumption; otherwise, the contractors are responsible for reimbursing BCPSS for savings not achieved. The State Department of General Services is responsible for procuring and monitoring EPC contracts for State agencies, and BCPSS "piggybacked" on the State's EPC contract to make energy conservation improvements to BCPSS schools and other buildings. Related construction costs paid to ESCOs totaled \$95 million during fiscal years 2007 and 2008. According to information

presented to the Board, these improvements included work such as energy efficient lighting upgrades, new windows, and new boilers at approximately 180 facilities.

In addition, BCPSS had not established a comprehensive energy management program to control energy costs. Such a program is an accepted industry best practice and includes establishing goals, strategies, and measures to determine program success (such as to reduce total energy usage by a stated percentage). We were advised by BCPSS management that energy usage within individual BCPSS schools was not monitored, and we noted that BCPSS did not use any school incentive programs to encourage energy conservation. In this regard, some school systems, as an incentive to conserve energy, allow dollars saved by individual schools to be used by them in other areas (such as for student instruction). According to BCPSS records, total utility expenditures (gas, electric, heating fuel, and water and sewer) increased from \$24.4 million in fiscal year 2005 to \$31 million in fiscal year 2010—an increase of 27 percent.

Recommendation 17

We recommend that BCPSS

- a. prior to modifying contracts, prepare a cost-benefit analysis to justify the decision and fully advise the Board of School Commissioners of any changes to contract provisions; and**
- b. implement a comprehensive energy management program to monitor and control energy usage.**

Finding 18

BCPSS did not ensure that contractors had properly completed maintenance projects prior to approving the related invoices for payment.

Analysis

BCPSS did not always ensure that contractors had properly completed maintenance projects to repair school facilities prior to approving the related payments. Specifically, our test of five invoices, for contracted maintenance services totaling \$816,000, disclosed that none of supporting documentation for these five projects indicated that the work performed had been inspected to ensure the projects were completed properly. These five projects included heating, ventilation, and air conditioning equipment replacements and certain preventive maintenance.

The supervisor responsible for authorizing invoices for payment advised us that site visits were not routinely performed to inspect the work completed by contractors prior to approval of the related payments. Furthermore, this

supervisor advised us that, at times, Facilities Department employees contacted the related contractors to determine the status of these maintenance projects rather than contact an independent source, such as the relevant school building custodian.

BCPSS hires outside contractors to complete maintenance and facility repair projects that require technical expertise or specialized equipment. Expenditures for these contracted maintenance services totaled approximately \$20.5 million and \$17.6 million during fiscal years 2009 and 2010, respectively.

Recommendation 18

We recommend that BCPSS obtain independent confirmation to ensure that significant contracted maintenance work has been properly completed prior to approving the related invoices for payment.

Finding 19

BCPSS had not established policies governing the use of school facilities for extended periods by outside organizations.

Analysis

BCPSS had not established policies governing the use of its facilities for extended periods, both during and after school hours, by outside organizations. Although BCPSS has policies for short-term use of schools during non-school hours (such as for a single day), no policies were established for the long-term use of school facilities. Such policies should identify the acceptable uses of the schools by outside organizations, should require that leases be executed, and should address issues such as insurance requirements, background checks of the organization's employees and volunteers, and rent or fees. State law requires that outside organizations request in writing to use school space and provides that reasonable charges may be recovered from these organizations (such as for utilities, janitorial services, and rent).

Our visits to a number of schools disclosed that BCPSS school administrators allowed outside organizations (such as daycare and community outreach programs) to occupy school space without executing a lease with BCPSS. Our visits to 15 school buildings in April and May 2011 disclosed that one school had no outside organizations occupying space while the other 14 school buildings had 41 outside organizations that occupied space without any lease agreements with BCPSS. According to BCPSS records, none of these organizations paid any rent or fees for their use of the schools. Some of these

organizations occupied significant space in the schools and, according to school personnel, the 41 organizations had been located in school buildings for periods ranging from 1 to 16 years.

A valid lease could help protect BCPSS by holding outside organizations liable for any harm or damage caused by the organizations or related individuals on school premises as a result of their activities, and by requiring certain insurance or indemnity contracts as a condition to operate in the school facilities. The extent to which outside organizations were using school facilities on a long-term basis was not known by BCPSS administration. However, a consultant hired to determine the usable capacity of the System's schools identified 140 outside organizations in 71 school buildings during calendar years 2007 through 2009.

Additionally, BCPSS did not always properly screen workers and volunteers from these outside organizations. In this regard, the BCPSS Office of Human Capital conducts required criminal background checks for individuals working or volunteering in schools, but schools with individuals from outside organizations based in their buildings had not always notified the Office of Human Capital to obtain the required background checks. For example, one of these outside organizations provided us with a list indicating there were 62 workers and volunteers in its student mentoring and community outreach program. We provided this list to the Office of Human Capital and were advised that criminal background checks had not been completed for any of these individuals, according to the Office's records. BCPSS administrative regulations require criminal background checks be completed in advance for all volunteers who are in schools an average of four times a month over a two-month period.

Recommendation 19

We recommend that BCPSS establish policies governing the long-term use of school facilities by outside organizations. The policies should require that leases be executed with the organizations and should address issues such as insurance requirements, background checks of outside organization employees and volunteers, and any fees for the use of the space.

Finding 20

Proper accountability and controls were not established over permits issued for the short-term use of schools by outside organizations.

Analysis

Proper accountability and controls were not established over permits issued for the short-term use of schools by outside organizations during non-school hours. Duties were not properly separated in that two employees of the Facilities Department were each responsible for issuing and approving building use permits, recording and updating the related accounts receivable records, and receiving the related payments. As a result, permit fees could be misappropriated without being readily detected.

In addition, BCPSS did not ensure that the related accounts receivable records for the permit fees were accurately maintained. Our test of 10 permits for which the records reflected unpaid charges totaling \$140,000 disclosed that, for 3 permits totaling \$78,414, it was unclear whether these amounts were actually owed by the applicable organizations. Certain documentation maintained on file indicated that the fees had been waived; however, waiver forms had not been prepared nor approved by management as required. According to BCPSS records, permit fees charged during the period from November 1, 2009 through November 1, 2010 totaled \$344,000.

Recommendation 20

We recommend that BCPSS ensure that

- a. employees who maintain the accounts receivable records for permits do not have access to the related collections,
- b. the issuance of permits is subject to independent approval,
- c. the accounts receivable records are accurately maintained, and
- d. all waivers of permit fees are properly approved.

Transportation Services**Background**

BCPSS provides transportation to approximately 28,000 students. These students were transported on 264 contractor-owned buses and 34 school system-owned buses, or by public transportation and taxicabs. According to BCPSS records, fiscal year 2010 transportation costs totaled approximately \$38 million. These costs included \$19 million for school buses operated by private contractors, \$6 million paid to the Maryland Transit Administration for public transportation services, and \$2.5 million for use of taxicabs. The

remaining transportation costs (\$10.5 million) were for buses operated by BCPSS employees, used to transport certain disabled students, and Transportation Department administrative costs.

BCPSS entered into five-year contracts beginning July 1, 2006 with 18 bus contractors. In June 2011, the Board approved extensions of these contracts through June 2013. For each bus route operated by these contractors, BCPSS paid a daily fixed route rate, which varied depending on the age and size of the bus and whether the route driven involved regular or disabled students requiring wheel-chair assistance. During the 2010-2011 school year, the daily fixed route rate ranged from \$312 to \$382 for routes requiring up to 4.5 hours of bus driver time and 60 miles of roundtrip distance. BCPSS also paid contractors for additional time and mileage to operate bus routes beyond the 4.5 hour and 60 mile thresholds, based on time and mileage records provided by the contractors. The daily fixed route rate compensates the contractors for the labor cost of the drivers, the capital cost of the buses, fuel costs, and any related bus maintenance costs. The contracts generally provide for an annual rate adjustment of 2.5 percent, to the extent funding is sufficient. The bus contractors are also paid an annual program fee to cover a variety of certification and training costs.

Finding 21

BCPSS had not documented the basis for the daily fixed route rates paid to contractors to operate school buses.

Analysis

BCPSS did not retain documentation to support the determination of the daily fixed route rates, developed in 2006, used to pay contractors who operate school buses. We were advised by BCPSS management employees that a committee of BCPSS employees studied other local jurisdictions' costs for busing services and obtained informal bids from a few bus companies to develop the rates paid to contractors beginning July 1, 2006. However, BCPSS could not provide documentation from the committee or any other records demonstrating how the daily fixed rates for bus routes were determined, nor could it document the basis for establishing the 4.5 hours of bus driver time and 60 mile round trip per bus route thresholds on which the rates are based. For example, although the actual driver hours were not readily available, we noted that the same rates were paid for certain bus routes that exceeded 50 miles as for others that were 13 to 18 miles.

Recommendation 21

We recommend that when new contracts are established, BCPSS

- a. retain documentation of the methodology and basis for the daily route rates for contractor school buses, as well as the basis for the hour and mileage thresholds; and**
- b. ensure these rates are reasonable (for example, by comparing contractor busing costs with industry standards or determining actual bus operating costs).**

Finding 22

BCPSS had not established comprehensive bus routing policies and did not track key data necessary to develop efficient school bus routes and accurately report required information to the Maryland State Department of Education.

Analysis

BCPSS had not established comprehensive bus routing policies and did not track key school bus operational data as a means to monitor bus transportation efficiency and to prepare required reports for the Maryland State Department of Education (MSDE).

The Transportation Department did not have comprehensive and formalized policies that defined the relevant factors for BCPSS to consider when determining the most appropriate bus routes, such as busloads (that is, desired capacity) and student ride times. In addition, BCPSS did not use its automated routing software to evaluate the efficiency of its bus operations by compiling and analyzing bus routing data, including the number of riders per school bus, the route times, and the miles traveled per bus. BCPSS used the software primarily to produce maps of existing routes rather than to design efficient routes, reduce student ride times, and minimize the number of buses needed to transport students. In practice, BCPSS used existing bus routes and made manual modifications to accommodate students' school assignments without periodically reviewing all routes for efficiency on a system-wide basis.

Our analysis of student ridership for certain routes disclosed that student ridership was significantly less than bus capacity limits. Specifically, our review of rosters completed by bus contractor employees for the month of October 2010 for 20 school buses, each having a capacity from 66 to 71 riders, disclosed that all 20 buses had an average daily ridership of fewer than 28 percent of capacity. Furthermore, 14 of these 20 buses had, on average, 12 or fewer riders each day that month. We were advised by a Transportation Department management employee that contractor school

buses have historically averaged approximately 11 students per bus even though 40 percent of the contractor school buses have a bus capacity of at least 66 riders.

Finally, State regulations require local education agencies to report bus transportation data to MSDE for each school year. For example, for the 2009-2010 school year, BCPSS reported to MSDE that school buses travelled 3,004,200 miles and bus drivers and attendants spent 612,990 hours driving bus routes for 5,630 student riders. However, BCPSS could not provide supporting documentation for the bus mileage and driving hours reported to MSDE for school years 2008, 2009, and 2010. We were advised by a BCPSS management employee that the aforementioned figures were reported to MSDE based on estimates, but BCPSS could not provide supporting documentation for how these estimates were prepared.

Recommendation 22

We recommend that BCPSS take steps to ensure the efficiency of its bus operations. Specifically, we recommend that BCPSS

- a. develop formal, comprehensive bus routing policies and procedures that include guidance regarding bus capacities, student ride times, and bus sizes;**
- b. compile and analyze bus ridership, mileage, and operating hours data; verify the reasonableness of the data; and use automated routing software to develop more efficient bus routes (repeat); and**
- c. retain documentation supporting transportation activity reports submitted to MSDE.**

Finding 23

The BCPSS Transportation Department's process for reviewing school bus contractor invoices did not ensure the propriety of the billings.

Analysis

The review of school bus contractor invoices by the BCPSS Transportation Department did not ensure that invoices were accurate and consistent with supporting documentation. Specifically, our review noted the following conditions:

- Our test of bus contractor daily fixed route charges, totaling approximately \$1.3 million, listed on five monthly invoices from three bus contractors during fiscal year 2010 disclosed that the contractors did not always bill the correct daily fixed route rates. Consequently, we identified

overpayments by BCPSS on four invoices totaling \$21,455 and an underpayment on one invoice totaling \$25,297. The incorrect daily fixed route rates and the resulting overpayments and underpayment were not detected by Transportation Department employees during their invoice review process.

- BCPSS Transportation Department did not review charges for time and mileage above the threshold amounts for propriety, reasonableness, and agreement with supporting documentation (such as Global Positioning System reports for buses, which are available for all contractor-operated buses). As previously mentioned, the daily fixed route rate compensated the contractors for routes requiring up to 4.5 hours of bus driver time and 60 miles of roundtrip distance. BCPSS also paid contractors for additional time and mileage beyond these thresholds. For example, for the six months that school was in session between May and December 2010 one contractor reported that approximately 50 buses started and ended their respective routes at exactly the same hour and minute every day during this period. The drive time that exceeded the 4.5 hour threshold for these buses during this period totaled approximately 10,000 hours. The contractors are required to report actual start and end times, which serve as the basis for excess time charges. As a result, BCPSS had no assurance that this contractor's billings for excess time during this period, totaling approximately \$350,000, were proper.

Recommendation 23

We recommend that BCPSS

- a. improve the bus contractor invoice review process to include verifying the accuracy and propriety of billing rates and bus operating hours and mileage, as reported on bus contractor invoices, to supporting documentation (such as, contract rate schedules and Global Positioning System reports) (repeat); and**
- b. review past billings for correct daily fixed route rates and excess time and miles for reasonableness, including the billings for the aforementioned contractors, and recover any improper payments.**

Food Service Operations

Background

BCPSS provides meals (paid, free and reduced price), including breakfast and lunch to a majority of its students. BCPSS has the third largest food services operation in the State's school systems in terms of the number of meals served. Specifically, BCPSS served 12.9 million meals during fiscal year 2010

and had the lowest cost per meal as compared to similarly sized school systems. BCPSS food services revenues (\$33.6 million) exceeded expenditures (\$33.4 million) by \$191,000 during fiscal year 2011.

According to MSDE records, 81 percent of BCPSS' approximately 83,000 students qualified for free and reduced price meals (FARMS) as of October 31, 2009. BCPSS increased its FARMS participation by approximately 10 percent from October 2008 to 2009 according to BCPSS records. According to BCPSS, the primary reason for the increase is an online application process and management emphasizing enrollment in the program.

As noted in the Revenue and Billing Cycle section of this report, because of the similarities between the work of the independent certified public accounting firm that audited the BCPSS financial statements and the objectives of our audit, we relied on the firm's work related to food service revenues. Furthermore, BCPSS food service operations had a low cost per meal, a high FARMS participation rate, and sufficient revenues to cover its expenditures.

School Board Oversight

Background

The BCPSS Board of School Commissioners is composed of nine members, jointly appointed by the Governor and the Mayor of Baltimore, and one student member with partial voting rights. In its oversight responsibilities, the Board contracted with a certified public accounting firm for independent audits of the BCPSS financial statements and federal programs. The Board has an operations committee that meets monthly to discuss fiscal matters, including any internal and external audit activities, as well as other areas of BCPSS operations and governance.

A Fraud Hotline was Established and the Board Adopted a Committee Structure to Improve Oversight

As recommended in our prior audit report, the System instituted a fraud hotline for the reporting of potential improprieties. Our testing disclosed that allegations received through the hotline were appropriately investigated. Also as recommended, the Board established a committee structure to improve its oversight of the System's operations.

Finding 24

The BCPSS ethics policy was not sufficiently comprehensive and certain oversight was lacking.

Analysis

The BCPSS detailed ethics policy did not include certain provisions as required by State ethics law and a process was not in place to help identify and avoid potential conflicts of interest.

- The BCPSS ethics policy did not preclude employees from participating in a matter with a business entity owned by a qualifying relative. State ethics law states that an employee may not participate in a matter with a business entity if that entity is owned by a qualifying relative, which is defined as a child, parent, brother, or sister.
- Although State law required employees to disclose all interests in corporations, partnerships, and real property, BCPSS policy only required disclosure of such interests if the entity did business with BCPSS.
- Financial disclosure forms were filed as required for calendar year 2010 for 20 management employees and Board members we selected for testing. However, a process was not in place to review financial disclosure forms to identify individuals with potential conflicts of interest. In this regard, the Board had not appointed an Ethics Panel as of September 30, 2011 to review calendar year 2010 financial disclosure statements and to rule on conflict of interest issues as required under the School Board's ethics policy as revised in May 2010. The ethics policy provides for the establishment of an Ethics Panel, which is to consist of five members appointed by the Board, to interpret policies, provide advice on implementation, and rule on conflicts of interest.

Effective October 1, 2010, State law requirements for local school board regulations regarding conflicts of interest and financial disclosure provisions for board members and school system personnel covered by the school system's ethics regulations were expanded. These school board regulations must now be equivalent to or exceed the State requirements in Subtitles 5 and 6 of Title 15 of the State Government Article of the Annotated Code of Maryland. Under Subtitle 6, the annual disclosure statement must contain information about the filer's interests in real property, corporations (such as stock ownership), and partnerships, and entities doing business with the school system, as well as disclose certain other relationships. Approximately 500 BCPSS personnel, such as school system administrators, school

principals, assistant principals, and Board members, submitted 2010 financial disclosure forms.

Recommendation 24

We recommend that BCPSS

- a. amend its ethics policy to include all relevant provisions required by State law,
- b. establish an Ethics Panel as required, and
- c. establish a process to review financial disclosure forms and address potential conflicts of interest.

Other Financial Controls

Health Insurance

BCPSS self insures for its employees' health coverage and for eligible dependents. BCPSS verified the eligibility of program participants and their listed dependents and hired a contractor to periodically audit the propriety of claims paid by program administrators. BCPSS paid approximately \$100 million in claims during fiscal year 2010.

Charter Schools

Charter schools receive funding from BCPSS based on the number of students attending the schools and the per pupil cost to educate a student in BCPSS schools (excluding certain costs such as for special education services and debt payments). Charter school expenditures for fiscal year 2010 totaled approximately \$80 million according to BCPSS records, which primarily consisted of salary and benefit costs paid directly by BCPSS to BCPSS employees who worked at the charter schools. BCPSS disburses the remaining available funds (after deducting payroll and other costs incurred by BCPSS) to the charter schools to cover other costs, such as supplies. For fiscal year 2010, BCPSS had 29 charter schools, operated by outside organizations, that enrolled 8,850 students and had 751 full-time equivalent employee positions, according to BCPSS records.

Finding 25

BCPSS did not ensure that amounts paid to organizations that operated charter schools were proper.

Analysis

BCPSS did not establish adequate procedures to ensure the accuracy and propriety of amounts paid to organizations that operated charter schools. Specifically, we noted the following conditions:

- BCPSS could not provide an explanation for an apparent underpayment to charter schools by approximately \$530,000. The per pupil funding calculated by the Office of Finance for the 2010 – 2011 school year was \$9,121, but the payments to the 29 charter schools were based on a per pupil cost of \$9,061.
- BCPSS did not verify that charter school students added to the student management system were legitimate. Specifically, employees based at charter schools are responsible for entering all student information in the BCPSS student information system without any independent review by the BCPSS Central office. Since these enrollment data are the basis of charter school funding, BCPSS should ensure that the data are reliable. Charter school student enrollments increased by 5,352 students or 153 percent since 2005, according to BCPSS records. Although the Maryland State Department of Education (MSDE) uses sampling to verify student enrollments are adequately supported for all school systems, it is unlikely that a sufficient number of charter school students would be selected for verification by MSDE. Charter school students comprised approximately 10 percent of the total BCPSS enrollment.

Recommendation 25

We recommend that BCPSS

- a. ensure the amounts paid to charter schools are based on the correct per pupil cost and make the necessary adjustments for the aforementioned underpayment, and**
- b. verify enrollment data entered by charter schools into the student information system.**

Finding 26

BCPSS could not provide lease agreements for the 14 charter schools that operated in buildings owned by the System. In addition, BCPSS had not established a policy to ensure that charter schools using BCPSS facilities were charged an appropriate lease fee.

Analysis

BCPSS could not provide lease agreements for the 14 charter schools that operated in BCPSS buildings during fiscal year 2010. In addition, BCPSS had not established a policy to ensure that charter schools using BCPSS facilities were paying the appropriate lease fees for the operation and maintenance costs of these buildings. During fiscal 2010, BCPSS charged charter schools \$1.3 million in leasing fees. Specifically, our audit disclosed the following conditions:

- BCPSS could not provide lease agreements for the 14 charter schools that operated in BCPSS buildings during fiscal year 2010. Lease agreements should be established to delineate the legal responsibilities of these organizations and the System and to document the lease fees charged for use of these buildings.
- BCPSS had not established a policy to ensure that charter schools were being charged the appropriate amount for the use of BCPSS buildings. The policy should include such relevant factors as the operation and maintenance cost to include in the lease fee and the determination of square footage to be used when calculating the lease fee. Furthermore, our review of the aforementioned 14 charter schools disclosed that, during fiscal year 2010, BCPSS did not charge lease fees to two of these schools. Based on the square footage of the BCPSS facilities used by these charter schools and the \$2.50 per square foot plant costs rate charged to other charter schools, we estimated that these two charter schools should have been charged approximately \$580,000 in lease fees for fiscal year 2010.

Recommendation 26

We recommend that BCPSS

- a. execute written lease agreements with all charter schools that operate in BCPSS facilities,**
- b. establish a policy regarding the operation and maintenance costs to be recovered from charter schools using BCPSS buildings and ensure the charter schools are charged lease fees in accordance with this policy, and**
- c. consult with legal counsel to determine if any of the uncharged lease fees for the two aforementioned charter schools can be recovered.**

Audit Scope, Objectives, and Methodology

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

We had two broad audit objectives:

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

In planning and conducting our audit of BCPSS, we focused on 11 major financial-related areas of operations as approved on September 14, 2004 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of findings included in our preceding audit report on BCPSS dated January 9, 2006, was limited to those findings that were applicable to the current audit scope for each of the 11 areas.

The audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. Also, we did not evaluate the BCPSS Comprehensive Education Master Plan or related updates, and we did not review the activities, financial or other, of any parent teacher association, group, or funds not under the direct control or management of the Baltimore City Board of School Commissioners.

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 BCPSS. We also interviewed personnel at BCPSS, the Maryland State Department of Education

(MSDE), and staff at other local school systems in Maryland (as appropriate).⁴ Our audit procedures included inspections of documents and records, and observations of BCPSS 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, 2009 through December 31, 2010. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits BCPSS' financial statements and conducts the federal Single Audit.

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

BCPSS' 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 BCPSS that did not warrant inclusion in this report.

We conducted our fieldwork from August 2010 to August 2011. The BCPSS response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise BCPSS regarding the results of our review of its response.

⁴ During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

APPENDIX
BALTIMORE CITY
PUBLIC SCHOOLS

Stephanie Rawlings-Blake
Mayor, City of Baltimore

Neil E. Duke, Esq.
*Chair, Baltimore City Board of
School Commissioners*

Andrés A. Alonso, Ed.D.
Chief Executive Officer

September 18, 2012

Thomas J. Barnickel III
Acting Legislative Auditor
Office of Legislative Audits
301 West Preston Street – Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

City Schools thanks you for the opportunity to respond to your report dated August 3. We view these audits as an opportunity to reflect internally on how we can improve, and we believe that for City Schools the result has clearly been improvement.

The 2012 audit shows marked improvement from 2006, most notably in grants management, procurement, transportation, food services, and school board operations. In stark contrast to 2006, your 2012 report includes 26 findings; a decrease of 20 from the 2006 audit. City Schools has noted that:

- Of these 26 findings, 9 are repeat findings and 17 are entirely new
- OLA reviewed the status of 35 of the original 46 findings from 2006 and found that City Schools satisfactorily addressed 26 of them in 2012, while 9 remain repeat findings.

In general, we found your report to be a useful assessment of certain financial processes at City Schools. Of the 26 findings, we found agreement with 19 of them; of these, we believe that we have resolved 9 of those findings already, and 10 others have resolutions under way. We partially agreed with 6 findings; of these, we believe we have resolved 1 of those findings already and 5 others have resolutions underway. There is only one finding where we disagree with OLA.

As you review our responses, we hope you will see the ongoing improvement in our processes and policies and the positive impact of the legislative audit in helping us to improve. Though in some cases we will disagree on an interpretation of contracts or law, we believe that on balance your work has helped City Schools continue to get better.

As always, thank you for your work on behalf of Maryland's students.

Best regards,



Andrés A. Alonso, Ed.D.
Chief Executive Officer



Finding 1**BCPSS had not sufficiently pursued collection of past due accounts.****Recommendation 1****We recommend that BCPSS maintain close oversight of accounts receivable. Specifically, we recommend that BCPSS**

- a. include all amounts owed to the System in its centralized accounts receivable records;**
- b. develop formal debt collection procedures that specify when delinquent accounts should be referred to a collection agency;**
- c. ensure that appropriate collection efforts are made on past due amounts, including amounts owed by former employees and outside organizations, by promptly billing amounts due and referring unpaid accounts to the collection agency; and**
- d. consider paying bonuses only after service requirements have been fulfilled.**

Response:

- a. City Schools partially agrees with this recommendation. City Schools records accounts receivable for employees on loan in accordance with the City Schools understanding/interpretation of the contractual obligations of the external agencies and their historical application. City Schools will institute a dialogue with the external agencies to review the contractual obligations as noted in the union contracts and to include amounts on the PEP agenda which are consistent with the union contracts. This review process should be completed by FY13 fiscal year end.
- b. City Schools partially agrees with this recommendation. City Schools has developed a proposed Accounts Receivable Guidance Document which will undergo the City Schools approval process. This Guidance Document outlines actions to be taken to address accounts which become delinquent. This Guidance Document will be reviewed by the Chief Financial Officer staff and will be submitted for the City Schools approval process during October 2012.
- c. City Schools partially agrees with this recommendation. City Schools Finance staff have been working collaboratively with staff from the Office of Human Capital to develop a more current billing cycle which should allow increased tuition reimbursement recoveries. Through a collaborative effort with ITD, monthly statements have been developed which will be mailed to account holders each month commencing in October 2012. These monthly statements will provide updated account information to customers and will alert the customers to possible delinquency issues.

Certain delinquent accounts were referred to the collection agency during FY 2012 with additional referrals in process at the current time. Delinquent accounts which have received the required notifications and were referred to the collection agency will be written off against the allowance for doubtful accounts upon CFO approval in accordance with the Guidance Document.

- d. City Schools partially agrees with this recommendation. City Schools will consider this recommendation after a review of contractual obligations.

Finding 2

Procurement and disbursement processing duties were not properly separated.

Recommendation 2

We recommend that BCPSS improve its internal controls over procurements and disbursements by segregating employee duties and restricting system capabilities so that incompatible critical processes cannot be performed by one employee acting alone (repeat).

Response:

City Schools agrees with this recommendation. Effective June 5, 2012, no one person has access to these separate critical processes.

Finding 3

BCPSS did not comply with procurement requirements for two large contracts.

Recommendation 3

We recommend that BCPSS establish controls over procurements and contracts to ensure that

- a. **all required Board approvals are obtained, including approvals required for contract renewals; and**
- b. **the sole-source procurement method is only used when the conditions specified in its procurement policy have been met, and have been fully documented.**

Response:

- a. City Schools agrees with the recommendation. The Office of Materials Management implemented a contract monitoring process in January 2011 to ensure that all contracts over \$25,000 are approved by the Board.

- b. City Schools agrees with the recommendation. We have implemented a process to document sole-source procurements. Additionally, all sole source procurements are specifically identified for the Board along with their justification prior to their approval.

Finding 4

BCPSS did not always follow proper competitive procurement policies for certain education services nor independently verify supporting documentation to ensure the services paid for were actually provided.

Recommendation 4

We recommend that BCPSS

- a. **obtain contractual services through a properly documented competitive procurement process which includes preparing detailed purchase orders or contracts, as applicable, before the services are provided;**
- b. **ensure vendors submit adequate documentation demonstrating that services have been provided prior to approving related payments; and**
- c. **require departments that obtain contractors to provide student educational services to document that they have contacted the related students or their families to verify the services were provided, at least on a test basis.**

Response:

- a. City Schools partially agrees with the recommendation. Quotes, hourly rates, etc. are available from the solicitation documents or from the Professional Services agreements executed by the supplier and located in the Office of Materials Management. That said, since July 1, 2012, City Schools is rejecting requisitions that do not provide this information.¹
- b. City Schools agrees with the recommendation. The Office of Procurement will develop guidance by October 15, 2012 for all offices. From that point forward, the Offices of the Chief Academic Officer, Special Education and Title 1 will require staff to independently verify the delivery of Educational Service providers.
- c. City Schools agrees with the recommendation. After October 15, 2012, the Office of the Chief Academic Officer, Special Education, and Compensatory services will conduct random audits to verify the delivery of Educational Service providers.

¹**Auditor's Comment:** BCPSS was unable to provide to us, both during and after fieldwork, with evidence that price quotes or bids were obtained for the purchases of services referred to in the report. BCPSS' response notes that, only since July 1, 2012, has it been rejecting requisitions that do not provide this information.

Finding 5

Critical human resources and payroll transactions were not independently reviewed for propriety.

Recommendation 5

We recommend that BCPSS establish adequate controls over the various aspects of payroll and human resources processing to ensure the propriety of payments to employees (repeat). Specifically, we recommend that BCPSS

- a. generate output reports of critical changes and adjustments made to human resource and payroll data, including additional compensation payments; and**
- b. at least on a test basis, verify output reports of these critical changes and adjustments to appropriate supporting documentation.**

Response:

- a. City Schools agrees with this recommendation. The Office of Human Capital and Finance have partnered with the Information Technology Department to develop a series of audit reports for Compensation and Payroll functions. These initial phase and implementation of these audit reports will be finalized in December 2012. These reports will log information specifically related to the salary and wage changes, grade/step changes, leave accruals and leave accrual-related payments.

Currently, the Office of Human Capital uses the "Employee Change Report" to validate changes input into the core Oracle system though this report captures all changes made to an employee record and is not specific to Compensation and Payroll related transactions.

- b. City Schools agrees with this recommendation. Beginning October 1, 2012, the Manager of Strategic Compensation and the Director of Payroll will independently review the appropriate audit report(s) on a bi-weekly basis and maintain a review log to identify that an independent review of changes initiated by relevant employees was sufficient and accurate.

Finding 6

Certain overtime payments could not be substantiated and certain other payments were improperly calculated.

Recommendation 6

We recommend that BCPSS

- a. investigate the aforementioned discrepancies and determine the extent of other unsubstantiated payments and take appropriate actions, such as recovery of improper payments and possible referral to law enforcement;**
- b. ensure department supervisors verify work hours, including overtime, recorded in the timekeeping system to supporting documentation, at least on a test basis, prior to approving the timekeeping records; and**
- c. correct the aforementioned overtime payment calculation in its automated system to reflect the overtime rate provided for in the related union agreement.**

Response:

- a. City Schools partially agrees with this recommendation. We agree that it is prudent to investigate potential unsubstantiated payments, but our test of certain overtime payments did not replicate the inappropriate overpayments referenced in the finding. This is because we do not have overtime payments made without supervisory approval. City Schools notes that we have streamlined our overtime supervision process in August of 2010 as a result of the OLA audit.

Our current pre-approval process for overtime is a useful planning tool for identifying what additional time will be paid out in the future. There are many instances, however, that run later than expected and the pre-approval process will never project the correct amount needed for those events. In those types of instances, we still have supervisors confirm the additional time worked before payroll processes additional pay. For example, if a school police officer is pre-approved for two hours of overtime for extra duty at a basketball game, but the game goes into overtime, his supervisor is made aware of that instance immediately after the game and approves additional time that was not represented in the pre-approval form. The time sheet for the officer is faxed in the next day, but the pre-approval form referenced in the finding is not edited.

In addition to administering our own test, we are confident that laws are being followed. Federal, State, and local statutes govern the computation of wages and wage record keeping requirements. The Time Sheet of Record required for recordkeeping

compliance is the automated timekeeping system. The data contained therein represents the accurate time reported by the timekeeper and approved by the time approver.²

- b. City Schools agrees with this recommendation. In addition to the school police process referenced above, in March of 2012 the approval process for Facilities overtime payments was revisited and is now as follows: 1. The supervisor signs the overtime approval form for overtime in advance. 2. Prior to signing the overtime form, the supervisor will analyze whether or not the overtime is valid and whether or not the overtime can be reassigned during normal business hours. 3. If overtime hours must occur, supervisor signs the overtime form and submits to the Chief of the department. All overtime for employees are approved by the supervisor and the Chief.
- c. City Schools agrees with this recommendation. While the rate currently paid does not match the amount reflected in the current Collective Bargaining Agreement, effective September 28, 2012 City Schools will ensure that the amounts reflected in the current and appropriate collective bargaining agreements are those amounts that are attributable to employees in the particular units whose overtime is approved in accordance with City Schools policy. Past Practice dictates that historic practices are equal to expressly defined articles of an agreement.

Finding 7

BCPSS could not provide sufficient justification as to why salary reductions to certain administrators, in excess of \$300,000, were not processed.

Recommendation 7

We recommend that BCPSS

- a. **design controls to ensure that employee compensation is consistent with Board decisions and applicable personnel agreements, such as union agreements (repeat);**
- b. **ensure that salary adjustments resulting from personnel actions are immediately processed for the applicable employees; and**
- c. **investigate the circumstances regarding the excess salaries paid to the aforementioned teachers and former administrators and determine, in consultation with BCPSS legal counsel, whether any salary adjustments should be made and whether any amounts paid can be recovered (repeat).**

²**Auditor's Comment:** The finding is an internal control issue where employee-prepared sign-in sheets were not available to support the automated records. BCPSS was unable to provide us, both during and after fieldwork, with evidence to support the overtime payments made for our test items, and the supervisors who approved the overtime recorded in the automated system could not explain how the overtime was determined.

Response:

- a. City Schools partially agrees with this recommendation. The Office of Human Capital has, since 2010, implemented an on-line, automated tracking system for all employees for whom the City Schools Board of Schools Commissioners adjusts his/her salary. This system is based on an electronic workflow through manager queues in Oracle. The Compensation and Staffing departments within the Office of Human Capital are in the approval queue workflow and initiate all offer letters and subsequent salary changes that result from Board personnel action.
- b. City Schools partially agrees with this recommendation. The Office of Human Capital has, since June 2011, implemented a Compensation-specific salary form used to initiate salary adjustments. This system has been in effect since 2010 and is based on an electronic workflow through manager queues in Oracle. The Compensation and Staffing departments within the Office of Human Capital are in the approval queue workflow and initiate all offer letters and subsequent salary changes that result from Board personnel action.
- c. City Schools disagrees with this recommendation. City Schools asserts that this is a complex issue that includes interpretation of State law, collective bargaining agreements, the reorganization of Area Academic Offices and documents referencing grant-funded positions, at a minimum. The collective bargaining agreements and the COMAR Regular Contract for certificated employees guide the Office of Human Capital's allowance of school administrators to retain an adjusted salary for up to one year after they have been reassigned to a lower-salaried teaching position.

For reassignments due to reductions in force, refer to the language of the PSASA contract.

For reassignments due to non-reduction in force related reasons, please refer to the section below of the Regular Contract (COMAR 13A.07.02.01.B2) which reads:

"...that the said certificated employee shall be and is hereby employed in the public schools of the said County subject to assignment by the Local Superintendent or transfer to some other position with the County, provided that if the transfer be made during

the school year or after the opening of the school for any year, the salary shall not be reduced for the remainder of the year.” The Regular Contract applies to all certificated employees, which includes school administrators and is not exclusive to teachers.³

Finding 8

BCPSS personnel policies were not sufficiently comprehensive.

Recommendation 8

We recommend that BCPSS establish and implement comprehensive personnel policies (repeat).

Response:

City Schools agrees with this recommendation. The Office of Human Capital will support the Office of Legal Counsel in reviewing the Maryland State Law regarding personnel policies involving Local Education agencies with specific attention to policies, guidelines, and regulations involving unaffiliated employees. If additional City Schools personnel policies are required as a result of this review, the Office of Human Capital and the Office of Legal Counsel will develop, prepare, or revise City Schools personnel policies and prepare them for presentation and adoption by the Baltimore City Board of School Commissioners by June 2013.

Finding 9

BCPSS practices for making accumulated leave payments to employees leaving the System resulted in higher payments compared to other large Maryland public school systems.

Recommendation 9

We recommend that BCPSS reevaluate its accumulated leave payment practices and consider discontinuing certifying unused sick leave to MSRPS for the portion that was paid to employees.

³**Auditor’s Comment:** The response disagrees with the recommendation, asserting that the salary reductions are complex issues that include interpretation of State law and collective bargaining agreements and that consider other factors. By State law, the Board sets employee salaries and, when the Board reduces a salary, absent additional Board action, the salary set by the Board must be paid. The response also refers to contract language contained in COMAR pertaining to certificated employees. Because of questions regarding legal interpretation, this matter was referred to legal counsel to the General Assembly who supported our position on the issue. Although the response also refers to contract language for reassignments due to reductions in force, the reassignments commented upon in the finding were not due to such reductions.

Response:

City Schools disagrees with this recommendation. Employee leave payout is a topic included in collective bargaining and as such, is re-evaluated during the negotiation process for each union. Only employees that meet regular retirement age and conditions have accumulated sick leave counted in their calculation. Employees that retire before regular retirement age do not receive additional service credit by using accumulated sick leave.⁴

Finding 10

Proper follow-up on employee data match results with SSA was not performed.

Recommendation 10

We recommend that BCPSS

- a. promptly follow up on the results of all automated matches to SSA records to ensure the accuracy of payroll reporting to SSA and the IRS, and**
- b. take appropriate disciplinary action when employees do not respond to identification information requests.**

Response:

- a. City Schools agrees with this recommendation. In February 2012, the Office of Human Capital revised its procedures and practices related to the collection of outstanding SSA records. Of the 28 records with discrepancies as of June 19th, 22 have now been secured. Also, the Office of Human Capital and the Payroll Office have developed a joint calendar to track and monitor the timelines associated with the collection of outstanding SSA records.
- b. City Schools agrees with this recommendation. The Office of Human Capital's Labor Relations department has issued formal "Letters of Reprimand" to all employees who did not return the appropriate SSA documentation within 45 days.

⁴**Auditor's Comment:** The response disagrees with the recommendation but it is unclear how the remaining comments provide any basis for the disagreement. To clarify, we deem limits on payouts for unused vacation leave and the dual benefit for unused sick leave to be policy matters that should be considered by the Board (see Finding 8).

Finding 11

BCPSS did not adequately follow up on missing computer equipment.

Recommendation 11

We recommend that BCPSS improve controls over its computer inventory. Specifically, we recommend that BCPSS

- a. require school administrators and department managers to immediately investigate missing computer equipment, report the results to ITD and, for those items that cannot be located or were disposed, request authorization to remove the items from the inventory records; and**
- b. ensure that employees return all BCPSS computer equipment when they leave employment.**

Response:

- a. City Schools agrees with this recommendation. The Information Technology Department will develop a process in partnership with the Office of Human Capital for school administrators and department managers to report missing computer equipment to ITD, and request authorization to remove the items from inventory records in the event they cannot be located or were disposed. This response will be implemented fully by December 28, 2012.
- b. City Schools agrees with this recommendation. The Office of Human Capital will include an asset recovery module in the training for all district hiring managers which will have a component specifically focused on the procedures for securing assets from employees who are terminated or leave the district for any reason by December 28, 2012.

Finding 12

Certain database settings for the student management system resulted in security vulnerabilities.

Recommendation 12

We recommend that BCPSS

- a. restrict access to all critical databases to users whose job duties require such access;**
- b. log critical security and audit events on the student management system database, regularly review these logs, investigate unusual or questionable items, and document and retain these reviews and investigations; and**
- c. establish appropriate password length and complexity requirements for all database accounts.**

Response:

- a. City Schools agrees with this recommendation. The Information Technology Department has restricted access to users whose job duties require such access within the student management system (SMS)
- b. City Schools agrees with this recommendation. We have implemented security and audit event logging on the SMS database.
- c. City Schools agrees with this recommendation. Password length and complexity requirements were strengthened for all database accounts.

All of the above actions were implemented by January 2012.

Finding 13

Proper monitoring, account, and password controls were not established over the ERP system.

Recommendation 13

We recommend that BCPSS implement appropriate monitoring, account, and password controls pertaining to the ERP database system. Specifically, we recommend that BCPSS

- a. log and monitor changes to critical data and security events on the ERP database; ensure independent, regular reviews of these logs; document these reviews; and retain the documentation for audit verification purposes; and**
- b. establish appropriate account and password controls over the ERP database and the server hosting this database.**

Response:

- a. City Schools agrees with the recommendation. The Information Technology Department has implemented the recommended account and password controls.
- b. City School agrees with the recommendation. We have developed a process for independent, regular reviews of the Oracle logs and retention of the subsequent verification.

The above actions were implemented by February 2012.

Finding 14

BCPSS had not developed a disaster recovery plan.

Recommendation 14

We recommend that BCPSS develop and implement a comprehensive information systems disaster recovery plan (repeat).

Response:

- a. City Schools agrees with the recommendation. The Information Technology Department developed and implemented a comprehensive information systems disaster recovery plan. The response was implemented by May 2012.

Finding 15

The BCPSS network was not properly secured.

Recommendation 15

We recommend that BCPSS amend its firewall rules and properly restrict access to adequately protect its internal network.

Response:

City Schools agrees with the recommendation. The Information Technology Department amended its firewall rules by June 2012. Additionally, the Information Technology Department is currently working to restrict network level access to adequately protect the internal network. This response is expected to be implemented by December of 2012.

Finding 16

BCPSS had not prepared a long-term facilities master plan to address issues such as facility conditions, utilization, and future needs.

Recommendation 16

We recommend that BCPSS

- a. **prepare a long-term educational facilities master plan, which is updated annually, to address the facility needs of the System and to meet State requirements; and**
- b. **ensure the efficient use of resources from a capital planning and maintenance perspective, including establishing planned major maintenance and renovation priorities, identifying excess capacity, and closing unneeded schools (repeat).**

Response:

- a. City Schools agrees with this recommendation. In May of 2011, City Schools approved a contract with Jacobs Project Management firm to conduct an independent and data driven assessment of all City Schools' facility inventory. The assessment is complete and was submitted to City Schools in June of 2012. The assessment will allow City Schools to create a ten-year master plan by November 2012. In addition, the assessment will also contain a ten-year plan for the maintenance of school buildings, except for those buildings that will be closed.

The information contained in the Jacobs' study and the ten year facilities master plan will be utilized in the preparation of the annual Comprehensive Educational Facilities Master Plan (CEFMP), due to PSCP each July. The first long range ten year CEFMP will be submitted on July 1, 2013.

- b. City Schools agrees with this recommendation. The ten year master plan will identify schools for closures and consolidations and schools for replacement or renovation resulting in a "right sized" facilities plant with an overall average utilization of 75-80%.

Finding 17

BCPSS did not formally analyze the costs and benefits of certain changes affecting its energy contracts nor fully advise the Board of these changes. Furthermore, a comprehensive energy management program to monitor usage and control costs had not been established.

Recommendation 17

We recommend that BCPSS

- a. **prior to modifying contracts, prepare a cost-benefit analysis to justify the decision and fully advise the Board of School Commissioners of any changes to contract provisions; and**
- b. **implement a comprehensive energy management program to monitor and control energy usage.**

Response:

- a. City Schools partially agrees with this recommendation. A cost-benefit analysis is always needed when making financial decisions and in the case of the ESCO contracts there was no formal cost-benefit analysis because it was clear that energy costs were increasing and cost savings were not being generated. Please see below table for historical BGE rates absorbed by City Schools.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>3 Year Change</u>
Distribution Charge	0.01020	0.01130	0.01112	0.01367	34.0%
State Surcharge	0.00014	0.00015	0.00015	0.00015	10.8%
Franchise Tax	0.00062	0.00062	0.00062	0.00062	0.0%

As a result of these rates, the 20% guarantee in cost reduction was not being achieved and because the contracts had escalating price clauses, they no longer made budgetary sense and would never do so. In addition to rising costs, the infrastructure renovations made to buildings at City Schools were not substantial enough to create real efficiency because of the age and condition of the buildings.

As regards our Board of School Commissioners, they approve all contracts greater than \$25,000 in value, and all of these contracts have termination clauses. The Board does not make contract termination decisions, as this is a responsibility of the CEO. In the case of these contracts, the Board was made aware of their under-performance during Operations Committee meetings in 2009. The CEO then exercised his duty to defend the budget of the school system and terminated these contracts.⁵

- b. City Schools agrees with this recommendation. An Energy Management Analyst position was created In July of 2012 and is currently being recruited. The Management Analyst will review, forecast, and monitor energy use in facilities throughout the BCPS organization and make recommendations to implement policy to improve energy efficiency through evaluating energy use. This process will result in a comprehensive energy management program, and will include recommendations on potential school level incentives.

In addition to this personnel action, City Schools' Facilities Division continues to strive for energy savings through other initiatives. These include choosing energy efficient chillers, univents, lights, pumps or other equipment that are installed in City School's buildings. We are also currently participating in the BGE rebate program for the installation of equipment that can produce energy savings. We have received \$16,000 in rebates since 2010. Finally, Facilities is also participating in BGE's SMART ENERGY Savers program. City Schools has identified four school accounts for lighting retrofits. Once the new lighting is installed, City Schools' estimated savings will be \$5,555.

⁵**Auditor's Comment:** The response concurs that a cost-benefit analysis was not prepared by BCPSS to justify releasing the contractors from substantial financial guarantees due to BCPSS because it was clear that energy costs (that is, energy prices) were increasing and cost savings were not being generated. This response fails to consider that the contractors' financial guarantees were based on a reduction in energy usage irrespective of energy price increases. Furthermore, releasing the contractors' from their contractual financial guarantees was a significant modification of the contract terms that should have been presented to the Board when it approved the modification that eliminated the preventive maintenance payments.

Finding 18

BCPSS did not ensure that contractors had properly completed maintenance projects prior to approving the related invoices for payment.

Recommendation 18

We recommend that BCPSS obtain independent confirmation to ensure that significant contracted maintenance work has been properly completed prior to approving the related invoices for payment.

Response:

City Schools partially agrees with this recommendation. The current process for payments, implemented in March 2012, for Aging School Projects and other significant contracted maintenance work is as follows:

Upon partial and or final invoice from the vendor, City Schools' project manager verifies that the invoice received from the vendor matches the proposal costs. Prior to submission to Maryland Department of Education, a final site visit for verification of project completion takes place. After inspection of the site and confirmation that the contracted work was completed, City Schools' Department of Facilities signs off on the approval to pay the invoice for the project.

Finding 19

BCPSS had not established policies governing the use of school facilities for extended periods by outside organizations.

Recommendation 19

We recommend that BCPSS establish policies governing the long-term use of school facilities by outside organizations. The policies should require that leases be executed with the organizations and should address issues such as insurance requirements, background checks of outside organization employees and volunteers, and any fees for the use of the space.

Response:

City Schools agrees with this recommendation. In concert with the City Schools Legal Department the Office of Real Estate and Permits, has drafted a new policy that will govern the use of the school facilities for extended periods by outside organizations. The draft will be circulated for internal review and will be submitted to the Board of School Commissioners by October 2012.

Finding 20

Proper accountability and controls were not established over permits issued for the short-term use of schools by outside organizations.

Recommendation 20

We recommend that BCPSS ensure that

- a. employees who maintain the accounts receivable records for permits do not have access to the related collections,**
- b. the issuance of permits is subject to independent approval,**
- c. the accounts receivable records are accurately maintained, and**
- d. all waivers of permit fees are properly approved.**

Response:

- a. City Schools agrees with this recommendation. The Real Estate and Permit department has established internal controls to separate duties and avoid overlapping responsibilities. The Permit Assistant will no longer assess the fees and collect payment. Once the fees have been assessed and the client remits payment, the Budget Manager will collect permit fees based on the Application Request form to reconcile fees and the amount collected. Collected fees will be hand delivered to Finance to complete the collection process.
- b. City Schools agrees with this recommendation. After the signature of the Budget Manager is obtained, the Real Estate and Permit Staff will issue the approved permit.
- c. City Schools agrees with this recommendation. Real Estate and Permits is implementing a new tracking system presently (September 2012). The tracking system is a web based software system developed to ensure that accounts receivable records are accurately maintained to support the current hard copy Real Estate and Permits process.
- d. City Schools agrees with this recommendation. Currently, waivers are not granted without the approval of the COO. Waiver requests require a letter of explanation by the requestor detailing the nature of request and financial hardship. In August 2010, a waiver request form was established to track the authorization of all requested waivers. Since October of 2010, all waiver requests are documented, approved or disapproved, on the waiver request form.

Finding 21

BCPSS had not documented the basis for the daily fixed route rates paid to contractors to operate school buses.

Recommendation 21

We recommend that when new contracts are established, BCPSS

- a. retain documentation of the methodology and basis for the daily route rates for contractor school buses, as well as the basis for the hour and mileage thresholds; and**
- b. ensure these rates are reasonable (for example, by comparing contractor busing costs with industry standards or determining actual bus operating costs).**

Response:

- a. BCPS agrees with this recommendation. On May 21, 2012 BCPSS issued RFP-12087; a request for proposals to identify qualified transportation provider(s) for Baltimore City Public Schools (City Schools). The new contract(s) will take effect July 1, 2013. RFP 12087 is a competitive public solicitation in accordance with the City Schools Administrative Regulations Section 3-104. The solicitation was posted on the State of Maryland's website www.emarylandmarketplace.com.

Unlike the prior transportation contract, the daily bus rates will not be set by City Schools. Instead, the rate will be established by open competition amongst the respondents to the RFP. It is expected that as many as 10-15 vendors will respond to the RFP.

- b. BCPS agrees with this recommendation. The RFP process is a two-step selection process that confirms the capabilities of the vendor to provide reliable and safe transportation services and the price for those services. The qualified vendor with the lowest price will be awarded the contract. Should that vendor not be able to satisfy all 290 routes required by City Schools, then we would go to the next lowest cost qualified vendor and so until all the routes were fulfilled.

Bus rates obtained through this RFP process will ensure the rates are competitive and also well documented since City Schools will retain all copies (both electronic and in paper) of the vendor's bid response package.

Finding 22

BCPSS had not established comprehensive bus routing policies and did not track key data necessary to develop efficient school bus routes and accurately report required information to the Maryland State Department of Education.

Recommendation 22

We recommend that BCPSS take steps to ensure the efficiency of its bus operations. Specifically, we recommend that BCPSS

- a. develop formal, comprehensive bus routing policies and procedures that include guidance regarding bus capacities, student ride times, and bus sizes;**
- b. compile and analyze bus ridership, mileage, and operating hours data; verify the reasonableness of the data; and use automated routing software to develop more efficient bus routes (repeat); and**
- c. retain documentation supporting transportation activity reports submitted to MSDE.**

Response:

- a. City Schools agrees with this recommendation. In January 2012, to accomplish comprehensive bus routing policies and track key data, City Schools' contracted with an experienced vendor of GPS, student tracking, and routing and scheduling systems.
- b. City Schools agrees with this recommendation. The solution mentioned above provides applications for GPS /AVL location, student ridership tracking, driver time and attendance tracking, electronic vehicle inspection, and a Mobil Data Terminal (MDT) system. The MDT allows for two way communication with the driver (including alerts or changed transportation plans) and the tracking of special needs students.
- c. City Schools agrees with this recommendation. Effective October 1, 2012, we will retain documentation supporting transportation activity reports submitted to MSDE.

Finding 23

The BCPSS Transportation Department's process for reviewing school bus contractor invoices did not ensure the propriety of the billings.

Recommendation 23

We recommend that BCPSS

- a. improve the bus contractor invoice review process to include verifying the accuracy and propriety of billing rates and bus operating hours and mileage, as reported on bus**

contractor invoices, to supporting documentation (such as, contract rate schedules and Global Positioning System reports) (repeat); and

- b. review past billings for correct daily fixed route rates and excess time and miles for reasonableness, including the billings for the aforementioned contractors, and recover any improper payments.**

Response:

- a. City Schools agrees with this recommendation. In January of 2012, on-site service checks were scheduled at assigned schools to document bus arrival times. This along with the review of Translog data assists in monitoring the actual delivery of services to schools. When invoices are received, transportation reconciles the amount due on the invoices to the records compiled from the data collected at the schools. When services are not delivered as scheduled, transportation provides written documentation to support not processing the invoice for payment. The use of the GPS technology as well as the Mobile Data Terminal (MDT) provides meaningful analysis ability in reviewing invoices.
- b. City Schools agrees with this finding. Effective SY10-SY11, a three tier cooperative plan was established to review bus contractor invoices for accuracy. Invoices are submitted to the Accounting Assistant for review. Each month, a route mileage report is sent to the Accounting Assistant from the Transportation Division. The reports include the vendor, route and miles for each route as determined using our software. The final invoices are by the Program Manager, Accounting Assistant, and the COO Budget Manager. Finance reviews amortization payment for purchased BCPS buses for vendors for accuracy. The COO's budget manager. This process has reduced overbilling for over the base hours and mileage.

Finding 24

The BCPSS ethics policy was not sufficiently comprehensive and certain oversight was lacking.

Recommendation 24

We recommend that BCPSS

- a. amend its ethics policy to include all relevant provisions required by State law,**
- b. establish an Ethics Panel as required, and**
- c. establish a process to review financial disclosure forms and address potential conflicts of interest.**

Response:

- a. City Schools agrees with this recommendation. The Board adopted a revised ethics policy at its August 14, 2012 meeting, after 3 readings (the first of which was in June). The Office of Legal Counsel submitted the adopted policy to counsel for the State Ethics Commission, which must (pursuant to state law) approve the Board's policy. The SEC's counsel has advised that they have recommended to the SEC that it approve the revisions to the policy. The SEC's next meeting is on September 14, 2012. The Office of Legal Counsel expects to receive word of official approval from the SEC shortly after that meeting.
- b. City Schools agrees with this recommendation. An Ethics Panel was established by the Board of Commissioners on September 20, 2011.
- c. City Schools agrees with this recommendation. The Ethics panel is in the process of establishing a process to review financial disclosure forms and address potential conflicts of interest. This process is expected to be complete in November of 2012.

Finding 25

BCPSS did not ensure that amounts paid to organizations that operated charter schools were proper.

Recommendation 25

We recommend that BCPSS

- a. **ensure the amounts paid to charter schools are based on the correct per pupil cost and make the necessary adjustments for the aforementioned underpayment, and**
- b. **verify enrollment data entered by charter schools into the student information system.**

Response:

- a. City Schools agrees with this recommendation. An incorrect student funding allocation was used in FY 2010 to calculate amounts due to Charter Schools as a draft calculation had been inadvertently utilized. Future calculations will be reviewed to confirm the accuracy of the Charter School calculation. The FY 2010 underpayment amounts were remitted to the FY 2010 Charter Schools as a prior period adjustment during FY 2012.
- b. City Schools agrees with this recommendation. To ensure the implementation of the OLA recommendation, the Office of the CAO will work with the Executive Director for Principal Support responsible for Charter Schools to ensure that the enrollment data provided by Charter Schools is accurate. The Executive Director will use student rosters, class size data, and visits to schools to validate the provided data.

Finding 26

BCPSS could not provide lease agreements for the 14 charter schools that operated in buildings owned by the System. In addition, BCPSS had not established a policy to ensure that charter schools using BCPSS facilities were charged an appropriate lease fee.

Recommendation 26

We recommend that BCPSS

- a. execute written lease agreements with all charter schools that operate in BCPSS facilities,**
- b. establish a policy regarding the operation and maintenance costs to be recovered from charter schools using BCPSS buildings and ensure the charter schools are charged lease fees in accordance with this policy, and**
- c. consult with legal counsel to determine if any of the uncharged lease fees for the two aforementioned charter schools can be recovered.**

Response:

- a. City Schools agrees with this recommendation. We will have executed lease agreements for all charter schools operating in City School's buildings by March 2013.
- b. City Schools agrees with this recommendation. We will have a policy regarding the operation and maintenance costs to be recovered from charter schools using BCPSS buildings by March 2013.
- c. City Schools agrees with this recommendation. We will consult with legal counsel to determine if any of the uncharged lease fees for the two aforementioned charter schools can be recovered.

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