

Financial Management Practices Audit Report

Charles County Public Schools

February 2017



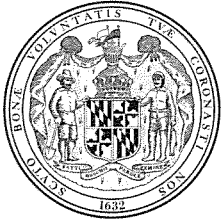
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MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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February 13, 2017

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
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Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Charles County Public Schools (CCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. The objectives of this audit were to evaluate whether CCPS' procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

Our audit disclosed that CCPS needs to improve internal controls and accountability in a number of areas including procurement and disbursements, payroll processing, and equipment inventory. Furthermore, our audit identified significant security and control risks pertaining to CCPS' computer systems and network.

For example, numerous employees had unnecessary access to critical data files and programs. These included users of CCPS' automated procurement and accounts payable system and the human resources and payroll system. Consequently, there was no assurance that all processed transactions were proper or approved. Also, third party contractors and students were given unnecessary access to the entire CCPS internal network, which included payroll, human resource, and student information.

We also found that CCPS needs to ensure its methodology for determining payments to bus contractors results in the best value. For certain payment components, CCPS could not substantiate their reasonableness. For example, we estimated that for the 106 new buses placed into service between Fiscal Years 2010 and 2016, CCPS would pay out approximately \$9.8 million more over the 15-year life of the buses, because the investment

rate of return paid was considerably higher than the consultant recommended rate.

CCPS also paid bus contractors for fuel, but did not exclude federal excise taxes, which the contractors are exempt from paying and may claim as a credit on their income tax returns. During one recent school year, the related federal excise taxes totaled \$196,500. In addition, CCPS could not substantiate the reasonableness of payments to bus contractors for reimbursement of unemployment insurance taxes. For example, in fiscal years 2015 and 2016 one contractor was paid \$138,000 for his unemployment insurance tax, while the actual unemployment insurance tax incurred was only \$9,000, resulting in an overpayment of \$129,000.

CCPS did not always ensure that the use of certain procurement methods was properly justified as required, including sole source procurements and the use of intergovernmental cooperative purchasing agreements. In addition, stop-loss insurance for employee and retiree health care was not competitively procured and CCPS did not have a process in place to ensure the propriety of certain employee and retiree health care costs, which totaled approximately \$27 million during fiscal year 2015.

The CCPS 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 CCPS.

Subsequent to this audit, CCPS requested and was granted an exemption from the State law requiring the Office of Legislative Audits conduct a financial management practices audit of each local school system once every six years. In this regard, legislation enacted during the 2016 Session of the General Assembly (Chapter 261, 2016 Laws of Maryland) allowed a local school system meeting certain conditions to obtain an exemption for one six-year audit cycle. Consequently, it is anticipated that the next financial management practices audit of CCPS will occur during the cycle covering fiscal years 2023 to 2028.

Respectfully submitted,



Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Statistical Overview

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Charles County Public Schools (CCPS) ranks ninth in student enrollment among the 24 public school systems in Maryland with 26,258 students. CCPS has 40 schools, consisting of 21 elementary schools, 8 middle schools, 7 high schools, 4 education centers.

According to CCPS' audited financial statements, expenditures totaled approximately \$395 million in fiscal year 2015. The largest expenditure category was salaries and wages, including benefits, which accounted for 70 percent of total operating expenditures during fiscal year 2015. According to MSDE records, as of October 2014, CCPS had 3,379 full-time equivalent positions, which consisted of 2,483 instructional and 896 non-instructional employees.

Oversight

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

External and Internal Audits

CCPS engages a certified public accounting firm to independently audit its fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of CCPS federal grant programs (as required by federal regulations). We reviewed the resulting financial statements for fiscal years 2014 and 2015, and the Single Audit for 2013 and 2014. We examined the related work papers for the most recent fiscal year available when we commenced our field work.

Due to similarities between the work of the independent certified public accounting firm that audited CCPS' financial statements and conducted the Single Audit of federal grants, and the risks and scope of our audit in certain areas, we relied on the results of the independent audits to reduce the scope of our audit work related to certain revenues (amounts due from other governments) and federal grant activity. In addition, we relied on the results of the work performed by the CCPS internal auditors related to school activity funds.

Status of Findings From Preceding Audit Report

Based on our assessment of significance and risk to our audit objectives, our audit included a review to determine the status of 19 of the 25 findings contained in our preceding audit report dated July 1, 2010. We determined that CCPS satisfactorily addressed 13 of these findings. The remaining 6 findings are repeated in this report.

Findings and Recommendations

Revenue and Billing Cycle

Background

Charles County Public Schools (CCPS) revenues consist primarily of funds received from Charles County, the State, and the federal government. According to the CCPS audited financial statements, revenues from all sources totaled \$391 million during fiscal year 2015. In addition to these revenue sources, schools also collect funds for various purposes, such as for student activities, clubs, and school publications. Because they are not considered school revenue, these student activity funds are accounted for separately by each school and are reported in summary in the audited financial statements. Although this revenue is raised through student-related activities, CCPS has a fiduciary duty to safeguard these funds. For fiscal year 2015, school activity fund collections totaled \$6.3 million and the June 30, 2015 balance was \$2.5 million.

External Audits

Due to the similarities between the work of the independent certified public accounting firm that audited the CCPS financial statements and our objective for this area (that is, to determine whether revenues were properly controlled and accounted for), we placed significant reliance on the results of the firm's audit for certain revenues, for which the auditor's procedural reviews and testing disclosed no material weaknesses or significant deficiencies.

Internal Auditor Audits School Activity Funds

The internal auditor conducts audits of school activity funds to determine whether proper controls have been established over collections and disbursements, and funds have been properly accounted for. The audits of the school activity funds at CCPS schools identified some control weaknesses at certain schools that were addressed by school management. The reports we reviewed disclosed that internal control weaknesses identified were not prevalent. The internal auditor audits all schools' activity funds on a rotating basis and reports its findings to the school principals and central administrative staff.

Federal Funds

Background

CCPS receives funds pertaining to federal government programs that are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Expenditures of Federal Awards, fiscal year 2015 expenditures of federal award funds totaled \$18.2 million, not including federally funded fee-for-service programs such as Medicaid reimbursement for special education services.

Single Audit Report Disclosed No Reportable Conditions Regarding Federal Grant Management

Due to work performed by the independent certified public accounting firm that conducted the Single Audits of CCPS federal grants for fiscal years 2014 and 2015 and the objectives of our audit in this area (that is, to determine federal grant activity was properly controlled and accounted for), we relied on the auditor's work and results to reduce the scope of our audit for federal grants. Besides expressing an opinion on CCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the fiscal year 2014 and 2015 required Schedule of Expenditures of Federal Awards. The related report stated that CCPS 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 auditor did not identify any deficiencies in internal control that were considered to be material weaknesses or significant deficiencies.

Procurement and Disbursement Cycle

Background

CCPS has a comprehensive procurement manual. The manual sets bidding requirements for goods, request for proposal requirements for services, and specifies when the Superintendent's approval is required. The manual also requires the Board to be notified of all procurements that exceed \$25,000. Requisitions are computer generated by the requesting department and must be approved by executive staff (Division head). Approved requisitions are then converted to purchase orders and approved by the Procurement Manager. According to CCPS records, non-payroll disbursements totaled \$119 million during fiscal year 2015.

CCPS also has a credit card purchasing program and, during fiscal year 2014, CCPS employees used credit cards to make purchases totaling \$2 million. Monthly invoices for credit card purchases were paid directly by the school system. According to CCPS records, as of December 2015, there were 171 active credit cards to facilitate purchasing.

Finding 1

CCPS did not adequately restrict user access capabilities on its automated procurement and accounts payable system.

Analysis

CCPS did not adequately restrict user access capabilities on its automated procurement and accounts payable system. Our review identified twelve employees who were assigned access to screens used to perform critical functions, even though the access was not required for their job duties. Those functions included adding a vendor, processing purchase orders, and giving final pay approval on invoices. Additionally, eight employees were assigned capabilities that allowed them to perform incompatible functions. For example, five employees could create an invoice and mark goods as received (a key event, which initiates invoice payment).

Our test of procurement and accounts payable transactions processed by CCPS disclosed that the transactions tested were for appropriate CCPS disbursements and were properly supported.

A similar condition related to restricting user capabilities was commented on in our preceding audit report.

Recommendation 1

We recommend that CCPS restrict assigned capabilities to eliminate the ability of users to perform incompatible duties and access unnecessary critical screens (repeat).

Finding 2

CCPS did not assess the benefits of using intergovernmental cooperative purchasing agreements (ICPA) as required by State law, nor in most cases did it establish that the ICPA contracts were awarded through a competitive procurement process.

Analysis

For 16 contracts that were based on ICPAs, with payments totaling \$31 million in fiscal year 2015, CCPS did not prepare a written determination of

the benefits of using an ICPA, as required by State law. This law, which legal counsel to the Maryland General Assembly advised us is applicable to local education agencies, allows the use of cooperative purchasing arrangements only after the using entity has determined in writing that the use of such arrangements will provide cost benefits, promote administrative efficiencies, or promote intergovernmental cooperation.¹ Additionally, for 12 of these contracts with fiscal year 2015 expenditures totaling \$23.5 million, CCPS did not obtain evidence that the originating agency awarded the contracts through competitive procurements as required by Section 5-112(a)(3) of the Education Article, of the Annotated Code of Maryland.

Three of these contracts, with fiscal year 2015 expenditures totaling \$391,000, did not use the contract terms and prices established by the other government entities but negotiated their own unique contract terms and prices with the contracted vendor. Without the aforementioned written determinations of the ICPA benefits, these three procurements have the appearance of sole source procurements, which may not have ensured CCPS received the best value.

Furthermore, CCPS did not have the price lists for all contracts that were piggybacked from an ICPA, and thus had no way to determine if they were charged the proper amounts or were even purchasing goods and services included under the original ICPAs. For 13 out of 21 ICPA related invoices we tested (related to 9 of the agreements), CCPS did not verify that proper pricing was received for payments totaling approximately \$1.1 million. Finally, we found that CCPS did not establish a contract value for each ICPA (that is, set a limit on the amount to be expended with each vendor).

Recommendation 2

We recommend that CCPS

- a. comply with State law and ensure that a written determination of benefit for its use of an ICPA is prepared,**
- b. obtain evidence that the ICPA contract was competitively procured by the originating entity,**
- c. verify that proper prices are on the vendor invoices, and establish a maximum expenditure amount for CCPS under each ICPA agreement for CCPS internal approvals.**

¹ Section 13-110 of the State Finance and Procurement Article, of the Annotated Code of Maryland in part, defines an intergovernmental cooperative purchasing agreement as a contract that is entered into by at least one governmental entity in a manner consistent with the purposes set forth in Section 11-201 of the Article, that is available for use by the governmental entity entering the contract and at least one additional governmental entity, and that is intended to promote efficiency and savings that can result from intergovernmental cooperative purchasing.

Finding 3

Certain contracts were awarded as sole source procurements without appropriate justification, were not properly approved, or were not published in eMaryland Marketplace, as required.

Analysis

CCPS did not always justify the use of sole source procurements, obtain approval from the Superintendent for purchases of \$25,000 or greater, or post solicitations or notice of awards on eMaryland Marketplace, as required.

- CCPS procured therapy services via the sole-source procurement method without adequately establishing and documenting that the services could only be provided by the vendor selected. Such determinations are required by the CCPS Purchasing Manual. Payments for the therapy services totaled \$496,000 during fiscal year 2015.
- For 13 of the 35 contracts tested, CCPS had not obtained the required approval from the Superintendent for the original contract awards (each of which exceeded \$25,000). These 13 contracts had expenditures totaling \$24.2 million during fiscal year 2015. The CCPS Purchasing Manual requires that purchases over \$25,000 be approved by the Superintendent. A similar condition was commented upon in our preceding audit report.
- Our test of 17 purchases from fiscal years 2014 to 2016, disclosed that CCPS did not use eMaryland Marketplace to solicit bids or publish awards for 5 of the items tested, each of which was in excess of \$25,000. State law requires a local school system to publish a procurement notice or notice of award greater than \$25,000 on eMaryland Marketplace. Payments related to the 5 procurements totaled \$4.5 million during fiscal year 2015.

Recommendation 3

We recommend that CCPS

- a. limit the use the sole-source procurement method to those instances when a documented justification establishes that only one vendor can provide the goods or services,
- b. obtain the Superintendent's approval for procurements with reasonably estimated expenses in excess of \$25,000 (repeat), and
- c. publish contract bids and awards in eMaryland Marketplace as required by State Law.

Finding 4

CCPS allowed certain corporate purchasing cards (CPC) to be used by multiple employees and CPCs were used to purchase gift cards.

Analysis

CCPS controls over its CPC were not adequate and existing policies were not being enforced. According to CCPS records, as of December 31, 2015, there were 171 active cards issued to CCPS employees and related expenditures totaled approximately \$2.1 million during calendar year 2015.

- CCPS authorizes the use of “site” cards that are assigned to principals but used by many employees at a location. In the event of improper purchases using these cards, CCPS may not be able to identify the employee making such transactions, because these cards are used by multiple employees. In addition, once an employee has physical access to a card that card’s information can be used to make online purchases. CCPS may not be able to determine who made any online purchases using just the card information. During fiscal year 2015 CCPS had 105 “site” cards, with monthly credit limits ranging from \$1,500 to \$25,000, and expenditures totaling approximately \$780,000.
- Cardholders purchased gift cards, which are prohibited per CCPS’ CPC policy, totaling at least \$1,455 between March 29, 2014 and December 21, 2015. Supervisors reviewed and approved all transactions despite receipts and cardholder logs clearly indicating gift cards were purchased.

Recommendation 4

We recommend that CCPS

- a. establish individual accountability for transactions by assigning a separate purchasing card to each authorized user,**
- b. strictly enforce the existing restrictions in the CPC manual prohibiting the purchase gift cards,**
- c. ensure that expenditure transactions are subjected to appropriate review and approval, and**
- d. investigate the disposition and appropriateness of the gift cards purchased.**

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the CCPS budget. According to CCPS records, fiscal year 2015 salary, wage, and benefit costs totaled \$275 million. CCPS uses an automated integrated human resources and payroll system to maintain human resources information. The system automatically generates bi-weekly time records and any adjustments are processed by central payroll personnel. The system generates payroll checks and direct deposit advices. Payroll processing involves both automated processes (such as compiling leave and running edit reports) and manual processes (such as data entry of new employee information).

Finding 5

Human resources and payroll system user access capabilities were not adequately restricted. In addition, independent documented reviews of personnel and payroll transactions were not performed.

Analysis

Adequate internal controls had not been established over the capabilities assigned to users on the automated human resources and payroll system and the review and approval of certain payroll transactions.

- CCPS did not properly restrict the capabilities assigned to users on its human resources and payroll system. Certain critical system functions, such as those allowing changes to employee salary, direct deposit information, and leave balances, were either unnecessarily assigned to individuals or not properly separated. Our review disclosed that 36 of the 45 users who were assigned these critical access capabilities did not need these capabilities for their job duties, and 11 of the 45 users could perform incompatible functions. For example, five IT employees have access capabilities, which unnecessarily allowed them to perform salary adjustments, modify employee direct deposit information, and alter leave records, even though none of these capabilities were required for their job duties.
- There were no independent reviews to ensure that processed employee personnel and payroll transactions were correct and appropriate. Our test of human resources and payroll changes and adjustments did not disclose any inappropriate transactions.

Similar conditions were commented on in our preceding audit report.

Recommendation 5

We recommend that CCPS

- a. limit the assignment of critical system functions to those employees who require such access capabilities to perform their job duties (repeat),
- b. eliminate the ability of users to perform incompatible system functions (repeat), and
- c. perform a periodic documented independent review of critical personnel and payroll transactions processed (repeat).

Inventory Control and Accountability

Background

According to CCPS audited financial statements, the undepreciated value of its capital equipment inventory totaled \$30.7 million as of June 30, 2015. CCPS uses automated records to track its equipment inventory for items with a cost of \$5,000 or greater. In addition, CCPS maintains automated records for its sensitive information technology equipment (such as all computers and laptops, regardless of cost).

Finding 6

CCPS did not perform a complete annual physical inventory of computers as required and access to the automated inventory records was not adequately restricted.

Analysis

Physical inventories were not conducted as required by CCPS policies. Specifically, during fiscal year 2015, the required annual physical inventory of sensitive information technology equipment was performed on only a selection (approximately 15 percent) of items rather than a complete physical inventory. As a result, CCPS had no assurance that its approximately 31,000 information technology items were properly accounted for.

Furthermore, our review of system access identified 50 users with edit capabilities within the inventory software. Of these, 29 users are assigned to CCPS locations and are responsible for maintaining the sensitive equipment and performing physical inventories. As a result, users could mark items as disposed to conceal a missing or stolen item.

Recommendation 6

We recommend that CCPS

- a. comply with sensitive item inventory procedures by completing a full physical inventory annually,
- b. ensure that an employee independent of the inventory record keeping function completes and documents the physical inventory, and
- c. restrict ability to mark items as disposed only to employees authorized to process disposals.

Information Technology

Background

The CCPS Technology Department maintains and administers the CCPS computer network, computer operations, and instructional information system applications. CCPS operates a wide area network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at the CCPS data center. The CCPS network includes two perimeter network firewalls to protect the CCPS network and CCPS operates a critical administrative and academic related application which has finance, human resources, and student information modules.

Finding 7

Numerous users had unnecessary modification access to critical files and programs.

Analysis

Numerous users had access capabilities that enabled them to modify critical files and programs; these capabilities were not required to perform their job duties. We identified 896 active accounts on the server hosting the CCPS administrative and academic related application that, via access to a software utility and access inherited from a default server role, had unnecessary modification access to numerous critical system, application and data files, and programs.

Best practices identified in the State of Maryland *Information Security Policy*, state that agencies must ensure that only authorized individuals (employees or agency contractors) have access to confidential information and that such access is strictly controlled, audited, and that it supports the concepts of "least possible privilege" and "need to know."

Recommendation 7

We recommend that CCPS limit access capabilities to modify critical files and programs to only those employees who require such access for their job duties.

Finding 8

Numerous third parties and students had unnecessary network level access to the entire CCPS internal network.

Analysis

Numerous third parties and students had unnecessary network level access to the entire CCPS internal network. Specifically, we identified 27 third parties (for example IT vendors) who were provided remote access to the CCPS network. However, this access was not properly restricted and these 27 third parties had improper network level access to the entire CCPS internal network, including servers holding payroll, human resource, and student information, rather than being limited to only those network resources (areas) related to their respective responsibilities. Similarly, all student accounts accessing the CCPS network via a wireless connection were also provided network level access to the entire CCPS network, rather than being properly restricted to only the devices needed for their education.

Best practices, as per the State of Maryland *Information Security Policy* require that entities' networks must ensure that only authorized individuals have access to confidential information and that such access is strictly controlled, audited, and that it supports the concepts of "least possible privilege" and "need to know."

Recommendation 8

We recommend that CCPS properly secure its network resources from third parties and students. Specifically, we recommend that CCPS remove unnecessary network level access capability to the CCPS internal network from third parties and all students.

Finding 9

Publicly accessible servers were improperly located on the internal network and intrusion detection prevention system coverage for encrypted traffic did not exist.

Analysis

Publicly accessible servers were improperly located on the internal network and intrusion detection prevention system coverage for encrypted traffic did not exist. Specifically, our review disclosed the following conditions:

- Eleven publicly accessible servers were located on the CCPS internal network segment rather than isolating such servers in a separate protected network zone. These 11 servers, if compromised, could expose the internal network to attack from external sources. Recommended security procedures, per the National Institute of Standards and Technology *Guidelines on Firewalls and Firewall Policy*, include placing publicly accessible servers in an external protected zone to protect those servers as well as the entity's internal network.
- Intrusion Detection Prevention System (IDPS) coverage did not exist for encrypted traffic entering the CCPS network. Although CCPS used a network-based IDPS to protect its entire network from external unencrypted traffic, we were advised by CCPS that the IDPS was not used for encrypted traffic due to potential performance issues. Furthermore, CCPS did not use a host-based intrusion prevention system (HIPS) on its servers that processed encrypted traffic.

Complete IDPS coverage includes, when there is encrypted traffic, the use of a network-based IDPS that is supplemented (where necessary) with host-based intrusion prevention to aid significantly in the detection/prevention of, and response to, potential network security breaches and attacks. Also, best practices identified in the aforementioned *Information Security Policy* require protection against malicious code and attacks, by using IDPS to monitor system events, detect attacks, and identify unauthorized use of information systems and/or confidential information.

Recommendation 9

We recommend that CCPS

- a. relocate these publicly accessible servers to a separate protected network zone; and**
- b. perform a documented review and assessment of network security risks and identify how IDPS coverage (which may include HIPS) should be best**

applied to its network, and based on this review and assessment, implement the necessary coverage.

Facilities Construction, Renovation, and Maintenance

Background

CCPS employs a staff of approximately 236 operations employees and 60 maintenance employees to maintain its 43 facilities (including schools and other administrative and support offices). According to the fiscal year 2015 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to CCPS facilities over the next five years were estimated to cost \$29.6 million. State and local funded CIP projects during fiscal year 2015 totaled \$17.3 million.

Finding 10

CCPS lacked documentation it advised the Board that the price paid for land purchased for a new school was significantly higher than the land's appraised value.

Analysis

CCPS could not provide any evidence the Board was notified that the amount paid for two parcels of land purchased for a new school (\$1,101,030) was significantly higher than the appraised value of the land (\$695,000) at the time of the purchase. Although the Board did approve the purchase of the land, the presentation to the Board only listed the negotiated purchase price and did not mention the appraised value and Board minutes did not mention the appraisal.

CCPS management advised us that due to a shortage of suitable land parcels in the area where it wanted to build a school, and that the land was not currently for sale, the owners demanded an above market price to accept the sale.

Recommendation 10

We recommend that CCPS

- a. retroactively report the appraisal amount to the Board, and
- b. provide the Board with documentation of appraised amounts for all real estate purchases.

Transportation Services

Background

CCPS had approximately 23,000 students eligible to receive student transportation services during fiscal year 2015. These students were transported 6 million route miles during the 2014-2015 school year using 9 system-owned buses and 274 contractor-owned buses. The Transportation Department is responsible for providing transportation service to schools, determining student transportation eligibility, and establishing school bus stops for each school. According to the audited fiscal year 2015 financial statements, transportation costs totaled \$24.9 million, with \$22.9 million representing payments for contracted bus services. Bus contractors are paid a per vehicle allotment (PVA) that repays the contractors the full acquisition cost of the bus over its life (for example, 15 years). The PVA also provides an additional annual payment as a return on investment (ROI) to the contractors, which is established when a bus is purchased and remains fixed over the life of the bus. Finally, bus contractors are paid for operating costs (such as driver salaries, fuel use, maintenance costs, and certain administrative costs).

Finding 11

CCPS did not base certain elements used to determine the PVA on market conditions or actual costs.

Analysis

Certain elements used to determine payment amounts to bus contractors did not reflect market conditions or actual costs. The PVA is one of several elements used to determine payment amounts to bus contractors. CCPS' bus contracts are for one-year terms with renewals generally granted over the 15-year useful life of the bus. Our review of the contract terms disclosed the following conditions:

- CCPS overpaid bus contractors for bus cost. The PVA formula includes reimbursement for the cost of the bus. The cost reimbursement component of the PVA is calculated as if the bus will only be in operation for 10 years. Thus, bus contractors are paid 100 percent of the bus cost over 10 years. In addition to paying 100 percent of the bus cost, CCPS pays contractors 80 percent of the annual PVA rate for each of remaining 5 years of the life of the bus. Thus bus contractors are paid 140 percent of the bus' cost over the life of each bus (10 percent of the cost of the bus for 10 years plus 8 percent of the cost for 5 years).

- CCPS could not substantiate the basis for the ROI rate used in the PVA payment formula. Specifically, CCPS used a formula that provides 11.92 percent of the bus price to be paid annually for ROI, which was considerably higher than a rate suggested by a transportation consultant hired by CCPS. Like the bus cost, the ROI is also paid at 100 percent over 10 years with an additional 5 years paid at 80 percent. The ROI provides a financial return for the operator investing in a bus instead of another investment option.

To estimate the financial impact to CCPS paying the PVA over 10 years with additional payment at 80 percent for 5 years and of using the 11.92 percent rate rather than the prime interest rate plus a reasonable ROI, we recalculated the PVA for each of the 106 new buses placed into service since our prior audit (fiscal years 2010 through 2016). To be conservative, for our calculations, and as recommended by the consultant who evaluated the CCPS transportation policies, we used the prime rate during September 2015 of 3.25 percent plus 2 percent interest.² These calculations show that the CCPS annual PVA payments per bus were \$6,750 to \$9,189 higher than the payments would have been had the consultant's suggested rate (of 5.25 percent) and 15-year life been used in the calculation. The effect is that, over the 15-year life of these 106 new buses put into service by contractors since 2010, CCPS will pay out approximately \$9.8 million more than if the prime rate plus 2 percent was used for the ROI and cost was reimbursed over 15 years.

Additionally, buses in service during our prior audit are now being used for 15 years, rather than the 12 years as was the case in our prior audit. Contractors with these buses will also receive payments of 140 percent of the bus cost. This results in potential overpayments for these 168 buses of approximately \$5 million.

This analysis does not include the effects of the lost interest income that could have been earned by CCPS on the excess amounts paid. CCPS claimed

² The use of the prime interest rate only for ROI was recommended in a November 1999 study commissioned by another Maryland school system. Also, in 1975 an MSDE study recommended the prime rate as a reasonable ROI interest rate. The prime rate is actually a lending rate that nearly always exceeds the available market investment rate; therefore, it is deemed to be reasonable for the ROI calculation. However, a May 2010 MSDE PVA Workgroup commented that the profit (or ROI) to be included in the PVA should reflect what a reasonable investor or business person would expect on a long-term investment, and not necessarily the prime rate. As of October 2016, current 10 and 30 year US Treasury Note rates, which could be reflective of a reasonable long-term investment option were 1.8 and 2.5 percent, respectively. Consequently, the 5.25 percent rate used in our calculation provided a higher ROI than if the investment option rate was used. Nevertheless, the rate used by CCPS of 11.92 percent is still considerably higher.

that contractors suffered losses in other areas that offset the higher PVA amount; however, it could not document that assertion. CCPS noted that their PVA rate has remained unchanged since 1980.

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

Recommendation 11

We recommend that CCPS

- a. ensure that the bus purchase reimbursement PVA component is consistent with the anticipated useful life of the bus, so as not to reimburse contractors in excess of bus purchase cost; and
- b. use a prevailing market rate in the PVA that yield a reasonable ROI (repeat).

Finding 12

CCPS could not substantiate the basis for certain amounts paid to bus contractors and those payments were higher than necessary.

Analysis

Certain elements used to determine payment amounts to bus contractors did not reflect market conditions or actual operating costs. Our review of the contract terms disclosed the following conditions:

- CCPS payments to contractors for bus maintenance costs were negotiated with the bus contractors and were not supported by documented maintenance and other repair costs. Bus contractors were paid for maintenance at a rate of \$0.81 per mile during the 2014-2015 school year and \$0.82 per mile for school 2015-2016 school year. During fiscal year 2015 CCPS paid \$4.9 million in maintenance costs or an average of \$15,170 per bus (based on 274 buses).
- CCPS did not exclude from payments to bus contractors the federal fuel excise tax.³ In this regard, CCPS pays contractors for fuel usage using a monthly average of diesel fuel prices and dividing by an established mile per gallon (mpg) rate depending on the bus capacity. However, according to federal law, CCPS contractors are exempt from the \$0.244 per gallon excise tax for diesel fuel and bus contractors are able to receive a credit

³ Subsequent to the completion of our audit fieldwork, Chapter 397, Laws of Maryland 2016, effective July 1, 2016, exempted a county board of education or a school bus operator under contract with a county board of education, from State motor fuel taxes. In addition, the law authorized county boards of education and a school bus operator to claim refund of State motor fuel taxes paid. Consequently, this exemption should be factored into future payments.

for federal fuel taxes paid when the contractor files their income tax returns. If CCPS had considered the \$0.244 exemption amount in its calculation, payments to the contractors would have been lower (for example, a total of \$196,500 less during the 2014-2015 school year).

- CCPS could not explain how payments intended to reimburse bus contractors for payroll-related costs (unemployment insurance, payroll taxes) were determined. These payments represented approximately 25 percent of the salaries paid for bus drivers and attendants, which appears to be higher than necessary to reimburse the contractors for those costs. For example, according to federal and State laws, unemployment insurance contributions are only paid on the first \$7,000 and \$8,500 of annual salary, respectively, yet CCPS paid bus contractors for unemployment insurance on the entire amount of driver and attendant salaries. Bus drivers who work all 180 days of a school year are paid at least \$17,400, but CCPS' contractor payments included unemployment insurance on all wages paid, although the contractors only paid unemployment insurance on less than half of wages actually paid.

According to the Maryland Division of Unemployment Insurance, the fiscal year 2016 unemployment insurance rates for eight of CCPS' bus contractors ranged from 1.5 to 7.5 percent of the first \$8,500 depending on the employers' claims history yet CCPS paid all bus contractors 8.7 percent of driver and attendant salaries. Based on the above, we calculated that during fiscal years 2015 and 2016, one contractor operating 25 buses received payments from CCPS included components for federal and State unemployment insurance totaling approximately \$138,000, while the actual taxes paid by the contractor to the federal and State governments totaled only \$9,000, resulting in excess payments of \$129,000. Payments for payroll related costs totaled approximately \$2.2 million during fiscal year 2015, including approximately \$838,000 for unemployment taxes.

Recommendation 12

We recommend that CCPS ensure that all contractor payments have a documented and justified basis. Specifically, CCPS should

- a. use actual bus operating and payroll costs as a basis for establishing contractor rates for per mile maintenance costs and fixed payroll-related charges, and**
- b. exclude federal fuel excise taxes from contractor payments.**

Finding 13

CCPS did not ensure the accuracy of data used to compute certain payments to the bus contractors and lacked sufficient internal controls over the automated payment system.

Analysis

CCPS did not ensure the accuracy of the mileage payments to bus contractors and did not ensure that user access to the payment software was proper and adequately segregated. At least once each school year, the contractors complete a manifest that includes the total time and miles driven on each route. CCPS uses the data on these manifests to calculate the hourly pay and maintenance and fuel cost components of the monthly payments to the contractors.

- Although there was evidence of supervisory approvals on the manifests, our tests disclosed mileage variances between the manifest and the CCPS routing software estimates. Our test of 26 manifests prepared by contractors, disclosed that for 2 of the manifests the daily billed mileage significantly exceeded the amounts in the routing software. For example, one manifest reported morning mileage of 173 miles while the CCPS routing software, which we verified with mapping software, indicated the route was only 136 miles for a daily overstatement of 37 miles.
- CCPS had not established proper controls over its automated bus payment system. Specifically, all 10 employees of the transportation office have full edit access to all data fields including contractor miles and time. Users performing reviews or confirmation of the accuracy of payment reports to manifests were among the authorized users who could edit data that affect contractor payments. Therefore, there was no independent verification of source documents against system data, which is used to calculate payments to bus contractors. A similar condition regarding user access was commented on in our preceding audit report.

Recommendation 13

We recommend that CCPS

- a. thoroughly review and verify bus data on bus contractors' manifests to ensure that the payments to the contractors accurately reflect the actual bus services provided,**
- b. recover any overpayments to the bus contractors,**
- c. restrict edit access to the automated system to only to those employees who need the capabilities to perform their job duties (repeat), and**
- d. independently verify the accuracy of critical data recorded in the system (repeat).**

Food Services

Background

CCPS has a cooking cafeteria at each of its 36 schools and at 2 of its education centers. Food and related supplies are maintained at the schools or the central warehouse. In fiscal year 2015, CCPS had 400 food service employees (comprised of 393 cafeteria positions and 7 administrative positions). According to the fiscal year 2015 audited financial statements, food service operation revenues exceeded food service operation expenditures by approximately \$395,000. Additionally, CCPS' fiscal year 2014 cost per meal was the second lowest among four similar sized Maryland public school systems.

Cash Handling Procedures for Cafeteria Sales Were Established

CCPS has implemented procedures and controls designed to ensure that cafeteria receipts were properly accounted for, processed, and deposited. CCPS has developed a *Cash Handling Procedures* manual to establish a uniform policy for the handling of all cafeteria sales. The *Procedures* outline responsibilities including, collection, reporting, and deposit practices. Applicable food service employees must sign a signature page to acknowledge reading the procedures, and periodically, staff from the Food Services Department conducts unannounced audits to test for compliance by cafeteria staff with the procedures.

School Board Operations

Background

CCPS' Board of Education consists of seven elected voting members and one student member with no voting rights. In its oversight responsibilities, the Board contracted with a certified public accounting firm for independent audits of the CCPS financial statements and federal programs. The Board meets monthly for regular board meetings during the school year and schedules additional meetings as needed. The Board has its approved policies available on the CCPS website.

CCPS Adopted an Ethics Policy that Met the Current Requirements of State Law

The Board has adopted a detailed ethics policy that conforms to State Law, includes provisions for conflicts of interest and financial disclosure, and was approved by the State Ethics Commission. Provisions of this policy are applicable to Board members as well as all CCPS employees. CCPS established an Ethics Panel consisting of five members who are appointed by the Board of Education. The Panel acts as an advisory body to the Board and interprets the ethics code and provides advisory opinions. The Panel also reviews and rules on any reported complaints of ethics violations. According to the ethics policy, annual financial disclosure statements are required to be filed by Board members, the Superintendent, Assistant Superintendents, and a number of other administrators (such as school principals and department heads) by April 30th of each year. Our test of the records for employees required to submit financial disclosure forms for calendar year 2014, disclosed that forms were generally submitted as required.

Other Financial Controls

Healthcare Background

CCPS is self-insured for healthcare costs for employee, retiree, and eligible dependents up to the designated stop-loss limit. CCPS contracts with a vendor to provide administrative services, such as claims processing for participants' medical, dental and vision costs, and for the stop-loss coverage. Stop-loss coverage indemnifies CCPS against health insurance claim amounts that exceed a specified threshold for a covered member.

Medical providers submit claims to the claims administrator who pays them on behalf of CCPS. CCPS pays the administrator for claims the administrator reports it paid to healthcare providers and pays an administrative fee for these services. CCPS does perform matches to ensure all plan participants are legitimate and that total participants for determining administrative fees billed agree to CCPS records. Amounts paid for healthcare during fiscal year 2015 totaled \$29.5 million, including approximately \$1.8 million for administrative fees and \$758,000 for stop-loss insurance.

Finding 14

Stop-loss coverage for employee and retiree healthcare was not competitively procured.

Analysis

CCPS obtained stop-loss insurance to protect against the risk of large claims each year by negotiating with the prior vendor without undertaking a competitive procurement. CCPS entered into a stop-loss insurance contract in fiscal year 2013 for a one-year period, which has been renewed annually through 2016. Between 2013 and 2015, the premiums paid for stop-loss coverage have increased by 26 percent.

Recommendation 14

We recommend that CCPS use a competitive procurement process to procure stop-loss coverage.

Finding 15

CCPS did not ensure the propriety of certain claim payments for employee and retiree healthcare costs.

Analysis

CCPS lacked procedures and controls to ensure that certain amounts paid to the third-party administrator were proper. Specifically, CCPS did not audit the propriety of the claims paid on its behalf by the administrator to ensure that the services were actually provided, were covered by the health plans, and were appropriately priced. A similar condition regarding the need to ensure the propriety of healthcare costs was commented upon in our preceding audit report.

The State of Maryland Office of Personnel Services and Benefits contracts with a private firm to audit the third-party administrators of the State's health insurance, prescription drug, dental benefit, and mental health benefit plans, which includes conducting reviews to ensure the propriety of claims paid. These reviews, which are provided for in the State's contracts with the third-party administrators, allow for the statistical projection of error rates to total claims paid, allowing the State to recoup the projected amount of erroneous claims. According to the Office, improper payments from these reviews have consistently exceeded the cost of the reviews.

Recommendation 15

We recommend that CCPS establish procedures to verify the propriety of healthcare claim amounts paid (repeat).

Audit Scope, Objectives, and Methodology

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

We had two broad audit objectives:

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

In planning and conducting our audit of CCPS, 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 CCPS dated July 1, 2010, 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 CCPS Comprehensive Education Master Plan or related updates, and we did not review the activities, financial or other, of any parent teacher association, group, or funds not under the local board of education's direct control or management.

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by CCPS. We also interviewed personnel at CCPS, the Maryland State Department of Education

(MSDE), and staff at other local school systems in Maryland (as appropriate).⁴ Our audit procedures included inspections of documents and records, and observations of CCPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from January 1, 2014 through June 30, 2015. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits CCPS' financial statements and conducts the federal Single Audit.

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

We also extracted data from CCPS' automated financial management system for the purpose of testing expenditure, inventory, and payroll transactions. We performed various audit procedures on the relevant data and determined the data were sufficiently reliable for the purposes the data were used during the audit.

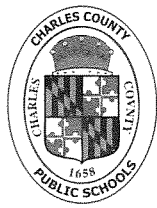
CCPS' management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of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

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate. In addition to the conditions included in this report, other less significant findings were communicated to CCPS that did not warrant inclusion in this report.

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

We conducted our fieldwork from October 2015 to June 2016. The CCPS 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 CCPS regarding the results of our review of its response.

APPENDIX



Charles County Public Schools

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www.ccboe.com

Kimberly A. Hill, Ed.D.
Superintendent of Schools

Randolph A. Sotomayor
Assistant Superintendent of Fiscal Services

Office of Fiscal Services
301-934-7350

January 26, 2017

Mr. Thomas J. Barnickell III, CPA
Legislative Auditor
Department of Legislative Audits
Maryland General Assembly
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Barnickell,

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

Sincerely,

A handwritten signature in black ink, appearing to read "R. Sotomayor", is written over the word "Sincerely,".

Randolph A. Sotomayor
Assistant Superintendent of Fiscal Services

Enclosures

cc: Michael Lukas, Chairman, Charles County Board of Education
Kimberly A. Hill, Superintendent of Schools

It's all about teaching and learning.

24-hour information line: 301-934-7410

Charles County Board of Education

Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE
PROCUREMENT AND DISBURSEMENT CYCLE					
CCPS did not adequately restrict user access capabilities on its automated procurement and accounts payable system.	1	We recommend that CCPS restrict assigned capabilities to eliminate the ability of users to perform incompatible duties and access unnecessary critical screens (repeat).	<p>We agree with the recommendation. We have restricted user access capabilities to critical screens on automated Procurement and Accounts Payable systems.</p> <p>Multiple derivatives of the Maintain Vendor Records module are available to control user access. Only authorized personnel have access to unrestricted Maintain Vendor Records, but many have access to restricted Maintain Vendor Records:</p> <p>Menu Item Description</p> <p>Maintain Vendor Records</p> <p>Maintain Vendor Records (Change only)</p> <p>Maintain Vendor Records (Lookup)</p> <p>Maintain V Records (Lookup w/Recipient#)</p> <p>Maintain Vendor Records (Lookup & Delete)</p> <p>CCPS secretaries may have the CCPS Requisition menu to provide job-functional access including multiple restricted/controlled items (Account Balance Lookup, Purchaser Order Lookup, Requisitions) Only Purchasing Department has the CCPS Purchasing menu in addition to the secretaries' menu for end user assistance and training.</p> <p>Due to this finding, the Procurement Manager will request to add a Purchasing Assistant. A survey of five similar sized Maryland school systems compared the number of schools to purchasing staff. The result includes an average ratio of 7.9 to 1. Using the same metrics for CCPS, the ratio is 10 to 1.</p>	Complete	Yes
CCPS did not assess the benefits of using intergovernmental cooperative purchasing agreements (ICPA) as required by State Law, nor in most cases did it establish that the ICPA contracts were awarded through a competitive procurement process.	2	<p>We recommend that CCPS</p> <ol style="list-style-type: none"> a. comply with State law and ensure that a written determination of benefit for its use of ICPA is prepared, b. obtain evidence that the ICPA contract was competitively procured by the originating entity, and c. verify that proper prices are on the vendor invoices, and establish a maximum expenditure amount for CCPS under each ICPA agreement for CCPS internal approvals. 	<p>a-b. Effective immediately, the Procurement Manager has implemented direct procedures for the use of ICPA's as follows:</p> <ul style="list-style-type: none"> • Only use in emergency situations, • Document cost/price analysis required highlighting the benefits, and • Procurement Manager will ensure the award process meets or exceeds the competitive requirements of CCPS. <p>c. Effective immediately Purchasing has issued a list of active contracts to Accounts Payable in order to have an opportunity to review and approve all invoices no matter the dollar amount. This process will ensure that CCPS internal authorized approval process is followed and all pricing/invoices are reviewed and verified.</p>	Complete	Yes

Charles County Board of Education
Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE
<p>Certain contracts were awarded as sole source procurements without appropriate justification, were not properly approved, or were not published in eMaryland Marketplace, as required.</p>	3	<p>We recommend that CCPS</p> <p>a. limit the use the sole-source procurement method to those instances when a documented justification establishes that only one vendor can provide the goods and services,</p> <p>b. obtain the Superintendent’s approval for procurements with reasonably estimated expenses in excess of \$25,000 (repeat), and</p> <p>c. publish contract bids and awards in eMaryland Marketplace as required by State Law.</p>	<p>a. CCPS Purchasing Policy and Procedures Manual includes a “Sole Source Justification” form that must comply with four (4) specific reasons. They are:</p> <ol style="list-style-type: none"> 1. Vendor/Contractor is the original equipment manufacturer; there are no regional distributors. 2. The parts/equipment are not interchangeable with similar parts of another manufacturer. 3. This is the only equipment that meets the specialized needs of the department and performs the intended function. 4. Detailed justification is available which establishes beyond doubt that the Vendor/Contractor is the only practical source available to provide the good or service required. Supporting documentation is required. <p>We believe the “Sole Source Justification” form, which has been in effect since 2005, performs the intended purpose when used and documented properly, meets and exceeds the requirements of the sole source finding. We will immediately review, document, and post procurements of \$25,000.00 or greater on e-Maryland Marketplace.</p> <p>b. Our current purchasing policies and procedures require the Superintendent’s signed approval of all procurements and contracts \$25,000 and greater. The Superintendent’s signature can be found on all Purchase Orders issued at or greater than said threshold. The Superintendent’s signature is now required on all Notice of Awards, Invitations to Bid, and Request for Proposals regardless of the threshold. In addition, all Bids and Request for Proposals are listed on the monthly procurement report issued to the Superintendent and the Board. We agree with the recommendation.</p> <p>c. We agree with your recommendation and we have complied by posting all Invitations to Bid and Request for Proposals, \$25,000 and greater on e-Maryland Marketplace. Since the mandate gave us a choice of procurements <u>OR</u> awards, CCPS elected at the time of the mandate to advertise all Invitations to Bid and Request for Proposals on e-Maryland Marketplace and our bid files contain a written record of such postings.</p>	Complete	Yes

Charles County Board of Education Financial Management Practices Performance Audit

FINDINGS	LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE
CCPS allowed certain corporate purchasing cards (CPC) to be used by multiple employees and CPCs were used to purchase gift cards.	4 We recommend that CCPS a. establish individual accountability for transactions by assigning a separate purchasing card to each authorized user, b. strictly enforce the existing restrictions in the CPC manual prohibiting the purchase gift cards, c. ensure that expenditure transactions are subjected to appropriate review and approval, and d. investigate the disposition and appropriateness of the gift cards	a. We agree with the recommendation and understand the auditor's position. However, our purchase card program serves the needs of our school system. The schools have department cards to accommodate multiple users. In order to operate efficiently at the schools, we feel the use of department cards is more practical. Due to limited office staff and specialized items that are needed for various programs, it would be difficult for one individual to go out and make all of these purchases. Principals are issued P-cards for budget funds and student activity funds. The Principal is held responsible for the proper use of the P-cards and uses his/her discretion to determine who is permitted to make P-card purchases. Principals approve all P-card purchases. We feel our policies and procedures provide controls to address the added risk involved with using department cards. P-cards are secured in the school safe when not in use. A checkout and transaction log is maintained by the financial secretary who serves as the site coordinator. The checkout and transaction log sheet is reconciled monthly to the bankcard statement. Any unauthorized purchases would be investigated and tracked to individuals by sign out dates. It should be noted that department cards are only issued at the school level. In addition, we have had very few instances of misuse since we started using P-cards. Individual P-cards are issued to maintenance staff who make frequent purchases and are considered high risk. b-c. Purchase of gift cards are prohibited according to the CCPS Purchase Card Policy and Procedures Manual. This policy has been in effect since the implementation of our Purchase Card Program in 2008. We have several layers of review of purchase card spending and violators are notified immediately. Depending on the violation, written reprimand and or termination is applied. We will continue to communicate the Do's and Don'ts of our P-card program to our users and remind them of the consequences of misuse. d. Gift cards noted in the audit report were for student awards, which were allowed purchases. CCPS allows gift cards to be purchased for students and volunteers. The gift cards that were purchased were for small dollar amounts given to honor roll students. However, the schools should not have used the p-card to pay for them. We will discuss the policy, procedures and restrictions for P-cards and distribute the Purchasing Card Policy and Procedures Manual at the next Financial Secretaries' meeting.	TBD 2/2017	Yes
HUMAN RESOURCES AND PAYROLL				
Human Resources and payroll system user access capabilities were not adequately restricted. In addition, independent documented reviews of personnel and payroll transactions were not performed.	5 We recommend that CCPS a. limit the assignment of critical system functions to those employees who require such access capabilities to perform their job duties (repeat),	a. We agree with the recommendation. We have restricted user access capabilities to critical screens on Human Resources and Payroll system.	Complete	Yes

Charles County Board of Education
Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE
		b. eliminate the ability of users to perform incompatible system functions (repeat), and c. perform a periodic documented independent review of critical personnel and payroll transactions and processed (repeat).	b. Since Finance-Payroll and Human Resources-Employee use the same Employee Management System, both groups must have unrestricted access to the Employee Basic Information Menu for job-functional data manipulation. Finance-Payroll only has lookup access to Employee Basic Information. c. Policies and procedures were implemented after the previous Legislative Audit in July 2010. The auditors reviewed the information and tested the process during their fieldwork. The Restricted Staff Accountant transferred to the Internal Audit Staff Accountant position. Unfortunately, her computer access to payroll information was not turned off during the time she performed the independent payroll reviews (2014-2015). Prior to this time and since January 2016, the independent payroll reviews were conducted by staff members who have no access to payroll record files and are “independent.”		
INVENTORY CONTROL AND ACCOUNTABILITY					
CCPS did not perform a complete annual physical inventory of computers as required and access to the automated inventory records was not adequately restricted.	6	We recommend that CCPS a. comply with sensitive item inventory procedures by completing a full physical inventory annually, b. ensure that an employee independent of the inventory record keeping function completes and documents the physical inventory, and c. restrict ability to mark items as disposed only to employees authorized to process disposals.	a. We agree with the recommendation. However, it is impractical for the computer analyst to complete a full annual physical inventory of technology equipment. Many sensitive items are signed out to students to take home and we feel the inventory would disrupt the education process. We will revise our polices/procedures to only perform annual random sample inventories of sensitive technology items. b. We agree with the recommendation. However, we currently do not have the resources to complete an independent physical inventory. The Fixed Asset Analyst does conduct sample inventories at ten locations per year. Upon management approval and additional resources, we will implement this procedure. c. We agree with the recommendation. However, the Web Help Desk software was not designed to track inventory and it cannot restrict the user’s ability to mark items as disposed. In the next 2-3 years, we will be looking for an ERP System and will include the option to restrict users in our search.	6/30/17 TBD TBD	Yes
INFORMATION TECHNOLOGY					
Numerous users had unnecessary modification access to critical files and programs.	7	We recommend that CCPS limit access capabilities to modify critical files and programs to only those employees who require such access for their job duties.	We agree with the recommendation. All objects and work management commands are available to authorized technology and security administrators only.	Complete	Yes

Charles County Board of Education
Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE
Numerous third parties and students had unnecessary network level access to the entire CCPS internal network.	8	We recommend that CCPS properly secure its network resources from third parties and students. Specifically, we recommend that CCPS remove unnecessary network level access capability to the CCPS internal network from third parties and all students.	We agree with the recommendation. CCPS has restricted third party access to network resources. We only provide remote access to authorized staff and outside vendors to perform their duties. We have either deleted or disabled the third party/vendor accounts identified during the audit. We configured the students and staff BYOD access networks as per the recommendation of the BYOD committee. Network web filter applies to both CCPS owned and BYOD equipment.	Complete	Yes
Publicly accessible servers were improperly located on the internal network and intrusion detection prevention system coverage for encrypted traffic did not exist.	9	<p>We recommend that CCPS</p> <p>a. relocate these publicly accessible servers to a separate protected network zone, and</p> <p>b. perform a documented review and assessment of network security risks and identify how IDPS coverage (which may include HIPS) should be best applied to its network, and based on this review and assessment implement the necessary coverage.</p>	<p>a. We agree with the recommendation. We have either shut down or relocated the servers to the DMZ. The only exception is the remote communications server used for VPN routing/remote access, cable cast server, and live.ccboe.com. Users need to VPN internal drives and systems, we cannot move this to the DMZ. Communications Department hosts cable cast and live.ccboe.com servers for live video feed of school events.</p> <p>b. With the implementation of new generation firewalls, we are processing all inbound HTTPS and SSH traffic through the Intrusion Prevention System. As per the firewall manufacturer's recommendation, we are also in the process of decryption on this traffic. We have also deployed malware protection on all web and file servers.</p>	Complete	Yes
FACILITIES CONSTRUCTION, RENOVATION, AND MAINTENANCE					

Charles County Board of Education
Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE
<p>CCPS lacked documentation it advised the Board that the price paid for land purchased for a new school was significantly higher than the land's appraised value.</p>	10	<p>We recommend that CCPS</p> <ul style="list-style-type: none"> a. retroactively report the appraisal amount to the Board, and b. provide the Board with documentation of appraised amounts for all real estate purchases. 	<ul style="list-style-type: none"> a. We agree with the recommendation and will provide the information in a weekly update at the same time the audit findings are presented to the Board. b. We agree with the recommendation and it is our future intent to report appraisal information for real estate purchases to the Board. 	<p>3/2017</p> <p>TBD</p>	<p>Yes</p>
<p>TRANSPORTATION SERVICES</p>					
<p>CCPS did not base certain elements used to determine the PVA on market conditions or actual costs.</p>	11	<p>We recommend that CCPS</p> <ul style="list-style-type: none"> a. ensure that the bus purchase reimbursement PVA component is consistent with the anticipate useful life of the bus, so as not to reimburse contractors in excess of bus purchase cost; and b. use prevailing market rate in the PVA that yield a reasonable ROI (repeat), 	<p>a – b. The PVA is the annual payment CCPS makes to its bus contractors to reimburse them for the purchase price of the school bus (based on county specs), the interest cost of financing the bus, the depreciation of the value of the bus, the State of Maryland excise tax, and the contractor's profit (Return on Investment or ROI). As bus contractors are for profit small business owners, they have two major sources of overall profit. The most significant source being the PVA and the other being maintenance rate. Funds that are received through these lines are used for additional operational expenses such as facility mortgage, lease, upkeep, utilities, support staff, etc. While CCPS does feel that its current rates are appropriate and reasonable, the department will review its payment calculations and amounts paid to school bus contractors. Such factors as using the prevailing market rate and anticipated useful life, establishing a per mile rate and incorporating a bid may be considered in the future for adjusting PVA.</p>	<p>FY18</p>	<p>Yes</p>

Charles County Board of Education
Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE
<p>CCPS could not substantiate the basis for certain amounts paid to bus contractors and those payments were higher than necessary.</p>	<p>12</p>	<p>We recommend that CCPS ensure that all contractor payments have a documented and justified basis. Specifically, CCPS should</p> <ul style="list-style-type: none"> a. use actual bus operating and payroll costs as a basis for establishing contractor rates for per mile maintenance costs and fixed payroll-related charges, and b. exclude federal fuel excise taxes from contractor payments. 	<ul style="list-style-type: none"> a. The school system has created a work group consisting of members of the transportation department, central office staff and bus contractors to undergo monthly discussions regarding compensation. These meetings have focused on creating a basis for maintenance, fixed charges and how the Federal Fuel Excise Tax will be addressed moving forward. It is the goal of the work group to produce actual bus operating cost and payroll costs to associate with our payment schedule. We are in the discussion phase with our group as to how to best address the Federal and State Fuel Excise Taxes. b. Our intention is to discontinue reimbursement to our contractors for the State and Federal Fuel Tax beginning in SY 17-18. <p>We will address the amount of reimbursement for unemployment taxes with the bus contractors. We will also make adjustments to next year's bus contracts by correcting the amount of unemployment taxes that will be reimbursed.</p>	<p>FY18</p>	<p>Yes</p>

Charles County Board of Education
Financial Management Practices Performance Audit

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE
<p>CCPS did not ensure the accuracy of data used to compute certain payments to bus contractors and lacked sufficient internal controls over the automated payment system.</p>	<p>13</p>	<p>We recommend CCPS</p> <ul style="list-style-type: none"> a. thoroughly review and verify bus data on bus contractors' manifests to ensure that the payments to the contractors accurately reflect the actual bus services provided, b. recover any overpayments to the bus contractors, c. restrict edit access to the automated system to only to those employees who need the capabilities to perform their job duties (repeat) and d. independently verify the accuracy of critical data recorded in the system (repeat). 	<ul style="list-style-type: none"> a. The Transportation Department is currently in discussions with various vendors to determine a more accurate means to calculate time and mileage. The best practice would suggest that we base our time and mileage reports and payments to contractors by utilizing routing software and GPS mapping data. The burden to determine overpayment lies on the staff in the Transportation Department and increased review and oversight will be a priority when determining the accuracy of time and mileage. The department's intent moving forward is to determine time and mileage by utilizing the software or by purchasing a more appropriate package to meet our system's needs and satisfy the recommendations of the audit. b. We are currently auditing payment calculations used for each contractor in the payment system to determine if any contractors were paid incorrectly. If any are found, we will adjust the pay calculation and make adjustments to future payments to recover any overpayments. c. The Transportation Department is conducting an internal audit of the currently assigned levels of access each employee needs to fulfill their assigned responsibilities. Currently, we do have various levels of authorization, which permits certain people the ability to access, and modify approved pages within the automated payment system program. While numerous members of the transportation staff have access to the automated payment system portal, they have limited abilities to view or modify many of the programs features/pages. If it is determined appropriate through our internal audit, additional limits will be put in place to further safeguard the integrity of the data, which may completely remove one's ability to access the system or provide them with view only capabilities within the features they can utilize. d. Payment processing involves two persons. One person verifies payment information for contractors prior to input into the system by an independent person. 	<p>FY18</p>	<p>Yes</p>

**Charles County Board of Education
Financial Management Practices Performance Audit**

FINDINGS		LEGISLATIVE AUDITOR RECOMMENDATION	BOARD OF EDUCATION ACTION/RESPONSE	DATE	AGREE
OTHER FINANCIAL CONTROLS					
Stop-loss coverage for employee and retiree healthcare was not competitively procured.	14	We recommend that CCPS use a competitive procurement process to procure stop-loss coverage.	<p>We agree with the recommendation. CCPS' Procurement Manager is working with the Benefits Manager to solicit and award contracts as recommended.</p> <p>Please note: Our health care provider has indicated that CCPS administrative fees for stop-loss coverage is 20% less than similar sized organizations at the same stop-loss threshold. Compared to other LEA's in the Southern Maryland Tri-County area, CCPS pays lower stop-loss administrative fees, yet has a larger enrollment count and higher stop-loss threshold.</p>	FY18	Yes
CCPS did not ensure the propriety of certain claim payments for employee and retiree healthcare costs.	15	We recommend that CCPS establish procedures to verify the propriety of healthcare claim amounts paid (repeat).	<p>Our health care provider's Special Investigation Unit (SIU) is responsible for overseeing their anti-fraud programs; they support and work collaboratively with all business units towards the identification, resolution, and prevention of fraud and abuse. To accomplish these goals, they utilize proactive and reactive methods. The SIU program is included in the monthly administration fees paid to our health care provider by Charles County Public Schools.</p> <p>We agree that Charles County Public Schools should not rely solely on our health care provider for the adjudication of claims. Given the magnitude of work involved with implementing the specifics of the aforementioned recommendation, CCPS will investigate the propriety of contracting with a consultant to perform said audits.</p>	TBD	Yes

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