

Financial Management Practices Audit Report

Worcester County Public Schools

June 2017



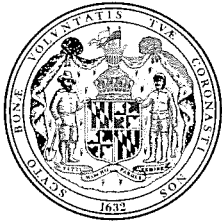
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MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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June 6, 2017

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Legislative Auditor

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

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Worcester County Public Schools (WCPS) 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 WCPS' 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 WCPS needs to improve internal controls and accountability in a number of areas including procurement and disbursements, payroll processing, and equipment inventory. For example, WCPS had not established processes to monitor automated system capabilities assigned to employees for processing procurements, paying vendor invoices, and paying employees. We found a number of employees had been granted unnecessary or inappropriate capabilities.

In two areas, transportation services and information systems, numerous deficiencies were found contributing to excessive costs or significant control risks.

The costs for student transportation services were excessive, in part, because bus contractors were paid more than was necessary through the annual per vehicle allotment (PVA), which includes the reimbursement for bus purchases and a return of investment. We estimated that over the 15-year life of the 69 buses that were in service during fiscal year 2016, WCPS would pay out approximately \$6.9 million more than if actual costs (purchase price of buses) and a reasonable return on investment had been used. WCPS had not established a formal methodology to calculate the annual PVA amounts; therefore, WCPS could not substantiate their reasonableness.

WCPS also paid more for bus contractor fuel costs than was necessary. WCPS's payments did not exclude federal excise taxes, which the contractors are exempt from paying and may claim as a credit on their income tax returns. Due to this condition, for fiscal years 2011 to 2015, we estimated that WCPS' fuel payments were approximately \$380,000 higher than necessary.

Significant security risks existed within the WCPS computer network. For example, firewall rules allowed unnecessary connections to numerous WCPS network devices and nine publicly accessible servers were improperly located in the internal network. Further, the WCPS network was not secured against improper access from un-trusted parties using its wireless connections and monitoring and controls over WCPS computers were not sufficient to ensure that these computers were properly protected from malware. Finally, controls over backup of critical data were not sufficient and WCPS did not have a complete information technology Disaster Recovery Plan.

WCPS did not always make use of a competitive procurement process and for certain procurements, no written contracts had been executed. For example, healthcare contracts for administrative services and stop-loss coverage have not been competitively procured since 1967. Further, WCPS did not ensure the accuracy of payments for healthcare claims that totaled \$14.5 million in fiscal year 2015.

The WCPS 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 WCPS.

Subsequent to this audit, WCPS 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 WCPS will occur during the cycle covering fiscal years 2023 to 2028.

Respectfully submitted,

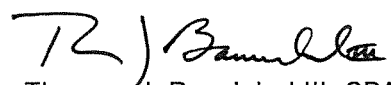

Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Statistical Overview

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Worcester County Public Schools (WCPS) ranks 18th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2015 full-time student enrollment was 6,654 students. WCPS has 14 schools, consisting of 5 elementary, 1 intermediate, 3 middle schools, 3 high schools, and 2 other types of schools (including vocational and special).

According to WCPS' audited financial statements, fiscal year 2015 revenues were \$135 million and expenditures were \$135 million. The largest expenditure category was salaries and wages, including benefits, which accounted for 70 percent of total expenditures during fiscal year 2015. According to MSDE records, during the 2014-2015 school year, WCPS had 1,154 full-time equivalent positions, which consisted of 866 instructional and 288 non-instructional employees.

Oversight

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

External Audits

WCPS engages a certified public accounting firm to independently audit its annual financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of WCPS federal grant programs (as required by federal regulations). We reviewed the resulting financial statement audit and Single Audit reports for fiscal years 2011 through 2015, and examined the related work papers for fiscal year 2015, which were the latest available at the time we performed our audit field work.

Due to similarities between the work of the independent certified public accounting firm that audited the WCPS' 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, accounts receivable, and federal grant activity.

Status of Findings From Preceding Audit Report

Based on our current audit assessment of significance and risk to our audit objectives, our audit included a review to determine the status of 21 of the 28 findings contained in our preceding audit report dated November 1, 2010. We determined that WCPS satisfactorily addressed 10 of these findings. The remaining 11 findings are repeated as 9 findings in this report.

Findings and Recommendations

Revenue and Billing Cycle

Background

Worcester County Public Schools (WCPS) revenues consist primarily of funds received from Worcester County, the State, and the federal government. According to the WCPS audited financial statements, revenues from all sources totaled \$135.2 million during fiscal year 2015. In addition, schools collect funds for other purposes such as 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 reported in summary in the audited financial statements. Although this revenue is raised through student related activities, WCPS has a fiduciary duty to safeguard these funds. For fiscal year 2015, student activity fund collections totaled \$2.7 million and the June 30, 2015 balance was \$1.1 million.

External Audits

There were similarities between the work of the independent certified public accounting firm that audited the WCPS financial statements and the objectives of our audit of certain revenue activities. As a result, we reduced the scope of our audit work related to State and local government revenues received via wire transfer and accounts receivable for which the auditor's procedural review and testing disclosed no material weaknesses or significant deficiencies.

Reviews of School Activity Funds

The independent certified public accounting firm contracted by WCPS to perform its annual financial statement audit also conducts a limited review of the student activity funds (SAF). These reviews consist primarily of tests of SAF bank reconciliations, and receipt and disbursement transactions at selected schools. Our review of the firm's findings for fiscal year 2015 disclosed that internal control weaknesses identified were not prevalent. In addition, the firm's testing did not identify any improprieties.

Finding 1

Adequate accountability and control over cash receipts had not been established. For example, collections were not recorded upon receipt and there was no independent verification that certain collections were deposited.

Analysis

WCPS had not established adequate accountability and control over cash receipts that, according to its records, totaled \$1.3 million from July 2015 through February 2016 consisting of checks primarily received through the mail. Checks received represent reimbursements of teacher pension costs from the county and worker compensation claims from the Maryland Association of Boards of Education, and federal E-rate payments, among other sources. As a result, assurance was lacking that all collections received were deposited.

Employees who initially received collections in the Finance Department, and several other departments (such as Human Resources) that transferred collections to the Finance Department, generally did not immediately record or restrictively endorse checks to establish initial accountability and control. Rather, in the Finance Department, collections were recorded in the financial records by another employee, and then forwarded to a third employee, who restrictively endorsed the checks and prepared the deposit. Consequently, there was no record of initial accountability. Furthermore, these collections were not safeguarded prior to deposit, as they were kept in an unsecured, accessible location in the Department prior to deposit. Finally, an independent verification was not performed, using the validated bank deposits, to ensure all collections were properly deposited.

Similar situations regarding the failure to immediately record collections, restrictively endorse checks, and independently verify deposits were commented upon in our preceding audit report.

Recommendation 1

We recommend that WCPS

- a. immediately record and restrictively endorse all checks (repeat),**
- b. adequately secure checks prior to deposit, and**
- c. independently verify that all collections were subsequently deposited (repeat).**

Federal Funds

Background

WCPS receives funds pertaining to federal government programs that are generally restricted for use for a specific program (such as the School Lunch Program or Special Education). According to the audited Schedule of Expenditures of Federal Awards, fiscal year 2015 expenditures totaled \$8.5 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 Audit of WCPS' federal grants and the objectives of our audit in this area, we reduced the scope of our audit work related to federal grants. Besides expressing an opinion on WCPS' compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the required Schedule of Federal Awards (which includes claimed and reported grant expenditures) for fiscal years 2012 to 2015. The related reports stated that WCPS 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 or significant deficiencies.

Medicaid Funds Were Requested for Eligible Services

WCPS had established a procedure to identify children eligible for Medicaid-subsidized services. Medicaid is an entitlement program for which certain service costs can be reimbursed to WCPS. Medicaid activity is not covered by the Single Audit of federal grants. Our test of 10 students disclosed that reimbursement was requested for all tested Medicaid-subsidized services. According to agency records, fiscal year 2015 reimbursement for Medicaid-subsidized services totaled approximately \$1.2 million.

Procurement and Disbursement Cycle

Background

According to the audited financial statements and WCPS records, non-payroll disbursements totaled \$40.5 million during fiscal year 2015. Purchase orders are manually prepared by the requesting department and must be manually approved by supervisory personnel (such as a respective department head) and one of the Assistant Superintendents before the

related purchase orders can be issued and recorded in the WCPS automated payment system.

WCPS written procurement policies require that procurements over \$25,000 be competitively bid in accordance with Section 5-112 of the Education Article of the Annotated Code of Maryland. The policies also require that these procurements be approved by the Board with the exception of textbook purchases and other materials of instruction; emergency items; sole-source procurements; and the use of intergovernmental agreements and purchasing cooperatives. Although not included in its written policies, it is WCPS practice to also require the solicitation of written or oral quotes for purchases of \$5,000 or greater. Payments are processed by the finance department through an automated system that prints vendor checks and posts the payment to the financial records.

Finding 2

WCPS did not restrict users' capabilities on its automated procurement and accounts payable system to prevent unnecessary or incompatible capabilities.

Analysis

WCPS did not adequately restrict users' capabilities on its automated procurement and accounts payable system, and certain automated approval functions were not used. Additionally, there were no independent approvals of changes to users' capabilities on the automated system and WCPS did not periodically reevaluate the system capabilities needed by employees to perform their duties, assess the compatibility of employees' duties, and make appropriate changes to restrict inappropriate or unneeded capabilities.

Seven employees were assigned system capabilities that allowed them to perform unnecessary and/or incompatible functions. These seven employees (two information technology, one human resources, and four finance department employees) could perform all procurement and accounts payable system functions including entering purchase orders, adding a vendor and entering invoices for payment into the system, and printing vendor checks. Three of these employees had system administrator access that would allow them to perform all system functions, including adding or changing employee accesses, including their own, in the automated system. One of the employees also had unnecessary access to two administrative user accounts that are used by the system vendor to perform software maintenance and updates.

WCPS did not use existing system capabilities that would enable online (electronic) independent approval of critical documents, including invoices,

prior to payment processing. Furthermore, although an independent review was performed of the lists of checks printed, this review did not include a review of appropriate supporting documents for any of the applicable vendor payments.

As a result, unauthorized purchases and disbursements could be processed without detection, although our review did not disclose any inappropriate transactions that were processed by the employees that had unnecessary or incompatible access. We commented on the failure to segregate incompatible functions and restrict system access to critical system functions in our preceding audit report where we cited four of the same employees as we did this audit.

Recommendation 2

We recommend that WCPS strengthen its controls over the automated procurement and accounts payable system and processes. Specifically, we recommend that WCPS take appropriate action to

- a. restrict users' capabilities to eliminate the ability of users to perform incompatible duties (repeat);**
- b. restrict access to the automated procurement and accounts payable system to individuals whose job duties require such access (repeat);**
- c. establish independent approval requirements for critical purchasing and accounts payable transactions, and changes to user capabilities; and**
- d. ensure that the independent supervisory approval of critical transactions includes the review applicable supporting documents, as appropriate.**

Finding 3

WCPS' procurement policy did not require certain non-competitive procurements to be submitted to or approved by the Board.

Analysis

WCPS' policies did not require Board approval for certain high-value purchases. While WCPS had developed formal procurement policies to address the acquisition and approval of certain procurements over \$25,000, it did not require Board approval of all purchases above this level. Specifically, Board approval was not required for certain contracts procured without a competitive bidding process, such as those procured using

intergovernmental cooperative agreements (ICPA),¹ by piggybacking on other agencies' agreements, or that were sole-source awards. We also noted that WCPS procurement policy does not require a documented sole-source justification, which we commonly find required by other school systems and State government. Additionally, the policy does not require that contracts (at least those over a certain monetary threshold, such as \$25,000) be a formal written document executed between the parties.

Consequently, significant procurement activity was not subject to specific Board oversight. Our test of 27 procurements with fiscal year 2015 disbursements totaling \$38.6 million disclosed 14 contracts, each over \$25,000, (with cumulative fiscal year 2015 disbursements of approximately \$2.7 million) had not been competitively bid and were not submitted to the Board for approval. Similar conditions were commented upon in our preceding audit report where we cited the lack of procurement policies that addressed all categories of goods and services purchased, including required Board approval and the need for sole-source justifications.

Recommendation 3

We recommend WCPS amend its existing procurement policies to require that:

- a. contract awards resulting from the use of non-competitive procurement methods be reported and approved by the Board when the awards exceed \$25,000 (repeat),**
- b. documented justifications be prepared for all sole-source awards (repeat), and**
- c. formal written documents be executed between the parties for contracts over a stated monetary value.**

Finding 4

WCPS did not always publish required notifications of contract bids and awards on *eMaryland Marketplace* or comply with State procurement laws.

Analysis

Our test of 27 procurements for goods and services with fiscal year 2015 disbursements totaling \$38.6 million disclosed that contract bid solicitations

¹ Section 13-110 of the State Finance and Procurement Article, 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.

and awards were not always published on *eMaryland Marketplace*, as required, or did not comply with State procurement laws.

- WCPS did not use *eMaryland Marketplace* to publish bids or awards for 13 procurements tested where the competitive procurement processes resulted in Board approved contract awards of greater than \$25,000. The awards/payments to these vendors in fiscal year 2015 totaled \$36 million. State law requires a local school system to publish a procurement solicitation or notice of award that is greater than \$25,000 on *eMaryland Marketplace*.
- WCPS procured and awarded a contract for construction management (CM) services totaling \$3.3 million without considering price in making the selection, as required by State law. In this case, WCPS issued a request for proposal (RFP) and the RFP required that proposals include the proposed cost categories and method of charging fees, but stipulated that the amount of the costs and fees be excluded. After the CM was selected, WCPS then negotiated the amount they were to be paid under the contract, even though State law requires that contracts for school building and improvements be awarded to the lowest responsible bidder. Counsel to the Maryland General Assembly had previously advised us that the cited law applies to local school system contracts for CM services. From 2012 to 2016, WCPS only had one active major construction project and only hired one CM.
- For six contracts totaling \$1.4 million that were based on intergovernmental cooperative purchasing agreements (ICPA), WCPS had not prepared written documentation of the benefits of utilizing an ICPA, as required by State law.
- For four vendors, each paid over \$25,000 with fiscal year 2015 payments totaling \$663,950, the services were not competitively bid or supported by sole source justification documentation. In addition, for two of these vendors, who received fiscal year 2015 payments of \$336,000, no written contracts had been executed between the parties that would establish terms and responsibilities of the parties. Consequently, WCPS was lacking assurance that the costs were reasonable and that the quality of services received were appropriate. We commented on the failure to competitively bid goods or services in our preceding audit report.

Recommendation 4

We recommend WCPS

- a. use *eMaryland Marketplace* for contract procurement solicitations or awards as required by State law;
- b. revise its procurement process for contracts for construction management services to require that awards be made to the lowest responsible bidder;
- c. before deciding to participate in an ICPA, prepare written documentation of the benefits of utilizing the ICPA for Board review;
- d. procure contracts/purchases of over \$25,000 through a competitive bidding process, or document the justification of any sole source procurements (repeat); and
- e. execute written contracts for services procured expected to exceed \$25,000 that includes sufficient terms to evaluate the quality of services and appropriateness of the rates billed.

Finding 5

WCPS had not established formal comprehensive corporate purchasing card policies, and procedures and internal controls were inadequate.

Analysis

WCPS had not established formal comprehensive corporate purchasing card (CPC) policies, and existing procedures and internal controls were inadequate.

- A comprehensive CPC manual had not been developed and approved by the Board. Consequently, certain common CPC policies and procedures were not formalized, and certain key controls were not addressed over the issuance, use, and supervisory review of monthly card activity. For example, although WCPS had cardholders sign a credit card use agreement and attend annual training seminars, which stipulated that purchases were to be for school system purposes and not for personal items, the related card use terms and conditions were somewhat general and actual prohibited card uses were not identified.
- There was a lack of separation of duties over critical CPC functions. Specifically, the same WCPS employee, who was a cardholder, processed CPC applications on the issuing bank's web site, received new cards in the mail, distributed the new cards, reviewed and approved all monthly card holder bank statements, and cancelled cards for terminated and retiring employees through the bank's web site. Consequently, the aforementioned employee could be able to improperly obtain cards and process unauthorized transactions, although our review did not disclose any such improper card activity.

- WCPS' monitoring procedures did not include the use of available Level-3 purchasing data to help determine the propriety of CPC transactions. This level of data, when reported by the merchants, provides detailed purchasing information, including, invoice-level line item details (such as item descriptions and item quantities). Our review of Level-3 data did disclose several purchases of gift cards that were not accompanied by the required accountability form, which explains the reason for the purchase.

As of November 2015, WCPS had approximately 100 CPC cardholders and during fiscal year 2015, related expenditures totaled approximately \$2.2 million.

Recommendation 5

We recommend that WCPS enhance its CPC program. Specifically, we recommend that WCPS

- a. develop a comprehensive CPC manual subject to Board approval, which includes acceptable uses of the card;**
- b. properly segregate the CPC functions of card issuance, card holding, card activity review, and cancellation; and**
- c. incorporate the use of Level-3 data as part of the monthly review by supervisors, when available, and ensure all card transactions are properly supported.**

We advised WCPS how to accomplish the necessary segregation of duties using existing personnel.

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the WCPS budget. According to WCPS records, fiscal year 2015 salary, wage, and benefit costs totaled \$94.4 million, or 70 percent of the \$135 million total operating expenditures. According to Maryland State Department of Education reports, during the 2014 – 2015 school year WCPS had 1,154 full-time positions, which consisted of 842 instructional positions and 312 non-instructional positions.

WCPS uses an automated system to maintain human resources (HR) information, record employee time, track leave usage, and process and record payroll transactions. Attendance reports are submitted by employees semi-monthly and leave is recorded and adjustments processed on the system by

central payroll personnel. The system also 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 6

Human resources and payroll system user capabilities were not adequately monitored and restricted. In addition, independent documented reviews of personnel and payroll transactions were not performed including certain payments of \$4.6 million for fiscal year 2015.

Analysis

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

- WCPS had not established a formal process for granting or modifying payroll system user access capabilities that required documented supervisory approval. Furthermore, WCPS did not generate periodic system reports of employee capabilities for supervisory review to ensure adequate separation of duties and to confirm the need for assigned capabilities. Consequently, we identified individuals who were assigned capabilities that were not needed to perform their job duties or were assigned incompatible HR and payroll system access capabilities.

For example, our review of the nine WCPS users we deemed as having critical access capabilities disclosed that as of March 10, 2016, five users could perform incompatible functions or had unnecessary access, including two information technology employees with unlimited system administrator access that allowed them to perform all HR and payroll functions. Two payroll employees and one HR employee had incompatible access that allowed them to add employees, change salary and direct deposit information, process payroll (such as final payout amounts), and print checks without any independent supervisory review to supporting documentation.

- Critical HR and payroll transactions were not subject to independent review and available reports of transactions processed that could be used for that purpose were not generated. For example, there was no review of payment amounts calculated and entered into the system by one employee for other earnings in fiscal year 2015 totaling \$4.6 million (including, for example, substitute teacher pay of \$1.1 million, teacher

education workshop reimbursements of \$665,000 and final leave payouts of \$433,000).

As a result, there was a lack of assurance that all HR and payroll transactions were authorized and appropriate. Our test of HR and payroll transactions and adjustments did not disclose any inappropriate transactions. Similar conditions regarding inappropriate access to critical system functions and the lack of an independent review of HR and payroll transactions were commented upon in our preceding audit report.

Recommendation 6

We recommend that WCPS

- a. **perform a periodic documented independent review of user capabilities to ensure access is properly granted,**
- b. **limit access of critical functions to those employees who require such capabilities to perform their assigned job duties,**
- c. **eliminate access to and segregate incompatible system functions (repeat), and**
- d. **perform a documented independent review of critical personnel and payroll transactions processed using supporting documentation (repeat).**

Inventory Control and Accountability

Background

According to WCPS inventory records, as of June 2015, there were 10,845 equipment items totaling \$12.5 million, which included capital and non-capital items. WCPS uses a spreadsheet maintained by its central fiscal office to capitalize inventory with a cost of \$5,000 or more for financial statement purposes. However, all equipment items costing over \$1,000 and computers (desktops, laptops, tablets) are recorded on the same spreadsheet located on a shared drive for tracking purposes, which describes an item's location within the school system. Annual physical inventories of equipment items recorded on the spreadsheet are required by WCPS policies.

Finding 7

WCPS had not established comprehensive equipment policies, and appropriate controls and recordkeeping requirements.

Analysis

WCPS had not established comprehensive written equipment policies and procedures, and proper controls and recordkeeping requirements that would ensure adequate accountability over its schools' equipment inventory.

- WCPS' equipment policies did not include requirements for tagging equipment, reporting lost or stolen items, approving disposals, and separating the duties of equipment custody, inventorying, and recordkeeping. Also, while current policy requires that computers and other items costing more than \$1,000 be inventoried, sensitive items (such as items being subject theft) were not specifically defined.
- Entries to the centrally maintained equipment records, additions, disposals, and adjustments, were not independently approved and/or verified to supporting documents. Our test of 10 technology items removed from the equipment records during fiscal years 2014 and 2015, disclosed 9 items, totaling \$37,204, which did not have a required disposal form submitted with proper approvals in accordance with current practices.
- WCPS does not adequately reconcile physical inventory counts with the detail inventory records and investigate the differences to determine the disposition of any missing equipment. For example, for the June 2014 physical inventory one school reported 18 items totaling \$20,940 on the that school's inventory sheets as missing, but no investigation was performed. However, in March 2016, the items were investigated at our request and found. For the June 2015 physical inventory, 73 items totaling \$62,266 recorded on inventory records were not found nor investigated.
- WCPS did not always accurately maintain its equipment inventory records. Our review disclosed that as of June 2015 there were 8,053 items listed under the technology classification in the inventory records totaling \$7.1 million, that either had missing information for cost, tag number, serial number, and school number, or included duplicate serial numbers. For example, 792 items did not have a cost associated with them and 2,864 items totaling \$2.2 million did not have a tag number. Furthermore, we

noted 770 items without a serial number and 235 items with duplicate serial numbers.

As a result of the deficiencies cited above, equipment could be lost or misappropriated without detection. Similar conditions regarding the lack of a formal policy governing all equipment records including posting of equipment transactions was commented upon in our preceding audit report.

Recommendation 7

We recommend that WCPS

- a. establish and enforce comprehensive written policies and procedures to govern the accounting and safeguarding of equipment (repeat);**
- b. investigate any differences found when reconciling physical inventory counts with inventory records;**
- c. ensure postings to the inventory records (such as, disposals and adjustments) are properly supported and approved (repeat); and**
- d. ensure inventory records are properly maintained by recording the cost, tag number, the serial number, and delete any duplicate items.**

Information Technology

Background

The WCPS Department of Technology maintains and administers the WCPS computer network, computer operations and academic and financial information system applications. WCPS operates a wide area network, with Internet connectivity, which connects the individual schools' local networks to the computer resources located at the WCPS' headquarters. The WCPS network includes a perimeter network firewall to protect the WCPS network.

Finding 8

Controls over disaster recovery, backup of critical data, and monitoring the security of a critical database were not sufficient.

Analysis

Controls over disaster recovery, backup of critical data, and monitoring the security of a critical database were not sufficient.

- WCPS did not have a complete information technology Disaster Recovery Plan (DRP) for recovering computer operations from disaster scenarios (for example, a fire). The State of Maryland *Information Technology (IT) Disaster Recovery Guidelines* provide best practices on the minimum required elements needed for a DRP. WCPS' DRP did not address several

of these minimum requirements. For example, the DRP did not identify an alternate processing site nor include technical considerations for restoring network connectivity. In addition, there was no documentation evidencing that the DRP had been tested. Without a complete and tested DRP, 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. A similar condition was commented upon in our preceding audit report.

- Although full backups of the financial system's database and application were created daily, these backup were not stored offsite. Instead, these backups were stored within the same building used to host the production financial system's database and application. Accordingly, if the facility which houses the production system and backup data were destroyed by a disaster, it is highly uncertain if all critical information could be recreated. According to the *Guidelines*, backup media should be created and stored off-site in a secure, environmentally controlled location.
- The WCPS student information system database, which includes student demographics, attendance, schedules, and grades, was not configured to log any database security activity including privileged operations. Best practices identified in the State of Maryland *Information Security Policy* require that information systems generate audit records for all security-relevant events, including all security and system administrator accesses and that procedures must be developed to routinely (for example daily or weekly) review audit records for indications of unusual activities, suspicious activities or suspected violations, and report findings to appropriate officials for prompt resolution. A similar condition was commented upon in our preceding audit report.

Recommendation 8

We recommend that WCPS

- a. update its DRP so that it is in accordance with prescribed practices identified in the State of Maryland *Information Technology (IT) Disaster Recovery Guidelines*; (repeat)**
- b. periodically test the DRP, document the testing, and retain the documentation for future reference; (repeat)**
- c. store backup copies of its financial system database and application at a secure, environmentally controlled off-site location; and**
- d. set the student information database to log all critical security related events, regularly review these logs, document these reviews and retain this documentation for future reference (repeat).**

Finding 9

Firewall rules allowed unnecessary connections to numerous WCPS network devices and nine publicly accessible servers were improperly located in the internal network.

Analysis

Firewall rules allowed unnecessary connections to numerous WCPS network devices and nine publicly accessible servers were improperly located in the internal network.

- Firewall rules allowed insecure and unnecessary connections to numerous network devices. For example, firewall rules allowed unnecessary Internet access to numerous internal servers and workstations over numerous ports. Best practices prescribed by the University System of Maryland's *IT Security Standards* state that firewalls should be configured to block all services not required and disable unused ports, hide and prevent direct accessing of trusted network addresses from untrusted networks, and maintain comprehensive audit trails.
- Nine publicly accessible servers were located on the WCPS internal network rather than isolating these servers in a separate network zone to minimize security risks. These publicly accessible 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.

Recommendation 9

We recommend that WCPS

- a. configure its firewalls to adequately secure connections from untrusted third parties (including the Internet), and
- b. relocate the nine aforementioned servers to a separate network zone behind the firewall and configure the firewall to properly protect these critical servers.

Finding 10

The WCPS network was not secured against improper access from un-trusted parties using its wireless connections.

Analysis

The WCPS network was not secured against improper access from un-trusted parties using its wireless connections. Specifically, via the WCPS wireless connections, guests could access all WCPS network devices over several ports rather than being routed directly to the Internet and all students could access all WCPS network devices via all ports. At 1 of 14 wireless locations, guests could access the WCPS network without any authentication. Finally, because of the weak wireless authentication method used and the lack of adequate network level access controls, former faculty, staff and students had network level access to the entire WCPS network over all ports.

Best practices prescribed by the State of Maryland *Information Security Policy* state that wireless networks should authenticate the identity of all users, where necessary, and maintain restricted access to critical resources.

Recommendation 10

We recommend that WCPS

- a. use network based, individual authentication for wireless connections made by its faculty, staff and students;
- b. limit authenticated wireless user access to critical network devices based on each user's needs; and
- c. send all guest wireless users network traffic directly to the Internet.

Finding 11

Monitoring and controls over WCPS computers were not sufficient to ensure that these computers were properly protected from malware.

Analysis

Monitoring and controls over WCPS computers were not sufficient to ensure that these computers were properly protected from malware.

- Various workstations were configured with users having administrator rights. Administrator rights should be provided only to network administrators and select others since these rights are the highest permission level that can be granted to users and it allows users to install software and change configuration settings. Our test of workstations assigned to faculty and staff disclosed that the users of 9 of 21

workstations had unnecessarily been provided administrative rights on their workstations. As a result, if these workstations were infected with malware, the malware would run with administrative rights and expose these workstations to a greater risk of compromise than if the workstations' user accounts operated with only user rights. In addition, users with administrative rights could disable the malware protection software on their workstations.

- WCPS did not have enterprise-wide management tools to monitor and ensure that the malware protection software installed on its 5,260 workstations and servers was operational, up-to-date, and was using the most current malware prevention signature files. Without the use of enterprise-wide management tools, WCPS lacked assurance that its workstations and servers were properly protected with up-to-date, operational malware protection software. Specifically, 3 of 12 computers tested had outdated versions of the malware protection software installed, with 2 computers' versions going back to 2011.

Best practices as prescribed by the State of Maryland *Information Security Policy* state that agencies, at a minimum, must protect against malicious code (viruses, worms, Trojan horses) by implementing (antivirus, antimalware) solutions that, to the extent possible, include a capability for automatic updates.

Recommendation 11

We recommend that WCPS

- a. ensure that administrative rights on workstations are restricted to network administrators and other select users requiring such rights; and**
- b. obtain and use enterprise-wide management tools to ensure that all workstations and servers are configured with malware protection software that is operating properly, up-to-date, and has current malware prevention signature files.**

Facilities Construction, Renovation, and Maintenance

Background

WCPS employs a staff of 93 employees to maintain its 14 schools and administrative facility. According to the fiscal year 2017 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to WCPS facilities over the next six years were estimated to cost \$54.7 million.

WCPS Contracts Were Generally Properly Procured and Expenditures for Capital Projects Were Properly Supported

Our review of ten construction-related procurements during fiscal year 2013 totaling \$35.7 million, for a school to be completed during fiscal year 2016, disclosed that WCPS had used appropriate processes to procure nine of the contracts. The remaining contract for Construction Manager services totaling \$3.3 million was commented upon earlier in Finding 4. All ten contracts tested were approved by the Board. In addition, our test of 30 invoices totaling \$7.7 million for these contracts disclosed that the invoices were properly reviewed and approved and the amounts invoiced were in accordance with the related contract terms.

Processes are in Place to Minimize Energy Costs

WCPS has processes in place to minimize energy costs. For example, WCPS utilizes an energy management system in a majority of the buildings for facility management to monitor and control energy usage (such as by using timed and motion sensor lighting). In addition, WCPS offers an incentive program for schools to use less energy where schools share in a percentage of the energy cost savings. Furthermore, WCPS participates in a consortium with other Eastern Shore entities to purchase energy at the best possible terms for the members of the consortium. According to documents provided by WCPS from the consortium (which we did not audit), WCPS saved over \$640,000 through energy cost avoidance from fiscal year 2001 through fiscal year 2015.

Transportation Services

Background

WCPS has approximately 6,100 students eligible to receive student transportation services. During fiscal year 2015, these students were transported on 69 buses all of which were owned and operated by contractors. According to WCPS audited financial statements, fiscal year 2015 transportation costs totaled \$6 million, with \$5.6 million (93 percent) representing payments for contracted bus services. WCPS reported that 1.6 million route miles were traveled to transport students for the 2014-2015 school year. Payments to bus contractors consist of amounts for the purchase of a bus (known as a per vehicle allotment or PVA, intended as reimbursement for the cost of a bus and a flat rate for return on investment), hourly reimbursements for drivers, a per mile maintenance fee, fuel costs, and an administrative fee.

Finding 12

WCPS did not establish comprehensive bus routing procedures and did not periodically perform a system-wide analysis of bus routes to maximize efficiency.

Analysis

WCPS bus routing procedures were not comprehensive, as they did not address the planning, reviewing, and changing of existing routes. Furthermore, they had not adopted formal individual bus capacities, ridership goals, and student ride times. In addition, WCPS did not periodically perform a system-wide analysis of its bus routes and related bus capacities to determine if any existing routes could be modified to increase ridership. Finally, WCPS purchased automated bus routing software in December 2013, however as of our audit, WCPS had not finished implementing routing software and was not yet able to use it to significantly enhance the efficiency of its bus operations.

In practice, WCPS has had the bus drivers develop the existing routes and make modifications as needed to accommodate changes in students' school assignments. Regarding the routing software, WCPS began entering student and route information for the 2015-2016 school year. However, they were not yet able to use it to plan routes or generate system reports, such as number of students per route and bus capacity, to assess the efficiency of bus routes. We were advised that WCPS had contracted with the routing software vendor to help finish entering all the student and route information for the 2016-2017 school year.

Our analysis of student ridership disclosed that there may be opportunities to increase ridership on individual bus routes. Our review of 86 regular routes (62 buses) for the 2015-2016 school year disclosed that 29 routes (34 percent) were below 75 percent of computed capacity goals based on bus sizes². While we recognize that Worcester County includes large rural areas, which can make it difficult to meet target capacities in all cases, our analysis included all regular routes, so the buses cited were not isolated to only rural regions of the county.

A similar condition regarding the lack of comprehensive bus routing procedures to help plan more efficient services was commented upon in our preceding audit report.

² School bus capacities are lower than manufacturer stated capacities and differ depending on the school level. For example, the capacity for high school and elementary school routes is 48 and 61 students, respectively based on 72-passenger buses (manufacturer stated capacity).

Recommendation 12

We recommend that WCPS take steps to determine if buses can be used more efficiently. Specifically, we recommend that WCPS

- a. develop formal, comprehensive written bus routing procedures that include specific target bus capacities, ridership goals, and student ride times (repeat); and
- b. fully utilize the capabilities of its automated routing software and periodically perform a system-wide analysis of bus routes to maximize the ridership on its bus routes.

Finding 13

WCPS had not established a formal methodology to calculate its PVA rate, and payments to bus contractors included elements that did not consider market conditions, actual costs, or available discounts.

Analysis

WCPS had not established a formal methodology to calculate its PVA and the majority of the elements used to determine payment amounts to bus contractors did not reflect market conditions, actual costs, or available discounts. WCPS' bus contracts are for an initial one year with annual renewals generally granted over the 15-year useful life of a bus. Our review of the contract payments disclosed the following conditions:

- WCPS pays contractors an annual PVA for each bus. In accordance with past studies, the PVA is intended to reimburse the bus contractor for the cost of the bus with depreciation payments spread over the useful life of the bus, and provide an annual return on investment (ROI) for using the bus contractor's funds to buy the bus. However, WCPS did not use the traditional methodology developed in the studies or any other formal methodology to calculate its PVA. That methodology would have considered or included various specific cost elements, such as the cost of the bus, an allowed depreciation percentage, and ROI.

Instead, during each fiscal year from 2011 to 2016, WCPS either used the previous year's PVA (for which WCPS had no documented basis) or increased the PVA. The determination of the annual PVA was purportedly based on conversations with a local bus dealer and the local bus contractor's association regarding annual percentage bus cost and desired rate increases, and after considering the PVA rates of neighboring school systems. The proposed rates were then submitted to and approved by the Board. The annual PVA for each bus placed in service increased from \$16,000 (fiscal year 2010) to \$18,952 (fiscal year 2016).

- Since there was no stated ROI in the PVA rates submitted to the Board, or any explanation or calculation of the ROI being paid, we calculated, using the actual purchase prices of the buses, the imputed ROI rate paid for years 2011 to 2016. We determined the ROI for those years ranged from 9.17 percent to 11.73 percent (9.5 percent was used in 2010, as identified during our prior audit).

To estimate the financial impact of WCPS using PVA rates that were not based on actual costs or investment rates over the life of a bus, we calculated the PVA for the 69 primary buses being used to transport students during fiscal year 2016, which included buses placed into service dating back to 2002. Using cost information obtained from local bus dealers, the prime interest rate³ (which ranged from 3.25 to 8.5 percent) for the ROI, and WCPS' 15-year estimated useful life in the traditional PVA formula, we compared our PVA results to the WCPS PVA payments. This comparison showed that the WCPS' annual PVA payments per bus were \$2,633 to \$8,758 higher than the payments would have been had actual costs and the prevailing prime rate been used in the calculation. The effect is that, over the 15-year life of these 69 buses that were in service during fiscal year 2016, WCPS would pay out approximately \$6.9 million more than if actual costs and a reasonable ROI had been used (\$2.7 million having already been paid and \$4.2 million to be paid over the remaining useful lives). This analysis does not include the effect of any new bus purchases that were made after the beginning of the fiscal year 2016 school year (September 2015) and the lost interest income that could have been earned by WCPS on the excess amounts paid.

- WCPS could not show that payments to reimburse bus contractors for maintenance costs were reasonable. For example, for fiscal year 2015, WCPS paid a \$0.794 per-mile fee to reimburse the contractors for bus maintenance costs, without determining the appropriateness of the rate based on independently derived estimates. We determined that in fiscal year 2015, WCPS paid approximately \$1.3 million in maintenance costs to contractors.

³ The use of the prime interest rate was recommended in a November 1999 study commissioned by another Maryland school system. Also, in 1975 an MSDE study recommended the prime rate as a reasonable 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. In addition, 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. As of January 2017, current 10 and 30-year US Treasury Note rates, which could be reflective of a reasonable long-term investment option, were 2.4 and 3 percent, respectively.

- WCPS could not show that payments to reimburse bus contractors for administrative costs were reasonable. For example, for fiscal year 2015, WCPS paid \$3,500 per bus to reimburse the contractors for administrative items such as bookkeeping, physicals, and trainings, without determining the appropriateness of the rate based on independently derived estimates. In fiscal year 2015, we estimated that WCPS paid approximately \$245,000 in administrative costs to contractors.
- WCPS did not exclude federal excise taxes when paying bus contractors for fuel. WCPS pays contractors for fuel usage based on the American Automobile Association's average for diesel fuel prices, including taxes, divided by the 5 miles-per-gallon (mpg) rate used by WCPS. However, according to federal law, WCPS bus contractors are exempt from the \$0.244 per gallon excise tax on diesel fuel and are able to receive a credit for federal fuel taxes paid when they file their income tax returns. As a result, WCPS' total fuel payments to bus contractors were approximately \$380,000 higher than necessary for fiscal years 2011 through 2015.⁴

Additionally, the mpg rate used by WCPS to pay bus contractors for fuel usage was less than industry standards. Specifically, WCPS used a 5 mpg rate when determining the fuel cost reimbursement paid per mile to WCPS bus contractors, while the national average per the American School Bus Council was 7 mpg. WCPS advised that it had used the 5 mpg rate since 2004, but could not provide any reason or support for its current use. If WCPS had used the 7 mpg industry standard, we estimated that WCPS payments to bus contractors would have been \$1.5 million less during fiscal years 2011 through 2015.

Similar conditions regarding the appropriateness of PVA and maintenance amounts paid were commented upon in our preceding audit report.

Recommendation 13

We recommend that WCPS

- a. use actual costs and market investment rates as a basis for establishing contractor rates for the annual PVA (repeat),**

⁴ 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.

- b. develop supportable cost estimates as the basis for establishing reasonable contractor rates for per mile maintenance costs and administrative costs,
- c. exclude fuel excise taxes from contractor payments, and
- d. document the basis for the mpg used in reimbursing bus contractors for fuel usage and consider adopting the industry standard.

Finding 14

WCPS did not ensure the accuracy of contractor reported manifest mileage, which was used to compute certain payments to bus contractors.

Analysis

WCPS did verify the accuracy of contractor reported mileage. Specifically, the mileage reported on the monthly manifests submitted by each bus driver and used by WCPS to calculate the fuel and maintenance components of the contractor's monthly pay was not compared to available mileage from mapping software applications. Payments for mileage reimbursements totaled approximately \$2.3 million in fiscal year 2015.

Our test of September 2015 manifests for 10 bus routes disclosed that for 6 manifests, the amount of miles reported by the contractor exceeded the actual route miles by a total of 50 miles per day, with 25 of those miles applicable to 1 manifest. We calculated the actual route miles using a mapping application available on the internet and determined that since the reported mileage remained constant throughout the year, WCPS potentially overpaid for mileage for these 6 routes by a total of \$13,300 in fiscal year 2016.

Recommendation 14

We recommend that WCPS

- a. independently verify bus contractor's manifests to ensure that the payments to the contractors accurately reflect the actual bus services provided;
- b. document the verification process; and
- c. review past payments and pursue discrepancies, including those we identified.

Finding 15

Internal controls over payments to bus contractors were not adequate, as there was no independent review and approval of payment calculations.

Analysis

Payments to contractors for transportation services were not independently reviewed to ensure propriety. Specifically, a WCPS transportation management official was responsible for entering data, including route miles, time, PVA, and fuel adjustments for each of the contractor-owned buses into a Transportation Department system used to calculate the monthly payments. However, the system entries and payment file amounts were not verified to supporting documentation by independent supervisory personnel. As a result, there was a lack of assurance that the bus contractor payments that totaled \$5.6 million during fiscal year 2015 were accurate, although our tests did not disclose any errors.

Recommendation 15

We recommend that WCPS require that an employee independent of the payment processing verify the accuracy and propriety of contractor payments by performing a documented comparison of the amounts paid to supporting documentation.

We advised WCPS how to accomplish the necessary segregation of duties using existing personnel.

Food Services**Background**

WCPS has 12 cooking cafeterias at its 14 schools. Food and related supplies are received and stored at each school. In fiscal year 2015, WCPS had 62 food service positions (consisting of 59 cafeteria positions and 3 administrative positions). According to the audited financial statements, food service operating expenditures (\$2,637,455) exceeded revenues (\$2,560,288) for fiscal year 2015 by \$77,167. Food service revenues exceeded operating expenditures for three of the last five years with an average net loss of \$10,261 over the 5-year period (essentially breaking even).

Finding 16

WCPS had not established adequate accountability and control over school cafeteria cash receipts.

Analysis

WCPS had not established adequate accountability and control over school cafeteria cashiers, the cash register closeout and deposit processes, and voided transactions.

- WCPS assigned cashiers access to cash registers on the automated cash register system by location using group login user accounts without individual passwords. We were advised by WCPS that the system was set up by the software vendor to enable all the employees working a given day access to any register, because staff assignments were subject to change. As a result, responsibility was not affixed to individual employees on the system for specific registers. During fiscal year 2015, there were as many as 56 cashiers and food service managers who had access to the registers.
- The amount of cash counted during the register closeout process at the end of the business day was not sufficiently documented or subject to supervisory review. Specifically, only 4 of the 12 schools documented the closeout process using a closing sheet. Furthermore, the closing sheets were only signed by the cashier. School food service managers did not participate in the closeout process (unless they were filling in as a cashier) or sign the closing sheet to document their approval of the amount of cash counted, and to be subsequently deposited.
- Cashiers in school cafeterias could void transactions on the automated cash register system at the time of sale without independent supervisory review and approval of the transaction on the system or post-basis review of voided transactions. While the system was capable of generating reports of voided transactions, these reports were not generated or analyzed for unusual activity such as cashiers with high volumes of voids that may warrant further investigation or corrective actions.
- Although we were advised by WCPS that an independent Central Office employee used cash register system sales activity reports to verify that the daily collections per school agreed to the amounts deposited per the validated deposit tickets received from the bank, this verification was not documented.

According to WCPS records, food service revenues from the sale of meals totaled approximately \$607,000 in fiscal year 2015 and for the same period over 5,700 voids, totaling \$28,000 were processed.

Recommendation 16

We recommend WCPS require

- a. **cafeteria cashiers be assigned cash register system access using individual logon IDs and passwords or implement an appropriate process to establish the necessary accountability,**
- b. **both the cafeteria cashier and manager (or another employee if the manager is performing as a cashier) sign the closing sheet for each cash register to document their verification and agreement of the cash receipts counted,**
- c. **independent supervisory review of voided transactions for propriety, and**
- d. **documented independent deposit verifications.**

School Board Operations

Background

The Worcester County Board of Education (the Board) is composed of seven elected members and three non-voting student representatives. In its oversight responsibilities, the Board contracted with a certified public accounting firm for independent audits of the WCPS financial statements and federal programs. The Board has not established any special committees.

WCPS Adopted an Ethics Policy that Met the Requirements of State Law

In July 2012 the Board adopted a revised detailed ethics policy that conforms to State law and 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 WCPS employees. WCPS established an Ethics Panel in 2010 to interpret ethics policies, provide advice on policy implementation, and review and rule on any reported complaints of ethics violations. We did note that the terms of the five members of the panel who were appointed by the Board Chairman in 2010 had expired as of March 2016, but the members have continued to serve.

According to the ethics policy, annual financial disclosure statements are required to be filed by Board members, candidates for the Board, the Superintendent, and a number of other administrators (Assistant Superintendents, Chief Financial Officer, Facilities Planner, and Transportation Supervisor) by April 30th of each year and within 60 days after leaving office.

Finding 17

Financial disclosure statements were not always filed or filed timely, as required.

Analysis

The financial disclosure reporting requirement of WCPS' ethics policy was not always complied with. Our review of the statement submissions during calendar years 2013 to 2015, disclosed the following conditions:

- Two of 15 employees required to file a statement for calendar year 2014 did not file the required statement. These two employees were Board members whose terms ended in December 2014, one of whom also did not file the required form for 2013 and was a bus contractor, to whom WCPS paid \$115,139 and \$117,131 in fiscal years 2013 and 2014, respectively. In our prior report, we also commented on the failure to file a disclosure statement by the Board member/bus contractor.
- The remaining 13 employees, filed the required calendar year 2014 statements 7.5 months late. Specifically, at the start of our audit field work in October 2015, no calendar year 2014 statements had been filed, but subsequently, all 13 employees filed their calendar year 2015 statements in December 2015, indicating that they were also for the calendar year 2014 period.

WCPS may be unaware of conflicts of interest issues if employees do not file required disclosure statements timely.

Recommendation 17

We recommend that WCPS enforce its ethics policy to ensure that all required disclosure statements are filed as required.

Other Financial Controls**Healthcare Background**

WCPS obtains its healthcare services in collaboration with the Worcester County Government (WCG) and four other smaller County Government agencies. WCPS relies on WCG for procuring the services of a third-party administrator (TPA) for health care claims processing services for employee and retiree medical (including vision), dental, and prescription coverage, and for stop-loss insurance coverage. Beginning in fiscal year 2015, WCG changed from a fully-insured plan to a self-insured plan for its employee and

retiree healthcare up to a certain claim amount, which was \$250,000 per plan participant for plan year 2015. Furthermore, at that time, the stop-loss insurance claim amount was increased from claims exceeding \$100,000 to \$250,000.

In November 2015, WCPS instituted a process in conjunction with open enrollment for plan year 2016 for its TPA to verify the propriety of all individuals that were covered or were to be added as a dependent under the systems' health care plans. WCPS required all employees and retirees with dependents to submit documentation (such as birth certificates) to prove that each individual covered or to be added as a dependent was eligible under the criteria defined by WCPS' health care plan. Although no statistics were maintained, we were advised by WCPS that as of March 2016 the verification process was mostly complete and that they had removed a number of ineligible dependents from the plans. WCPS plans to continue this verification process as part of its enrollment procedures for future plan years.

Since fiscal year 2015, the TPA bills WCPS monthly subscription charges based on the number of participants and their medical coverage and medical providers submit claims to the TPA who pays them on behalf of WCPS. WCPS pays its TPA administrative fees for these services. In a year-end settlement process, which aggregates all six participating agencies together, the TPA nets the amount of medical claims they paid against the monthly subscription charges billed to and paid by each agency to determine any excess amount due from or to be reimbursed. According to WCPS's financial records for the plan year ended June 30, 2015, WCPS healthcare expenditures totaled \$16 million, including administrative fees of \$802,000 and stop loss insurance premiums of \$667,000.

Finding 18

WCPS had not pursued the competitive procurement of its healthcare contracts for administrative services and stop-loss coverage since 1967 and did not receive copies or obtain Board approval of the annual agreements.

Analysis

The TPA and stop-loss insurance contracts used by WCPS had not been competitively since 1967 and the Board had not approved the annual agreements. Furthermore, WCPS had not requested or received copies of the annual administrator agreements and stop-loss agreements for fiscal years 2012 through 2016. The annual agreements, which were signed by a WCG representative, were obtained by WCPS at our request from WCG management. Furthermore, WCPS had not executed a memorandum of

understanding with WCG based on WCPS' reliance of WCG to negotiate and procure its health services, which establishes the responsibilities and authorities of each party.

The WCPS' TPA and stop-loss insurer contracts have been annually renewed since being awarded for plan year 1967. Although WCPS employees represent 67 percent of the combined participants from all six agencies in the overall plan and WCPS staff attends annual renewal meetings, we were advised that the WCG makes the final decisions on changes to the plan and approves the annual agreements.

The WCG decision to change from a fully insured to a self-insured health plan resulted in an immediate decrease in 2015 administrative fees and stop-loss premium rates. For example, administrative fees for medical plans decreased from \$85.58 to \$52.93 per participant for plan year 2015. However, such rates were still significantly higher than what a consortium of neighboring school systems paid the same vendor for TPA administrative fees (\$32.89) for the same plan year.

Recommendation 18

We recommend that WCPS

- a. **work with WCG to competitively procure healthcare services (that is, the third-party administrator and stop-loss coverage) or consider the cost benefits of soliciting such services independent from WCG,**
- b. **execute a memorandum of understanding with WCG establishing the responsibilities and authority of each party regarding health care services, and**
- c. **ensure all healthcare contracts are approved by the Board and retained.**

Finding 19

WCPS did not ensure the propriety of employee and retiree health care claims paid, and did not verify that stop-loss insurance was correctly applied and plan administrative fees were properly charged.

Analysis

WCPS lacked procedures and controls to ensure that amounts paid to the TPA were proper. Our review of WCPS' procedures and controls over payments for medical claims and administrative fees disclosed the following conditions:

- WCPS did not audit the propriety of the medical claims paid on its behalf by the TPA to ensure that the services were actually provided, covered by the health plans, appropriately priced, and accurately reported on the

year-end settlement. Furthermore, WCPS did not receive detailed claims data or year-end settlement data from the TPA or WCG to be used to verify the propriety of the aforementioned items and the correctness of the year-end settlement.

- WCPS did not verify that claims exceeding the stop-loss limit were reimbursed by the TPA under the stop-loss coverage. WCPS relies on the administrator who notifies WCG of any payments above the stop-loss limit. The amount computed by the administrator to be in excess of the stop loss amount reduces the expenditure amount for which WCPS is responsible. Since the TPA only provides WCG with a year-end settlement that aggregates all six participating agencies and WCPS did not receive detailed documentation of all claims paid or year-end settlement data, WCPS lacks assurance that it did not pay claims that should have been covered by the stop-loss insurance. According to the WCPS records, WCPS paid \$667,000 for stop-loss coverage and all agencies received \$112,000 for plan year 2015 claims that exceeded the stop loss limit.
- WCPS did not compare the number of plan participants billed against its own payroll records to ensure that fees and premiums paid by WCPS were for enrolled plan participants. Additionally, the monthly rates charged for the various coverage categories (medical, vision, dental, and prescription drug) and stop-loss insurance were not verified for agreement with the related contracts, as copies of the contracts for the related plan years were not provided to or maintained by WCPS.

The State Office of Personnel Services and Benefits administers self-insured health plans for state employees, and contracts for comprehensive reviews of claims paid by plan administrators (TPAs). According to the Office, improper payments identified from these reviews have consistently exceeded the cost of the reviews.

Recommendation 19

We recommend that WCPS establish procedures to verify the amounts paid for health insurance and TPA service fees. Specifically, we recommend WCPS

- a. obtain documentation to support actual claim payments, and ensure audits of the claims paid by the TPA are conducted;**
- b. use detailed claims payment data to ensure that claims paid above the stop-loss limit are reimbursed by the insurer (in this case the TPA); and**
- c. compare its records of enrolled employees, retirees, and dependents to invoices from the TPA and determine the propriety of all fees and premiums billed.**

Audit Scope, Objectives, and Methodology

We conducted a performance audit to evaluate the effectiveness and efficiency of the financial management practices of the Worcester County Public Schools (WCPS). 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. Evaluate whether the WCPS procedures and controls were effective in accounting for and safeguarding its assets.
2. Evaluate whether the WCPS policies provided for the efficient use of financial resources.

In planning and conducting our audit of WCPS, 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 WCPS dated November 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 WCPS 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 WCPS. We also interviewed personnel at WCPS and the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate). Our audit procedures included inspections of documents and

records, and observations of WCPS 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, 2014 through October 31, 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 WCPS' 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.

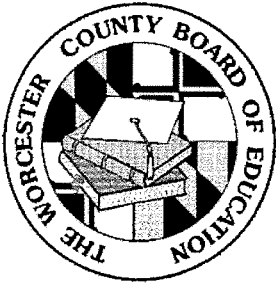
We also extracted data from the WCPS automated financial management system for the purpose of testing expenditure and payroll transactions. We performed various audit procedures on the relevant data and determined the data were sufficiently reliable for the purposes the data were used during the audit.

WCPS' 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 findings were communicated to WCPS that were not deemed significant and, consequently, did not warrant inclusion in this report.

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

APPENDIX



May 17, 2017

**THE BOARD
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Legislative Auditor
Office of Legislative Audits
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Baltimore, Maryland 21201

Mr. Barnickel:

Attached are the responses to the recommendations listed in the draft Financial Management Practices of the Worcester County Public Schools issued April, 2017.

If you have any questions regarding this information, please contact Mr. Vince Tolbert or me.

Sincerely,

A handwritten signature in cursive script that reads "Louis H. Taylor".

Louis H. Taylor
Interim Superintendent of Schools

Pc: Mr. William L. Gordy, President, Worcester County Board of Education
Mr. Vincent E. Tolbert, Chief Financial Officer



<p>c. establish independent approval requirements for critical purchasing and accounts payable transactions, and changes to user capabilities; and</p> <p>d. ensure that the independent supervisory approval of critical transactions includes the review applicable supporting documents, as appropriate.</p>	<p>staff members being required to perform multiple duties and responsibilities. The WCBOE will consider periodically reviewing user transaction logs.</p> <p>c. The WCBOE has various controls currently in place over purchasing and accounts payable. The Chief Financial Officer or Finance Manager’s approval is required prior to the payment of invoices. The WCBOE will consider reviewing on a test basis supporting documentation for items on the check register. There is a separation of duties between employees who print checks and employees who sign checks. Changes in user access are currently discussed prior to implementing any changes.</p> <p>d. Supporting documentation will be included and independently reviewed prior to approving check requests and purchase orders. The WCBOE will consider reviewing on a test basis supporting documentation for items on the check register.</p>
<p>Recommendation 3 We recommend WCPS amend its existing procurement policies to require that:</p> <p>a. contract awards resulting from the use of non-competitive procurement methods be reported and approved by the Board when the awards exceed \$25,000 (repeat),</p> <p>b. documented justifications be prepared for all sole-source awards (repeat), and</p> <p>c. formal written documents be executed between the parties for contracts over a stated monetary value.</p>	<p>Response:</p> <p>a-c: The WCBOE has a Board adopted purchasing policy. Staff will review the existing policy based on these recommendations. Any potential changes identified as a result of this review (if any) will be submitted to our Board for their consideration and approval.</p>
<p>Recommendation 4 We recommend WCPS</p> <p>a. use <i>eMaryland Marketplace</i> for contract</p>	<p>Response:</p> <p>a. Prior to discussions during this audit,</p>

<p>procurement solicitations or awards as required by State law;</p> <ul style="list-style-type: none"> b. revise its procurement process for contracts for construction management services to require that awards be made to the lowest responsible bidder; c. before deciding to participate in an ICPA, prepare written documentation of the benefits of utilizing the ICPA for Board review; d. procure contracts/purchases of over \$25,000 through a competitive bidding process, or document the justification of any sole source procurements (repeat); and e. execute written contracts for services procured expected to exceed \$25,000 that includes sufficient terms to evaluate the quality of services and appropriateness of the rates billed. 	<p>the WCBOE was not aware of this State requirement. The WCBOE is now posting procurement solicitations on eMaryland Marketplace.</p> <ul style="list-style-type: none"> b. The WCBOE has historically utilized COMAR 23.03.03.09 (Quality Based Selection) when preparing requests for Proposals for Architectural /Engineering Services and Construction Management Agency services for school construction projects. The WCBOE will include price as a factor when ranking future proposals for construction management services. <p>c-d: The WCBOE has a Board adopted purchasing policy. Staff will review the existing policy based on these recommendations. Any potential changes identified as a result of this review (if any) will be submitted to our Board for their consideration and approval. The WCBOE will add a procedure requiring the benefits of using an ICPA be documented.</p> <ul style="list-style-type: none"> e. All future contracts will be written in terms allowing easier evaluation of service and appropriateness of the rates billed.
<p>Recommendation 5 We recommend that WCPS enhance its CPC program. Specifically, we recommend that WCPS</p> <ul style="list-style-type: none"> a. develop a comprehensive CPC manual subject to Board approval, which includes acceptable uses of the card; 	<p>Response:</p> <ul style="list-style-type: none"> a. The WCBOE currently requires all employees receiving a purchase card to sign a purchase card-holder agreement. This agreement outlines the responsibilities of the card-holder. The WCBOE staff will review the

<ul style="list-style-type: none"> b. properly segregate the CPC functions of card issuance, card holding, card activity review, and cancellation; and c. incorporate the use of Level-3 data as part of the monthly review by supervisors, when available, and ensure all card transactions are properly supported. <p>We advised WCPS how to accomplish the necessary segregation of duties using existing personnel.</p>	<p>necessity of expanding the current agreement and the possibility of developing a manual.</p> <ul style="list-style-type: none"> b. The WCBOE will further segregate the purchase card functions. c. The WCBOE finance office will receive and review the level 3 data monthly.
<p>Recommendation 6 We recommend that WCPS</p> <ul style="list-style-type: none"> a. perform a periodic documented independent review of user capabilities to ensure access is properly granted, b. limit access of critical functions to those employees who require such capabilities to perform their assigned job duties, c. eliminate access to and segregate incompatible system functions (repeat), and 	<p>Response:</p> <ul style="list-style-type: none"> a. The WCBOE began implementing a new finance/payroll and human resources system in FY14/15. Full implementation of all modules is still ongoing. Part of this ongoing implementation is the assignment of differing levels of user access. The WCBOE will continue to refine the system in this area and evaluate user capabilities based on the fact that we are a smaller school system with several of our Finance/Payroll staff members having multiple duties and responsibilities. The WCBOE will consider adding periodic reviews of user access reports. b. As outlined above, WCBOE will continue to review user access based on system capabilities and the fact that WCBOE is a smaller school system with several of our Finance/Payroll staff members being required to perform multiple duties and responsibilities. The WCBOE will consider adding periodic reviews of user access reports.

<p>d. perform a documented independent review of critical personnel and payroll transactions processed using supporting documentation (repeat).</p>	<p>c. As outlined above, WCBOE will continue to review user access based on system capabilities and the fact that WCBOE is a smaller school system with several of our Finance/Payroll staff members being required to perform multiple duties and responsibilities. The WCBOE will consider adding periodic reviews of user access reports.</p> <p>d. Payroll transactions will be independently reviewed using supporting documentation.</p>
<p>Recommendation 7 We recommend that WCPS</p> <p>a. establish and enforce comprehensive written policies and procedures to govern the accounting and safeguarding of equipment (repeat);</p> <p>b. investigate any differences found when reconciling physical inventory counts with inventory records;</p> <p>c. ensure postings to the inventory records (such as, disposals and adjustments) are properly supported and approved (repeat); and</p> <p>d. ensure inventory records are properly maintained by recording the cost, tag number, the serial number, and delete any duplicate items.</p>	<p>Response:</p> <p>a. WCBOE follows procedures regarding equipment as outlined in our Accounting Procedures Manual section 6. Those procedures include adding items with a cost of \$1,000 or more to our inventory listing. Sensitive items costing less than \$1,000 (iPads, laptops, etc.) are also added to our inventory listing. These items are tagged. The inventory list is reviewed and updated regularly. An auction is held annually or as necessary to sell obsolete inventory. The inventory listing is then updated to reflect those items sold. The WCBOE will add process of tagging assets, reporting of stolen assets, and the approval of disposal of assets to existing procedures included in our accounting manual.</p> <p>b. As staff time is available, periodic physical inventories will be performed. Any differences will be investigated.</p> <p>c. The WCBOE will ensure inventory records are properly supported and approved.</p>

	<p>d. The WCOBE will work to ensure inventory records are properly maintained by recording the cost, tag number, serial number, and deleting any duplicate items. The WCBOE will also research the feasibility of purchasing and implementing an asset management system to replace the current system of maintaining our inventory on an EXCEL spreadsheet.</p>
<p>Recommendation 8 We recommend that WCPS</p> <ul style="list-style-type: none"> a. update its DRP so that it is in accordance with prescribed practices identified in the State of Maryland <i>Information Technology (IT) Disaster Recovery Guidelines</i>; (repeat) b. periodically test the DRP, document the testing, and retain the documentation for future reference; (repeat) c. store backup copies of its financial system database and application at a secure, environmentally controlled off-site location; and d. set the student information database to log all critical security related events, regularly review these logs, document these reviews and retain this documentation for future reference (repeat). 	<p>Response:</p> <ul style="list-style-type: none"> a. The WCBOE is currently in the process of updating our DRP to be in accordance with prescribed practices identified in the <i>State of Maryland Information Technology (IT) Disaster Recovery Guidelines</i>. b. The updated DRP will be periodically tested. This testing will be documented and the documentation will be retained for future reference. c. Backup copies of the financial system database and applications will be stored at a secure, environmentally controlled off-site location. d. The WCBOE is working with our application vendor to explore the feasibility of implementing these recommended changes.
<p>Recommendation 9 We recommend that WCPS</p> <ul style="list-style-type: none"> a. configure its firewalls to adequately secure connections from untrusted third parties (including the Internet), and 	<p>Response:</p> <ul style="list-style-type: none"> a. The WCBOE is working with a vendor to implement these changes as recommended.

<p>b. relocate the nine aforementioned servers to a separate network zone behind the firewall and configure the firewall to properly protect these critical servers.</p>	<p>b. The WCBOE is working with our product vendor to implement these changes as recommended.</p>
<p>Recommendation 10 We recommend that WCPS</p> <p>a. use network based, individual authentication for wireless connections made by its faculty, staff and students;</p> <p>b. limit authenticated wireless user access to critical network devices based on each user’s needs; and</p> <p>c. send all guest wireless users network traffic directly to the Internet.</p>	<p>Response:</p> <p>a. The WCBOE continues to implement improved wireless authentication methods and captive portal.</p> <p>b. The WCBOE is working to limit access to critical network devices by isolating staff and student network connections.</p> <p>c. The WCBOE has improved wireless security to segment guest wireless and to direct user traffic directly to the internet.</p>
<p>Recommendation 11 We recommend that WCPS</p> <p>a. ensure that administrative rights on workstations are restricted to network administrators and other select users requiring such rights; and</p> <p>b. obtain and use enterprise-wide management tools to ensure that all workstations and servers are configured with malware protection software that is operating properly, up-to-date, and has current malware prevention signature files.</p>	<p>Response:</p> <p>a. The WCBOE has limited administrative access and rights on a local machine to those select users in the technology area who are required to manage the machines.</p> <p>b. The WCBOE is continuing the purchase of and rollout of industry standard enterprise-wide management tools to verify proper operation and system updates including malware protection software.</p>
<p>Recommendation 12 We recommend that WCPS take steps to determine if buses can be used more efficiently. Specifically, we recommend that WCPS</p> <p>a. develop formal, comprehensive written bus routing procedures that include specific target bus capacities, ridership</p>	<p>Response:</p> <p>a. The WCBOE is working on a “best practices” handbook which will include optimal ride times for students, target capacities, and</p>

<p>goals, and student ride times (repeat); and</p> <p>b. fully utilize the capabilities of its automated routing software and periodically perform a system-wide analysis of bus routes to maximize the ridership on its bus routes.</p>	<p>ridership goals.</p> <p>b. The WCBOE’s transportation staff is limited to 3 staff members. This limited staffing has made it extremely difficult to input all routes and other related information into the automated routing system. The WCOBE will continue to work toward full implementation of the automated routing system. Once the system is fully implemented, the WCBOE will consider doing a periodic review of all bus routes to maximize the ridership on its bus routes.</p>
<p>Recommendation 13 We recommend that WCPS</p> <p>a. use actual costs and market investment rates as a basis for establishing contractor rates for the annual PVA (repeat),</p> <p>b. develop supportable cost estimates as the basis for establishing reasonable</p>	<p>Response:</p> <p>a. The WCBOE reviews and approves bus contractor rates as part of the annual budget process. Documentation including proposed rates, approved rates, and comparison of contractor rates in other LEA’s is shared with the Board of Education as part of this process. Once approved by our Board, final proposed contractor PVA rates are reviewed and approved by our County Commissioners, An increase in PVA rate has not been requested in the past several years. The WCBOE will consider using market rates and actual costs in determining PVA rates. It should be noted that the MSDE report “<i>Per Vehicle Allowance Workgroup Report, 2010</i>” concluded that how to “fairly and equitably determine compensation to school bus contractors...is the choice of the local jurisdiction as each best knows its own unique transportation needs.”</p> <p>b. The WCBOE reviews and approves bus contractor rates as part of the annual</p>

<p>contractor rates for per mile maintenance costs and administrative costs,</p> <p>c. exclude fuel excise taxes from contractor payments, and</p> <p>d. document the basis for the mpg used in reimbursing bus contractors for fuel usage and consider adopting the industry standard.</p>	<p>budget process. Documentation including proposed rates, approved rates, and comparison of contractor rates in other LEA's is shared with the Board of Education as part of this process. Once approved by our Board, final proposed contractor mileage maintenance rates and administrative costs are reviewed and approved by our County Commissioners; The WCBOE will consider using market rates and actual costs in determining per mile maintenance rates and administrative fees.</p> <p>c. The WCBOE will consider this recommendation of excluding the fuel excise taxes from contractor payments during the next budget cycle.</p> <p>d. The WCBOE reviews and approves bus contractor rates as part of the annual budget process. Documentation including proposed rates, approved rates, and comparison of contractor rates in other LEA's is shared with the Board of Education as part of this process. Once approved by our Board, final proposed contractor fuel usage mileage rates are reviewed and approved by our County Commissioners. The WCBOE will consider using market rates and actual costs in determining per mile fuel usage rates and consider adopting the industry standard.</p>
<p>Recommendation 14 We recommend that WCPS</p> <p>a. independently verify bus contractor's manifests to ensure that the payments to the contractors accurately reflect the actual bus services provided;</p>	<p>Response:</p> <p>a. The WCBOE transportation office does currently verify routes by observation and limited use of the routing software. As outlined in our response to recommendation 12, it is our intent to fully implement the routing software package as staff and budget resources allow. Once fully implemented, the automated routing</p>

<ul style="list-style-type: none"> b. document the verification process; and c. review past payments and pursue discrepancies, including those we identified. 	<p>system will be utilized to verify bus contractor manifests.</p> <ul style="list-style-type: none"> b. The WCBOE Transportation office intends to develop a “best practices” document that will include outlining the verification process. c. The WCBOE will continue to review past payments and research discrepancies identified during this audit. Initial research indicates some of the additional mileage was related to the nature of special needs routes and the requirement for door side stops.
<p>Recommendation 15</p> <p>We recommend that WCPS require that an employee independent of the payment processing verify the accuracy and propriety of contractor payments by performing a documented comparison of the amounts paid to supporting documentation.</p> <p>We advised WCPS how to accomplish the necessary segregation of duties using existing personnel</p>	<p>Response:</p> <p>The WCBOE transportation office will amend existing processes and reallocate staff responsibilities to address this recommendation.</p>
<p>Recommendation 16</p> <p>We recommend WCPS require</p> <ul style="list-style-type: none"> a. cafeteria cashiers be assigned cash register system access using individual logon IDs and passwords or implement an appropriate process to establish the necessary accountability, b. both the cafeteria cashier and manager (or another employee if the manager is performing as a cashier) sign the closing sheet for each cash register to document their verification and agreement of the cash receipts counted, c. independent supervisory review of voided 	<p>Response:</p> <ul style="list-style-type: none"> a. The WCBOE will research our current POS system capabilities and options to assess if this recommendation can be implemented efficiently and effectively. b. A line for verification signature will be added to the existing closing document to indicate approval and verification of cash receipts counted. c. Voids will be monitored though the

<p>transactions for propriety, and</p> <p>d. documented independent deposit verifications.</p>	<p>POS system at the Central Office level.</p> <p>d. Verification of deposits by business office staff will be documented.</p>
<p>Recommendation 17</p> <p>We recommend that WCPS enforce its ethics policy to ensure that all required disclosure statements are filed as required.</p>	<p>Response:</p> <p>The WCBOE agrees to actively enforce its ethics policy to ensure all required disclosure statements are filed as required.</p>
<p>Recommendation 18</p> <p>We recommend that WCPS</p> <p>a. work with WCG to competitively procure healthcare services (that is, the third-party administrator and stop-loss coverage) or consider the cost benefits of soliciting such services independent from WCG,</p> <p>b. execute a memorandum of understanding with WCG establishing the responsibilities and authority of each party regarding health care services, and</p> <p>c. ensure all healthcare contracts are approved by the Board and retained.</p>	<p>Response:</p> <p>a-c:</p> <p>The WCBOE participates with our County government in providing health insurance for our employees. The WCBOE participates in a County led health benefits committee that meets periodically throughout the year. The WCBOE will review these recommendations with the health benefits committee at our next meeting. Copies of the health contracts will be obtained, reviewed and retained by the WCBOE.</p>
<p>Recommendation 19</p> <p>We recommend that WCPS establish procedures to verify the amounts paid for health insurance and TPA service fees. Specifically, we recommend WCPS</p> <p>a. obtain documentation to support actual claim payments, and ensure audits of the claims paid by the TPA are conducted;</p> <p>b. use detailed claims payment data to ensure that claims paid above the stop-loss limit are reimbursed by the insurer (in this case the TPA); and</p> <p>c. compare its records of enrolled employees, retirees, and dependents to invoices from the TPA and determine the propriety of all fees and premiums billed.</p>	<p>Response:</p> <p>a-c:</p> <p>The WCBOE participates with our County government in providing health insurance for our employees. The WCBOE participates in a County led health benefits committee that meets periodically throughout the year. The WCBOE will review these recommendations with the health benefits committee at our next meeting scheduled later this year. The WCBOE will consider comparing invoices to payroll records.</p>

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