

Financial Management Practices Performance Audit Report

Howard County Public Schools

October 2009



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

October 23, 2009

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

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Howard County Public Schools (HCPS) in accordance with the requirements of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. HCPS is the sixth largest public school system in Maryland based on the number of students enrolled. The educational services are delivered in 73 schools, with fiscal year 2008 expenditures of \$775 million. The objectives of this audit were to evaluate whether HCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

In many cases, HCPS had procedures and controls in place to ensure the safeguarding of assets and the efficient use of financial resources. Nevertheless, our report contains 21 recommendations to HCPS to enhance controls and processes in areas such as procurement, information technology services, and student transportation. For example, HCPS needs to ensure that all credit card transactions are properly documented, reviewed, and approved. HCPS should establish better controls over critical information technology systems, and should evaluate the delivery of technical support services. HCPS should also implement certain recommendations designed to make student transportation services more cost effective. Other issues to be addressed include establishing controls over sensitive equipment, and taking steps to ensure the propriety of health care cost payments.

An Executive Summary of our findings can be found on page i, immediately following this cover letter, and our audit scope, objectives, and methodology are explained on page 65. HCPS' 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 HCPS.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Executive Summary

The Office of Legislative Audits has conducted an audit to evaluate the effectiveness and efficiency of the financial management practices of the Howard County Public Schools (HCPS) in accordance with the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland. State law requires the Office to conduct such an audit of each of the 24 public school systems in Maryland and provides that the related audit process be approved by the Joint Audit Committee. Since the Committee approved the audit process in September 2004, we have issued audit reports related to 17 school systems; HCPS represents the eighteenth to date. The approved process included 11 areas to be audited at each system. The following are summaries of the findings in these areas at HCPS.

Revenue and Billing Cycle (see pages 7 through 11)

According to the audited HCPS financial statements, \$767 million in revenue was received from all sources during fiscal year 2008, the vast majority of which was received via electronic fund transfers from other governmental entities. Procedures and controls for these revenue sources and accounts receivable were generally found to be adequate; however, based on our audit, controls over summer school receipts could be improved. In addition, HCPS should establish policies and procedures for collecting certain delinquent accounts receivable.

Federal Funds (see pages 13 through 16)

Annually, HCPS is subject to an audit of its federally funded programs (often referred to as the Single Audit, and required by Circular A-133, which is issued by the U.S. Office of Management and Budget). Due to parallels between that work and the scope of our audit, we placed significant reliance on the results of the independent audit of the fiscal year 2008 grant activity. The related report stated that HCPS complied, in all material respects, with the requirements applicable to its major federal programs. In addition, with respect to internal controls over compliance with, and the

operation of, major federal programs, the firm noted no matters considered to be material weaknesses. However, the firm did note one significant deficiency in that HCPS had not consistently maintained documentation to support compliance with a requirement for one federal program with grant expenditures totaling \$9 million. The HCPS response to this finding stated that management would ensure that all documentation is maintained and responsible staff would be trained on this requirement. Reported federal fund expenditures totaled \$19.8 million during fiscal year 2008.

HCPS had an adequate process for the identification of children eligible for Medicaid-subsidized services, although it did not ensure that all costs for services provided were subsequently recovered. In addition, HCPS participated in the E-Rate program, which provides financial assistance for school systems in the area of telecommunications and Internet access, to the extent authorized.

Procurement and Disbursement Cycle (see pages 17 through 23)

According to HCPS records, non-payroll disbursements totaled \$215 million during fiscal year 2008. HCPS had established adequate controls over its automated system used to record purchases and process invoices for payment, and used certain procurement best practices. However, HCPS needs to improve practices related to securing and recording vendor bid information and should ensure that justifications for sole source contract awards are better documented. In addition, HCPS needs to improve controls over its credit card programs, for which related expenditures totaled \$6.1 million during fiscal year 2008. For example, purchasing card transactions were not always reviewed and approved by supervisory personnel. In addition, HCPS had not established policies and procedures governing the use of credit cards for fuel purchases, and did not monitor these purchases, as it did not require users to retain and submit fuel purchase documentation.

Human Resources and Payroll (see pages 25 through 27)

HCPS employed 7,610 full-time equivalent employees as of October 2008, and payroll and benefit costs during fiscal year 2008 totaled approximately \$559 million. HCPS had established and

implemented adequate controls over the processing of personnel and payroll-related transactions. In addition, HCPS had implemented workforce planning measures for all employees.

Inventory Control and Accountability (see pages 29 through 30)

HCPS had policies to control capital equipment, which totaled \$22.9 million as of June 2008. However, except for computer equipment, HCPS had not adopted policies and related procedures for sensitive equipment items (such as audio-visual equipment) costing less than \$5,000, including record keeping and inventory requirements.

Information Technology Services (see pages 31 through 36)

HCPS maintains and administers a computer network, computer operations, and a number of significant financial and academic information system applications. Although HCPS had developed a written technology plan, the plan did not include measures to allow HCPS to monitor progress in implementing the plan. In addition, HCPS did not evaluate its IT resources to improve efficiency and effectiveness, including the delivery of technical services and its practice that required certain users to be assigned two computers. The audit also found that HCPS did not have comprehensive security and disaster recovery plans and needs to implement better password and security practices.

Facilities Construction, Renovation, and Maintenance (see pages 37 through 40)

HCPS maintains 73 schools and several other facilities (such as administration and support offices) with a staff of 536 custodial and maintenance personnel. HCPS has implemented a number of best practices to help reduce construction and maintenance costs for its facilities. However, HCPS should maintain all required contract documentation and make better use of the work order system to control costs and help evaluate department efficiency.

Transportation Services (see pages 41 through 47)

HCPS is responsible for the safe transportation of more than 41,000 eligible students. HCPS used a number of recognized best practices to increase student transportation efficiency, such as staggering school arrival and dismissal times to enable buses to perform multiple runs. However, routing procedures should be enhanced to include all factors, such as bus capacities and ride times, and HCPS should increase its use of automated software to assist in the route scheduling process. HCPS hired a consultant to conduct an analysis of its current method of providing bus services through bid contracts, but had not implemented a recommendation, to bring certain bus operations in-house; the analysis estimated that HCPS could save more than \$2 million over the 12-year life of the buses. Sufficient controls were not in place to ensure the propriety of bus contractor payments, which totaled \$29.6 million in fiscal year 2008. HCPS also did not properly monitor usage and servicing of its 341 vehicles, nor conduct formal assessments of the need to purchase fleet vehicles. Formal performance measures had not been developed to monitor and evaluate the efficiency and effectiveness of transportation services.

Food Services Operations (see pages 49 through 55)

HCPS has implemented a number of best practices to help reduce food service costs, such as using performance measures to gauge operational efficiency, and participation in purchasing cooperatives. However, HCPS could improve controls over certain cash transactions at its elementary schools. HCPS has adequate procedures in place to identify students eligible for free meals and reduced-price meals under the federal national school meals programs. HCPS should take steps to improve participation in the breakfast program, which is significantly below that of similarly sized school systems.

School Board Operations and Oversight (see pages 57 through 60)

Oversight of HCPS operations included the seven-member Board receiving financial updates, such as monthly budget variances, to assist it in monitoring the use of funds. The Board is also extensively involved in a comprehensive budgeting process. HCPS

has a detailed ethics policy and had established a process to independently investigate ethics issues and complaints. Nevertheless, the Board could improve oversight of operations by receiving and reviewing key financial and operational performance measure data. The Board should also consider expanding the duties of the internal auditor and establishing a confidential hotline for employees and others to report operational concerns and suspected fraud and abuse.

Other Financial Controls (see pages 61 through 63)

HCPS had certain policies and procedures in place to govern its risk, cash, and debt management. HCPS should establish additional controls to ensure the propriety of its self-insured health care costs.

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Background Information

Oversight

Howard County Public Schools (HCPS) is governed by a local school board, consisting of seven elected members and a student member. The vast majority of HCPS funding is provided by the Howard County government and the State. In addition, the Maryland State Department of Education (MSDE) exercises considerable oversight through the establishment and monitoring of various financial and academic policies and regulations in accordance with certain provisions of the Annotated Code of Maryland. MSDE also works with HCPS to comply with the requirements and mandates of the federal No Child Left Behind Act of 2001. Oversight by the Howard County government is limited, although the HCPS annual operational and capital budgets require County approval.

Statistical Overview

According to MSDE student enrollment records, HCPS ranks sixth in student enrollment among the 24 public school systems in Maryland. From fiscal year 2000 through 2009, the total full-time regular and special education pupil population has increased 15 percent from 43,473 to 49,905, with further projected increases to 51,490 by 2017 (although actual enrollment as of September 2008 had already exceeded Maryland Department of Planning projections for 2015). For the 2008-2009 school year, HCPS had 73 schools, consisting of 39 elementary, 18 middle, 12 high, and 4 alternative schools. According to its audited financial statements, HCPS expenditures were \$775 million in fiscal year 2008. The largest expenditure category is salaries, wages, and benefits, which accounted for 72 percent of total expenditures during fiscal year 2008. HCPS budgeted full-time positions in fiscal year 2009 totaled 7,610, which consisted of 5,771 instructional and 1,839 non-instructional employees.

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

are based on self-reported data from the 24 public school systems, and MSDE does not warrant the comparability or completeness of the data.

External Audit of Fiscal Year 2008 Activity

Annually, HCPS engages a certified public accounting firm to independently audit its fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of HCPS federal grant programs (as required by federal regulations). The resulting audit reports for fiscal year 2008 were issued in September and December 2008, respectively. Neither report included any material weakness in HCPS record keeping, processes, and controls but the audit of federal grant programs did identify a significant deficiency in the internal control over compliance as commented upon in Chapter 2 (Federal Funds). The auditor also reported a control weakness over transportation disbursements, which is addressed in Chapter 8 (Transportation Services).

Chapter 1

Revenue and Billing Cycle

According to the HCPS audited financial statements, \$767 million of revenue was received by HCPS during fiscal year 2008. Due to similarities between the work of the independent certified public accounting firm that audited the HCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of those fiscal year 2008 audits for revenues and accounts receivable (for example, amounts due from other governments). The firm's procedural reviews and testing for the most significant revenue types (the majority of which was received via electronic fund transfers from other government entities) and for accounts receivable, disclosed no significant deficiencies or material weaknesses.

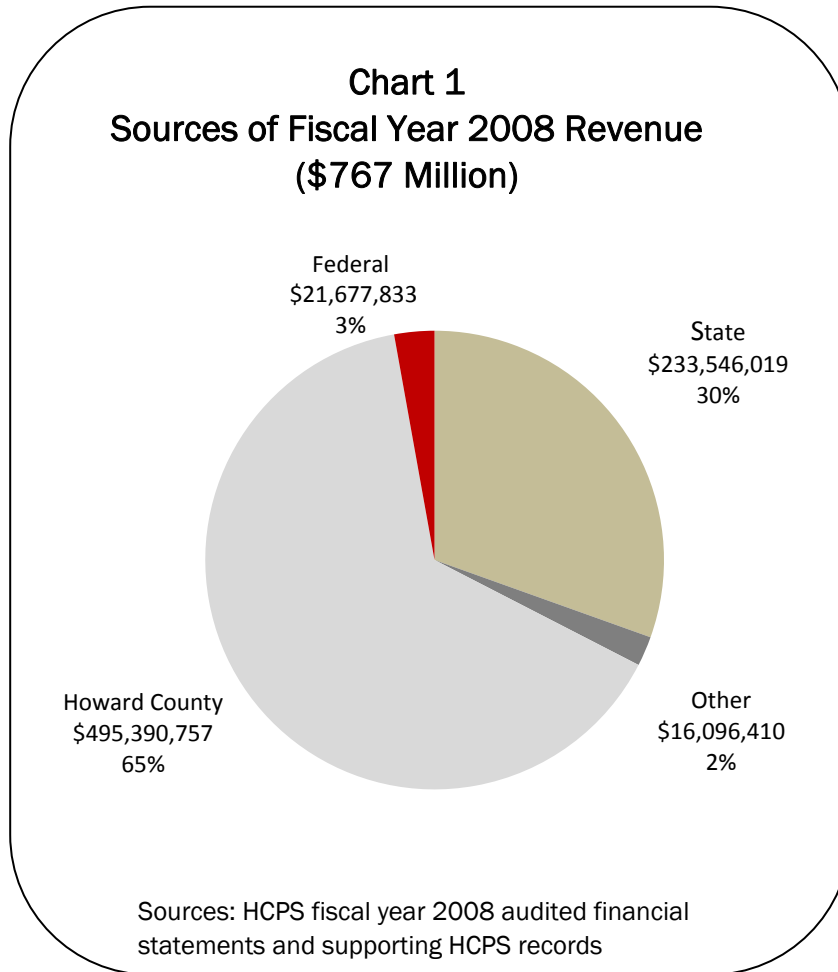
Our audit of summer school collections, received by cash or check, disclosed that controls should be improved. In addition, HCPS needs to develop policies and procedures for the collection of certain accounts receivable.

HCPS conducts reviews of school activity funds.¹ Those reviews identified some control weaknesses at certain schools. The control weaknesses identified did not appear to be prevalent and were addressed by school management.

¹ The Board has a fiduciary responsibility to ensure that school activity funds are used only for intended purposes by those to whom the assets belong. Receipts for the school activity funds, which totaled \$18 million during fiscal year 2008, are not included in the \$767 million revenue total because the Board cannot use these assets to finance its operations.

Background

HCPS revenues consist primarily of funds received from Howard County and the State. Other sources include federal grant funds, receipts from the sale of food, interest income, and other miscellaneous sources. Chart 1 (below) shows HCPS fiscal year 2008 revenues of \$767 million by major source.



In addition to the revenues in Chart 1, schools also collect funds for various purposes, such as yearbook and band. These school activity funds are accounted for separately by each school and are reported, in summary, in the audited financial statements. According to the audited financial statements, fiscal year 2008 school activity funds revenue totaled \$18 million, and the June 30, 2008 balance was \$4.9 million.

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

Due to similarities between the work of the independent certified public accounting firm that audited the HCPS financial statements and the scope of our audit in this area, we placed significant reliance on the results of the financial statement audit of the fiscal year 2008 financial statements. The firm's audit report disclosed no significant deficiencies² or material weaknesses³ regarding significant revenue types and for related accounts receivable. The majority of this revenue was received via wire transfer from other government entities.

Controls Over the Collection and Processing of Summer School Receipts Should Be Improved

Controls over HCPS summer school receipts, which totaled \$350,000 in fiscal year 2008, were not adequate. HCPS did not have appropriate procedures governing the handling and transfer of these receipts. For example, amounts received were not always forwarded to the finance office timely. Summer school staff stated that they generally forwarded amounts received to the finance office on a weekly basis. In addition, collections were not always adequately safeguarded prior to deposit. For example, certain summer school tuition payments received on a Saturday may be kept in an employee's vehicle until the following Monday when collections were forwarded to the Finance Office. Finally, documentation related to payments received by credit card, including the credit card numbers and expiration dates, was not adequately secured as it was maintained in a notebook kept in an unsecured area.

² A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

³ A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

Accounts Receivable Collection Activities Should Be Improved

Controls over certain accounts receivable (such as for facilities rentals and field trips) need to be improved. According to HCPS records, this accounts receivable balance totaled approximately \$962,000 as of January 23, 2009, of which \$439,000 was more than 120 days old.

- Accounts receivable invoices were not mailed timely. Invoices were mailed centrally by the finance office based on documentation received from the department providing the services. Our test of five facility rental invoices totaling \$47,100, processed from June 2007 to June 2008, disclosed that three invoices totaling \$36,600 were not prepared until 1.5 to 10 months after the dates the services were provided.
- HCPS did not have a formal collection policy. Consequently, follow-up actions were not routinely performed. Our test of five accounts over 120 days old as of January 2009 disclosed that, for all five accounts, HCPS could not document any collection efforts, such as sending follow-up notices. In addition, although HCPS did use a third-party collection agency, it had only submitted one list of delinquent accounts, totaling \$164,000, to the agency in July 2008 for collection action. Further, the agreement with the vendor only required the vendor to send follow-up letters,⁴ a process that should have been performed by HCPS.

Recommendations

1. HCPS should establish procedures for summer school collections to ensure timely transfers of funds to the finance office for deposit and adequate safeguarding of receipts and credit card information.
2. HCPS should develop policies and procedures governing the collection of accounts receivable. The policies and procedures

⁴ Collection agencies typically provide additional services to obtain amounts due, such as skip tracing, direct telephone contact, and assistance with legal processes.

should include the timely distribution of invoices, and progressive collection steps to be performed to pursue outstanding accounts.

Chapter 2

Federal Funds

Annually, HCPS is subject to an audit of its federally funded grant programs (often referred to as the Single Audit, and required by Circular A-133 issued by the U.S. Office of Management and Budget). The report on the audit of fiscal year 2008 federal grant activity was issued by the independent certified public accounting firm on December 1, 2008.

In that report, the auditor stated that HCPS complied, in all material respects, with the requirements applicable to its major federal grant programs. With respect to internal controls over compliance with and the operation of major federal programs, the auditors disclosed no material weaknesses, but did identify a significant deficiency in the internal control over compliance for one federal program. In response, HCPS stated that it would maintain appropriate documentation and provide additional training.

HCPS had an adequate process for the identification of children eligible for Medicaid-subsidized⁵ services, but did not ensure the recovery of all related costs. Finally, HCPS participated in the federally funded E-Rate program, which provides discounts for school systems related to telecommunications and Internet access, to the extent authorized.

⁵ The Federal Medical Assistance Program, or Medicaid, is not a grant program under Circular A-133 and is not included in the Single Audit.

Background

HCPS receives funds primarily from Howard County, the State, and the federal government. Most funds received from Howard County and the State are unrestricted; however, federal funds are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Federal Awards, fiscal year 2008 expenditures of federal award funds totaled \$19.8 million.

According to HCPS records, HCPS also received an additional \$1 million of federal fee-for-service payments during fiscal year 2008 for Medicaid-subsidized services for qualified students and \$524,000 as a Medicare Part D subsidy for keeping retirees on the HCPS prescription plan.

HCPS Established Adequate Internal Controls Over Federal Grants and Complied with Federal Grant Requirements

In the report on the audit of fiscal year 2008 federal grant activity issued by the HCPS external auditor on December 1, 2008, the auditor stated that HCPS complied, in all material respects, with the requirements applicable to each of its major federal programs for the year ended June 30, 2008. With respect to internal controls over compliance with and the operation of major federal programs, no material weaknesses were noted; however, the auditors identified a significant deficiency, noting that HCPS did not consistently maintain documentation to support compliance with a requirement for one federal program with grant expenditures totaling \$9 million. The auditors stated that the finding had no related questioned costs. In its response, HCPS stated that management would ensure that all documentation is maintained, and that responsible staff would be trained on this requirement.

Processes Were in Place to Identify Students Eligible for Medicaid Services but Should Be Improved to Recover All Costs

Our review of Medicaid-subsidized services disclosed that, although HCPS had adequate processes in place to identify students eligible for these services, procedures to recover the related costs could be improved. HCPS manually reviews Medical Assistance records for all students receiving special education services to determine if each student is eligible for Medicaid-subsidized services. However, our tests of services provided to five eligible students in November 2008 disclosed that, for two students, HCPS had not billed or received reimbursement for services provided by certified service providers as of March 2009. We were advised that, in some instances, the Medicaid-certified service providers had not provided all necessary documentation to HCPS that was needed to ensure proper billing and reimbursement. HCPS staff indicated that, because of this documentation problem, fiscal year 2008 recoveries were about half of the \$2 million in revenues HCPS projected it would receive.

HCPS Participated in the Federal E-Rate Program to the Extent Authorized

HCPS has a process in place to request and receive reimbursements for technology expenditures from the Federal School and Libraries Universal Service Program (E-Rate). The E-Rate program provides funding to schools for telecommunications expenses (such as Internet access). HCPS has contracted with a third-party administrator who is responsible for completing and submitting all federally required documentation, tracking reimbursement requests, and following up on denied requests. The funding is based on the level of poverty and the rural status of the school district. According to HCPS records, HCPS received \$900,000 of E-Rate funds for fiscal year 2008.

Recommendation

3. HCPS should ensure that all eligible costs for Medicaid-subsidized services are recovered.

Chapter 3

Procurement and Disbursement Cycle

HCPS had established adequate controls over its automated purchasing and invoice processing systems, and had certain beneficial procurement policies and practices in place, such as participating in purchasing consortiums and piggybacking on contracts procured by the State. We found that HCPS should improve its contract award practices by better securing vendor bids and better documenting the justification for all sole source procurements. HCPS also needs to improve controls over credit card use. For example, HCPS did not periodically determine if employees continued to need a credit card and, based on our tests, transactions were not always independently reviewed and approved. Further, HCPS used separate credit cards for fuel purchases without having an agreement with the fuel card vendor, and had not established policies and procedures governing the use of these cards. For example, fuel card users were not required to retain and submit documentation for fuel purchases. While HCPS established travel reimbursement policies, these policies did not address the use of credit cards for travel. We found that travel was not approved in advance, as required, when paid for by credit card.

Background

HCPS uses an automated system for purchasing and disbursements. Requisitions entered by departments are subject to departmental and purchasing office approval. Purchase orders, solicitations, bids, and contracts are handled by a central

purchasing office. Similar to State regulations, HCPS procurement regulations require that purchases over \$25,000 be formally bid. The receipt of goods and services is entered into the automated system by the receiving school or department and payments are then processed by the finance office. Vendor payments are processed using the automated system. According to HCPS records, non-payroll disbursements totaled approximately \$215 million during fiscal year 2008.

During fiscal year 2008, HCPS records indicated that its employees used credit cards to make a total of \$5.5 million in regular purchases, and \$640,000 fuel card purchases. According to HCPS records, during fiscal year 2009, HCPS had 564 active credit cards and more than 300 fuel cards, with the monthly charges being paid directly by the school system to the credit card bank and the fuel card vendor.

HCPS Had Established Adequate Controls Over Its Automated Purchasing and Invoice Processing Systems

HCPS had established adequate controls over its automated purchasing and invoice processing systems. Specifically, electronic approvals were established over purchase requisitions and invoice payments to prevent one individual from creating and approving purchases and paying the related invoices. In addition, HCPS had written policies and procedures for the procurement of goods and services and the disbursement of funds.

HCPS Used Several Best Practices to Address Its Procurement and Disbursement Needs

HCPS had instituted certain best practices, including the following, to enhance the cost effectiveness of its procurement and disbursement transactions.

- HCPS participates in purchasing consortiums with other government entities (such as Howard County government and other school systems) for items, such as instructional supplies and food. HCPS also uses existing State of Maryland

government contracts, as appropriate, to take advantage of already negotiated favorable terms. HCPS also participates in the US Communities Government Purchasing Alliance, a purchasing forum designed to reduce the cost of goods through pooling the purchasing power of public agencies nationwide.

- HCPS maintains travel reimbursement policies for Board members and employees. These policies include requirements for pre-approval of all overnight travel, proper documentation of all related expenses, and review and approval of expense reports by supervisory personnel.
- HCPS' contract with the bank that issued its credit cards provides for a rebate dependent on annual charge volume. For calendar years 2007 and 2008, HCPS received rebates totaling \$45,000.

HCPS Should Strengthen Internal Controls Over Certain Procurements and Vendor Bids

Justification for sole source contracts should be better

documented – HCPS entered into a sole source contract with a vendor for training services for a three-year period totaling \$401,400 without competitively bidding the contract. Although we sighted a written explanation for the sole source procurement, the justification did not provide evidence that HCPS had performed any research to determine if other vendors could have provided or bid on these services. Specifically, the justification stated that competitive bidding would not provide any additional cost savings due to the relationship the department already had with this vendor and the unique qualifications the vendor had to provide this specific training service but did not detail what these unique qualifications were. HCPS procedures require that the sole source justification explain why no other suppliers could provide the services, what makes the request unique, and what could be done to limit the situation in the future.

In addition, HCPS paid the vendor \$122,650 in excess of the value of the contract without amending the contract. This was, in part, because HCPS did not issue a purchase order for the contract, in violation of HCPS regulations. Purchase orders are used to help

monitor contractual payments. As a result, payments to the vendor could not be easily compared to the approved maximum to ensure that payments did not exceed the value of the contract. We were advised by HCPS personnel that the additional payments were warranted due to additional work performed by the vendor.

HCPS needs to enhance controls over vendor bids – HCPS did not adequately secure vendor bids prior to bid opening. The purchasing office stored vendor bids in an unlocked filing cabinet that was accessible to many employees. In addition, bid opening documentation disclosed that individuals present to witness the integrity of this process did not sign and date the bid tally sheet that was prepared. These conditions increase the risk that the bid process could be compromised.

Documentation and Processes Related to Credit Cards Need Improvement

HCPS should improve controls over credit cards – HCPS had developed policies and procedures to help control and ensure the proper usage of its 564 credit cards, for which related expenditures totaled \$5.5 million during fiscal year 2008. However, our review disclosed the following deficiencies.

- The duties over the ordering and initial receipt of credit cards from the bank were not segregated. The individual responsible for ordering new credit cards also initially received these cards from the issuing bank prior to their distribution to the HCPS personnel named on the cards. This condition could allow unauthorized purchases to be made on improperly obtained cards.
- HCPS did not periodically determine, based on actual usage, the continued need for cards already issued. For example, 176 cardholders charged less than \$500 during fiscal year 2008.
- HCPS did not ensure that credit card documentation was maintained that established independent supervisory review of every transaction, as required by its policies. Our review of 55 fiscal year 2007 and 2008 transactions totaling \$111,234

disclosed that there was no evidence of supervisory review and approval for 8 transactions totaling \$14,033.

Oversight of credit card activity should be enhanced through a review of vendor reports – HCPS procedures to monitor credit card use could be enhanced. Current procedures require all transactions be reviewed by the cardholder’s supervisor and a purchasing office employee, for propriety. In fiscal year 2008, HCPS averaged 1,960 credit card transactions a month making it difficult to review all transactions for propriety. However, HCPS did not use available card vendor reports to identify potential high-risk transactions for review, such as purchases from grocery stores. HCPS could review the identified purchases to determine if they were made for legitimate school business reasons. In addition, HCPS did not block specific merchant category codes, which would prevent cardholders from making certain purchases, such as from jewelry stores and health and beauty spas.

Controls Over Fuel Cards Should Be Established – HCPS had not established policies or procedures to govern the use of fuel cards. HCPS had issued more than 300 cards for its 341 vehicles. Cards were generally assigned to specific vehicles or, for vehicles that were assigned to employees, the cards were issued to the vehicle custodians. Payments to the issuing fuel card vendor for fuel purchases totaled \$640,000 in fiscal year 2008. Specifically, we noted the following conditions:

- HCPS did not competitively bid these services and did not enter into a formal contract with the vendor for these services. The cards were for use at only the vendor’s gas stations.
- HCPS had not developed any written rules and procedures governing use and operation of the fuel card program. Specifically, HCPS did not require cardholders to submit agreements regarding proper uses of the card, as it did for its procurement card program, and did not require cardholders to maintain or submit signed receipts for charges, or to centrally submit vehicle usage logs. As a result, HCPS paid the invoices for fuel without an adequate review as to the propriety of the charges.

- There was inadequate separation of duties over the issuance of fuel cards in that the same individual who requested the cards from the vendor also received them in the mail.
- HCPS did not monitor the use of the fuel cards or investigate whether exception and activity reports provided by the vendor could be used for this purpose. These reports, included with the monthly bills, listed possible instances of card misuse based on vendor-defined parameters. The report for July 16 through August 15, 2008 listed more than 600 possible exceptions and numerous fuel cards that were not used during this period. HCPS management informed us that they had not determined the nature or validity of these exceptions and do not use these reports to monitor fuel card usage.

HCPS Policies Should Address the Use of Credit Cards for Travel

HCPS had established policies and procedures designed to control travel expenditures. These policies define the conditions under which employees may be reimbursed for travel, including the requirement that all travel be approved in advance by appropriate supervisory personnel. However, the policies and procedures did not address the use of credit cards for travel expenditures. Use of credit cards for travel expenditures may allow cardholders to incur such expenditures without obtaining advance approval, as required by HCPS regulations. Our test of 20 travel expenditures charged to credit cards during fiscal year 2008 totaling \$13,500 disclosed that, while these charges were subsequently subject to supervisory review, none of these transactions were preapproved as required by existing policy. According to HCPS records, travel expenditures charged to credit cards totaled approximately \$110,740 during fiscal years 2007 and 2008.

Recommendations

4. HCPS should ensure that the justification for sole source procurements is documented in accordance with its policies, that vendor bids are secured, and that appropriate bid opening

documentation is maintained. HCPS should also ensure that vendor payments do not exceed contract amounts.

5. HCPS should improve its policies and controls over its credit cards and transactions. Specifically, HCPS should segregate the responsibilities for ordering and receiving the cards, ensure that independent approvals exist for all credit card purchases, and conduct periodic spending reviews to identify unnecessary cards. In addition, HCPS should review vendor reports to enhance oversight of credit card activity. HCPS should also use merchant category codes to block the use of certain transaction types. Finally, HCPS should competitively procure and enter into a contract for fuel cards and develop written policies and procedures governing use of these cards. Such procedures should include written agreements with cardholders, submission of documentation of card usage, monitoring of card usage, and review of vendor-provided reports to determine whether these reports should be used to monitor potential misuse.
6. HCPS should establish policies regarding the use of credit cards for travel.

Chapter 4

Human Resources and Payroll

HCPS has implemented policies and procedures to properly control personnel and payroll transactions. In addition, HCPS has taken steps to address workforce planning for all employees.

Background

Payroll expense represents the largest single cost component in the HCPS budget. Fiscal year 2008 salary and wage costs, including benefits, totaled \$559 million. According to MSDE reports, as of October 2008, HCPS had 7,610 positions. The ratio of HCPS students to employees (6.6 to 1) was lower than similarly sized school systems (see Table 1).

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

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

School System	Number of Students (as of September 30, 2008)	Number of Full-Time Equivalent Employees (as of October 2008)	Student to Employee Ratio
Howard County	49,905	7,610	6.56 to 1
Anne Arundel County	73,653	9,305	7.92 to 1
Frederick County	40,070	5,399	7.42 to 1
Baltimore County	103,183	14,206	7.26 to 1
Harford County	38,610	5,340	7.23 to 1

Source: MSDE Student/Staff Publications

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

HCPS Had Established Adequate Internal Controls Over Its Automated Human Resources and Payroll Processing Systems

HCPS had established adequate controls over its automated human resources and payroll processing systems. Specifically, adequate automated and manual processes were in place to ensure the propriety and accuracy of additions and modifications to personnel information as well as related payroll disbursements. In addition, HCPS had written policies and procedures governing the processing of human resources and payroll transactions. Finally, our tests disclosed that personnel information was accurately recorded in the system and that payroll transactions tested were accurate and in accordance with supporting documentation.

Workforce Planning Addressed Future Critical Needs

HCPS established a number of methods to identify and address workforce needs involving critical instructional and non-instructional positions. For example, HCPS monitors data related to portions of the workforce approaching retirement, and forecasts information, including the number of retirements, to project future hiring needs. This analysis projects likely retirements in future fiscal years. In addition, the HCPS Master Plan sets the strategic direction of the school system and provides coordination and focus for initiatives to address the challenges faced by HCPS. The Plan includes a number of objectives and strategies to address human resource needs—which is evidence of workforce planning. This allows HCPS to tailor its recruitment and retention efforts.

Recommendation

None

Chapter 5

Inventory Control and Accountability

Our audit disclosed that HCPS has a formal policy governing the purchase and disposal of all property costing \$5,000 or more, but could improve controls and record keeping over its sensitive equipment inventory. For example, except for computer equipment, HCPS policy did not formally address sensitive equipment items (such as audio/visual equipment) costing less than \$5,000 and did not establish related record keeping or inventory requirements.

Background

According to audited financial statements, as of June 30, 2008, the undepreciated value of capital equipment was \$22.9 million. HCPS uses an automated system to track all property with a cost of \$5,000 or more. All property items with a cost of \$5,000 or more are capitalized and depreciated for financial statement purposes. During fiscal year 2005, HCPS began tracking non-capital sensitive computer equipment in a separate database.

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

HCPS equipment policies did not address all sensitive equipment items costing less than \$5,000. Although existing policies required that computers be included in the automated equipment records,

HCPS had not established an equipment policy that specifically defined other sensitive equipment (such as digital cameras and audio/video equipment), and that required that these items be recorded in the equipment records and counted during periodic physical inventories.

In addition, we found that not all computer equipment items were included in the automated equipment records. For example, computer equipment maintained at the central office and annex facilities (such as the maintenance and transportation offices) had not been recorded or inventoried.

Based on our tests at four schools, we noted that the records were not accurately maintained. For example, at one school, we found that, although 29 computers were supposed to be at the school according to the automated inventory records, school personnel indicated that these computers had been removed as part of an upgrade and should have been listed as excess equipment located at the IT warehouse. However, the records had not been updated to indicate this and the warehouse had no listing of computers stored there.

Recommendation

7. HCPS should adopt formal policies governing all sensitive equipment, should ensure that the related detail equipment records are properly maintained, and should determine the disposition of the aforementioned 29 computers.

Chapter 6

Information Technology Services

HCPS maintains and administers a computer network, computer operations, and a number of significant financial and academic information system applications. Although HCPS prepared a long-term technology plan, the plan did not include measures designed to allow HCPS to monitor progress toward the plan's goals. In addition, the plan did not include a complete inventory of computer hardware and software to ensure that all equipment needs were adequately identified. Our audit also disclosed that HCPS had not evaluated the efficiency and effectiveness of its information technology (IT) resources, including the delivery of technical support services. In addition, HCPS did not always procure computer resources in the most cost-effective manner and, as a result, certain employees required two types of computers to perform routine job duties.

HCPS needs to establish a comprehensive information security program, strengthen policies over passwords and accounts, improve procedures for the backup of data, monitor security-related activity, and develop a comprehensive disaster recovery plan. Finally, the version of the financial database application used by HCPS was no longer supported by the vendor.

Background

HCPS Department of Technology provides information systems services to all HCPS technology users. Specifically, the Department of Technology maintains and administers the HCPS academic, financial, and human resources information applications, and is responsible for computer operations and repair, video production, television distribution, and enterprise print services. The Department of Technology also operates the HCPS network (with Internet connectivity) which links the individual schools' local networks to its computer resources and to the Internet community.

Technology Plans Should Be Enhanced to Measure Performance

Although HCPS had adopted a five-year technology plan (presented to the Board in June 2008), the plan did not include certain elements that would allow HCPS to evaluate its success in meeting the plan's goals. For example, the plan did not include measures that would allow staff to determine if HCPS was making progress toward the goals and did not include current or desired staffing ratios. For example, one of the plan's targets was to make digital content available at all times to support teaching and learning; however, the plan did not include a benchmark (as to HCPS' current status), nor did it include a timeline and interim measures to be taken to determine progress toward the target. The plan also did not attempt to prioritize proposed actions and related costs. Finally, the plan did not include a complete inventory of computer hardware and software to ensure that all equipment needs were adequately identified.

IT Resources Should Be Evaluated to Improve Efficiency and Effectiveness

HCPS operational practices required two computers for many users – Although HCPS had entered into contracts with vendors to provide hardware and software at the best possible prices, current operational practices required certain users to be assigned two computers. Specifically, several user groups required

two computers—one Windows-based computer and one Apple computer—because HCPS used software that runs exclusively on the operating system of only one or the other. For example, HCPS' accounting software runs on Windows-based computers only. Maintaining two hardware platforms, operating systems, and related unique software applications, requires additional technical support and equipment costs. For example, according to the HCPS computer replacement plan, 247 users required two computers to perform their job responsibilities, at additional hardware costs alone of at least \$290,000.

The adequacy of IT technical services delivery was not

analyzed – HCPS had not analyzed its IT technical services to help ensure that these services were being efficiently and effectively delivered. According to HCPS records, HCPS employs 19 technicians to service approximately 18,000 computers. HCPS maintained five separate help desks, depending on the specific automated system. However, HCPS did not have a formal help desk response protocol to guide the technical staff in prioritizing requests for assistance and to establish response goals. Furthermore, HCPS did not maintain a formal tracking system that could be used to monitor the types of problems, identify solutions, track response times, and disseminate the information to reduce future user problems. We also found that, although all schools had media specialists who had some IT responsibilities, these employees were not provided with specific training and had no assigned technical support responsibilities. Finally, HCPS had not established any service performance measures or goals to evaluate the adequacy of technical support operations (such as response time).

Based on benchmarks established by the Maryland State Department of Education (MSDE), HCPS IT technical support operations may be understaffed. As previously mentioned, HCPS has 19 technicians who are responsible for servicing approximately 18,000 computers (desktops and laptops); this results in a ratio of one technician for every 951 computers. According to benchmarks stated in the MSDE 2007-2012 technology plan,⁶ the ratio of technicians to computers should ideally be 1:300. Although HCPS

⁶ *The Maryland Educational Technology Plan for the New Millennium—2007 – 2012*—represents a blueprint for effective utilization of technologies statewide undertaken since 1995 by the Committee on Technology in Education. The Plan had previously been revised in 1998 and 2002. The current plan was approved by the State Board of Education on April 24, 2007.

contracts for supplemental technical support, depending on the extent of such support, it is possible that HCPS may be understaffed.

IT training for administrative and instructional personnel

needs to be improved – HCPS had not formally developed IT training guidelines and requirements for employees. HCPS provides various types of training on business and administrative software to instructional and non-instructional staff members; however, it did not perform needs assessments to identify training needs and to help ensure that personnel met minimum proficiency levels based on their job responsibilities. HCPS also did not measure the effectiveness of training that was provided by requesting feedback from users or by conducting skills assessments after training was completed. HCPS has four trainers who are responsible for providing IT training for 143 non-instructional staff members (excluding support staff) and 1,443 instructional positions.

Data Processing Operations Should Be Better Secured

HCPS did not have a comprehensive information security program to ensure that proper computer security controls existed for its information technology (IT) operations and applications. The significance of IT requires the implementation of a comprehensive information security program comprised of information security policies, security procedures, and a supporting management structure.

The audit also found that physical access to the computer room was not adequately controlled. Although entry to the room was controlled by a card reader that uses HCPS identification cards, we determined that 14 individuals were unnecessarily assigned card access to the computer room. In addition, certain critical information system backup files were not created, and backup files that were created were stored in the computer room; rather backup files should be stored at an off-site location to protect the information in case of catastrophic damage to the computer room.

Finally, HCPS lacked a formal, comprehensive, disaster recovery plan for its computer operations. Without a plan, a disaster could cause significant delays (for an undetermined period) in restoring operations above and beyond the expected delays that would exist

in a planned recovery scenario. The plan should include the following components:

- the identification of an alternate site in the event of a disaster
- applications prioritized for recovery
- disaster recovery team designations and areas of responsibility
- testing of the disaster recovery plan
- restoration of network connectivity

Steps Should Be Taken to Ensure Adequate Security Over IT Applications

Access to HCPS computer resources was not adequately restricted – User access to computer resources was commonly controlled through the use of individual passwords and user logon ids; however, these tools could be more effectively used. For example, 43 employees were improperly designated as database administrators in the financial and accounting system, which allowed these employees essentially complete control of the system without any oversight. In addition, HCPS had not set up controls to lock out user IDs after a set number of failed attempts to access the student information system. Also, automatic password expirations (requiring periodic password changes) were not enforced for most users on both the financial and student information systems. HCPS did not adequately log and monitor security events and, as a result, unauthorized or inappropriate activities affecting the integrity of critical production applications, data, and system files could occur and remain undetected.

Financial software used was no longer supported by the vendor – HCPS continued to operate a production database for its financial and accounting system even though the database had not been supported by the vendor since July 1, 2005 and the vendor no longer provided error correction support (patches). As a result, security vulnerabilities discovered since 2005 could create security and control issues.

Recommendations

8. HCPS should modify its technology plan to include elements that would allow HCPS to evaluate its success in meeting the plan's goals.
9. HCPS should evaluate its IT resources to determine whether efficiency and effectiveness could be improved. Specifically, HCPS should determine if computer operations could be revised to eliminate the need for dual computer procurements for certain individuals. HCPS should establish a help desk response protocol, and should gather data to determine if current technical support staffing is sufficiently sized and appropriately deployed to meet the assistance and training needs of HCPS personnel. Finally, HCPS should develop formal employee IT training guidelines that include needs assessments and should measure its effectiveness.
10. HCPS should develop appropriate comprehensive plans to address security practices and disaster recovery. HCPS should also properly safeguard its computer operations, by limiting access to the computer room, backing up all critical files, and storing these critical back-up files at a secure off-site location.
11. HCPS should implement appropriate security measures to safeguard its applications and data systems by restricting the capabilities of users to those needed to perform their duties, improving account and password protection, logging all significant security-related activity, and conducting documented reviews of logged system activity. HCPS should also ensure that databases used are fully supported by the database vendors and are kept current for all critical security patches.

Chapter 7

Facilities Construction, Renovation, and Maintenance

HCPS used a number of best practices in its capital planning process, as well as in controlling costs. These include (1) the development of a five-year Capital Improvement Plan based on a comprehensive and public process, (2) an energy management and conservation program, (3) a comprehensive assessment of the physical conditions and needs of all schools performed by an independent consultant (and used to assist in prioritizing projects) and (4) surveys of school-based staff to ensure that maintenance and custodial staff met expectations.

Although our tests determined that HCPS properly procured construction-related contracts, it did not always obtain documentation of certain contractor requirements, such as performance bonds. In addition, HCPS did not use its work order system to estimate costs for comparison to actual resources used.

Background

HCPS maintains 73 schools and several other facilities (such as administration and support offices) with a staff of approximately 429 custodial personnel and 107 maintenance personnel.

HCPS used a five-year Capital Improvement Plan (CIP) to identify ongoing and projected needs for new buildings and major renovations. The annual CIP was developed using student demographic data and input from various sources, including public meetings, and was approved by the Board. In the fiscal year 2010 CIP (prepared in fiscal year 2008), necessary major renovations, repairs, and systemic improvements to existing schools over the next five years were estimated to cost \$539.8 million through 2014.

Table 2 compares HCPS fiscal year 2007 plant costs (that is, maintenance and operational costs) with other similarly sized school systems in Maryland. The table presents two cost measures used to assess plant costs: cost per student and cost per square foot. These statistics show that HCPS facilities operation and maintenance costs are somewhat higher than its peer group.

Table 2
Plant Cost Comparison Per Student and Per Square Foot
Fiscal Year 2007 (Unaudited)

School System	Plant Costs			Square Footage Per Student	Total Gross Square Footage
	Total	Per Student ①	Per Square Foot		
Howard County	\$ 52,227,610	\$1,062.77	\$7.29	145.7	7,162,281
Harford County	35,949,123	914.41	7.05	129.7	5,098,708
Frederick County	39,282,935	976.26	6.83	142.9	5,751,057
Baltimore County	106,204,391	1,005.31	6.81	147.6	15,589,581
Anne Arundel County	69,482,603	956.27	5.89	162.5	11,805,133
Average of Comparable Schools	\$ 62,729,763	\$ 963.06	\$6.65	145.7	9,561,120

Sources: MSDE Financial Data, MSDE Fact Book, Maryland Public School Construction Square Footage Data (most recent data available)

① - Based on Average Daily Enrollment 2006-2007

A Number of Best Practices Were in Place to Enhance the Efficiency and Effectiveness of the HCPS Facility Construction and Maintenance Department

HCPS has instituted several best practices to enhance project results and cost effectiveness in its facilities and maintenance department, in addition to the previously noted five-year CIP:

- Various methods were used to reduce the need for additional construction. The periodic evaluation of space utilization included consideration of capacity, enrollment projections, redistricting students among schools, and the use of portable classrooms.
- The Division of Maintenance conducted a periodic survey of school-based staff to evaluate the Division's performance related to quality and timeliness of maintenance and repair services. Survey results were tracked for comparison purposes, and provided to maintenance supervisory staff for action.
- HCPS had a program in place at over 70 percent of its schools to manage energy use. The program uses computers to monitor the operations of major systems (such as boiler and chiller) and controls these systems from a centralized location. Since energy program improvements are generally funded with capital funds, this program is usually implemented at a school during major renovations. According to the Comprehensive Maintenance Program, the system plans to install this energy management system in 11 additional schools over the next five years, and the ultimate goal is to have this system in all facilities. In addition, HCPS had implemented similar energy management systems in approximately 50 percent of its portable classrooms. HCPS offers incentives to schools and individual teachers for energy conservation efforts. HCPS also controls utility costs through joint procurement efforts of deregulated energy supplies with other county and bi-county agencies.
- HCPS contracted with an independent contractor to perform a detailed assessment of the physical condition and needs of all schools. The results of these assessments are being used to prioritize construction, renovations, and other major facilities

issues (such as replacement of roofs and heating and cooling systems).

Complete Documentation Should Be Maintained for All Contract Awards

HCPS did not maintain all required documentation for all construction-related contracts. Our test of four construction-related contracts, totaling \$3 million, disclosed that HCPS did not have performance bonds or liability insurance certificates on file for any of the contracts tested. These bonds and certificates are required by HCPS standard contract language for all construction-related contracts.

HCPS Should Use the Full Capabilities of Its Work Order System to Control Costs and Assess Performance

HCPS used an automated work order system to assign maintenance work and to track completion of assigned tasks. Although HCPS recorded the actual amount of labor and materials used to perform tasks, estimated cost and hours, based on either past history or industry guidebooks, were not entered in the automated work order system for comparison purposes. As a result, completed work orders were not used to assess the performance of both individual employees and the entire department, and to help determine budgets for future needs. An effective work order system can be used to generate a variety of statistical data including employee productivity, cost reports, and facility assessments, all of which are key pieces of a performance measurement system.

Recommendations

12. HCPS should retain all documentation related to contract awards.
13. HCPS should enhance its use of the automated work order system by using the system to control costs and assess performance.

Chapter 8

Transportation Services

HCPS used several recognized best practices to increase student transportation efficiency, such as staggering school arrival and dismissal times to enable certain buses to perform multiple runs on the same day. However, several areas existed where improvements could be made. For example, HCPS did not fully use automated routing software to help efficiently plan bus routes and its procedures did not address critical factors such as bus capacities and student ride times. Although HCPS hired a consultant to conduct a cost analysis of its current method of awarding bus routes via a competitive procurement process, we were advised that HCPS had not taken steps to implement the consultant's recommendation to move toward public ownership of certain bus routes because of a lack of available funding. In addition, sufficient controls were not in place to ensure the propriety of bus contractor payments. HCPS also did not properly monitor the usage and servicing of its 341 vehicles, nor conduct formal assessments of the need to purchase fleet vehicles. Formal performance measures had not been developed to monitor and evaluate the efficiency and effectiveness of transportation services.

Background

HCPS is the sixth largest school system in Maryland, based on student enrollment. More than 41,000 students are eligible to ride the bus each day on one of HCPS' 925 bus routes to its 73 schools. HCPS students are primarily transported on one of 421 buses, all of

which are owned by contractors. HCPS fiscal year 2008 transportation costs, according to HCPS records, totaled \$31.1 million. Of the 4,908,470 reported route miles for the 2007-2008 school year, 35 percent were for transporting disabled students.

As seen in Table 3 below, while HCPS' cost per rider is reasonable when compared with other similarly sized school systems, the cost per mile is significantly higher than all four comparably sized school systems. This could be due, in part, to HCPS not tracking or reporting deadhead miles (those miles that the bus drives between its storage area and the initial pick-up location or final student drop-off location). HCPS only tracks and reports "live miles," that is, the mileage driven by buses from initial bus stops to the drop off location and the related return trips. (HCPS does not pay contractors for deadhead miles.) The transportation departments for the other systems included in the table below tracked and reported deadhead miles to MSDE.

Table 3
Comparison of Transportation Costs per Rider and per Mile
Fiscal Year 2008 (Unaudited)

School System	Number of Eligible Riders		Miles (in thousands)		Expenditures (in thousands)	Average Annual Cost per	
	Non-Disabled	Disabled	Non-Disabled	Disabled		Rider	Mile ^①
Howard County	39,923	1,179	3,216	1,693	\$31,050	\$755	\$6.33
Anne Arundel County	54,254	1,593	5,988	3,388	37,545	672	4.00
Harford County	33,643	754	5,432	1,904	26,878	781	3.66
Baltimore County	62,278	2,916	8,765	5,654	49,140	754	3.41
Frederick County	32,609	923	5,120	1,812	19,988	596	2.88
Average of Comparable Schools	45,696	1,547	6,326	3,189	\$33,388	\$701	\$3.49

Sources: MSDE 2007-2008 Fact Book, LEA Budget Documents

① HCPS does not include deadhead miles in its miles reported, which could affect the comparability of the average annual cost per mile among the school systems.

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

The HCPS transportation department had several practices in place to help reduce student transportation costs:

- Staggering school arrival and dismissal times to enable certain buses to perform multiple runs (up to three morning and three afternoon runs in some cases) on the same day, thereby reducing the need for HCPS to obtain additional buses through bus contractors or purchase.
- Completion of an independent study that assessed the manner in which HCPS provides its transportation services.
- Using a competitive bidding process to secure bus contractors. HCPS solicits bids and awards contracts based on the lowest qualified bid. Routes are bid and awarded based on live miles only (that is, the mileage from the first bus stop to the school and related return trip). HCPS does not pay contractors for deadhead miles (those miles between the bus storage location and the first bus stop).
- Establishing walking distance requirements to determine students eligible for transportation services.

Bus Routing Procedures Should Be Enhanced and Controls Over Bus Contractors Payments Should Be Improved

Bus routing procedures should be more comprehensive –

The guidelines used to plan, review, and revise bus routes should be better documented and enhanced to include all appropriate factors. Existing documented procedures address general information regarding bus transportation, such as how far a student must live from a school before being provided with bus service. However, HCPS procedures did not address factors such as bus loads (capacity), student ride times, and the distance between stops when determining the most appropriate bus routes. Nor did these procedures address the process for determining and implementing changes to existing bus routes.

HCPS should fully use its automated routing software –

HCPS did not fully use its automated bus routing system. We found that HCPS did not periodically evaluate routes for efficiency; rather, HCPS made changes to existing routes only when needed, such as to accommodate new students.

A fully functional automated routing system would enable staff to complete its planning, reviewing, and revising of bus routes in a more efficient and effective manner by providing student data quickly and bus routes in a visual format. For example, our analysis of all routes for 50 judgmentally selected buses (not including buses for disabled students) for fiscal year 2008 disclosed that 11 of the 50 buses operated at levels significantly below desired capacities used by another school system. According to driver manifests, none of the runs for these buses exceeded 75 percent of the desired capacity.⁷

We were advised by another school system that a concerted effort to maximize the use of routing software (along with manual processes) for the 2008-2009 school year allowed it to eliminate 13 percent of existing bus stops, avoid the purchase of 10 new buses (the System provides transportation services using in-house resources) and eliminate 6 buses due to route consolidations.

Internal controls over payments to bus contractors were not adequate –

One employee was responsible for entering data—including route miles, route times, and Board approved contract bids—for each of the 58 vendors and their 421 buses into the automated system used to process the payments. This information was not reviewed by an independent employee, even on a test basis. Payments were calculated by the Transportation Department and then forwarded to the Finance Office in summary format for final processing and disbursement. Finance Office personnel did not review the detailed information supporting the payments prior to paying the vendors. As a result, there was a lack of assurance that payments were accurate. While our limited test of fiscal year 2009 route payments did not disclose any errors, this control weakness

⁷ Desired capacities are lower than manufacturer stated capacity and differ depending on the school. For example, the capacity for high, middle and elementary school routes is 44, 52, and 58 students, respectively based on 64-passenger buses (manufacturer stated capacity). These estimates are conservative and are based on OLA experience at other school systems.

could result in overpayments to the contractors. In fiscal year 2008, payments to bus contractors totaled \$29.6 million.

Furthermore, in its fiscal years 2007 and 2008 audits, HCPS' external auditors reported on control weaknesses in the bus vendor payment process. For example, in fiscal year 2008, the auditor commented that HCPS did not have adequate internal controls to prevent unauthorized rate and time changes. The auditor recommended that HCPS consider purchasing new billing software with stronger controls and the capability to integrate with HCPS' automated financial records system. In its response to the 2008 report, HCPS stated that the transportation and technology offices would work together to implement a solution.

HCPS Should Reconsider a Consultant's Recommendation to Reduce the Costs of Bus Services

HCPS should reconsider a consultant's recommendation to provide certain transportation services in-house. HCPS has outsourced all of its student transportation services for many years and, since 1994, HCPS has used a competitive procurement process. In 2007, HCPS paid a consultant to analyze its current method of providing student transportation services. The consultant's report recommended that HCPS supplement the current bus contract operation with a limited form of public ownership of buses, primarily for special needs services, beginning in fiscal year 2009 and phased in over several years. The analysis estimated that HCPS would save more than \$2 million over the 12-year life of the buses. The study was presented to and reviewed by the Board. HCPS management advised that, due to economic constraints, HCPS did not begin implementation of the recommendation.

More Can Be Done to Ensure Cost-Effective Vehicle Operations

HCPS did not maintain adequate records to monitor fleet

usage – HCPS owns a fleet of 341 vehicles, including 47 cars and SUVs, 228 trucks and vans, and 66 specialty vehicles. While HCPS had guidelines governing vehicle maintenance (such as oil changes), it did not have an adequate system to monitor

compliance with these guidelines or to otherwise track usage (such as by monitoring odometer readings and miles driven since last service) of the vehicles. Specifically, the Grounds Maintenance Department did not use an automated fleet maintenance system to track services required and performed. In addition, current practices allowed user departments to obtain services from outside vendors rather than having the work performed by HCPS mechanics, and HCPS did not require the vehicle custodians to submit the related documentation of work done to the Department. As a result, HCPS could not ensure that all required services were performed at the stipulated intervals. For example, our test of oil changes for 10 vehicles disclosed that, for 4 vehicles, more than 6,000 miles elapsed between oil changes, well in excess of HCPS guidelines of 5,000 miles between oil changes. In addition, for 3 of these vehicles and 2 others, the oil changes were performed more than a year apart.

HCPS should formally assess its needs before purchasing fleet vehicles - Vehicles were purchased when individual departments deemed additional vehicles were needed and when funds were available in departmental budgets. Purchasing decisions should be based on a formal assessment of need-based factors such as vehicle mileage, availability, and maintenance costs. Furthermore, since there was no central review of fleet vehicle mileage logs, and the logs were not maintained in a central location, HCPS could not readily determine if vehicles were being used in the most efficient manner. According to HCPS records, HCPS purchased 37 model year 2008 vehicles at a cost of approximately \$1 million.

In lieu of being assigned a HCPS-owned vehicle, employees could choose to be reimbursed for appropriate mileage. According to HCPS records, approximately \$715,000 was authorized for mileage reimbursements in fiscal year 2008. A more efficient use of system vehicles could possibly reduce expenditures for mileage reimbursements.

Performance Should Be Measured

HCPS did not have a formal performance measurement system for its transportation services. Performance measures that could be considered include targets for average bus occupancy, annual operational cost per student, vehicle breakdowns per 100,000 miles, and the percentage of students delivered within established ride times. Performance measures would serve as a tool that management and the Board could use to monitor performance of transportation operations and to ensure accountability.

HCPS had not developed any performance measures designed to track bus contractor performance. While the current bid award process allows HCPS to disqualify a contractor based on previous performance, a formal set of performance measures could provide a documented, objective basis to assist in contractor selection. In addition, the current contract did not include any penalty provisions should the bus contractors not meet performance standards.

Recommendations

14. HCPS should establish more comprehensive bus routing procedures and should fully use its existing automated routing software to more efficiently plan bus services. HCPS should also improve controls over payments to bus contractors. Specifically, HCPS should ensure that an employee independent of the payment process verifies the accuracy and propriety of all payments.
15. HCPS should reconsider its consultant's recommendation to provide bus services in a more cost-effective manner.
16. HCPS should establish a system to monitor its current vehicle fleet to ensure optimal and appropriate use, and should ensure that vehicles are maintained in accordance with HCPS guidelines. HCPS should formally assess the need to purchase vehicles.
17. HCPS should establish a performance measurement system for its transportation services, including performance standards for bus contractors.

Chapter 9

Food Services Operations

HCPS had implemented a number of best practices, which include participation in the United States Department of Agriculture (USDA) commodity program, and membership in various food-purchasing cooperatives. HCPS also had adequate procedures in place to identify students eligible for the federal national school meals programs. However, we found that HCPS should review the number of students participating in the federal free and reduced-price breakfast programs to determine if policies and procedure could be modified to improve participation in these programs, and should improve the internal controls over certain cash receipts and invoices.

Background

HCPS has 12 cooking cafeterias to provide meals to its 73 schools. Food and related supplies are maintained in a central warehouse and items are shipped to cafeteria storerooms as needed (certain perishable items such as bread and milk are shipped directly to schools). In fiscal year 2008, HCPS had 188 full-time equivalent cafeteria employees and food service sales totaled approximately \$8.5 million. HCPS reports for food service operations indicated that revenues exceeded food service expenditures by approximately \$676,000 for fiscal year 2008. As noted in Table 4 on the next page, the fiscal year 2008 cost per meal for HCPS was the highest among similarly sized school

systems in Maryland. See Table 5 on page 52 for information regarding fiscal year 2008 HCPS food services.

**Table 4
Comparison of Cost per Meal
Fiscal Year 2008 (unaudited)**

School System	Total Expenditures	Meals Served				Cost per Meal
		Breakfast	Lunch	A La Carte	Total	
Howard County	\$11,398,874	137,926	3,255,595	621,506	4,015,027	\$ 2.84
Baltimore County	35,555,466	1,888,387	8,422,210	2,374,102	12,684,699	2.80
Frederick County	11,903,086	422,554	2,755,300	1,138,542	4,316,396	2.76
Anne Arundel County	20,954,594	985,526	5,189,856	1,960,533	8,135,914	2.58
Harford County	13,769,787	576,227	3,548,533	1,353,708	5,478,468	2.51
Average of Comparable Schools	\$20,545,736	968,174	4,978,975	1,706,721	7,653,869	\$ 2.66

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

Sources: Local Education Agencies, MSDE Fact Book

Certain Best Practices Were in Place

HCPS implemented several practices to contain food services costs

– These measures helped to both increase operational efficiency and reduce food supply and material costs.

- HCPS used performance data, such as meals served per labor hour, to track and monitor the operating efficiency at each of its school cafeterias.
- HCPS participated in the USDA commodities free food program. According to HCPS records, \$715,000 in USDA commodities was received in fiscal year 2008.
- HCPS participated in a 12-county food purchasing cooperative to maximize its buying power and to reduce food costs. We

were advised that payments to the cooperative-selected wholesale vendor totaled \$1.8 million during fiscal year 2008.

- HCPS used a number of methods to reduce waste including monitoring menus, adjusting food production, standardizing serving sizes and recipes, and reheating certain leftover items.

HCPS used several best practices to encourage participation in the federal free and reduced-price meal programs

– HCPS used several best practices to encourage participation in the free and reduced-price meal programs. These practices include the use of a family application process – instead of individual student applications – to simultaneously qualify more students for the programs, and the use of student rosters in cafeterias that list all students (regardless of the method used to purchase a meal) to eliminate the easy identification (and any perceived stigma) of students in the free and reduced-price meal programs. For fiscal year 2008, 85 percent of HCPS students eligible to receive free lunches and 77 percent of the students eligible to receive reduced-price lunches actually participated in the programs. These participation rates were higher than the averages of similarly sized school systems (which had average participation rates of 77 percent and 70 percent for free and reduced-price meals, respectively). See additional comments on participation rates on page 53.

Table 5
Food Service Facts for Fiscal Year 2008

Average Cost per Meal		\$ 2.84
Number of Meals Served:		
Breakfast	Paid	24,645
	Free	98,329
	Reduced Price	14,952
		137,926
Lunch	Paid	2,423,656
	Free	621,756
	Reduced Price	210,183
		3,255,595
Meal Equivalents		
Ala Carte Sales		621,506
Total Meals Served		<u>4,015,027</u>
Schools		73
Kitchens		12
Full-time equivalent employees		188
Revenues:		
Federal	Cash payments	\$2,778,179
	USDA Commodities	714,726
		\$3,492,905
Sales and other sources		8,482,320
State aid		99,773
Total Revenue (all sources)		\$12,074,998
Total Expenditures		<u>11,398,874</u>
Excess of Revenues over Expenditures		<u>\$ 676,124</u>

Sources: HCPS Food Service Reports and Fiscal Year 2008 Audited Financial Statements

HCPS Needs to Improve Controls Over Cash Transactions and Invoice Processing

HCPS should enhance its controls over the receipt and processing of cash receipts at elementary schools –

Current procedures require that the employee responsible for cash receipts processing and deposit also receive all documentation supporting meals ordered and paid for in each classroom. However, based on our review of procedures at two elementary schools, there was no independent verification that the amounts recorded as received by another employee in the classroom were subsequently deposited by the employee who processed the deposits. During fiscal year 2008, cash receipts processed by the elementary schools totaled \$2.4 million.

Certain invoices were paid without verifying that goods

were received – HCPS paid invoices for paper products without ensuring that all goods had been received. Consequently, there was a lack of assurance that the amounts paid to the vendor were appropriate. Our review disclosed that the employees responsible for receiving shipments from this vendor were responsible for forwarding signed packing slips to the Food Service Office so that the packing slips could be reconciled to the invoices prior to payment. However, our testing of two invoices paid in fiscal year 2009 totaling \$39,000 disclosed that 91 packing slips, out of 154 deliveries billed for, had not been signed and had no other indication that the goods listed were received. We were advised that payments made to this vendor in fiscal year 2008 totaled \$264,000.

HCPS Should Analyze Participation in its Meal Programs

HCPS should determine if changes could be made to its policies and practices to improve participation in the federal free and reduced-price breakfast programs. Specifically, although HCPS student participation rates in the free and reduced-price lunch program (among eligible students) were above that of similarly sized school systems, we found that participation in the breakfast program was below the average participation of similarly sized

school systems, as shown in Table 6 below. Specifically, for fiscal year 2008, the HCPS free and reduced-price breakfast participation rate was 20.3 percent (of those who participate in the lunch program) – well below the 45.2 percent breakfast participation rate for similarly sized school systems. In addition, a national study found that 45.6 percent of students who participated in the lunch program also participated in the breakfast programs.

Table 6					
Fiscal Year 2008 Lunch and Breakfast Participation Rates (Unaudited)					
(based on students eligible to receive free and reduced price meals)					
School System	Lunch Participation ¹		Breakfast Participation ²		
	Free	Reduced	Free	Reduced	Overall Breakfast Participation
Howard County	84.7%	77.4%	23.6%	10.6%	20.3%
Harford County	82.5%	77.1%	48.6%	32.4%	44.3%
Baltimore County	79.5%	72.6%	47.7%	35.6%	44.7%
Frederick County	77.8%	69.9%	50.2%	35.4%	46.1%
Anne Arundel County	70.5%	62.5%	50.8%	35.1%	47.0%
Average of Comparable Counties	77.6%	70.5%	49.3%	34.6%	45.5%

Notes: ¹ Lunch participation is based on the total number of students eligible for participation in the Free and Reduced Price Meal Program. In fiscal year 2008, 15 percent of HCPS students were eligible to participate.

² Breakfast participation is based on the number of students who participate in the lunch program.

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

HCPS staff advised that bus schedules often do not allow sufficient time for breakfast to be served. Furthermore, HCPS currently has only one school eligible to participate in the Maryland Meals for Achievement program, which provides free breakfast to all students in a school. Schools eligible to participate in this program must have a free and reduced price meal population of 40 percent or more.

HCPA should also determine whether any systemic problems exist in its food service program since the student participation rate has steadily declined for paid lunches (that is, students who do not

qualify for free or reduced price meals). Participation in the paid lunch program decreased from 31.8 percent in fiscal year 2005 to 27.2 percent in 2008.

Recommendations

18. To adequately control cafeteria funds at elementary schools, HCPS should develop formal procedures that require an independent verification of recorded receipts to deposit. HCPS should also verify that all purchased items are received prior to paying the related invoice.
19. HCPS should review participation in its meals program to determine if policies and practices could be modified to improve participation.

Chapter 10

School Board Operations and Oversight

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

Several opportunities exist for the Board to improve operations and oversight. For example, the Board did not establish and routinely monitor key financial and operational performance measures. In addition, the Board should consider expanding the scope of work performed by the internal auditor to include significant financial areas other than student activity funds. The Board should also consider establishing a mechanism for the reporting and investigation of suspected fraud, waste, and mismanagement, such as a confidential hotline, and a whistleblower policy.

Background

HCPS is governed by a seven-member board (not including a student representative) elected by the voters of Howard County. By law, the members must be residents and registered voters of Howard County. The Board has an established committee structure, including an audit committee consisting of three members. In its oversight responsibilities, the Board contracts with a certified public accounting firm for independent audits of the HCPS financial statements and federal grant programs.

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

Vision

Education is valued and children are cherished. There is a commitment to academic excellence and inspired performance. Everyone is united in a common commitment to ensuring success for each child. Staff has the resources and support to meet the needs of each child. Everyone feels compelled to make an investment in the future of our youth. Everyone works together to set and achieve the highest possible standards and to be accountable for results. Schools are safe and inspiring places. Diversity is valued and enriches our daily lives. Families play a vital, active, and responsible role in the education of children. Mutual trust and respect exist. Everyone is an active learner. Learning reaches beyond the classroom into the community and is networked into the world. All work together to create a better future for themselves and others.

Mission

The mission of the Howard County Public School System is to ensure excellence in teaching and learning so that each student will participate responsibly in a diverse and changing world.

Goals

- Each child regardless of race, ethnicity, gender, disability or socio-economic status, will meet the rigorous performance standards that have been established. All diploma-bound students will perform on or above grade level in all measured content areas.
- Each school will provide a safe and nurturing school environment that values our diversity and commonality.

Certain Oversight Had Been Put in Place Regarding HCPS Operations

The HCPS Board uses a number of methods to oversee the operations of HCPS:

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

The Board Should Consider Additional Steps to Assist It in Governing HCPS

HCPS internal auditor's work should be expanded to include other significant areas for review – Although HCPS has an internal auditor and an active audit committee that oversees the work of the auditor (both of which are deemed best practices), the scope of the auditor's work should be modified to include review of other significant areas within HCPS. The auditor's work was limited to auditing certain activities at the schools (including student activity funds, purchasing card transactions, and equipment inventory). Although there are unique risks associated with school-based activities, especially student activity funds, which are not subject to review by other auditors, the dollar amounts involved are not as significant as with other HCPS operations, such as transportation and procurement.

Student activity fund expenditures totaled \$17.8 million per HCPS' fiscal year 2008 audited financial statements, while HCPS expenditures totaled \$775 million for fiscal year 2008.

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

The Board should receive and review key financial and operational related performance measures – The Board did not receive any key performance indicators related to the financial operations of HCPS, with the exception of actual expenditure data as previously noted. Without this information, it is difficult for the Board to evaluate the progress of its budget and Master Plan. Examples of useful performance measures include cost comparisons such as facility cost per student and transportation costs per bus rider. When implemented correctly, performance measures can assist in decision-making processes, such as allocating resources and budgeting, and to report on departmental effectiveness and efficiency.

Recommendation

20. The Board should consider expanding the scope of the internal auditor's work to include significant financial areas other than school-based activities. The Board should also consider establishing a confidential hotline, with formal follow-up procedures, and an employee whistleblower protection policy. Finally, the Board should receive and review critical key financial and operational performance measure data on a periodic basis.

Chapter 11

Other Financial Controls

This chapter addresses the management of risk, cash, and debt (for example, long-term lease-leaseback agreements) within HCPS. HCPS has practices in place to govern cash and debt management. Our review also disclosed that HCPS has taken steps to reduce its risks; however, more can be done to ensure the propriety of health care costs.

Risk, Cash, and Debt Management Best Practices Were in Place

HCPS used a combination of commercial insurance and self-insurance to manage its risks. HCPS insured its liability and property coverage through participation in the Maryland Association of Boards of Education (MABE) Group Insurance Pool. The notes to the fiscal year 2008 audited financial statements stated that settled claims had not exceeded coverage in any of the past three fiscal years. In addition, HCPS self-insures for workers' compensation insurance.

To reduce its workers' compensation costs, HCPS uses workers' compensation loss data to enhance safety training in areas with the greatest number of claims. HCPS has also established an early back-to-work program to maximize the work potential of injured employees. Employees with work-related injuries perform tasks within their training, experience, knowledge, and physical limitations.

With respect to cash management, HCPS invested its cash in the Maryland Local Government Investment Pool or in a repurchase agreement with its depository bank. According to the HCPS audited financial statements, all cash and investments, which totaled \$105.5 million as of June 30, 2008, were fully collateralized with underlying securities held by the custodian in the Board's name.

Finally, HCPS adopted a policy and implemented procedures to govern its use of long-term lease obligations to finance operations, including establishing limits on the amount of debt, as recommended by the Government Finance Officers Association (GFOA). Long-term liability levels and their related annual costs are significant long-term obligations that must be managed within available resources. By law, HCPS is not authorized to issue bonds or similar debt instruments to finance capital or operational needs. HCPS uses long-term financing agreements for items such as procurement of computer system upgrades. According to HCPS audited financial statements, the present value of capital lease obligations totaled approximately \$12.9 million as of June 30, 2008.

HCPS Should Take Steps to Ensure the Propriety of Health Care Costs

While HCPS had instituted a number of measures to contain health care costs, we identified additional steps that could be taken to maximize savings. To reduce its expenditures, HCPS has taken steps related to health care plan design, individual health management, and cost sharing. In addition, HCPS contracted with a consultant to provide a comprehensive employee wellness and health management study. The study results were issued in May 2008 and February 2009. However, more could be done to control costs. Specifically, HCPS did not verify the authenticity of program participants and their listed dependents, nor did it audit the propriety of claims paid by program administrators. HCPS self funds all health care costs. According to the audited financial statements, health care claims paid in fiscal year 2008 totaled \$52.4 million. As a result of our audit of another school system, that system conducted a health care coverage eligibility review. We were advised by the system that the review identified approximately 970 inappropriate dependents that were removed

from the health care coverage it provides to employees and retirees, resulting in an estimated annual savings of \$1.8 million.

Recommendation

21. HCPS should take additional measures to ensure the propriety of its self-insured health care costs.

Audit Scope, Objectives, and Methodology

Scope

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

Objectives

We had two broad audit objectives:

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

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit approach, including the specific

objectives of our local school system audits, was approved on September 14, 2004 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. As approved, the audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. We also did not review the activities, financial or other, of any parent teacher association, group, or funds not under the local board of education's direct control or management. Finally, we did not evaluate the HCPS Comprehensive Education Master Plan or related updates.

Methodology

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by HCPS. We also interviewed personnel at HCPS, the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate).⁸ Our audit procedures included inspections of documents and records, and observations of HCPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from January 1, 2008 through December 31, 2008. For our audit work on revenue and federal grants, we primarily relied on the results of independent audits of fiscal year 2008 activity.

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

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

budget. In many cases, this information was self-reported by the school systems. The data were neither audited nor independently verified by us. Finally, information provided in this report was obtained from various reports readily available during our fieldwork.

Other Independent Auditors

When developing the approach for the audits of school system financial management practices, a consideration was the reliance on the work of other independent auditors to the extent practicable to avoid unnecessary duplication of audit effort. With respect to HCPS, the results of other auditors that we considered were reported in two distinct audit reports: one related to the administration of its federal grants and the other, the management letter from the audit of its Comprehensive Annual Financial Report.

During the course of this audit, we relied on these results. We performed certain steps to satisfy ourselves as to the reliability of the reported results of the independent federal grants audits of the HCPS federal financial assistance programs for the evaluation of internal controls and for compliance with federal laws and regulations and of the HCPS financial statement audits. Accordingly, we significantly reduced the scope of our work in Chapter 1 “Revenue and Billing Cycle,” and in Chapter 2 “Federal Funds.”

Limitations of Internal Control

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

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

In addition to the conditions included in this report, other less significant findings were communicated to HCPS that did not warrant inclusion in this report.

Fieldwork and HCPS Responses

We conducted our fieldwork from July 2008 to April 2009. The HCPS response to our findings and recommendations is included as an appendix to this report.

APPENDIX

HOWARD COUNTY
PUBLIC SCHOOL SYSTEM

October 22, 2009

Mr. Bruce A. Myers, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, MD 21201

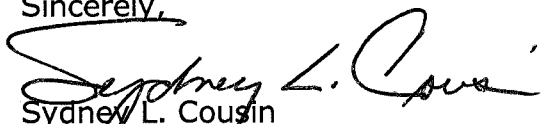
Dear Mr. Myers,

Enclosed are the responses to the recommendations made in the "Financial Management Practices Performance Audit Report" for Howard County Public Schools dated October 2009.

We do want to express our appreciation to your staff for the professionalism displayed during their eight month visit to Howard County and the suggestions they made to further enhance our operations. We also appreciate the recognition of the best practices within our organization that are mentioned in the report and are especially pleased that there were no apparent weaknesses found in our Human Resources and Payroll areas given our staffing size. As you will note in our response, we have already taken action on a number of the recommendations and have established aggressive timeframes for addressing the remainder.

Please do not hesitate to call our CFO, Raymond Brown, if you have any questions or need additional information regarding this submission.

Sincerely,


Sydney L. Cousin
Superintendent of Schools

Copy: Board of Education Members
Superintendent's Cabinet

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Recommendation 1. HCPS should establish procedures for summer school collections to ensure timely transfers of funds to the finance office for deposit and adequate safeguarding of receipts and credit card information.

Response: We concurred with the OLA auditors while they were here at HCPS and issued procedures in June 2009 that address the recommendation.

Recommendation 2. HCPS should develop policies and procedures governing the collection of accounts receivable. The policies and procedures should include the timely distribution of invoices, and progressive collection steps to be performed to pursue outstanding accounts.

Response: We concur with the recommendation and have developed and issued procedures in July 2009 containing the elements suggested by the auditors.

Recommendation 3. HCPS should ensure that all eligible costs for Medicaid-subsidized services are recovered.

Response: We concur with the recommendation and implemented in September 2009 an on-line report that can be accessed by each school that identifies all Medicaid eligible students and billable services. Over the next several months we will be implementing processes to ensure that (1) all billable services are identified and reported to our Department of Special Education (DSE) with the applicable billing forms, (2) all monthly submissions are tracked and reviewed within 5 days of receipt and that appropriate follow-up occurs with schools failing to report, and (3) all billing forms are checked and data entered for DHMH billing within 30 days of school submissions with a billing sent to DHMH weekly. To ensure that funds are being recovered timely the DSE Director and the Grants accountant will receive monthly billing and revenue reports for monitoring purposes.

Recommendation 4. HCPS should ensure that the justification for sole source procurements is documented in accordance with its policies, that vendor bids are secured, and that appropriate bid opening documentation is maintained. HCPS should also ensure that vendor payments do not exceed contract amounts.

Response: We agree with the recommendation to better document the justification for sole source procurements. Additionally, we have implemented procedures to ensure that bid documents will be secured prior to bid opening and that public bid opening documentation will be maintained. Lastly, The Purchasing Office has taken steps to ensure that purchase orders are issued when appropriate to minimize the possibility of contractual overpayments without proper documentation.

Recommendation 5. HCPS should improve its policies and controls over its credit cards and transactions. Specifically, HCPS should segregate the responsibilities for ordering and receiving the cards, ensure that independent approvals exists for all credit card purchases, and conduct periodic spending reviews to identify unnecessary cards. In addition, HCPS should review vendor reports to enhance oversight of credit card activity. HCPS should also use merchant category codes to block the use of certain transaction types. Finally, HCPS should competitively procure and enter into a contract for fuel cards and develop written policies and procedures governing use of these cards. Such procedures should include written agreements with cardholders, submission of documentation of card usage,

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monitoring of card usage, and review of vendor-provided reports to determine whether these reports should be used to monitor potential misuse.

Response: We are in agreement with the recommendations and have already taken steps to segregate the duties of requesting and issuing purchasing cards. Also, by January of 2010 we anticipate implementing an enhanced monitoring program with the assistance of a third party vendor. This program will address the weaknesses identified by the auditors and better enable us to more effectively monitor card users by providing a variety of reports (E.G. purchases by vendor, category, price, etc) can be easily obtained by individual, school and vendor. Lastly, the fuel card program is currently being finalized and procedures and guidelines should be issued by the end of December and a competitively bid card issuer selected. We anticipate full implementation of the fuel card program by January 2010.

Recommendation 6. HCPS should establish policies regarding the use of credit cards for travel.

Response: HCPS will evaluate its current procedures regarding the use of credit cards for travel and will issue appropriate guidance to all affected cardholders by December 2010. In the interim all travel purchases will be reviewed by the Purchasing Office to ensure that the travel had been pre-approved by the cardholder's supervisor.

Recommendation 7. HCPS should adopt formal policies governing all sensitive equipment, should ensure that the related detail equipment records are properly maintained, and should determine the disposition of the aforementioned 29 computers.

Response: It should be noted that the OLA Auditors were provided with information prior to the drafting of the audit report regarding the disposition of the 29 computers. Nonetheless, we agree that the records were not current at the time of the audit field work.

Overall, we concur with the recommendations. In May 2009, the Superintendent's Cabinet approved revising Board Policy 8080 – Acceptable Use of Computer Technology and developing a new Information Technology Security Policy. The Technology Department will convene a committee of stakeholders to develop a new Information Technology Security Policy and update the current Acceptable Use Policy. At this time the OLA recommendations regarding controls over sensitive equipment will be considered and incorporated, as appropriate. These policies are scheduled to be presented to the Board of Education for Approval in March 2010.

In addition, the Technology Department is currently working with stakeholders to develop a new technology tracking application that replaces the outdated and ineffective Computer Inventory Database. The new tracking system will be operational no later than May 2010 and will enable us to quickly determine the status of a piece of equipment anywhere in HCPSS.

Recommendation 8. HCPS should modify its technology plan to include elements that would allow HCPS to evaluate its success in meeting the plan's goals.

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Response: The HCPSS agrees with this recommendation. In October 2009, the HCPSS will convene a committee of stakeholders to identify all instructional technology needs across all curricular areas. Subsequently, the existing Technology Plan will be modified to include all systemic technology needs, measureable goals, objectives and critical milestones. The updated plan will be completed with implementation begun by August 2010.

Recommendation 9. HCPS should evaluate its IT resources to determine whether efficiency and effectiveness could be improved. Specifically, HCPS should determine if computer operations could be revised to eliminate the need for dual computer procurements for certain individuals. HCPS should establish a help desk response protocol, and should gather data to determine if current technical support staffing is sufficiently sized and appropriately deployed to meet the assistance and training needs of HCPS personnel. Finally, HCPS should develop formal employee IT training guidelines that include needs assessments and should measure its effectiveness.

Response: The HCPSS is currently working with desktop operating system virtualization technologies to enable all HCPSS applications to run on all HCPSS computing platforms. The HCPSS is in the process of developing a centralized technology help desk that will serve as the single point of contact for all technology issues. Service request information will be gathered and analyzed to ensure appropriate Technology Department staffing, support and training is being provided to staff.

Recommendation 10. HCPS should develop appropriate comprehensive plans to address security practices and disaster recovery. HCPS should also properly safeguard its computer operations, by limiting access to the computer room, backing up all critical files, and storing these critical back-up files at a secure off-site location.

Response: The HCPSS is currently developing a new information technology security policy to provide a clear and consistent framework for security and applicability across all HCPSS technology platforms. This new policy will take effect on July 1, 2010.

The HCPSS agrees that access to the computer room should be limited and that all critical system and data backups be moved to an offsite location. Technology Department staff is in the process of finalizing an offsite data backup strategy to be implemented by December 30, 2009.

In March 2009, the HCPSS Technology Advisory Committee convened a sub-committee to construct an IT Business Continuity Plan. Two meetings have been held with stakeholders, including the HCPSS Risk Management Office, to align the HCPSS Business Continuity Plan with the HCPSS Continuity of Operations Plan (COOP).

The HCPSS Technology Department is currently in discussions with the Howard County Government Technology Department to obtain dedicated space in a Howard County Government datacenter to enable remote operations and mission critical

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system duplication. In addition, the HCPSS network infrastructure is currently being upgraded to provide the required network functionality.

It is anticipated that a comprehensive IT Business Continuity plan will be completed by December 2010.

Recommendation 11. HCPS should implement appropriate security measures to safeguard its applications and data systems by restricting the capabilities of users to those needed to perform their duties, improving account and password protection, logging all significant security-related activity, and conducting documented reviews of logged system activity. HCPS should also ensure that databases used are fully supported by the database vendors and are kept current for all critical security patches.

Response: The HCPSS is currently developing a new information technology security policy which will include guidance for account credential protection along with a clear and consistent framework for security and applicability across all HCPSS technology platforms. A new change management process is being implemented to document and communicate all technology system changes. The Technology Operations Group now requires that system administrators review all relevant system logs on a daily basis. The HCPSS agrees to work with vendors to ensure that all systems are current with operating software, databases and patches.

Recommendation 12. HCPS should retain all documentation related to contract awards.

Response: We concur that documentation was missing from four of the construction contracts reviewed by the auditors. Since the time the auditors reported this to us we have reviewed our internal procedures for maintaining contract related documentation and have re-emphasized to staff the importance, from a business standpoint, of having a complete file. Effective January 1, 2010 Construction Department management will periodically review a sampling of contract files to ensure that files are complete and the procedures are being followed.

Recommendation 13. HCPS should enhance its use of the automated work order system by using the system to control costs and assess performance.

Response: We concur that the inclusion of this information would be beneficial but due to the limitations of the existing legacy software (ASRIS), we do not believe further investment into ASRIS is warranted at this time. We are in the process of procuring off-the-shelf maintenance work order system software which will be able to produce the recommended estimated time and cost information. We anticipate completing the procurement, installing the software, and completing associated training by June 30, 2010.

Recommendation 14. HCPS should establish more comprehensive bus routing procedures and should fully use its existing automated routing software to more efficiently plan bus services. HCPS should also improve controls over payments to bus contractors. Specifically, HCPS should ensure that an employee independent of the payment process verifies the accuracy and propriety of all payments.

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Response: During the course of the audit we verbally shared the standards that we use for bus routing. We believe these standards fulfill the expectation that the OLA auditors set forth in the finding and will reduce them to writing. The standards that are applied here in Howard County are: (1) the distance students can be expected to walk to school and to bus stops (these standards are addressed in Board Policy); (2) student load factors for elementary, middle and high school are at 58, 52, and 44, respectively; (3) ride times for general education routes are to be no longer than 45 minutes each way (special needs routes are to be no longer than 1 hour each way) and, (4) all routes are configured and tiered to assure that all buses arrive at all schools on time twice each day (AM and PM). These are interdepartmental standards.

The following information further demonstrates that we have developed bus routes in a professional and comprehensive manner:

- The less than 75% loading statistic as a measure of efficiency of bus routing and scheduling is misleading. For example, we do not use the manufacturer's rated capacity of 64 students per bus (seating at this level assumes 3 students per seat on 10 rows of 2 3x3 seats and the last row of 2 2x2 (22 seats, 64 passengers) because student safety, comfort and pupil management on the bus is our first priority. For this reason our goal is no more than 2 students per seat on high school runs, no more than 8 seats with three students for middle school and no more than 14 seats with three students on elementary runs. Loads above our stated capacities result in route adjustments.
- Also, many of our routes are not running at capacity due to time constraints. Because we tier our buses very tightly, time rather than load factor often determines the number of students on a particular run.

HCPSS has been, and will continue to be, forward looking in applying technologies to improve bus fleet efficiencies. Efficient bus routing and scheduling is an integral part of the Transportation Office's mission. Many of the benefits of "automated routing software" mentioned in the OLA report, such as "providing student data quickly and bus routes in a visual format" is currently available and used by staff in routing and scheduling protocols. Also, we currently operate GIS applications and software for both regular and special education bus routing and scheduling. Our routing and scheduling system continues to evolve as improvements to process and technologies emerge.

While we agree that we are in need of more robust software in order to more fully automate the routing process for general education bus routes, we are not optimistic that the anecdotal improvements cited in the audit report will necessarily be achieved for HCPSS. We do anticipate that our TOMS software will be fully operational within two years and will significantly enhance our current software/manual process for planning general education routes.

We do agree that internal controls over contractor bus payments can be strengthened and will develop and implement a sampling plan to accomplish this added responsibility. We will then take appropriate steps to balance current Transportation office staff resources so that payment data can be verified by an "independent" party to assure payment accuracy. Lastly, the Transportation Office will continue working with the technology office to identify and implement a software

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application that will meet the long term financial management requirements of the Transportation Program.

Recommendation 15. HCPS should reconsider its consultant's recommendation to provide bus services in a more cost-effective manner.

Response: As mentioned at our exit conference, the finding's conclusion that the HCPSS cost per mile is significantly higher than all four comparably sized school systems is misleading. Although additional wording has been added since the exit meeting in an attempt to explain the difference, the conclusion reached is speculative at best since like factors were not compared. Including "deadhead miles" in the "per mile" calculation for the other counties would, in our opinion, significantly reduce the cost per mile. Hence, for the auditors, to draw the conclusion that in HCPSS "the cost per mile is significantly higher than all four comparably sized school systems" is erroneous.

Regarding the recommendation we have, over the years, formally studied moving to in-house transportation services (that is public owned vs. private owned). Approximately two years ago, Transportation staff reported to the Board of Education a recommendation to provide a very limited amount of in-house school bus service for Special Needs routes. This recommendation was, in part, based on a consultant's Study done for HCPSS in April of 2007. Toward that effort two special needs buses and two Driver/Trainer positions were added to the operating budget. Transportation staff is closely monitoring whether additional growth in public owned buses would enhance operations. However, current economic conditions have precluded or delayed any unplanned capital outlays such as those that would be associated with a public owned school bus fleet. Nonetheless, staff will continue to evaluate the cost/benefit of a public owned fleet and will proceed accordingly.

Recommendation 16. HCPS should establish a system to monitor its current vehicle fleet to ensure optimal and appropriate use, and should ensure that vehicles are maintained in accordance with HCPS guidelines. HCPS should formally assess the need to purchase vehicles.

Response: We agree with the recommendation and, in fact, had completed a review of all system owned vehicles in early 2009 which we had provided to the auditors. Assignment standards have been developed and were applied as part of our FY '10 operating budget. Replacement standards have also been developed and will be applied when developing the FY '11 operating budget (all vehicle replacements planned for FY '10 had been previously deferred). A process improvement event was held the week of September 14th to document and implement a new process for maintaining fleet vehicles in preparation for the vehicle repair shops relocation to Ridge Road. We expect the new process to be fully implemented by July 1, 2010.

Recommendation 17. HCPS should establish a performance measurement system for its transportation services, including performance standards for bus contractors.

Response: We agree with the OLA recommendation and as the auditors recognized in the finding, we had started tracking certain performance data in 2008. The tracking of this data was intended to be the first phase of a contractor evaluation system that the Transportation Office started developing approximately 18 months

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ago. This process collects specific data associated with a school bus contractor's performance in four distinct categories: Operations, Administration, Inspections, and Accidents. Based on the data, each contractor is given a score for each of the four categories ranging from 1 to 4. The sum of the category scores result in an overall score for each contractor. These final scores are then grouped into four categories: excellent, above average, meets expectations and needs improvement. We intend to give the score to school bus contractors prior to the end of the current school year.

Once this process is refined and fully implemented Management believes that it will provide a documented basis for the Transportation Office to provide financial incentives to high performers and applying financial disincentives to low scoring contractors. For example those scoring well could be first in line for additional work assignments, (E.G. noon-day runs, summer school work, displaced student transportation, etc.). Low scores on the performance review would decrease the availability of desirable assignments and could result in the contractor being removed from consideration for future contract awards. Staff agrees that this process would eventually have to be worked into contract language and would require a phase-in approach, probably starting in School Year 2010-2011.

Recommendation 18. To adequately control cafeteria funds at elementary schools, HCPS should develop formal procedures that require an independent verification of recorded receipts to deposit. HCPS should also verify that all purchased items are received prior to paying the related invoice.

Response: We agree that controls could be strengthened and have, in consultation with our Internal Auditor; revamped our procedures to ensure that there exists an appropriate segregation of duties. Moreover we instructed appropriate staff that erasable writing instruments are not to be used on Food Service forms and that documentation will not be accepted if it contains inappropriate changes or modifications. These revised procedures were put in place at the start of the 2010 school year.

With regard to the second half of the recommendation we have taken action to address the cause of the issue. We learned that this occurred because the vendor had changed the equipment that they had been using for providing delivery receipts. The new equipment did not produce a duplicate receipt with the manager's signature. Instead the vendor's delivery person kept the signed sheet and left a copy of the same information without the signature. The manager unknowingly submitted an unsigned copy for review and payment. After the auditors brought to our attention the fact that our file did not contain signed delivery receipts we contacted the vendor had had them send copies of the receipts that our managers had signed and provided these copies to the auditors while they were still on site. Nonetheless, we are grateful that the auditors brought this to our attention and we have reminded our managers that a copy of the signed delivery receipt must be left at the school at the time of delivery.

Recommendation 19. HCPS should review participation in its meals program to determine if policies and practices could be modified to improve participation.

Response: We concur with the recommendation and will review the meals program and focus our attention on identifying potential barriers that might be eliminated or

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minimized, thereby increasing meal participation (especially breakfast). To accomplish this we will work with the schools and/or other departments (E.G. Transportation and School Administration) to determine what changes are possible. We would hope to complete this review no later than June 2010 so that any recommended improvements could be put in place for the 2011 school year.

Recommendation 20. The Board should consider expanding the scope of the internal auditor's work to include significant financial areas other than school-based activities. The Board should also consider establishing a confidential hotline, with formal follow-up procedures, and an employee whistleblower protection policy. Finally, the Board should receive and review critical key financial and operational performance measure data on a periodic basis.

Response: The Board will give careful consideration to the report's comments and recommendations in the area of "school board operations and oversight" during a regularly scheduled open meeting of the board following the public release of the audit report.

One of the items on the August 18, 2009 Audit Committee Agenda was a discussion of the Legislative Audit's observations concerning School Board Operations and Oversight, as it was reported in Discussion Notes provided to HCPSS for comment. The three items were discussed at the meeting and the Committee's views were considered. At that time, the Committee also opined that the Board, in its policy review capacity, would be alert for opportunities to address the items reported. Based on that discussion, we can all agree that internal audit is a critical management tool and the Internal Auditor has provided management and the Board with thoughtful suggestions to enhance system operations. As OLA points out in the finding the Internal Auditor covers a variety of functions, all of which had been designated moderate to high risk by the HCPSS external auditors, in the conduct of the school activity fund audits. In addition to those areas listed by OLA the Internal Auditor also reviews certain aspects of HCPSS payroll, which represents more than 75 % of the total operating budget expenses. It should be noted that prior to the downward turn in the economy, the Superintendent had intended to establish a performance auditing function that would work in concert with the Internal Auditor and review areas that had not been audited in the recent past. The Superintendent still considers establishing this function a high priority. In the interim, the Board is satisfied with the results obtained by the Internal Auditor and plan on continuing with the current audit approach. This is not to say if an issue arises that deserves the attention of Internal Audit, it will be ignored. The matter will be reviewed and considered for audit at the first opportune time.

At the aforementioned Audit Committee meeting HCPSS management and the Internal Auditor presented the Committee with a proposed Circular titled "Responsibility for Reporting Fraud" that was intended for all HCPSS employees. The content and merits of the Circular were discussed and on September 4, 2009 the Circular was distributed to all employees (attachment 1). The Circular informs all employees of their responsibilities for reporting fraud and illegal activities. Moreover, it provides assurances that they will not suffer any reprisals for doing so. The circular also instructs the employees that they may call the Internal Auditor or School Security Coordinator to report such wrongdoing and if they wish they may remain anonymous. The Audit Committee meeting minutes indicate that Ethics Policy

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development could include ethics training and awareness as an additional component. The Superintendent believes that we have met the spirit of the OLA recommendation and as mentioned earlier the Committee and the full Board, in its policy review capacity, will continue to consider other mechanisms and be proactive in addressing vulnerabilities to fraud, including the establishment of a hotline.

At our request, the OLA Auditors provided staff with the names of other County School Systems that have developed some financial/operational performance measures that are used by their respective Boards for monitoring these areas. Staff will be contacting these Boards for details and will consider and recommend measures that can be tracked and reported quarterly to the Board. Staff plans on completing this study by May 2010.

Recommendation 21. HCPS should take additional measures to ensure the propriety of its self-insured health care costs.

Response: We agree that health costs need to be contained and for that reason we have and will continue to take appropriate and aggressive steps to maximize savings as well as contain costs. For example, back in FY 2007 we partnered with Howard County Government to study the growing cost of post employment benefits, of which health care is a significant component and coming up with potential solutions to contain and/or reduce these escalating costs. This effort resulted in the County and HCPSS making changes to Retiree Health Benefits, thereby reducing system costs. In early 2008 we hired a consultant to review our health care programs and suggest ways to lower costs while maximizing benefits. Outgrowths of this effort were two contracts; both executed in FY 2009 for audits (1) verifying subrogation claims and claim eligibility over the past three years and (2) to validate dependent eligibility for 100 percent of our health plan enrollees. We anticipate these efforts generating an overall savings of 5% to 10%.

Lastly, we have taken steps to establish a comprehensive wellness program so that the preventive aspect of employee health care can be addressed at the front end when costs are generally less expensive. We will continue to be proactive in identifying and implementing cost savings and/or solutions to address this growing system cost.

THE HOWARD COUNTY PUBLIC SCHOOL SYSTEM
10910 Route 108
Ellicott City, MD 21042

Circular No. 42
Series 2009/2010

September 4, 2009

Chief Financial Officer

Responsibility for
Reporting Fraud

To: All Staff

From: Sydney L. Cousin, Superintendent of Schools

I. PURPOSE

This Circular establishes the purpose, authority, and responsibility for reporting and investigating fraud, embezzlement and other similar financial illegal acts (e.g. bribery, kickbacks, forgery, etc.) in Howard County Public Schools. It does not change or affect any other established reporting mechanisms that would be most properly handled by the Director of Human Resources or the Ombudsman.

II. SCOPE AND APPLICABILITY

The conditions of this Circular apply to any financial irregularity, suspected or observed, involving an HCPSS employee, Board Member, contractor or person/company acting on behalf of HCPSS. Any investigation required shall be conducted without regard to the employee's length of service, position, title, familial relationship or professional association.

Employees are required to report any known or suspected fraudulent activities of the type covered by this Circular. The information reported will be considered confidential, and every effort will be made to protect the identity of the person reporting unless the information is needed for law enforcement or other purposes. Under no circumstances, should any staff member or administrator attempt to independently investigate, negotiate, or otherwise resolve such improprieties. Confidentiality is essential, and the matter shall not be discussed with anyone other than those to whom a report shall be made or HCPSS and police department personnel who are involved in conducting the investigation. Moreover, the System will ensure that employees reporting such allegations will be protected from any retaliatory acts for doing so.

III. PROCEDURES

A. Notification

It is the responsibility of all HCPSS employees to be alert for any indications of fraud, false claims, false statements, bribery, and theft or embezzlement, etc. involving HCPSS funds or property. Any employee who has knowledge of an occurrence of employee dishonesty, theft, or fraud, or has reason to suspect that such an event has occurred, shall notify his or her immediate supervisor. Should there be reason to believe that his or her immediate

supervisor may be involved; the employee will notify his or her supervisor's supervisor, principal, program manager, or director. The employee will also report the allegations to the BOE's Internal Auditor and the Coordinator of School Security, in the Office of School Administration.

Upon receipt of information, or reason to suspect, that an employee may be involved in fraud, the principal, program manager, or director shall notify the Chief Financial Officer or Deputy Superintendent as may be appropriate, who in turn will discuss the information with the Internal Auditor and the Coordinator of School Security to decide how best to handle the information.

If after preliminary investigation and consultation with the responsible Chief, the Internal Auditor/school security coordinator determines that the evidence available provides a reasonable basis for a full investigation, they will jointly recommend to the CFO or Deputy Superintendent, that a full investigation should take place. This recommendation shall be in writing and shall explain the nature of the allegation(s), the persuasiveness of the corroborating evidence, the scope of the additional inquiry to be undertaken, and the approximate time required to complete the investigation.

The Deputy Superintendent or CFO, in consultation with Counsel, will decide: (1) whether such an investigation should proceed, (2) the appropriate status of the person(s) who may be involved, pending completion of the investigation, and (3) procedures to be followed in safeguarding the personal rights of the person(s) involved.

B. Investigation

The Internal Auditor, and the Coordinator of School Security, in cooperation with the responsible Chief, and other appropriate officials, are responsible for conducting an investigation to ascertain all relevant facts and circumstances surrounding any known or suspected improprieties. With the knowledge and concurrence of the Superintendent, the review team with Counsel, shall consult with law enforcement personnel on any matters that may impinge on a criminal investigation.

C. Reporting and Final Disposition

Following investigation, an appropriate report setting forth all pertinent facts and circumstances will be prepared by the Review Team and transmitted through Counsel, to the CFO or Deputy Superintendent, and the responsible Chief. Based on the findings presented in the report, the Deputy Superintendent, or his/her designee, will make the final decision on the employee's (or agent's or contractor's) status, in accordance with HCPSS policies and Maryland law. If no discipline is issued, the director, Department of Human Resources, is responsible for expunging any references to the incident from the personnel files of that person and for issuing an appropriate public statement if warranted.

Administrative History: New Circular, September 2009

SC/JC/jl

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