



Department of Legislative Services
Office of Legislative Audits

Results of Financial Management Practices Performance Audits of Local School Systems

For Reports Issued during Calendar Year 2007

Presentation to
House Committee on Appropriations
House Ways and Means Committee
Joint Audit Committee

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January 23, 2008



Department of Legislative Services

Office of Legislative Audits

Table of Contents

Page 3 – School Audits Overview

Page 4 – Key Issues: Kent County Public Schools

Page 5 – Key Issues: Washington County Public Schools

Page 6 – Key Issues: Anne Arundel County Public Schools

Page 7 – Key Issues: Talbot County Public Schools

Table 1 - Status of School System Audits

Table 2 - Background and Report Summary

Table 3 - Significant Control Weaknesses

Table 4 - Significant Policy Issues



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School Audits - Overview

- Audits are performed in accordance with State law, which requires OLA to audit all 24 public school systems once over a six year period. Audit reports have been issued for 9 school systems to date.
- The purpose of the audits is to evaluate the effectiveness and efficiency of a school system's financial management practices in safeguarding assets and its use of financial resources.
- Audit approach consists of 11 functional areas previously approved by the Joint Audit Committee, as required by State law.
- When warranted, OLA attempted to make use of the existing work of other auditors.



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Key Findings – Kent County

Best Practices: Report contained 12 comments describing use of best practices

Procurement: Needs to ensure that documented competitive bids are obtained whenever practicable, limit sole source procurements and ensure contract renewals are in its best interest.

Facilities:

- Significant under-utilization, with projected declining enrollment
- Maintenance operations and energy management program could be better managed to improve effectiveness/efficiency.

Student Transportation:

- Enhancements could improve routing efficiency.
- Contractor payment process was inconsistent with intent of original MSDE formula.



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Key Findings – Washington County

Best Practices: Report contained 11 comments describing use of best practices

Federal Funds: All allowable costs should be recovered.

Procurement and Disbursements:

- Contract and payment documents need to be maintained and approvals need to be obtained.
- Competitive bids should be used more often for commodity purchases.

Facilities:

- Significant deferred maintenance estimated to be \$80 million not formally considered in CIP.

Student Transportation:

- Automated routing software should be used and performance measures/standards established.
 - Contractor payment process was inconsistent with intent of original MSDE formula.
 - The selection of and payments to bus contractors need to be better documented.
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Key Findings – Anne Arundel County

Best Practices: Report contained 12 comments describing use of best practices

Disbursements: Credit card issuance and use should be better controlled; almost a quarter of the cards issued not used during a 6-month period in 2006.

Workforce Planning: Should be more comprehensive, as 12% of total workforce eligible for retirement

Inventories: Physical inventories should be conducted and recordkeeping should be improved.

Facilities:

- Significant deferred maintenance estimated to be \$160 million needs to be addressed.
- Maintenance work order system could be more fully used.

Student Transportation:

- Automated routing software should be used and the use of smaller buses considered.
 - Although bus contracts are bid out, payments should be in accordance with existing contract terms.
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Key Findings – Talbot County

Best Practices: Report contained 13 comments describing use of best practices.

Purchasing and Disbursements:

- System controls, including segregation of duties, should be established for all disbursements.
- Services should be procured competitively.

Payroll: Certain employee duties should be segregated to enhance controls.

Inventory: Equipment accountability & control is needed.

Facilities: The performance of preventive maintenance should be documented and verified.

Transportation: Smaller buses should be considered.

Board Operations:

- Formal policies and procedures over various financial operations should be established.
 - Ethics policy and financial disclosure requirements should be enhanced.
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TABLE 1

Status of School System Audits

School System		Status as of December 31, 2007
1	Baltimore City	Completed – report issued Jan. 9, 2006
2	Prince George’s County	Completed – report issued Jan. 10, 2006
3	Queen Anne’s County	Completed – report issued Oct. 23, 2006
4	Allegany County	Completed – report issued Jan. 5, 2007
5	Carroll County	Completed – report issued Jan. 5, 2007
6	Kent County	Completed – report issued May 11, 2007
7	Washington County	Completed – report issued Aug. 6, 2007
8	Anne Arundel County	Completed – report issued Sept. 27, 2007
9	Talbot County	Completed – report issued Dec. 3, 2007
10	Harford County	In Progress
11	Baltimore County	In Progress
12	Wicomico County	In Progress
13	Montgomery County	In Progress

TABLE 2

Background and Report Summary

Key Data	Local School System			
	Kent	Washington	Anne Arundel	Talbot
Background at Time of Audit:				
Operating Expenditures (including payroll)	\$28 million	\$214 million	\$741 million	\$48 million
Payroll Expenditures	\$21 million	\$143 million	\$591 million	\$28 million
Approximate Student Enrollment	2,400	21,100	71,500	4,400
Number of Schools	8	42	117	9
Audit Report Summary:				
Audit Report Date	May 11, 2007	Aug. 6, 2007	Sept. 27, 2007	Dec. 3, 2007
Number of Audit Report Findings	18	26	29	24
Number of Audit Recommendations	15	17	16	18
Number of Functional Areas with Findings	9 of 11	11 of 11	9 of 11	10 of 11
Number of Findings¹ by Functional Area:				
1. Revenue and Billing Cycle	n/a	1	n/a	n/a
2. Federal Funds	n/a	1	n/a	1
3. Procurement and Disbursement Cycle	2	4	3	3
4. Human Resources and Payroll	2	2	3	2
5. Inventory Control and Accountability	1	1	2	1
6. Information Technology Issues	2	2	5	3
7. Facilities Construction and Maintenance	4	7	6	3
8. Transportation Services	3	3	6	5
9. Food Services Operations	2	1	1	1
10.School Board Operations and Oversight	1	2	2	3
11.Other Financial Controls	1	2	1	2

¹ Exclusive of findings of best practices identified in each section.

TABLE 3

Internal Control Weaknesses

Audit Findings by Functional Areas	Local School System ¹			
	Kent	Washington	Anne Arundel	Talbot
Revenue and Billing Cycle – Separation of duties over AR and collections		Pg.9		
Federal Funds – Inadequate process to ensure that all Medicaid costs are recovered		Pg.13		Pg.12
Procurement and Disbursement Cycle:				
a. All procurements and/or payments not properly documented or approved		Pg.16	Pg.17	Pg.18
b. Unnecessary or incompatible access to automated procurement system		Pg.19	Pg.16	Pg.16
c. Credit card usage assignment, use and monitoring			Pg.18	
Payroll:				
a. Unnecessary employee access to automated payroll system	Pg.22	Pg.23		Pg.20
b. Approval of payroll and leave adjustments should be documented			Pg.23	
Inventories:				
a. Inventory recordkeeping (e.g., completeness, accuracy, accountability)	Pg.26		Pg.26	Pg.23
b. Physical inventories not always conducted		Pg.28	Pg.26	
Information Technology :				
a. User access to computer resources were not adequately controlled	Pg.28	Pg.31	Pg.30	Pg.27
b. Better control over modification to application programs needed	Pg.28	Pg.31	Pg.30	
c. Anti-virus software not always used	Pg.28			
d. Physical access to computer rooms			Pg.31	Pg.27
Facilities:				
a. Construction payments not always approved		Pg.37		
b. Completion of preventive maintenance not always documented		Pg.37		Pg.32
Transportation – Documentation of contractor selection and payment inadequate		Pg.45	Pg.45	
Food Services:				
a. Cash handling procedures were inadequate	Pg.48	Pg.51	Pg.53	
b. Purchasing of food supplies	Pg.48			Pg.44

¹ Page reference is to applicable audit report.

TABLE 4

Policy Issues

Audit Findings by Functional Areas	Local School System ¹			
	Kent	Washington	Anne Arundel	Talbot
Procurements and Contracts:				
a. Use of sole-source procurements	Pg.16			Pg.16
b. Contract renewals exercised without consideration of cost-effectiveness	Pg.17			
Human Resources – Workforce planning	Pg.23	Pg.23	Pg.23	Pg.21
Information Technology – Formal disaster recovery plan	Pg.29	Pg.31	Pg.31	Pg.27
Facilities:				
a. Periodic rebidding of 3 rd party management contract	Pg.35			
b. Energy management program	Pg.36	Pg.38	Pg.37	Pg.32
c. Performance measures/standards and full use of work order system		Pg.36	Pg.38	Pg.31
d. Impact of deferred maintenance		Pg.37	Pg.37	
Transportation:				
a. Bus capacity or student ride time limits to assist scheduling	Pg.41	Pg.43	Pg.43	Pg.37
b. Periodic re-evaluation of the use of bus contractors	Pg.43		Pg.46	Pg.39
c. Consideration of using smaller buses	Pg.41		Pg.46	Pg.38
d. Automated routing software not used		Pg.43	Pg.43	
e. Contractor payment methodology	Pg.42	Pg.44		
f. Performance measures/standards				Pg.40
Board Operations:				
a. No internal audit function or existing one should be enhanced	Pg.53	Pg.55		Pg.47
b. Periodic financial information and key performance indicators		Pg.55	Pg.57	Pg.47
c. Fraud or whistleblower hotline	Pg.53	Pg.55	Pg.58	Pg.47
d. Policies and guidance need to be developed in a number of financial areas				Pg.47
e. Code of Ethics and Financial Disclosure Statements				Pg.48
Other Financial Controls – Policies for Cash, Risk and/or Debt Management		Pg.57	Pg.59	Pg.52

¹ Page reference is to applicable audit report.