

Financial Management Practices Audit Report

Queen Anne's County Public Schools

August 2018



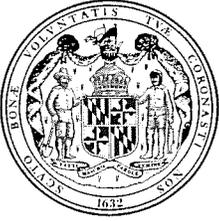
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MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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August 1, 2018

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

Ladies and Gentlemen:

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

Our audit disclosed that QACPS needs to improve internal controls and accountability in a number of areas including payroll processing, equipment inventory, information systems, and procurement and disbursements. Also in the transportation services area, we identified numerous deficiencies contributing to inefficiencies and excessive costs.

For example, adequate internal controls had not been established over the processing of certain critical human resources and payroll transactions, such as other earnings and salary increases. Furthermore, adequate record keeping practices and controls had not been established over equipment.

We also found that QACPS needs to ensure its methodology for determining payments to bus contractors results in the best value. For example, we estimated that payments to bus contractors for the purchase price and investment return of buses placed in service since 2011, was \$2.4 million more, because the investment rate of return was higher than recommended.

In addition, payments to bus contractors for operation (fuel) and bus maintenance costs were negotiated without distinguishing the portion applicable to fuel and maintenance and determining the appropriateness of

the rate based on independently derived estimates. Finally, QACPS did not perform a system-wide route analysis and we found through testing that ridership on certain routes was lower than bus capacities, with some bus routes operating at less than 50 percent of the desired capacity.

We also found that significant risks existed within the QACPS computer network. For example, monitoring of security activities and password and account controls over critical systems were not sufficient and its computer network was not adequately secured. Furthermore, QACPS had not identified and protected sensitive personally identifiable information maintained on its computer systems and did not establish procedures to ensure that approximately 6,500 active computers were sufficiently protected against malware and other security vulnerabilities. QACPS also lacked assurance that adequate information technology security and operational controls existed over its financial system that is hosted, operated, and maintained by a service provider. Finally, QACPS did not have a complete information technology disaster recovery plan for recovering computer operations from disaster scenarios.

QACPS' procurement policies were not sufficiently comprehensive and QACPS did not always comply with the existing policies and State law, or verify amounts billed with contract terms. In addition, QACPS entered into three power-purchasing agreements with a solar energy provider at an estimated total cost of \$5 million, without using a competitive procurement process or determining whether it had received the best value. We noted that one other local government entity appeared to have obtained more favorable terms for similar agreements during the same time periods. Finally, QACPS did not ensure the accuracy of payments for employee and retiree healthcare. For example, QACPS did not always obtain documentation to verify dependents and did not ensure the accuracy of payments for healthcare expenditures that totaled \$10 million in plan year 2016.

The QACPS 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 QACPS.

Respectfully submitted,

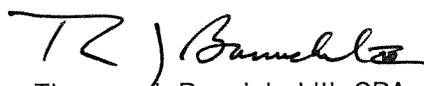

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Background Information

Statistical Overview

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Queen Anne's County Public Schools (QACPS) ranks 17th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2016 full-time student enrollment was 7,751 students. QACPS has 14 schools, consisting of 8 elementary, 4 middle schools, and 2 high schools.

According to QACPS' audited financial statements, fiscal year 2016 revenues were \$106.4 million and expenditures were \$105.8 million. The largest expenditure category was salaries and wages, including benefits, which accounted for 79 percent of total expenditures during fiscal year 2016. According to MSDE records, during the 2015-2016 school year, QACPS had 941 full-time equivalent positions, which consisted of 691 instructional and 250 non-instructional employees.

Oversight

QACPS is governed by a local school board, consisting of five elected voting members and two non-voting student members. The State and the Queen Anne's County government provide the vast majority of QACPS funding. In accordance with State law, MSDE provides oversight to QACPS through the establishment and monitoring of various financial and academic policies and regulations. MSDE also works with QACPS to comply with the requirements and mandates of federal law. Queen Anne's County government exercises authority over QACPS primarily through the review and approval of QACPS' annual operating and capital budgets.

External Audits

QACPS engages a certified public accounting firm to independently audit its annual financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of QACPS' federal grant programs (as required by federal regulations). We reviewed the resulting financial statement audit and Single Audit reports for fiscal years 2012 through 2016, and examined the related work papers for fiscal year 2016.

Due to similarities between the work of the independent certified public accounting firm that audited the QACPS' financial statements and conducted

the Single Audit of federal grants, and the risks and scope of our audit in certain areas, we relied on the results of the independent audit to reduce the scope of our audit work related to certain revenues, accounts receivable, and federal grant activity.

Status of Findings From Preceding Audit Report

Based on our current audit assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of 16 of the 18 findings contained in our preceding audit report dated October 25, 2011. We determined that QACPS satisfactorily addressed 7 of those findings, with the remaining 9 findings repeated in this report.

Findings and Recommendations

Revenues and Receivables

Background

Queen Anne's County Public Schools (QACPS) revenues consist primarily of funds received from Queen Anne's County, the State, and the federal government. According to the QACPS audited financial statements, revenues from all sources totaled \$106.4 million during fiscal year 2016. In addition, schools collect funds for other purposes such as student activities, clubs, and school publications. Because they are not considered school revenue, these school activity funds are accounted for separately by each school and reported in summary in the audited financial statements. Although this revenue is raised through student related activities, QACPS has a fiduciary duty to safeguard these funds. For fiscal year 2016, school activity fund collections totaled \$1.5 million and the June 30, 2016, balance was \$540,000.

External Audits

There were similarities between the work of the independent certified public accounting firm that audited the QACPS financial statements and the objectives of our audit of certain revenue activities. As a result, we reduced the scope of our audit work related to state and local government revenues received via wire transfer and accounts receivable for which the auditor confirmed receivables from governmental sources.

Accounting Manual for School Activity Funds Was Established

QACPS' Board of Education has a fiduciary responsibility to ensure that school activity funds (SAF) were used only for intended purposes. QACPS has developed an *Accounting Manual for School Level Bookkeepers* to establish a uniform method for reporting receipts, expenditures, and balances related to school sponsored activities. The *Manual* indicates that financial reports (general ledger account balances) and bank reconciliations are to be submitted monthly to the finance department. In addition, the *Manual* requires schools to annually perform an internal evaluation of controls by completing a controls checklist established by the finance department.

Finding 1

Adequate accountability and control over cash receipts had not been established, as collections were not always restrictively endorsed and recorded immediately upon receipt and there was no independent verification that collections were deposited.

Analysis

QACPS had not established adequate accountability and control over cash receipts which, according to its records, totaled \$2.8 million in fiscal year 2016. These receipts consisted primarily of checks received through the mail from private parties and organizations for health insurance, education programs, facility rentals, vendor refunds and rebates, as well as gate receipts for school events. As a result, assurance was lacking that all collections were deposited.

- The majority of the checks received by the finance department were not recorded (no mail listing was prepared) immediately upon receipt. Specifically, although most of the checks initially received by the finance department were immediately restrictively endorsed, only certain collections (totaling \$733,000 in fiscal year 2016) were immediately recorded on a mail log while the remaining amounts received were not recorded until the deposit slip was prepared, which could be the following business day. Furthermore, several other departments, (primarily human resources) who transferred collections to the finance department did not record and restrictively endorse checks immediately upon receipt to establish initial accountability and control.
- Collections received by the finance department were not adequately secured prior to deposit, as they were stored in an unlocked filing cabinet during the day that was accessible to a number of employees.
- There was no independent verification to ensure all collections received were deposited. In many cases, such a verification could not be performed because, as noted above, an initial record of collections received was not always prepared. When such a record was prepared, the employee responsible for performing a documented verification of the validated deposit slip to supporting documentation (check logs and deposit batch reports) was not independent as the employee had access to the collections prior to deposit.

Immediate recording and endorsing of checks is necessary to protect assets during processing and the initial recordation of collections should be

independently verified to validated bank deposits to ensure all amounts received have been deposited and credited by the bank to QACPS.

Recommendation 1

We recommend that QACPS

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

Finding 2

QACPS had not established a process to independently review SAF transactions, verify compliance with the *Accounting Manual for School Level Bookkeepers* and established internal controls, and properly account for receipts and disbursements.

Analysis

QACPS had not established a process to independently review SAF transactions and verify that school personnel complied with the *Manual* and its prescribed accounting, reporting, and control processes, and properly accounted for receipts and disbursements. Specifically, we noted that student activity funds were not subject to review by QACPS' auditing firm or finance department staff.

Although the finance department was receiving and reviewing monthly bank reconciliations, listings of general ledger account balances, and internal evaluations of controls from the schools, QACPS did not perform periodic site visits to validate the information. Other school systems employ periodic monitoring by the finance staff or auditing firm that include reviews of internal control procedures and testing of transactions. A similar condition regarding the lack of independent on-site visits to review SAF procedures and transactions was commented upon in our previous two audit reports.

For fiscal year 2016, SAF receipts and disbursements totaled \$1.5 million and \$1.5 million, respectively.

Recommendation 2

We recommend that QACPS establish a process to independently verify, at least on a test basis, that school personnel comply with the *Manual* by performing periodic site visits to review SAF procedures and supporting documentation and conduct tests of transactions (repeat).

Federal Grants and Revenues

Background

QACPS receives funds pertaining to federal government programs that are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Expenditures of Federal Awards, fiscal year 2016 expenditures of federal award funds totaled \$5.6 million, not including federally funded fee-for-service programs such as Medicaid reimbursement for special education services.

Single Audit Report Disclosed No Reportable Conditions Regarding Federal Grant Management

Due to the work performed by the independent certified public accounting firm that conducted the Single Audits of QACPS' federal grants for fiscal years 2012 to 2016, and the objectives of our audit in this area (that is, to determine federal grant activity was properly controlled and accounted for), we relied on the auditor's work and results to reduce the scope of our audit for federal grants.

Besides expressing an opinion on QACPS' compliance with the terms of several grant programs, the firm also considered the existing internal control structure's impact on compliance and audited the fiscal year 2012 to 2016 required Schedules of Expenditures of Federal Awards. The related reports stated that QACPS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with, and the operation of, major federal programs, the firm did not identify any deficiencies in internal control that were considered to be material weaknesses or significant deficiencies.

Medicaid-Subsidized Services

QACPS has processes in place to ensure that it identifies all students eligible for Medicaid subsidized services and recovers all eligible reimbursable costs. In addition, the external auditors reviewed the Medicaid program for compliance and noted no concerns.

Procurements and Payments

Background

According to the audited financial statements and QACPS records, non-payroll disbursements totaled \$22.6 million during fiscal year 2016. Generally, requisitions are entered into the automated payment system by the requesting department and are electronically approved by the respective

department head. A finance department employee converts the approved requisitions in the system to purchase orders, which must be approved electronically by the Chief Financial Officer before the related purchase orders are issued to vendors.

QACPS had developed formal written procurement policies that required, if the cost of any school building, improvement, supplies, or equipment is more than \$25,000, the contract to be bid and awarded based on competitive bidding with certain exclusions in accordance with State law. These exclusions include textbook purchases, emergency repairs, and the use of intergovernmental cooperative purchasing agreements (ICPAs). The Superintendent of Schools was authorized to purchase on behalf of the Board when formal bidding procedures were not required by law. The policies also require the solicitation of written or oral quotes for purchases of supplies and equipment totaling \$5,000 or greater.

The receipt of goods or services are recorded in the automated system by the receiving school or department. Payments are processed by the finance department through an automated system that prints vendor checks and posts the payment to the financial records.

Finding 3

QACPS' procurement policies were not sufficiently comprehensive, as they did not include specific requirements for Board approval, the competitive solicitation of services, or the use of ICPAs. QACPS did not always comply with the existing policies and State law.

Analysis

QACPS' procurement policies were not sufficiently comprehensive and, in certain cases, procurements did not comply with existing policies and State law. Our test of 21 procurements for goods and services for fiscal years 2014 to 2017 with contract awards totaling \$17.3 million (each valued over \$25,000) disclosed issues with 14 contracts.

- Although the Board typically approves certain contracts, such as those for construction, there were no specific requirements that the Board approve any purchases. Specifically, regardless of whether competitively procured, it was not required that contracts for goods or services of over \$25,000, or those procured using ICPAs, purchasing cooperatives, or sole source awards be approved by the Board. Consequently, QACPS did not seek Board approval for 14 contracts totaling \$3.5 million, including 9 ICPAs. We commented on the failure to obtain Board approval for contracts that

meet certain criteria (such as those exceeding certain monetary thresholds) in our preceding audit report.

- There were no specific requirements for the competitive solicitation of services valued over \$25,000. Excluding services obtained via an ICPA, two of the three service contracts tested totaling \$180,000 were not competitively bid. Furthermore, these two procurements were not supported by sole source justification documentation as required by QACPS procurement policy.
- There were no requirements for the use of ICPAs that included verification of proper third-party procurement (that is, that the originating government agency procuring the contract used a competitive procurement process), and the preparation of a documented analysis of the benefits of the ICPA to comply with State law. All nine ICPA-related procurements, with combined fiscal year 2016 payments totaling \$1.9 million, including three construction-related ICPAs, lacked written documentation of the benefits of utilizing an ICPA, as required by law.

Comprehensive procurement policies should ensure purchases are obtained at the best value and, at a minimum, should specify the acceptable procurement methods for all procurement types, require Board approval of all significant procurement awards, and address legal requirements.

Recommendation 3

We recommend QACPS

- a. obtain Board approval for contracts that meet certain criteria, such as those exceeding a certain monetary threshold (repeat);**
- b. amend its existing policies to address all methods for procuring goods and services;**
- c. procure service contracts using a competitive bidding process or document the justification for any sole source procurements;**
- d. before deciding to participate in an ICPA, prepare written documentation of the benefits of utilizing the ICPA for Board review; and**
- e. require that a documented analysis of the benefits of all ICPAs be prepared and submitted to the Board for approval.**

Finding 4

QACPS did not always verify amounts billed with contract terms.

Analysis

Our test of payments related to the 21 contract awards for goods and services for fiscal years 2014 to 2017 with fiscal year 2016 disbursements totaling \$5.5 million, disclosed that for 5 contracts with fiscal year 2016 payments totaling \$971,000 the amounts billed were not always verified with the related contract terms.

- For three ICPA-related contracts, with combined fiscal year 2016 payments totaling \$483,000, QACPS had not obtained copies of the ICPA agreements and related product price lists to verify it was billed in accordance with contract terms. For example, we tested related invoices totaling \$130,000 for computers for which contract pricing was not verified.
- For two other ICPA-related contracts, with payments of \$488,000 in fiscal year 2016, QACPS had obtained the related product billing information, but a documented verification of the invoice pricing had not been performed. For example, we tested related invoices for computers totaling \$131,000 that were to be discounted from 20 to 40 percent from the manufacturer list price. However, there was no evidence the prices had been verified and no manufacturer price lists dated as of the date of sale were on file. We were able to determine through internet research at the time of our review that the prices QACPS was charged and the discounts received were reasonable.

Recommendation 4

We recommend QACPS

- a. maintain contract pricing information on file, including the applicable contracts; and**
- b. require all billings to be verified with related contract terms prior to payment.**

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the QACPS budget. According to QACPS records, fiscal year 2016 salary, wage, and benefit costs totaled \$83 million, or 78 percent of the \$106 million total operating expenditures. According to Maryland State Department of

Education reports, during the 2015 – 2016 school year QACPS had 941 full-time positions, which consisted of 691 instructional positions and 250 non-instructional positions.

QACPS uses an automated system to maintain human resources (HR) information, record employee time, track leave usage, and to process and record payroll transactions. Employees submit attendance reports bi-weekly and leave is recorded and adjustments are processed on the system by central payroll personnel. The system also generates payroll checks and direct deposit advices.

Finding 5

QACPS had not established adequate internal controls over the processing of certain critical HR and payroll transactions, such as other earnings and salary increases.

Analysis

Adequate internal controls had not been established over the processing of certain critical HR and payroll transactions. Specifically, the processing of other earnings transactions and salary rate increases were not subject to independent review and available reports of transactions processed that could be used for that purpose were not generated. In fiscal year 2016, other earnings totaled \$2.2 million (including, for example, final leave payouts of \$241,000). In fiscal year 2015 and 2016, annual salary increases totaled \$5 million.

Our review of 17 other earnings payments totaling \$405,476 processed from July 2015 to December 2016 disclosed that while they appeared to be proper and accurate, there was no evidence of independent supervisory review. In addition, there was no evidence of independent supervisory review of annual salary rate increases to ensure only properly authorized changes had been accurately processed.

Similar conditions regarding the lack of an independent review of HR and payroll transactions were commented upon in our preceding audit report.

Recommendation 5

We recommend that QACPS perform a documented independent review of recorded personnel and payroll transactions using reports generated from the system of such transactions and related supporting documentation (repeat).

Finding 6

QACPS had not executed employment contracts for six central office employees and there was no evidence that the Board had approved their salaries as required by State law, which totaled a combined \$637,000 in fiscal year 2016.

Analysis

Written contracts stipulating employment terms for six central office employees were not prepared and executed. Specifically, most employees are covered under the union contracts for teachers and support personnel, however; six central office employees were not covered by any written contract or similar documentation that would specify employment terms including salary ranges, leave accrual, unused leave payouts, and other benefits. Furthermore, there was no evidence that the Board approved these salaries as required by law. Salaries for these six positions (excluding fringe benefits) ranged from \$67,000 to \$140,000 and totaled \$637,000 in fiscal year 2016. For other employees covered under existing contracts, our test of payroll transactions processed in fiscal years 2016 and 2017 disclosed that QACPS generally made payments in accordance with the applicable contracts and the payments agreed to supporting documentation such as time records.

State Law requires that on the recommendation of the county superintendent, the Board appoint all system employees and set their salaries. This condition was commented upon in our preceding two audit reports.

Recommendation 6

We recommend that QACPS

- a. ensure employee compensation and benefits for its central office employees are documented in written agreements (repeat), and
- b. obtain Board approval for appointments and salaries as required by State law (repeat).

Equipment Control and Accountability**Background**

According to QACPS audited financial statements, the undepreciated value of its capital equipment inventory totaled \$15.3 million as of June 30, 2016. QACPS uses its financial management system to capitalize inventory with a cost of \$1,000 or more for financial statement purposes. Certain sensitive equipment items (computers and laptops only) are recorded on a spreadsheet

maintained by the information technology (IT) department, which describes an item's location within the school system.

Finding 7

QACPS had not established comprehensive equipment policies and adequate record keeping practices and controls over equipment.

Analysis

QACPS had not established comprehensive written equipment policies and procedures, and adequate record keeping requirements and controls that would ensure adequate accountability over its schools' equipment inventory.

- QACPS' equipment policy did not establish specific requirements to ensure accountability and control over sensitive equipment. Specifically, the policy did not define what items should be considered sensitive (such as items being subject to theft), establish record keeping and physical inventory requirements, nor describe the processes for investigating missing items, reporting lost or stolen items, and approving disposals. According to the policy, such items (as well as other items with a useful life of two years and valued at less than \$1,000) could generally be considered non-capital items. As such, the departments and schools determined the non-capital items to be inventoried and the method for maintaining the related inventory records. Without definitive requirements, assurance was lacking that sensitive items were being consistently tracked and accounted for.
- Although QACPS' IT Department maintains a spreadsheet listing all computers issued to staff, teachers, and students; other sensitive electronic items such as digital cameras, projectors, and smart boards were not accounted for in this manner. Furthermore, this record did not include certain information nor appear to be maintained on a current basis. As of May 2017, the IT spreadsheet listed 7,375 technology items (laptops and desktops) with serial numbers and location, but did not include the cost of the items and purchase date. Our test of the existence of 15 items listed in the sensitive equipment records disclosed that 7 of the items could not be located. We were advised by QACPS inventory personnel that some missing items might have been disposed of. QACPS did maintain a separate sub-listing of laptops issued to students that does include the purchase price but not the purchase date. As of February 2017, that list contained 6,455 laptops totaling \$3.1 million.

- One employee was primarily responsible for recording additions, disposals, and adjustments to QACPS' capital equipment records and another employee to the sensitive equipment records, and the entries were not verified to supporting documents by independent supervisory personnel. Furthermore, the employee who maintained the sensitive equipment records deleted disposed items without maintaining a record of the items deleted and no disposal authorization form was required.

As a result of the deficiencies cited above, equipment could be lost or misappropriated without detection. Similar conditions regarding the lack of adequate policies and procedures governing sensitive equipment records, and the authorization of disposals and maintenance of complete records was commented upon in our two preceding audit reports. In response to the report, QACPS stated that individual departments that purchased sensitive equipment costing less than \$1,000 were expected to track their equipment and that the finance department was in the process of developing guidelines regarding information to be maintained for sensitive equipment to be distributed to all departments.

Recommendation 7

We recommend that QACPS put the necessary policies and procedures in place to ensure accountability and control over its equipment inventory (repeat). Specifically, we recommend that QACPS

- a. establish a policy defining sensitive equipment items that requires them to be recorded in the inventory records (repeat);**
- b. establish requirements for conducting physical inventory counts of sensitive equipment, investigating missing items, reporting lost or stolen items and approving disposals;**
- c. ensure the inventory records are maintained on a current basis, postings to those records, such as disposals and adjustments, are properly supported and approved (repeat) and that records of the items disposed are maintained; and**
- d. ensure inventory records are properly maintained by recording the cost and purchase date for all equipment purchases (repeat).**

Information Technology (IT)

QACPS' IT department maintains and administers its computer network, computer operations, and instructional information systems applications. QACPS operates a wide area network with Internet connectivity that connects the individual schools' local networks to the computer resources at the QACPS' headquarters. Specifically, the IT department maintains and

administers QACPS' student information application and computer operations. A contractor hosts QACPS' financial information application on its servers and supports the application.

Finding 8

Monitoring of security activities and password and account controls over critical systems were not sufficient.

Analysis

Monitoring of security activities and password and account controls over critical systems were not sufficient.

- The student information database was not configured to log any database security activity except for certain privileged operations. Furthermore, QACPS was not reviewing any logs of the use of these privileged operations. As a result of these conditions, effectively there was no monitoring of security activities for this database. Best practices identified in the State of Maryland (SOM) *Information Security Policy* require that information systems generate audit records for all security-relevant events, including all security and system administrator accesses and that procedures must be developed to routinely (for example daily or weekly) review audit records for indications of unusual activities, suspicious activities or suspected violations, and report findings to appropriate officials for prompt resolution.
- Password and account controls over QACPS' student information database and the student information and finance applications did not meet the minimum recommended settings in the SOM *Information Security Policy*. For example, password aging, length, complexity, history, and account lockout were either not enforced or did not provide a sufficient level of security for the QACPS' student information and finance applications.

Similar conditions were commented upon in our preceding audit report. We were advised by QACPS that certain system changes will require assistance from the system vendor.

Recommendation 8

We recommend that QACPS, in conjunction with the system vendor, as necessary,

- a. set the student information database to log all critical security related events, regularly review these logs, document these reviews, and retain this documentation for future reference (repeat); and**

- b. establish passwords and account controls over QACPS' student information database and the student information and finance applications that comply with the recommended controls prescribed by the SOM *Information Security Policy* (repeat).

Finding 9

Firewall rules allowed unnecessary connections to numerous QACPS network devices, 21 publicly accessible servers were improperly located in the internal network, the network was not secured against improper access from untrusted parties using its wireless connections, and intrusion detection prevention system coverage for encrypted traffic did not exist.

Analysis

The QACPS computer network was not adequately secured.

- Firewall rules allowed insecure and unnecessary connections to numerous network devices. For example, firewall rules allowed unnecessary Internet access to numerous internal servers and computers over numerous ports. Best practices prescribed by the University System of Maryland's *IT Security Standards* state that firewalls should be configured to block all services not required and disable unused ports, hide and prevent direct accessing of trusted network addresses from untrusted networks, and maintain comprehensive audit trails. A similar condition was commented upon in our preceding audit report.
- Twenty-one publicly accessible servers were located in the QACPS internal network rather than isolating these servers in a separate protected network zone to minimize security risks. These 21 publicly accessible servers, if compromised, could expose the internal network to attack from external sources. Recommended security procedures, per the National Institute of Standards and Technology *Guidelines on Firewalls and Firewall Policy*, include placing publicly accessible servers in an external protected zone to protect those servers as well as the entity's internal network. A similar condition was commented upon in our preceding audit report.
- Guests (public) connections to the QACPS network via a wireless connection at the headquarters location had unnecessary, unrestricted access to the entire QACPS network over all ports. Specifically, guests connecting to the network at the headquarters location were not subject to any traffic filters and were authenticated via a weak authentication method. As a result, any current and many former guests could gain

network level access to the entire QACPS wired wide area network. Best practices prescribed by the SOM *Information Security Policy* state that wireless networks should authenticate the identity of all users, where necessary, and maintain restricted access to critical resources.

- Intrusion Detection Prevention System (IDPS) coverage did not exist for encrypted traffic entering the QACPS network. Although QACPS' IDPS appliance had the capability to apply IDPS coverage to this encrypted traffic, it was not used due to potential performance issues. Additionally, we were advised that host-based IDPS protection was not installed on any QACPS servers. Complete IDPS coverage includes, when there is encrypted traffic, the use of a network-based IDPS that is supplemented (where necessary) with host-based intrusion prevention to aid significantly in the detection/prevention of, and response to, potential network security breaches and attacks. Also, best practices identified in the SOM *Information Security Policy* require protection against malicious code and attacks by using IDPS to monitor system events, detect attacks and identify unauthorized use of information systems and/or confidential information.

Recommendation 9

We recommend that QACPS

- a. configure its perimeter firewall to adequately secure connections from untrusted third parties, including the Internet (repeat);**
- b. relocate all publicly accessible servers to a separate protected network zone to limit security exposures to the internal network segment (repeat);**
- c. secure its internal network from risks associated with wireless user access by restricting such access to the Internet and use a strong authentication method; and**
- d. perform a documented review and assessment of its network security risks and identify how IDPS coverage should be applied to its network for encrypted traffic and implement this coverage.**

Finding 10

QACPS had not identified and protected sensitive personally identifiable information (PII) maintained on its computer systems.

Analysis

QACPS had not identified all personally identifiable information (PII) maintained on its computer systems and ensured such data were properly protected. Consequently, we identified PII that was not encrypted or otherwise protected.

QACPS had not performed an inventory to determine the extent of PII on its systems and whether this PII was encrypted and properly protected. We determined that as of May 3, 2017, one table in the student information database contained 13,243 unique social security numbers, stored in clear text, with related names, addresses, and dates of birth. In addition, we were advised that this sensitive PII was not protected by other substantial mitigating controls.

This PII is commonly associated with identity theft. Accordingly, appropriate information system security controls need to exist to ensure that this information is safeguarded and not improperly disclosed. Best practices as per the SOM *Information Security Policy* state that confidential data should be protected using encryption and/or other substantial mitigating controls.

Recommendation 10

We recommend that QACPS

- a. perform a complete inventory of its systems and identify all sensitive PII,
- b. determine if it is necessary to retain this PII and delete all unnecessary PII,
- c. determine if all necessary PII is properly protected by encryption or other substantial mitigating controls, and
- d. use proven encryption algorithms to encrypt all sensitive PII not otherwise protected.

Finding 11

QACPS had not established procedures to ensure that malware protection software was installed, current, and operational on all active computers, administrative rights were properly limited, and operating system security updates were applied.

Analysis

QACPS did not establish procedures to ensure that its approximately 6,500 active computers were sufficiently protected against malware and other security vulnerabilities.

- QACPS did not ensure that all active computers had been identified for monitoring by its management consoles for the malware protection software products. Specifically, QACPS did not reconcile the computer populations per its network directory services records and the management consoles. Furthermore, QACPS did not periodically verify that malware protection software was installed on all of its active computers and was operational with current malware signature files. We were advised by QACPS personnel that regular reviews of the management

console's dashboard and reports from the primary malware protection software used by QACPS were not performed. Consequently, computers could be at risk to malware.

- Local administrative rights were not properly restricted. Our test of 10 computers disclosed that for each computer, a user (who was not a network or system administrator) was improperly assigned administrative rights to the computer. QACPS personnel advised us that their computer policy was to grant all QACPS staff local administrative rights to allow staff members to install software onto their computer. As a result, if these computers were infected with malware, the malware would run with administrative rights and expose these computers to a greater risk of compromise than if the computers' user accounts operated with only user rights. In addition, because of these administrative rights, these 10 users could disable the malware protection software on their computers.
- Computers tested had not been updated with the latest releases for operating system security updates and for software products that are known to have significant security-related vulnerabilities. Although the vendors for these products frequently provide software patches to address these vulnerabilities, QACPS had not updated its computers for these patches. For example, as of June 14, 2017, we determined that 9 of 12 computers tested had not been updated for the latest operating system security updates with the last update ranging from May 2013 to February 2016.

Best practices prescribed by the SOM *Information Security Policy* state that agencies, at a minimum, must “protect against malicious code (viruses, worms, Trojan horses) by implementing anti-malware solutions that, to the extent possible, include a capability for automatic updates.”

Recommendation 11

We recommend that QACPS

- a. regularly, ensure that all active computers have been identified for monitoring and are running current operational versions of the malware protection software used by QACPS with current malware protection signature files, document these efforts, and retain the documentation for future reference;**
- b. limit the assignment of local administrative rights on QACPS computers to IT network and system administrators and individuals authorized in writing to have such rights, with documentation supporting these authorizations retained for future reference; and**

- c. ensure that all active computers are kept up-to-date for critical operating system security updates and for security updates to potentially vulnerable installed software.

Finding 12

QACPS lacked assurance that adequate information technology security and operational controls existed over its financial system that is hosted, operated, and maintained by a service provider.

Analysis

QACPS lacked assurance that adequate information technology security and operational controls existed over its financial system that is hosted, operated and maintained by a service provider. QACPS' contract with the service provider dated October 14, 2010 did not adequately protect QACPS against certain significant information technology security and operational risks. For example, this contract:

- did not contain any provision requiring the service provider to obtain an independent third-party review of the operating effectiveness of critical controls over its hosting and operations of the hosted financial system. We determined that as of May 2017, the hosting vendor had not undergone an independent third-party review since 2012;
- did not allow QACPS to have access to the service provider's performance records and the provider's tests for vulnerabilities; and
- did not require that the service provider's network be protected by a properly configured firewall or that data at rest, data in transit, and backup data be encrypted.

Industry best practices recommend detailing the specific responsibilities mentioned above in clear and concise contractual language to limit operational and security risks. Also, the American Institute of Certified Public Accountants has issued guidance concerning examinations of service organizations. Based on this guidance, service organizations (like the aforementioned service provider) may contract for an independent review of controls and the resultant independent auditor's report is referred to as a System and Organization Controls (SOC) for Service Organizations report. There are several types of SOC reports, with varying scope and levels of review and auditor testing. One type of report, referred to as a SOC 2 Type 2 report, includes the results of the auditor's review of controls placed in operation and tests of operating effectiveness for the period under review and could include

an evaluation of system security, availability, processing integrity, confidentiality, and privacy.

Recommendation 12

We recommend that QACPS

- a. ensure that the service provider contract includes provisions that address the aforementioned security and operational risks, including requiring the service provider to regularly obtain independent third-party reviews pertaining to the service provider's information technology security and operational controls; and
- b. obtain and review copies of these independent third-party reports from service providers and ensure that the related independent reviews adequately address all critical security and operational concerns and that the service provider implements all critical report recommendations.

Finding 13

QACPS did not have a complete information technology disaster recovery plan (DRP) for recovering computer operations.

Analysis

QACPS did not have a complete IT DRP for recovering computer operations from disaster scenarios (for example a fire). The *SOM IT Disaster Recovery Guidelines* provide best practices on the minimum required elements needed for a DRP. QACPS' DRP did not address several of these minimum requirements. For example, the DRP did not contain an alternate processing site, listings of hardware and software, or the restoration of network connectivity. In addition, the DRP had not been tested. Without a complete and tested DRP, a disaster could cause significant delays (for an undetermined period of time) in restoring information systems operations above and beyond the expected delays that would exist in a planned recovery scenario.

Recommendation 13

We recommend that QACPS

- a. develop and implement a comprehensive DRP that is in accordance with the aforementioned *IT Disaster Recovery Guidelines*, and
- b. periodically test the DRP, document the testing, and retain the documentation for future reference.

Facilities

Background

QACPS employs a staff of 86 employees to maintain its 14 schools and 2 other administrative and support facilities. According to the fiscal year 2017 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to QACPS facilities over the next six years were estimated to cost at least \$97.5 million.

QACPS Capital Projects Were Competitively Procured and Related Expenditures Were Generally Properly Supported

Our review of 11 construction-related procurements during fiscal years 2014 to 2017 totaling \$14.2 million disclosed they were competitively procured or utilized an ICPA that was competitively procured. We found that the competitive procurements were properly awarded, but as commented upon in Finding 3, written assessments of the benefits of using the ICPAs were not prepared. Our test of 26 invoices totaling \$4.9 million for these contracts disclosed that generally, the invoices were properly reviewed and approved and the amounts invoiced were in accordance with the related contract terms.

Processes are in Place to Promote Ongoing Facility Maintenance and to Minimize Energy Costs

QACPS has processes in place to promote ongoing facility maintenance and to minimize energy costs. For example, QACPS provides scheduled and preventive maintenance of its buildings and equipment and monitors its equipment to prevent emergency repairs. In addition, QACPS utilizes energy management systems to monitor heating and air conditioning systems from a central location to control temperature settings. QACPS also has written policies that encourage both students and employees to be aware of and limit their energy use.

QACPS claimed in an internally prepared report (which we did not audit) that from May 2005 to April 2017 its energy management conservation efforts had resulted in overall energy cost avoidance of \$8.3 million from reduced usage of electricity, heating oil, and propane. Furthermore, QACPS participates in a consortium with other Eastern Shore entities to purchase energy at the best possible terms for members of the consortium. According to documents provided by QACPS from the consortium (which we did not audit), QACPS saved over \$1.4 million through energy cost avoidance from fiscal years 2001 to 2016.

Finding 14

QACPS executed three 20-year power-purchasing agreements (PPAs) and a subsequent amendment with a solar provider without a competitive process or a formal analysis to ensure it received the best value. In addition, QACPS did not advise the Board of the related fiscal impact of the amendment, which increased the electricity rate.

Analysis

QACPS executed with a solar provider three power-purchasing agreements (PPAs), each with a 20-year term and a combined estimated cost of \$5 million, without using a competitive procurement process. In addition, QACPS did not perform formal analyses to determine it was receiving the best value under the three original PPAs and a subsequent amendment under one of these agreements. While the original PPAs and the amendment that included the rate increase were approved by the Board, QACPS did not advise the Board of the related fiscal impact of the amendment, which we estimated to be as high as \$585,000.

In an effort to reduce electricity supply costs, QACPS executed one PPA in 2014 purportedly using an ICPA and then executed two PPAs in 2015 with the same ICPA vendor. According to the solar provider, the PPAs could collectively save QACPS approximately \$7.7 million in reduced electricity bills over the 20-year terms. Under the PPAs, the provider installed fields of solar panels at certain QACPS locations in exchange for a 20-year guarantee that QACPS would purchase at pre-established rates all the electricity generated by the solar panel systems from the provider, which retained ownership of the systems. The systems were to supply from 95 to 100 percent of the needs of the three schools with any excess exported to other QACPS locations. The PPAs also allowed the solar provider to retain all environmental credits, financial incentives, and tax benefits associated with the systems.

For the 2014 PPA, QACPS management contended, but could not sufficiently support, that it had used an ICPA with a county government on the State's Eastern Shore. QACPS had corresponded with the county and attended meetings about the county's 2012 solar procurement but there was no mention of an ICPA in the QACPS PPA and QACPS was not named in the county contract or solicitation documents as a participating party. Further, while QACPS had selected the same vendor as the county, they actually received a different albeit lower rate (\$.0470 per kilowatt-hour) than the county (\$.0640 per kilowatt-hour). Furthermore, if the ICPA was used, QACPS had not prepared a written determination of the related benefits, as required by State law.

For the PPAs executed in 2015, QACPS entered into exclusive negotiations with the same solar provider from its 2014 PPA without performing any competitive procurement process. The negotiated fiscal year 2017 rate agreed upon by QACPS for the two original 2015 PPAs (\$.0550 per kilowatt-hour) was about 12 percent higher than the fiscal year 2017 rates for its first project (\$.04890 per kilowatt-hour) and that of one other school system (\$.0490 per kilowatt-hour). We were advised by legal counsel to the Maryland General Assembly that a public school solar project funded under a PPA likely would be subject to the Board of Public Works' school construction regulations and that those regulations establish a preference for competitive sealed bidding.

QACPS did not conduct a formal assessment to determine the financial impact of an amendment to one of the 2015 PPAs that increased the electricity rate to offset certain infrastructure and upgrade costs paid by the solar provider. Furthermore, while QACPS provided the amendment to the Board, it did not advise the Board of the related fiscal impact, which appears to have resulted in QACPS paying more than its share of those costs.

Specifically, in 2016 the local electric utility claimed that \$256,000 in infrastructure upgrades were required to install the solar field system contracted for under one of the 2015 PPAs, which had not been anticipated by the service provider. Per QACPS, these costs were to be split evenly (\$128,000 per participant) between QACPS and the solar provider; however, QACPS instead elected to have the solar provider pay for all the costs in exchange for a \$.0100 per kilowatt increase in the PPA rate (from \$.0550 to \$.0650 per kilowatt-hour) for the 20-year term. Based on the 20-year estimated output of the system, we calculated that QACPS could pay an additional \$585,000 over the life of the system due to the \$.0100 rate increase or a net amount of \$457,000 (\$585,000 less \$128,000), not considering the time value of money.

Recommendation 14

We recommend that QACPS

- a. ensure that a proper procurement method (competitive procurement or intergovernmental agreement) is used for all future energy contracts,**
- b. comply with all requirements of State Law when using intergovernmental agreements and ensure such agreements represent the best value, and**
- c. prepare a formal documented analysis of the impact of proposed contract amendments and submit them to the Board for consideration prior to contract execution.**

Student Transportation Services

Background

QACPS has approximately 7,751 students eligible to receive student transportation services. These students were transported on 14 system-owned buses and 74 contractor-owned buses during fiscal year 2016. According to QACPS audited financial statements, fiscal year 2016 transportation costs totaled \$6.0 million, with \$4.7 million (78 percent) representing payments for contracted bus services.

QACPS reported that 2.1 million route miles were traveled to transport students for the 2015-2016 school year. Payments to bus contractors consist of amounts for the purchase of a bus (known as a per-vehicle allotment or PVA, intended as reimbursement for the cost of a bus and a flat rate for return on investment), hourly reimbursements for drivers, a per mile operation (fuel) and maintenance fee, and an administrative fee.

Finding 15

QACPS did not establish comprehensive bus routing procedures and did not periodically perform a system-wide analysis of bus routes and related bus capacities to maximize the efficiency of its bus routes and address bus routes with low ridership.

Analysis

Existing QACPS bus routing procedures were not comprehensive, as they did not address the planning, review, and changing of existing routes and they did not specify target bus capacities, ridership goals, and student ride time limits. In addition, QACPS did not use its routing software to perform a periodic system-wide analysis of its bus routes and related bus ridership in order to maximize efficiency and address bus routes with low ridership. Instead, the QACPS routing committee, that reviews existing individual bus routes annually and periodically throughout the year, manually makes modifications to accommodate students' school assignments, and address road construction and other issues.

Our analysis of student ridership disclosed that there might be opportunities to increase ridership on individual bus routes. Our review of 138 regular routes (72 buses) for the 2016-2017 school year disclosed that 88 routes (64 percent) were below 75 percent of computed capacity goals based on bus

sizes¹. Of the 138 routes, 24 (17 percent) had student ridership of less than 50 percent. While we recognize that Queen Anne’s County includes large rural areas, which can make it difficult to meet target capacities (which have not yet been established) in all cases, our analysis included all regular routes, so the buses cited were not isolated to only rural regions of the county.

A similar condition regarding the need for QACPS to utilize its routing software to perform a system-wide analysis of bus routes and related bus capacities to maximize the efficiency of its routes was commented upon in our preceding audit report.

Recommendation 15

We recommend that QACPS take steps to maximize bus utilization efficiency. Specifically, we recommend that QACPS

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

Finding 16

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

Analysis

QACPS had not established a formal methodology to calculate its PVA and the majority of the elements used to determine payment amounts to bus contractors. We found that such payments often did not reflect market conditions, or consider actual costs and available discounts. QACPS’ bus contracts are for a two-year term with new contracts generally granted over the 15-year useful life of a bus and are approved by the Board. Our review of the contract payments disclosed the following conditions:

- QACPS continued to pay contractors an annual PVA for each bus that was based on rates negotiated with contractors without ensuring through a formal methodology that the related amounts appropriately considered the applicable components. Those components include the cost of the bus,

¹ School bus capacities are lower than manufacturer stated capacities and differ depending on the school level. For example, the capacity for high school and elementary school routes is 48 and 61 students, respectively based on 72-passenger buses (manufacturer stated capacity).

an allowed depreciation percentage, and a reasonable return on investment (ROI) for using the bus contractor's funds to buy the buses. During the period from fiscal years 2011 to 2017, the annual PVA negotiated for the buses placed in service during those years increased from \$15,748 to \$18,200.

Since there was no stated ROI in the PVA rates or any explanation or calculation of the ROI paid, we calculated the imputed ROI rate paid for years 2011 to 2017 using the actual purchase prices for the same-sized buses from a comparably-sized school system. We determined the ROI for those years ranged from 10.58 to 12.96 percent.

To estimate the financial impact of QACPS using PVA rates that were not based on actual costs or investment rates over the life of a bus, we calculated the PVA for the 27 primary buses being used to transport students during fiscal year 2017, that were placed into service since 2011. Using cost information obtained from other recent audits, the prime interest rate plus 2 percent² (which ranged from 5.25 to 10.25 percent) for the ROI, and QACPS' 15-year estimated useful life in the traditional PVA formula, we compared our PVA results to the QACPS PVA payments. This comparison showed that QACPS' annual PVA payments per bus were \$5,009 to \$6,920 higher than the payments would have been had actual costs and the prevailing prime interest rate plus 2 percent been used in the calculation. The effect is that, over the 15-year life of these 27 buses that were in service during fiscal year 2017, QACPS would pay out approximately \$2.4 million more than if actual costs and a reasonable ROI had been used (\$500,000 having already been paid and \$1.9 million to be paid over the remaining useful lives). This analysis does not include the effect of any new bus purchases that were made after the beginning of the fiscal year 2017 school year (September 2016) and the lost interest income that could have been earned by QACPS on the excess amounts paid.

²There is no generally agreed upon formula or method for determining ROI. In 1975, an MSDE study recommended the prime rate as a reasonable ROI interest rate. The prime rate is actually a lending rate that nearly always exceeds the available market investment rate; therefore, it was deemed reasonable for the ROI calculation. The use of the prime interest rate was again recommended in a November 1999 study commissioned by a local Maryland school system. In 2012, another school system's consultant's report recommended the prime rate plus 2 percent as a reasonable ROI, which serves as the basis for our calculations. In QACPS' case, the use of prime plus 2 percent indicated that its various ROIs were still potentially excessive. Finally, a May 2010 MSDE PVA Workgroup commented that the profit (or ROI) to be included in the PVA should reflect what a reasonable investor or business person would expect on a long-term investment. Under that assumption, we noted that as of January 2017, the current 10 and 30-year US Treasury Note rates, which could be reflective of a reasonable long-term investment option, were 2.4 and 3 percent, respectively.

- QACPS could not show that payments to reimburse bus contractors for operation (that is, fuel) and maintenance (OM) costs were reasonable. For example, for fiscal year 2016, QACPS negotiated and paid a combined rate of \$1.35 per-mile to reimburse the contractors for OM costs, without distinguishing the portion applicable to fuel and maintenance and determining the appropriateness of the rate based on independently derived estimates. Total fiscal year 2016 contractor OM payments were approximately \$2.1 million.

We performed a comparison of the fiscal year 2016 OM rate paid to contractors and the calculated OM rate paid for system-owned buses. Our comparison disclosed that QACPS paid \$0.37 per mile for system-owned buses while contractors were paid \$1.35 or 265 percent more than the calculated QACPS OM rate. If the OM rate paid per mile for system-owned buses was applied to the total fiscal year 2016 contractor mileage, the OM contract cost would have been approximately \$574,000, in comparison to the \$2.1 million paid to contractors during that same year. While the system-owned bus rate is not necessarily comparable to a contractor's cost, the difference suggests that there could be an opportunity to reduce OM contractor payments if actual cost data were considered.

Also, it is unclear to what extent this OM rate may have considered the impact of federal excise or state motor fuel taxes when paying bus contractors; however, since QACPS' intent was to reimburse contractor's for actual fuel costs, based on the fuel reimbursement policies at other local school systems the presumption is that those taxes are included in the rate. Federal and State laws exempt school bus contractors from these taxes and permit them to claim a credit for any taxes paid. QACPS officials advised us that they were not aware if any of the contractors were claiming the permitted credit, which could result in a lower actual cost.

Similar conditions regarding the payment of PVA and OM cost components that were not based on actual costs and market investment rates were commented upon in our preceding audit report.

Recommendation 16

We recommend that QACPS

- a. use actual bus purchase costs and market investment rates as a basis for establishing contractor rates for the annual PVA (repeat), and**
- b. use actual bus operating costs or develop supportable cost estimates as the basis for establishing contractor rates for per mile OM costs and ensure that any fuel cost component is reduced for the exempt federal excise and State motor fuel taxes (repeat).**

Food Service Operations

Background

QACPS outsources its food service operations to a third-party vendor. The vendor is responsible for providing meal services to all 14 schools and the central office. The current contract was executed in 2014 for one year, with four one-year renewal options. Under the terms of the contract, the vendor guarantees QACPS a specific financial return (before the payment of certain expenses), which for fiscal year 2017 was at least \$103,000 and provides for a management fee to the vendor of approximately \$226,000. In the event of a shortfall, the vendor pays the difference to QACPS, not to exceed the management fee. According to the audited financial statements, food service revenues (\$2,459,000) exceeded operating expenditures (\$2,432,000) for fiscal year 2016, and for three of the last five years.

Food Services Contract Was Properly Procured and Related Revenues Accounted For

QACPS properly conducted a competitive solicitation for the 2014 food services contract, submitted the contract to the Board, and obtained approval for the award. Additionally, we determined that vendor reported food sales revenues were reconciled monthly by QACPS staff to related system reports and bank statements. Federal and State food services funding was confirmed by QACPS' external auditor.

Monthly vendor invoices were reviewed and compared to supporting vendor reports and approved by QACPS management. The fiscal year 2015 (most recent year available) cost of meals (\$3.33) was comparable to other similar size schools. For fiscal year 2016, the guaranteed financial return amount agreed to the contract amount. Finally, the vendor's fiscal year 2016 audited financial statements did not disclose any concerns.

School Board Oversight

Background

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

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

In February 2012, the Board adopted a revised detailed ethics policy that conforms to State Law and includes provisions for conflicts of interest and financial disclosure that was approved by the State Ethics Commission. Provisions of this policy are applicable to Board members as well as all QACPS employees. QACPS established an Ethics Panel consisting of three members in 2012 to interpret ethics policies, provide advice on policy implementation, and review and rule on any reported complaints of ethics violations. According to the ethics policy, annual financial disclosure statements are required to be filed by Board members, candidates for the Board, the Superintendent, and a number of other administrators (Directors, Supervisors, Chief Financial Officer, Human Resource Officer, Principals, and Vice Principals) by April 30th of each year and within 60 days after leaving office.

Finding 17

Financial disclosure statements were not always filed, or filed timely, as required by QACPS' ethics policy.

Analysis

QACPS employees did not always comply with the financial disclosure reporting requirements of QACPS' ethics policy. Our review of the statement submissions for calendar year 2015, as of the date of our test in March 2017, disclosed the following:

- Sixteen of the 47 employees required to file a statement for calendar year 2015, including 2 Board members, did not file the required statement.
- Twenty-eight of the remaining 31 employees filed the required calendar year 2015 statements after the April 30, 2016 deadline, including 2 employees who filed the required statement over six months late and 2 other employees who filed the required statement in October 2015, indicating that they were for both the calendar year 2014 and 2015 reporting period.

QACPS may be unaware of conflicts of interest issues if employees do not file disclosure statements timely. We commented on the failure to ensure persons subject to the ethics policy comply with filing requirements in our preceding audit report. In its response to our prior finding, QACPS stated it would establish specific procedures for the reporting requirements in the State ethics law.

Recommendation 17

We recommend that QACPS actively enforce its ethics policy to ensure that all required disclosure statements are timely filed as required (repeat).

Management of Other Risks

Healthcare Background

QACPS is a member of a consortium of Eastern Shore governments and school systems for employee and retiree health care. The Consortium members are self-insured for healthcare costs up to a designated stop-loss amount of \$150,000 per participant per plan year. The Consortium contracts with a third party administrator (TPA) firm for health care claims processing services for employee medical (including vision), dental and prescription costs and for the stop-loss insurance coverage. The TPA bills QACPS monthly subscription charges based on the number of participants and their medical coverage and medical providers submit claims to the TPA who pays them on behalf of QACPS. QACPS pays its TPA an administrative fee for these services.

In a year-end settlement process, which segregates the participating agencies for the plan year ending August 31, the TPA nets the amount of medical claims they paid against the monthly subscription charges billed to and paid by QACPS to determine any excess amount due from or to be reimbursed to either party. According to the TPA's records for the plan year ended August 31, 2016, QACPS health care expenditures totaled approximately \$10 million including \$490,000 for administrative fees and \$595,000 for stop-loss insurance coverage.

The Consortium contracts with a consultant who reviews the impact of health-plan transaction activity on coverage rates, the merits of health plan proposals, negotiates rates, reviews the mathematical accuracy of the year-end settlement, and ensures that amounts credited for claims in excess of the stop-loss are properly included in the settlement. The Consortium last bid out its health care services for plan year 2013. As of June 2017, QACPS provided health care coverage to 1,237 employees and retirees (excluding their dependents).

Finding 18

Eligibility documentation was not always obtained to verify that certain dependents met health insurance enrollment criteria, as required by QACPS policy.

Analysis

Eligibility documentation for the enrollment of certain dependents was not always obtained to verify dependents met health insurance enrollment criteria. Our test of 10 employees hired in fiscal year 2017 with dependent insurance coverage disclosed that 6 of the employees had not provided documentation required by QACPS to support dependent eligibility, such as birth and marriage certificates. During the 2016 plan year, QACPS added 43 dependents, and per 2016 contract rates, the average cost for each dependent was approximately \$6,500 per year.

Recommended practices published by the Government Finance Officers Association, state that health care cost containment is a critical component of long-term financial planning and budgeting. During our previous audit, we determined that the eligibility of the dependents of enrolled program participants was not verified and recommended that QACPS institute processes to verify their eligibility.

In 2012, QACPS hired a consultant to verify the propriety of individuals that were covered as dependents under its health care plans. The consultant required all employees and retirees under the age of 65 with dependents to submit documentation supporting dependent eligibility. As a result of this review of 507 dependents, the consultant identified 31 ineligible dependents for removal at an estimated savings of \$162,000. We were advised that QACPS removed the ineligible dependents from the plans as recommended.

Recommendation 18

We recommend that QACPS ensure that its employees comply with its dependent enrollment documentation policy. Specifically, QACPS should ensure health care program employees always submit the supporting documentation required to verify the eligibility of their dependents before dependent health coverage is processed.

Finding 19

QACPS did not ensure the propriety of employee and retiree health care claims paid and did not verify plan administrative fees were properly charged.

Analysis

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

- QACPS did not audit the propriety of the medical claims paid on its behalf by the TPA to ensure that the services were actually provided, covered by the health plans, appropriately priced, and accurately reported on the year-end settlement. Furthermore, QACPS did not receive detailed claims data from the TPA to verify the propriety of the aforementioned items and correctness of the year-end settlement.
- QACPS did not verify that administrative fees and premiums billed by the TPA agreed with its payroll records for enrolled employees. We were advised that the only verification performed was to ensure changes in coverage reported by the QACPS HR office were reflected on the monthly invoice, but this verification was not documented. In addition, the monthly rates charged for the various coverage categories (medical, vision, dental, and prescription drug) and stop-loss insurance were not verified for agreement with the related available contracts maintained on file. Our recalculation of the administrative fees and stop-loss insurance charges, per the 2015-2016 contract year, based on the listed participant counts on certain monthly invoices reviewed and the related contract rates did not disclose significant variances.

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

Recommendation 19

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

- a. obtain documentation to support actual claim payments, and ensure audits of the claims paid by the TPA are conducted; and

- b. compare its records of enrolled employees to TPA invoices and contract rates to determine the propriety of related fees and premiums billed.**

Audit Scope, Objectives, and Methodology

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

We had two broad audit objectives:

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

In planning and conducting our audit of QACPS, we focused on 11 major financial-related areas of operations as approved on December 6, 2016 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of findings included in our preceding audit report on QACPS dated October 25, 2011, was limited to those findings that were applicable to the current audit scope for each of the 11 areas.

The audit objectives excluded reviewing and assessing student achievement, curriculum, teacher performance, and other academic-related areas and functions. Also, we did not evaluate the QACPS Comprehensive Education Master Plan or related updates, and we did not review the activities, financial or other, of any parent teacher association, group, or funds not under the local board of education's direct control or management.

To accomplish our objectives, we reviewed applicable State laws and regulations pertaining to public elementary and secondary education, as well as policies and procedures issued and established by QACPS. We also interviewed personnel at QACPS and the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as

appropriate).³ Our audit procedures included inspections of documents and records, and observations of QACPS operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives, generally for the period from July 1, 2015 through January 31, 2017. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits QACPS' financial statements and conducts the federal Single Audit.

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

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

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

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

We conducted our fieldwork from January 2017 to July 2017. The QACPS response to our findings and recommendations is included as an appendix to

³ During the course of the audit, it was necessary to contact other systems to identify policies or practices for comparative purposes and analysis.

this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise QACPS regarding the results of our review of its response.

APPENDIX



Queen Anne's County Public Schools
Preparing World-Class Students Through Everyday Excellence

June 30, 2018

Thomas J. Barnickel III, CPA, Legislative Auditor
Office of Legislative Audits
Maryland General Assembly
301 West Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

Enclosed are the responses to the recommendations made in the Financial Management Practices Audit Report for Queen Anne's County Public Schools. This response has also been emailed to response@ola.state.md.us as requested in your letter dated April 9, 2018.

We appreciate the additional time afforded us to provide responses due to the change in the Chief Financial Officer position. If you have any question regarding this submission, please do not hesitate to contact Mr. John M. Pfister, Chief Financial Officer.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrea M. Kane". The signature is fluid and cursive.

Andrea M. Kane, Ph.D.
Superintendent

A handwritten signature in black ink, appearing to read "John M. Pfister". The signature is fluid and cursive.

John M. Pfister
Chief Financial Officer

Enclosure

cc: Ms. Annette DiMaggio, President, Queen Anne's County Board of Education

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Queen Anne's County Public Schools (QACPS) agrees with the information contained in the Background Information section of the Financial Management Practices Audit Report for Queen Anne's County Public Schools. Below are the required QACPS Management responses to each audit finding.

Finding 1

Adequate accountability and control over cash receipts had not been established, as collections were not always restrictively endorsed and recorded immediately upon receipt and there was no independent verification that collections were deposited.

Recommendation 1

We recommend that QACPS

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

Response - Finding 1

QACPS agrees with Finding 1. QACPS has established procedures for the collections of funds, especially cash and check collections taken in-person by the Finance office.

- a. Effective immediately, QACPS will ensure all checks are restrictively endorsed upon receipt in the Finance Office. Additionally, QACPS will purchase additional endorsement stamps for other departments that routinely receive checks to ensure checks can be immediately restrictively endorsed. QACPS will develop a standard cash receipt log for all departments to use to document checks received.
 - b. QACPS will secure receipts prior to deposit.
 - c. QACPS will establish a procedure to verify all collections were deposited using the cash receipt log created.
-

Finding 2

QACPS had not established a process to independently review school activity fund (SAF) transactions, verify compliance with the *Accounting Manual for School Level Bookkeepers* and established internal controls, and properly account for receipts and disbursements.

Recommendation 2

We recommend that QACPS establish a process to independently verify, at least on a test basis, that school personnel comply with the *Manual* by performing periodic site visits to review SAF procedures and supporting documentation and conduct tests of transactions (repeat).

Response Finding 2

QACPS agrees with Finding 2. Currently, QACPS does not have an internal auditor to independently verify school activity funds. In the current economic climate which has forced QACPS to reduce funded positions by over 13 in the last two years, it is not anticipated this position would be added to our budget. In response to a recommendation in the last audit report QACPS developed a checklist as a tool for the principal and financial secretary to use in evaluating the effectiveness of the financial procedures

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in use in their school. The checklist, which is part of the required end of year closing procedures, is received and reviewed by finance staff. Additionally, beginning July 1, 2016 QACPS converted to a new accounting software platform for all schools. The new platform allows central office real-time access to the schools' accounts. Annually, a meeting is held with the financial secretaries to review the accounting manual and proper accounting procedures. Also, this information is reviewed with the school principals at the August Administrator and Supervisors meeting. During FY2019, the Chief Financial Officer will work with the external auditors to develop an audit plan for school activity funds to determine compliance with the *Accounting Manual for School Level Bookkeepers*.

Finding 3

QACPS' procurement policies were not sufficiently comprehensive, as they did not include specific requirements for Board approval, the competitive solicitation of services, or the use of Inter-governmental Cooperative Purchasing Agreements (ICPA). QACPS did not always comply with the existing polices and State Law.

Recommendation 3

We recommend QACPS:

- a. obtain Board approval for contracts that meet certain criteria, such as those exceeding a certain monetary threshold (repeat);
- b. amend its existing policies to address all methods for procuring goods and services
- c. procure service contracts using a competitive bidding process or document the justification for any sole source procurements;
- d. before deciding to participate in an ICPA, prepare written documentation of the benefits of utilizing the ICPA for Board review; and
- e. require that a documented analysis of the benefits of all ICPAs be prepared and submitted to the Board for approval.

Response Finding 3

QACPS agrees with Finding 3. QACPS currently obtains Board approval for all major construction contracts. QACPS adheres to established Maryland procurement laws. QACPS will obtain copies of all cooperative purchasing agreements in which the system participates and documents the benefits of such participation. Invoices will be checked to ensure billed services align with the cooperative agreements.

- a. QACPS will obtain Board approval for all contracts that meet certain criteria, such as those greater than \$25,000.
- b. QACPS will be performing a comprehensive review of all procurement activities and will adjust and revise all necessary policies, procedures and administrative regulations.
- c. QACPS will use the competitive bidding process for all procurements meeting legislated dollar thresholds, unless QACPS utilizes an ICPA. QACPS will fully document the justification of the use of sole source procurements.
- d. QACPS will document the benefits of all ICPA's, and when necessary, submit to the Board for review.

Queen Anne's County Public Schools (QACPS)
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- e. Procurements utilizing ICPA's and meeting certain criteria will be presented to the Board for approval.
-

Finding 4

QACPS did not always verify amounts billed with contract terms.

Recommendation 4

We recommend QACPS:

- a. maintain contract pricing information on file, including applicable contracts; and
- b. require all billings be verified with related contract terms prior to payment.

Response Finding 4

QACPS agrees with Finding 4, and commits to:

- a. Maintaining the written contract and contract pricing on file for all procurement contracts.
 - b. Ensuring that all billings are verified against all financial terms within the contract prior to payment.
-

Finding 5

QACPS had not established adequate internal controls over the processing of certain critical HR and payroll transactions, such as other earnings and salary increases.

Recommendation 5

We recommend that QACPS perform a documented independent review of recorded personnel and payroll transactions using reports generated from the system of such transactions and related supporting documentation (repeat).

Response Finding 5

QACPS agrees with Finding 5. All personnel and salary change requests are processed by Human Resources staff and approved by the Human Resources Officer and are subsequently validated by the Payroll department. Prior period payroll expenses, plus or minus any current HR actions resulting in a salary change, are validated against the current period totals. The Chief Financial Officer reviews a list of all changes by payroll date. Limited staffing continues to diminish the ability to provide independent review. QACPS will develop a payroll/salary change report within the financial system to document salary changes and it will be independently reviewed bi-weekly to supporting documentation.

Queen Anne's County Public Schools (QACPS)
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Finding 6

QACPS had not executed employment contracts for six central office employees and there was no evidence that the Board had approved their salaries as required by State Law, which totaled a combined \$637,000 in fiscal year 2016.

Recommendation 6

We recommend that QACPS:

- a. ensure employee compensation and benefits for its central office employees are documented in written agreements (repeat), and
- b. obtains Board approval for appointments and salaries as required by State law (repeat).

Response Finding 6

QACPS agrees with Finding 6.

- a. All employees, except the Superintendent and executive employees, are covered under a collective bargaining agreement. Only the Superintendent of Schools has a written agreement (contract) with the Board of Education. The executive employees consist of Assistant Superintendent, Director of Operations, Human Resources Officer, Chief Financial Officer, and Executive Secretaries (2.0). These individuals are not allowed to be part of a negotiated agreement as they are deemed 'Confidential' employees and are privy to the information being negotiated. The procedure for calculating compensation and benefits for the executive employees was developed in the 2010-11 fiscal year. The procedure has been consistently applied since that time. Effective July 1, 2018, QACPS will develop a documented salary and benefit schedule/agreement for Executive Team members.
- b. Board approval for all appointments and salary is maintained. The Personnel Action Report is reviewed with the Board at each monthly Board meeting and approved in the open session. The Board negotiates only the Superintendents salary, but approves all collective bargaining agreements. Furthermore, Executive employee salaries will be approved by the Board.

Finding 7

QACPS had not established comprehensive equipment policies and adequate record keeping practices and controls over equipment.

Recommendation 7

We recommend that QACPS put the necessary policies and procedures in place to ensure accountability and control over its equipment inventory (repeat). Specifically, we recommend that QACPS:

- a. establish a policy defining sensitive equipment items that requires them to be recorded in the inventory records (repeat);
- b. establish requirements for conducting physical inventory counts of sensitive equipment, investigating missing items, reporting lost or stolen items and approving disposals;
- c. ensure the inventory records are maintained on a current basis, postings to those records, such as disposals and adjustments, are properly supported and approved (repeat) and that records of the items disposed are maintained; and

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- d. ensure inventory records are properly maintained by recording the cost and purchase date for all equipment and sensitive item purchases (repeat).

Response Finding 7

QACPS agrees with Finding 7. Staff limitations continue to hinder the systems abilities to provide complete and thorough oversight over many business practices. QACPS will investigate alternative methods of ensuring asset recordkeeping is improved.

- a. QACPS will revise the Fixed Asset Procedures document to address the definition of sensitive equipment, the tagging and tracking of the same. QACPS has a current capitalization threshold of \$1,000. Individual departments, i.e. Special Education, Comtek, who purchase sensitive equipment costing less than \$1,000, are expected to track that equipment within their departments.
- b. The procedures manual will be revised to provide departments with guidelines for:
 - i. conducting physical inventory of sensitive items;
 - ii. investigating missing items;
 - iii. reporting lost or stolen items; and
 - iv. approving the disposition of items.
- c. QACPS will ensure documentation, including inventory records, are maintained on a current basis. Also postings to those records, such as disposals and adjustments, are properly documented, approved and maintained.
- d. Inventory records for all capital equipment are properly maintained with the cost and purchase date.

Finding 8

Monitoring of security activities and password and account controls over critical systems were not sufficient.

Recommendation 8

We recommend that QACPS, in conjunction with the system vendor, as necessary:

- a. set the student information database to log all critical security related events, regularly review these logs, document these reviews, and retain this documentation for future reference (repeat); and
- b. establish passwords and account controls over QACPS' student information database and the student information and finance applications that comply with the recommended controls prescribed by the SOM Information Security Policy (repeat).

Response Finding 8

QACPS agrees with Finding 8. System resources can be strained to log all events.

- a. We enabled database auditing and directed all audit records to the database audit trail. QACPS will regularly monitor and report student information system invalid logon attempts. We will also perform periodic independent reviews of the database logs, with the reviews documented and with evidence of the reviews retained for future reference.

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- b. QACPS will establish password and account controls as prescribed by the *SOM Information Security Policy*. QACPS places a high priority on system access and control and considers password protection policies to be a vital component of a secure information system.
-

Finding 9

Firewall rules allowed unnecessary connections to numerous QACPS network devices, 21 publicly accessible servers were improperly located in the internal network, the network was not secured against improper access from untrusted parties using its wireless connections, and intrusion detection prevention system coverage for encrypted traffic did not exist.

Recommendation 9

We recommend that QACPS:

- a. configure its perimeter firewall to adequately secure connections from untrusted third parties, including the Internet (repeat);
- b. relocate all publicly accessible servers to a separate protected network zone to limit security exposures to the internal network segment (repeat);
- c. secure its internal network from risks associated with wireless user access by restricting such access to the internet and use a strong authentication method; and
- d. perform a documented review and assessment of its network security risks and identify how IDPS coverage should be applied to its network for encrypted traffic and implement this coverage.

Response Finding 9

QACPS agrees with Finding 9 and will work to diligently to revise the practices as outlined above to provide limited and secure access to QACPS devices.

Finding 10

QACPS had not identified and protected sensitive personally identifiable information (PII) maintained on its computer systems.

Recommendation 10

We recommend that QACPS:

- a. perform a complete inventory of its systems and identify all sensitive PII;
- b. determine if it is necessary to retain this PII and delete all unnecessary PII;
- c. determine if all necessary PII is properly protected by encryption or other substantial mitigating controls; and
- d. use proven encryption algorithms to encrypt all sensitive PII not otherwise protected.

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Response Finding 10

QACPS agrees with Finding 10. QACPS will perform a complete system inventory and determine the extent that personally identifiable information (PII) will need to be maintained on QACPS systems. QACPS will also research the implementation of Data Loss Prevention (DLP) software or other substantial mitigating controls.

Finding 11

QACPS had not established procedures to ensure that malware protection software was installed, current, and operational on all active computers, administrative rights were properly limited, and operating system security updates were applied.

Recommendation 11

We recommend that QACPS:

- a. regularly, ensure that all active computers have been identified for monitoring and are running current operational versions of the malware protection software used by QACPS with current malware protection signature files, document these efforts, and retain the documentation for future reference;
- b. limit the assignment of local administrative rights on QACPS computers to IT network and system administrators and individuals authorized in writing to have such rights, with documentation supporting these authorizations retained for future reference; and
- c. ensure that all active computers are kept up-to-date for critical operating system security updates and for security updates to potentially vulnerable installed software.

Response Finding 11

QACPS agrees with Finding 11.

- a. QACPS currently has backup system to the current malware device. QACPS has the ability to install any of the backup configurations we have and get our Wide Area Network (WAN) connection restored and running in case of a hardware failure. QACPS will research the cost of additional options to mitigate risks and network downtime in the event of a hardware failure.
 - b. QACPS will take inventory of all computer rights and determine the need for administrative rights on certain devices. Detailed documentation will be kept for future reference.
 - c. QACPS will review automatic updating practices and adjust where necessary to ensure user devices are kept current for critical operating system security.
-

Queen Anne's County Public Schools (QACPS)
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Finding 12

QACPS lacked assurance that adequate information technology security and operational controls existed over its financial system that is hosted, operated and maintained by a service provider.

Recommendation 12

We recommend that QACPS:

- a. ensure that the service provider contract includes provisions that address the aforementioned security and operational risks, including requiring the service provider to regularly obtain independent third-party reviews pertaining to the service provider's information technology security and operational controls; and
- b. obtain and review copies of these independent third-party reports from service providers and ensure that the related independent reviews adequately address all critical security and operational concerns and that the service provider implements all critical report recommendations.

Response Recommendation 12

QACPS agrees with Finding 12. QACPS will consider modifying the existing and future contract(s) of all service providers of hosted systems to provide industry acceptable security and operational controls. QACPS will also insist upon third-party reviews of such security and operational controls.

Finding 13

QACPS did not have a complete information technology disaster recovery plan (DRP) for recovering computer operations.

Recommendation 13

We recommend that QACPS:

- a. develop and implement a comprehensive DRP that is in accordance with the aforementioned *IT Disaster Recovery Guidelines*, and
- b. periodically test the DRP, document the testing, and retain the documentation for future reference.

Response Recommendation 13

QACPS agrees with Finding 13. Management agrees that a Disaster Recovery Plan (DRP) is crucial in maintaining school system operations in the event of a natural or other disaster. QACPS will develop and implement, as resources allow, a comprehensive disaster recovery plan that meets the requirements as outlined in the State of Maryland's *IT Disaster Recovery Guidelines*.

Queen Anne's County Public Schools (QACPS)
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Finding 14

QACPS executed three 20-year power-purchasing agreements (PPA) and a subsequent amendment with a solar provider without a competitive process or a formal analysis to ensure it received the best value. In addition, QACPS did not advise the Board of the related fiscal impact of the amendment, which increased the electricity rate.

Recommendation 14

We recommend that QACPS:

- a. ensure that a proper procurement method (competitive procurement or intergovernmental agreement) is used for all future energy contracts,
- b. comply with all requirements of State Law when using intergovernmental agreements and ensure such agreements represent the best value, and
- c. prepare a formal documented analysis of the impact of proposed contract amendments and submit them to the Board for consideration prior to contract execution.

Response Finding 14

QACPS agrees with Finding 14. QACPS completed a formal analysis, which included the county government, to provide solar energy production.

- a. QACPS will ensure that a proper procurement method (competitive procurement or intergovernmental agreement) is used for all future energy contracts.
 - b. QACPS will provide documentation for the decision to participate in ICPA's represents the best value option for the school system.
 - c. For all future solar projects, the QACPS will prepare an analysis of solar proposal and any related changes to submit to the Board for consideration.
-

Finding 15

QACPS did not establish comprehensive bus routing procedures and did not periodically perform a system-wide analysis of bus routes and related bus capacities to maximize the efficiency of its routes and address bus routes with low ridership.

Recommendation 15

We recommend that QACPS take steps to maximize bus utilization efficiency. Specifically, we recommend that QACPS:

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

Response Finding 15

QACPS agrees with Finding 15.

- a. The QACPS Transportation Department will develop written target bus capacities, ridership goals, and student ride times and include them in the handbook. These items will be taken into consideration when evaluating bus routes. The transportation department has an established

Queen Anne's County Public Schools (QACPS)
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"Routing Committee" which meets regularly throughout the year. As routes are evaluated by this committee these items are taken into consideration.

- b. The QACPS Transportation Department will periodically perform a system-wide analysis of bus route effectiveness. The routing committee continuously reviews routes, comparing the actual route run to that listed in the routing software, to determine more efficient routes, while maintaining optimal student ride times. Beginning with the 2014-15 school year, the transportation department initiated an "Opt Out" program for students who will not be riding a bus to help enhance the efficiency of bus routing and meet capacity goals.
-

Finding 16

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

Recommendation 16

We recommend that QACPS:

- a. use actual bus purchase costs and market investment rates as a basis for establishing contractor rates for the annual PVA (repeat), and
- b. use actual bus operating costs, or develop supportable cost estimates, as the basis for establishing contractor rates for per mile OM costs (repeat), and ensure that any fuel cost component is reduced for the exempt federal excise and State motor fuel taxes (repeat).

Response Finding 16

QACPS agrees with Finding 16. QACPS management operates its school bus service to meet the needs of its students within this large community.

- a. QACPS will attempt to use market investment rates and actual operating costs to assess the fairness of established rates and adjust these rates, if necessary, through contract negotiations. It should be noted that the MSDE report "Per Vehicle Allowance Workgroup Report, 2010" concluded "fairly and equitable determine compensation to school bus contractors....is the choice of the local jurisdiction as each best knows its own unique transportation needs." QACPS negotiates with the bus contractors to determine a fair and equitable contract for QACPS and the contracting companies. This negotiation includes the PVA, operating/maintenance factor and the hourly factor. Starting with the 3-year contract beginning in the FY2016-17 school year the CPI-U will be used to determine increases in each of those factors annually, however the base was a negotiated item.

Queen Anne's County Public Schools (QACPS)
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- b. See (a) above and in the negotiations for the current contract, excise tax deductions were discussed. However, due to many circumstances this was not something that was ultimately pursued but will be re-visited in subsequent negotiations.
-

Finding 17

Financial disclosure statements were not always filed, or filed timely, as required by QACPS ethics policy.

Recommendation 17

We recommend that QACPS actively enforce its ethics policy to ensure that all required disclosure statements are timely filed as required (repeat).

Response Finding 17

QACPS agrees with Finding 17. QACPS will actively enforce its ethics policy to ensure all required disclosure statements are filed. The disclosure statements will be disbursed and collected at the beginning of each fiscal year and be kept on file in the Finance Office.

Finding 18

Eligibility documentation was not always obtained to verify that certain dependents met health insurance enrollment criteria as required by QACPS policy.

Recommendation 18

We recommend that QACPS ensure that its employees comply with its dependent enrollment documentation policy. Specifically, QACPS should ensure health care program employees always submit the supporting documentation required to verify the eligibility of their dependents before dependent health coverage is processed.

Response Finding 18

QACPS agrees with Finding 18. We have changed the enrollment platform used for healthcare, as of September 1, 2017. The new platform automatically places all dependents in a pending status. Eligibility documents are required to be uploaded into the benefit system. Once those documents are reviewed, QACPS personnel must manually change the status of the dependent. QACPS will have completed a full, active enrollment for all health care participants by July 1, 2018.

Queen Anne's County Public Schools (QACPS)
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Finding 19

QACPS did not ensure the propriety of employee and retiree health care claims paid, and did not verify plan administrative fees were properly charged.

Recommendation 19

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

- a. obtain documentation to support actual claim payments, and ensure audits of the claims paid by the TPA are conducted; and
- b. compare its records of enrolled employees to TPA invoices and contract rates to determine the propriety of related fees and premiums billed.

Response Finding 19

QACPS agrees with Finding 19. QACPS has changed the enrollment platform used for healthcare, as of September 1, 2017. The new platform has a built-in program that will assist in reconciling monthly invoices billed by the carrier.

- a. QACPS participates in the Eastern Shore of Maryland Educational Consortium (ESMEC) Health Insurance Alliance, along with five other eastern shore school systems and one county government that collectively purchase health insurance for its employees and retirees. We will present this recommendation to ESMEC and strongly support the need for a claims audit.
- b. QACPS will verify enrolled employees in the payroll system versus provider invoices and contract rates to ensure a proper accounting.

AUDIT TEAM

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