

Financial Management Practices Audit Report

Frederick County Public Schools

April 2015



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

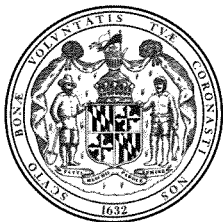
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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Executive Director

April 7, 2015

Thomas J. Barnickel III, CPA
Legislative Auditor

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

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Frederick County Public Schools (FCPS) 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 FCPS procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources.

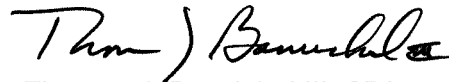
Our audit disclosed that FCPS needs to enhance internal controls and accountability for a number of its financial operations including procurement, contract monitoring, disbursements, human resources and payroll processing, information system security, and food service supplies, among others. For example, FCPS lacked an independent review to ensure that critical personnel and payroll transactions processed, such as changes to employee compensation rates, were proper, and did not adequately restrict user access capabilities to record critical transactions on its automated human resources and payroll system. As a result, there was an increased risk of improper personnel transactions being processed without detection.

Sufficient oversight was not exercised for the procurement of construction management and professional architectural and engineering services since certain documentation supporting contract award decisions was sometimes missing and policies were not consistently followed. FCPS also had not taken certain steps to properly secure certain critical computer applications and its network.

Our audit also identified certain practices in the student transportation and food service areas that contributed to enhancing the effectiveness of the related operations. For example, FCPS has a program that under certain circumstances pays parents to transport their special needs students to school to avoid using more expensive FCPS bus services. For food services, FCPS has taken steps to address recurring deficit operations and has significantly reduced its meal costs.

An executive summary of our findings can be found on page 5 of this report. The FCPS 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 FCPS.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tom J. Barnickel III". The signature is written in a cursive style with a large initial "T" and a stylized "B".

Thomas J. Barnickel III, CPA
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

Executive Summary

Legislative Audit Report on the Frederick County Public Schools (FCPS) April 2015

According to data compiled by the Maryland State Department of Education, FCPS ranks 7th in student enrollment among the 24 public school systems in Maryland. In fiscal year 2014, FCPS had a total full-time regular and special education pupil population of 40,648 students at its 66 schools. FCPS' operating and capital expenditures totaled \$547 million in fiscal year 2013.

The Office of Legislative Audits has conducted its second audit of FCPS' financial management practices. The results of the first audit were issued in a report dated June 4, 2008. Our current audit identified a number of opportunities for FCPS to improve internal controls and to enhance policy direction.

FCPS Needs To Improve Internal Controls and Accountability

FCPS needs to improve internal controls in several financial areas. For example, we noted that FCPS lacked an independent review to ensure that critical personnel and payroll transactions processed were proper. FCPS also needs to restrict user access capabilities to record critical transactions on its automated human resources and payroll, and accounts receivable systems. Additionally, FCPS needs to implement adequate security measures and monitoring procedures to protect its network and related critical devices from security risks. Account and password controls to protect critical systems were not sufficient.

Existing procurement policies were not consistently followed and documentation was not always retained for the procurement of professional architectural and engineering and construction management services to support contract award decisions. Our test of five procurements totaling \$7.4 million disclosed various deficiencies in four of the procurements totaling \$6.3 million. For example, the technical evaluation of proposals submitted was not always adequately documented, as sometimes individual technical scoring sheets were missing and the identity of the related evaluators could not be determined. Consequently, there was a lack of assurance that appropriate personnel had performed the technical evaluations and that the scores used for ranking the proposals were valid. Also, the selection of finalists allowed to submit fee proposals was not always consistent with the ranking of the contractor's technical proposals.

FCPS needs to verify the propriety of payments to contractors for health care services. FCPS is self-insured for employee medical benefits and uses a third-party administrator to process related claims. FCPS reimbursed the administrator for claims paid upon request without sighting support for the amounts actually paid. Payments to the administrator during fiscal year 2013 totaled \$49.6 million.

FCPS Needs To Modify Certain Policies and Practices

FCPS should consider broadening the scope of its policies so that they address all applicable procurement situations. FCPS should revise its policies regarding the Board's involvement in decisions for certain procurements so the Board can provide oversight regarding the appropriateness of such procurements. Current policy generally requires Board approval of all competitively procured contracts of over \$25,000. The policies are silent on the Board's involvement with non-competitive contracts over that dollar threshold, and school management personnel are allowed to approve sole and single source procurements of over \$25,000 without notifying the Board of such procurements. Also, the Board has standard operating procedures for the evaluation of procurements for architectural and engineering contracts that requires retention of individual evaluator scoring sheets for all contractor proposals, but they do not have such a requirement for construction management contracts.

Background Information

Statistical Overview

According to student enrollment records compiled by Maryland State Department of Education (MSDE), Frederick County Public Schools (FCPS) ranks 7th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2014 full-time student enrollment was 40,648 students. FCPS has 66 schools, consisting of 36 elementary, 13 middle schools, 10 high schools and 7 other types of schools (including vocational, charter and alternative, but excluding special education).

According to FCPS' audited financial statements, fiscal year 2013 revenues were \$550.4 million and expenditures were \$547 million. The largest expenditure category was salaries and wages which, including benefits, accounted for approximately 82 percent of total expenditures. According to MSDE records, for fiscal year 2014, FCPS had 5,617 full-time equivalent positions, which consisted of 3,961 instructional positions and 1,656 non-instructional positions.

Oversight

FCPS is governed by a local school board, consisting of seven elected voting members and one non-voting student member. The State and the Frederick County government provide the vast majority of FCPS funding. In addition, MSDE exercises considerable oversight through the establishment and monitoring of various financial and academic policies and regulations, in accordance with certain provisions of the Annotated Code of Maryland. MSDE also works with FCPS to comply with the requirements and mandates of federal law. Frederick County government exercises authority over FCPS primarily through the review and approval of FCPS' annual operating and capital budgets.

External Audits

FCPS engages a certified public accounting firm to independently audit its annual fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of FCPS federal grant programs (as required by federal regulations). We reviewed the resulting financial statement audit and Single Audit reports for fiscal years 2011 through 2014, and examined the related work papers for the fiscal year 2012 audits, which were the latest work papers available when we commenced our field work.

Due to similarities between the work of the independent certified public accounting firm that audited the FCPS' financial statements and conducted the Single Audit, and the risks and scope of our audit in certain areas, we relied on the results of the independent audits to reduce the scope of our audit work related to revenues and federal grant activity.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of 19 of the 26 findings contained in our preceding audit report dated June 4, 2008 (the 26 findings resulted in 18 detailed recommendations in that report). We followed up on these 19 findings based on our current assessment of significance and risk relative to the audit objectives. We determined that FCPS satisfactorily addressed 11 of these findings. The remaining 8 findings are repeated in this report.

Findings and Recommendations

Revenue and Billing Cycle

Background

Frederick County Public Schools (FCPS) revenues consist primarily of funds received from Frederick County, the State, and the federal government. According to the FCPS audited financial statements, revenues from all sources totaled \$550.4 million during fiscal year 2013. In addition to these revenue sources, schools collect funds for various 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, FCPS has a fiduciary duty to safeguard these funds. For fiscal year 2013, school activity fund collections totaled \$6.5 million and the June 30, 2013 balance was \$2.7 million.

External Audits

Due to the similarities between the work of the independent certified public accounting firm that audited the FCPS financial statements and our objectives for this area, we placed significant reliance on the results of the firm's audit for certain revenues and accounts receivable for which the auditor's procedural reviews and testing disclosed no material weaknesses or significant deficiencies.

Reviews of School Activity Funds

FCPS contracts with an independent certified public accountant (CPA) to conduct reviews of all school activity funds (SAF) annually. The CPA's review and testing of these funds during fiscal years 2012 and 2013 generally found them to be adequate, with control weaknesses identified at certain schools; however, these weaknesses were not prevalent among the schools. FCPS provides the CPA with a standardized checklist that includes the general types of procedures to be performed, which is then used to communicate the results of the CPA's reviews to the schools.

Finding 1

FCPS did not adequately monitor the work performed by the accountant contracted to review SAF.

Analysis

FCPS did not adequately verify that the CPA had performed all work under its contract for the annual review of SAF and had reported the results to the management of the applicable schools, as required.

- FCPS did not require the CPA to prepare working papers to document that all work required under the SAF review contract had been performed. Specifically, FCPS had not established a provision in the related contract to require that working papers be prepared documenting the review steps performed and made available upon request for FCPS' review. Furthermore, our review of 30 CPA reviews of the SAF for 10 schools found that the only documentation prepared was the standardized checklist used to report the results to the schools. No additional working papers had been prepared to support the work performed or the findings reported on the checklist. Consequently, there was a lack of detail for FCPS to examine to ensure that the review work had been properly performed and that it fulfilled all requirements under the contract.
- Our review of the checklists prepared for the aforementioned 30 CPA reviews disclosed that 12 checklists prepared for 9 of those schools were missing the signatures of the Principal and Administrative Secretary for the respective school. The checklists have signature blocks that are supposed to be signed by the Principal and Administrative Secretary to document that the results of the SAF review were discussed with them as required under the contract. This document is then forwarded to the FCPS central office. Consequently, there was lack of assurance that the results of the CPA review were properly communicated and acknowledged by school management so that proper corrective action could be taken.

Finally, our review of the findings for 10 schools, found that generally no significant deficiencies were reported, although there were isolated control or compliance issues, such as errors on bank reconciliations or untimely deposits of collections.

Recommendation 1

We recommend FCPS ensure that

- a. a contract provision is established requiring that working papers be prepared to document the procedures performed, information obtained, and conclusions reached for each SAF review;**

- b. the aforementioned working papers be periodically reviewed by FCPS management to ensure compliance with contract terms and that adequate support is maintained by the CPA; and
- c. the results of each school activity fund review are formally communicated to school officials, as required.

Finding 2

FCPS had not established proper controls over non-cash credits.

Analysis

Non-cash credit adjustments posted to accounts receivables by the central accounting department were not properly controlled.

- Non-cash credits posted to the automated accounts receivable system were not subject to independent supervisory review to verify propriety. Output reports of non-cash credits processed were not generated from the automated accounts receivable system and used to verify their propriety by performing an independent comparison to the related supervisory approved source documents.
- User access capabilities to perform non-cash credit functions in FCPS' automated financial management system were not adequately restricted. Specifically, our review of user access capabilities assigned to employees as of September 2013 disclosed 13 employees with the ability to process non-cash credits that did not need that capability to perform their job duties. In addition, 2 of these 13 employees also had access to the safe where cash receipts were to be kept overnight when the deposit cannot be made the same day.
- Accounts receivable and cash receipts functions were not always properly segregated. Our review disclosed two employees who were primarily responsible for either processing non-cash credits in the accounts receivable or performing cash receipts functions but would sometimes perform the other function in a backup capacity when the primary personnel were not available. For example, we noted where one of the aforementioned employees, who was primarily responsible for processing non-cash credits, had received and initially recorded cash receipts on at least 15 days during fiscal year 2013. A similar condition regarding a lack of separation of duties was commented upon in our preceding audit report.

As a result, cash receipts could be misappropriated or unauthorized non-cash credits could potentially be processed without detection. According to FCPS records, accounts receivable processed by central accounting totaled approximately \$3.9 million and non-cash credits totaled approximately \$106,000 during fiscal year 2013 of which \$80,000 were processed by one of the aforementioned employees who also was involved in initially receiving and recording cash receipts in a backup capacity. Our test of 15 non-cash credit transactions totaling \$16,000, which included 10 days where the employee who processed the transaction had also recently handled cash receipts, did not disclose any unauthorized transactions.

Recommendation 2

We recommend FCPS

- a. establish procedures to ensure non-cash credit adjustments processed in its automated financial management system are properly authorized and supported. Specifically, FCPS should generate and review output reports of non-cash credit adjustments from the system and have an independent employee compare the adjustments to related approved authorizing documents;**
- b. restrict access capabilities to perform non-cash credit adjustments to accounts receivable records to only users who need that capability to perform their job duties; and**
- c. properly segregate the duties of the accounts receivable and cash receipt functions (repeat).**

We advised FCPS on accomplishing the necessary separation of duties using existing personnel.

Federal Funds

Background

FCPS receives funds pertaining to federal government programs that are generally restricted for use for a specific program (such as the School Lunch Program or Special Education). According to the audited Schedule of Expenditures of Federal Awards, fiscal year 2013 expenditures totaled \$19.6 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 work performed by the independent certified public accounting firm that conducted the Single Audit of the FCPS federal grants and the objectives

of our audit in this area, we relied on the auditor's work and results. Besides expressing an opinion on FCPS compliance with the terms of several grant programs, the auditor also considered the existing internal control structure's impact on compliance and audited the required Schedule of Federal Awards (which includes claimed and reported grant expenditures) for fiscal year 2013. The related report stated that FCPS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with, and the operation of, major federal programs, the auditors did not identify any material weaknesses or significant deficiencies.

Procurement and Disbursement Cycle

Background

According to the audited financial statements and FCPS records, non-payroll disbursements totaled \$100.3 million during fiscal year 2013. FCPS has a formal procurement policy and related procedures. The policy sets bidding requirements and specifies when Board approval is required. FCPS uses an automated system to process requisitions, purchase orders, invoices, and payments to vendors. Purchase orders, contracts, solicitations, and bids are processed by a centralized purchasing department. The centralized finance office's accounts payable unit processes payments after receipt of the goods and services is confirmed by the division that received those goods or services.

Internal Audit of Procurement Activity

FCPS, along with Frederick County government, and Frederick Community College (FCC) receives internal audit services from the Interagency Internal Audit Authority (IIAA). The IIAA is an independent agency of Frederick County government governed by a seven member board comprised of one representative each from the county government, FCPS, and the FCC Board of Trustees and four members from the public with expertise in accounting, auditing, and internal control. IIAA contracted with an independent certified public accounting firm to conduct an audit of FCPS' purchasing and disbursement processes. The audit period was January 1, 2011 through December 31, 2012 and the audit report was dated October 16, 2013.

Due to the similarities between the work performed by the IIAA and the objectives of our audit in this area, we placed reliance on the work of the IIAA audit to reduce the scope of our review in this area. For example, the audit disclosed that generally FCPS procurements encouraged fair and open competition, goods and services received were monitored for compliance with

contract terms and conditions, and that payments tested were appropriate and in compliance with FCPS policies. The audit resulted in 17 recommendations. FCPS' responses in large part agreed to implement these recommendations. As of March 21, 2014, FCPS indicated that 9 of these recommendations had been implemented and it was still in the process of addressing 4 of the recommendations. For the remaining 4 recommendations, no further actions were planned by FCPS. Our review disclosed that the majority of the findings did not relate to areas deemed critical to our audit objectives. However, we did follow-up on one finding of potential significance; that access controls over critical purchasing and disbursement system functions were inadequate. At the time of our follow-up, we deemed the existing controls adequate.

Finding 3

FCPS' controls over obtaining and retaining corporate purchasing cards were not adequate.

Analysis

FCPS lacked adequate controls over its corporate purchasing cards (CPC). According to FCPS records, as of June 2013, 684 cards had been issued to FCPS employees and related expenditures totaled approximately \$6.8 million during fiscal year 2013. For example:

- The functions of ordering and receiving new cards were not properly segregated. Specifically, an employee responsible for receiving and issuing new cards also had the capability to order new cards. In addition, this same employee performed monthly audit reviews of card purchase transactions for propriety. Also, documentation of the approval of the issuance of new cards by the cardholder's supervisor was not always maintained. Specifically, our test of 10 cards issued disclosed 6 were missing documentation to substantiate supervisory approval of the issuance of the card. The supervisor's approval provides assurance cards were issued to appropriate employees who require cards for their job responsibilities. As a result of the above issues, unauthorized cards could be ordered and received by the aforementioned employee and improper purchases could be made using an unauthorized card and remain undetected. A similar condition regarding a lack of segregation of duties over the ordering, receipt, and issuance of new cards by one employee was commented upon in our preceding audit report.

- FCPS did not perform periodic evaluations of card usage to determine whether the employees assigned the cards needed them. Records provided by the card issuing bank disclosed that, as of June 2013, 78 cards had not been used for periods ranging from 12 to 25 months, including 50 that had never been used. A similar condition regarding a lack of periodic evaluations of card usage was commented upon in our preceding audit report.

Recommendation 3

We recommend that FCPS

- a. segregate CPC ordering, receiving, and audit functions (repeat);**
- b. maintain documentation to support supervisory approval of all cards issued; and**
- c. conduct periodic evaluations of card usage and terminate cards that are determined to be unnecessary (repeat).**

We advised FCPS on accomplishing the necessary separation of duties using existing personnel.

Finding 4

FCPS' procurement policies requiring Board approval of purchases of over \$25,000 was delegated for certain types of purchases without a formal corresponding Board reporting process.

Analysis

Board approved FCPS' policies delegated the approval for sole and single source procurements over \$25,000 to certain administrative individuals and did not require reporting to the Board so it could exercise appropriate oversight.¹ While FCPS had developed formal procurement policies to address the acquisition and Board approval of competitive procurements of over \$25,000, it did not require Board approval for non-competitive procurements over \$25,000. Rather, only the purchasing manager's or Superintendent's approval was specifically required for sole and single source procurements over \$25,000, respectively. Further, Board policy provided that the Superintendent had the discretion to notify the Board of single source procurements that he or she approves, and the policies were silent regarding notifications for sole source procurements. A

¹FCPS' Policies define Single Source procurements as when staff actively seeks one supplier even though multiple suppliers are available and define Sole Source procurements as when only one supplier is available.

similar condition regarding the approval of sole source procurement policies was commented upon in our preceding audit report.

According to FCPS records, sole and single source procurements over \$25,000 totaled approximately \$11.1 million during fiscal year 2013, of which \$8.6 million were for placements of special education students in private institutions. While we acknowledge that waiting for Board approval could potentially delay these placements, we believe that the Board should at least be notified of such contracts so that they would have an opportunity to review the decision it had delegated to others.

Recommendation 4

We recommend FCPS modify its policies to require that, at a minimum, the Board to be notified of delegated sole and single source procurements exceeding \$25,000 (repeat).

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the FCPS budget. According to FCPS records, fiscal year 2013 salary, wage, and benefit costs totaled \$447 million, or 82 percent of the \$547 million total operating expenditures. According to Maryland State Department of Education reports, during the 2013 – 2014 school year, FCPS had 5,617 full-time positions, which consisted of 3,961 instructional and 1,656 non-instructional employees.

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

Finding 5

Capabilities assigned to users who would perform critical HR and payroll system functions was not adequately monitored and restricted. In addition, reviews of HR transactions were not always independently performed.

Analysis

Capabilities assigned to users who would perform critical HR and payroll system functions were not adequately monitored and restricted to employees who needed that access to perform their job duties. In addition, reviews of HR transactions were not always independently performed.

- Although FCPS had established a procedure for the supervisory approval of the access capabilities granted to new HR and payroll department system users, FCPS had not established a procedure for the periodic review of the propriety of existing users' access capabilities. Specifically, available reports of employee access capabilities were not periodically generated (for example, annually) and distributed to applicable supervisors for review and confirmation of the continued need for that access. Instead, FCPS relied on individual supervisors to notify its Technology Systems staff if access needed to be changed. Consequently, FCPS personnel were unaware of the unnecessary and incompatible access capabilities that existed for many users.
- Our review of the access capabilities of 176 users with critical HR and payroll system functions, as of September 25, 2013, disclosed that 11 users had unnecessary access to one or more critical HR or payroll functions (4 had access to as many as 8 different critical functions) that were not required to perform their job duties. For example, these 11 users had inappropriately been granted access to an HR function that allowed them to change critical employee information, including compensation rates, job positions, and benefits. Furthermore, 3 of the 11 users had incompatible payroll system capabilities that enabled them to process unauthorized payroll transactions. Additionally, we noted that there were 16 active test accounts with unnecessary production system access capable of updating one or more critical HR and payroll related functions (4 had access to as many as 10 different critical functions). After we brought this to their attention, FCPS personnel agreed that the accounts should not have had such production system access and they were deactivated. Our test of HR and payroll update activity did not disclose any inappropriate transactions.
- The reviews of the propriety of personnel changes processed that were performed monthly on a test basis by HR employees were not always

independent, as one of the employees that performed the review also had HR system update capabilities.

We commented on the failure to segregate incompatible job duties (and related user access capabilities) and the lack of an independent review of personnel changes in our preceding audit report.

Recommendation 5

We recommend that FCPS take appropriate actions to ensure the propriety of assigned user access capabilities, and the propriety of HR and payroll transactions. Specifically, FCPS should

- a. **perform a periodic documented review of user access capabilities for the HR and payroll functions to identify any incompatible and unnecessary capabilities and make appropriate changes (repeat);**
- b. **for any users found to have inappropriate capabilities, conduct a review to determine if the user performed any unauthorized transactions and take any necessary corrective actions; and**
- c. **perform a periodic documented independent review of personnel actions processed (repeat).**

Finding 6

Adequate controls had not been established over a certain high-risk access capability that enabled users to change or delete historical personnel and payroll records.

Analysis

Adequate controls had not been established over a certain high-risk access capability that enabled users to change or delete personnel and payroll records without leaving documentation that a change or deletion occurred. Specifically, Correction Mode (CM) access to critical HR and payroll functions was not adequately restricted nor was there a documented compensating control. CM is an administrative level access that, when granted, enables users to change or delete historical data. FCPS uses CM access to primarily correct errors in an employee's HR or payroll records. Normally the processing of personnel changes results in the recording of effective dates and other information that provides a permanent audit trail of the transaction. Under CM, historical personnel actions (for example, changes to compensation rates) can be overwritten or deleted without leaving a typical audit trail. CM can also be used to change the historical effective dates of previous personnel actions. Our review of CM access disclosed the following:

- As of May 16, 2013, there were 18 user accounts with CM access. In response to our inquiries, FCPS personnel advised that 3 of these users did not need this access to perform their job duties. Additionally, 3 users were actually active test accounts created by and assigned to FCPS Technology Services Department personnel, who did not need such access. The remaining 12 users were HR personnel whose job functions were consistent with processing personnel actions. However, FCPS agreed that, given the high level of risk with CM access, such access should be very limited and further controlled.
- CM actions were not independently reviewed and approved for propriety. FCPS had created a custom report to track CM changes and deletions, which was periodically generated and reviewed to verify the propriety of the listed CM actions. However, these reviews were not documented and the employee assigned the responsibility for performing the reviews was not independent as this individual also had been assigned CM access capabilities.

During fiscal year 2013, FCPS processed 1,118 CM changes and deletions. Our test of 15 of these CM transactions did not disclose any improprieties. ISACA² stipulates that "...correction mode should be restricted to very few users, if any, since its ability to change data in the past presents a high risk to data accuracy."

Recommendation 6

We recommend that FCPS

- a. evaluate whether the use of CM is necessary and, if so, restrict that level of access to very few employees that require such access to perform their job duties; and**
- b. implement a documented independent review process of all CM actions by an individual who cannot perform CM functions.**

Inventory Control and Accountability

Background

According to FCPS audited financial statements, the undepreciated value of its capital equipment inventory totaled \$60 million as of June 30, 2013.

²ISACA (previously known as the 'Information Systems Audit and Control Association') is a private association of information technology audit professionals that publishes Information Systems (IS) audit standards and offers IS audit certification programs.

FCPS uses automated records to track its equipment inventory, including both sensitive and capital items.

Finding 7

Physical inventories were not conducted as required by FCPS policy.

Analysis

Physical inventories were not conducted as required by FCPS policies. Specifically, our test of five locations, with equipment costing \$5.3 million, disclosed that one of the five locations, with equipment totaling \$4.1 million, did not conduct a physical inventory count during fiscal year 2013. In addition, this same location's fiscal year 2012 physical inventory was incomplete. Specifically, 29 of the 95 total pages of the 2012 physical inventory listing of items to be inventoried were not verified. FCPS inventory procedures require physical inventories of all capital assets and sensitive items to be performed at least once per year.

Recommendation 7

We recommend that FCPS ensure all departments comply with applicable FCPS inventory procedures.

Information Technology

Background

The FCPS' Technical Services Department (TSD) maintains and administers the FCPS telecommunications network, instructional applications, email system, help desk, technology support, and computer operations. TSD also operates a wide-area network for FCPS' headquarters and schools and maintains the critical core networking equipment and servers used to support the FCPS operations. Additionally, FCPS Human Resources Division technical staff manages the FCPS financial and human resources applications and related databases while the TSD supports the servers and infrastructure that support the applications and databases. Finally, per a cooperative agreement, the separate networks for FCPS and Frederick County Government (FCG) are inter-connected for purposes of allowing both agencies to share certain computer resources.

Finding 8

Proper access, account, and password controls were not established over critical applications, servers, and a database.

Analysis

Proper access, account, and password controls were not established over critical applications, servers, and a database.

- FCPS provided over 11,000 active user accounts unnecessary, read and modification access to clear text (that is, unencrypted) files maintained on a web server that contained sensitive personal information (for example names and social security numbers) of numerous individuals. This sensitive personal information is commonly sought for use in identity theft and therefore should be protected by appropriate information system security controls. A similar condition was commented upon in our preceding audit report regarding unnecessary or inappropriate access privileges and capabilities. Best practices prescribed by the State of Maryland's Department of Information Technology's (DoIT) *Information Security Policy* state that "Agencies must ensure that only authorized individuals (employees or agency contractors) have access to confidential information and that such access is strictly controlled, audited, and that it supports the concepts of 'least possible privilege' and 'need to know'."
- All of the FCPS' and FCG's network addresses had unnecessary network level access to the management consoles of over 130 physical servers that hosted over 350 guest virtual servers. As a result of this condition, users with access to these network addresses could attempt to logon to these consoles and compromise the respective host and virtual servers. Best practices identified in the DoIT *Information Security Policy*, state that organizations are responsible for "configuring the security settings of information technology products to the most restrictive mode consistent with operational requirements."
- Account and password controls over several significant applications, including the financial and HR systems, and a critical database were not in compliance with the best practices identified in the DoIT *Information Security Policy*. Specifically, we identified over 200 active critical application accounts that had not been used for over 365 days. The DoIT policy requires that user identifications associated with a password be disabled or locked after 60 days of inactivity. Furthermore, password length, complexity and history settings were not in accordance with the

aforementioned *Policy*. Similar conditions were commented upon in our preceding audit report.

Recommendation 8

We recommend that FCPS

- a. **limit read and modification access to the aforementioned files containing sensitive personal information to only those users requiring such access (repeat),**
- b. **limit network level access to the management consoles of all host servers to only those network administrators requiring such access, and**
- c. **establish appropriate account and password controls (repeat).**

Finding 9

FCG had unnecessary network level access to the entire FCPS network over all ports.

Analysis

FCG connected directly to a FCPS network device behind the FCPS Internet firewall and our review of this network device disclosed that no network level traffic filters were defined to limit incoming FCG network traffic from this connection. As a result of these conditions, the entire FCG network could access, at the network level, all internal FCPS network resources via all ports.

Best practices identified in the DoIT *Information Security Policy* prescribe that information systems shall prevent unauthorized and unintended information transfer via shared system resources, and, that information systems shall be configured to monitor and control communications at the external boundaries of the information systems and at key internal boundaries within the systems.

Recommendation 9

We recommend that the connection from the FCG to the FCPS be made to the FCPS Internet firewall and that the necessary network level traffic filters be defined on this firewall to properly protect the FCPS network.

Finding 10

Malware protection on FCPS workstations was not comprehensive.

Analysis

Malware protection on FCPS workstations was not comprehensive.

- The anti-malware software used to protect FCPS workstations was not properly configured to limit users' capabilities. Specifically, the anti-malware software was configured to allow users of 6 of 8 workstations tested to disable anti-malware software features that would render the software unable to protect against malware threats. Furthermore, 10 of 10 computers tested had not been updated with the most current anti-malware software version available.
- Local administrator privileges were not properly restricted. All eight users selected for testing were assigned local administrative rights to their workstations. As a result, if these workstations were infected with malware, the malware would run with administrative rights and expose these workstations to a greater risk of compromise than if the workstations' user accounts operated with only user rights. In addition, as a result of this condition, these eight users could disable the anti-malware software on their workstations.
- Workstations tested had not been updated with the latest releases for software products that are known to have significant security related vulnerabilities. Although the vendors for these software products frequently provide software patches to address these vulnerabilities, FCPS had not updated its workstations for these patches. For example, eight workstations tested for one of these software products noted that all eight workstations were running older versions of this software.

Best practice guidance from the DoIT *Information Security Policy* states that agencies should configure security settings of information technology products to the most restrictive mode consistent with operational requirements.

Recommendation 10

We recommend that FCPS

- a. disable the settings which allow users to override and modify default security controls established by management,**
- b. configure all FCPS computers with the most current anti-malware software version available,**

- c. limit local administrative rights on user workstations to only personnel who require such rights for their job duties, and
- d. ensure that all computers are kept up-to-date for all critical security related updates to potentially vulnerable installed software.

Finding 11

Monitoring controls over a database and application were not sufficient to protect critical data.

Analysis

Monitoring controls over a database and application were not sufficient to protect critical data.

- Monitoring of the student information system database was inadequate. Certain critical security and audit events (for example, grant privilege and stop audit) were not monitored although the capability to perform such monitoring exists within existing software. Furthermore, direct changes to critical student database grade tables were not monitored. These conditions could result in unauthorized or inappropriate activities (affecting the integrity of the production database information) going undetected by management.
- FCPS did not monitor additions, changes, and deletions to a critical financial application's permission lists and changes to the application's security parameters (for example password settings). Furthermore, reports of security events that were reported for this application were not generated and therefore the propriety of these security events was not determined.

Best practices identified in the DoIT *Information Security Policy* require that "Information systems must generate audit records for all security-relevant events, including all security and system administrator accesses" and "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."

Recommendation 11

We recommend that the FCPS

- a. implement proper monitoring of critical database security and audit events and direct changes to student database grade tables;

- b. monitor additions, deletions, and changes to the aforementioned financial application's permission lists and security parameters; and
- c. regularly generate reports of application security events, review these reports, document these reviews, and retain the documentation for subsequent verification.

Facilities Construction, Renovation, and Maintenance

Background

FCPS employs a staff of 493 employees to maintain its 59 primary and secondary schools and its other education, administrative, and support facilities. According to its fiscal year 2014 Capital Improvement Plan (CIP), necessary construction, major renovations, repairs, and systemic improvements to FCPS facilities over the next six years are estimated to cost \$302 million.

Processes are in Place to Minimize Energy Costs

FCPS has processes in place to minimize energy costs. For example, FCPS utilizes an energy management system that monitors and accounts for energy usage and employs an energy management program manager trained in conservation techniques and monitoring energy practices (such as usage reports and year-to-year comparisons). According to reports prepared by FCPS (which we did not audit), FCPS reduced energy usage by 11.6 percent from fiscal years 2012 to 2013.

Professional Service Contracts

FCPS has established certain policies and procedures for the procurement of architectural and engineering (A&E) and construction management services. FCPS periodically conducts pre-qualification screenings of applicants to identify eligible contractors to be placed on a list to receive requests for proposals (RFPs). When services are needed, RFPs are sent to pre-qualified contractors, who submit separate technical and cost proposals for the specific project. All technical proposals are evaluated and for the contractors with the highest technical scores (a minimum of two), the related financial (cost) proposals are opened and the bidder with the lowest cost proposal is recommended for award. The Board approves all A&E and construction management contracts greater than \$25,000. During fiscal years 2011 to 2013, there were 8 major facility construction projects (over \$4 million each) with budgets totaling \$281.3 million that were either opened or closed with related expenditures, as of October 4, 2013, totaling \$172.6 million.

Finding 12

Policies were not always adhered to and documentation was not retained for critical documents related to the procurement of A&E and construction management services.

Analysis

FCPS did not always adhere to policies for the procurement of professional A&E and construction management services and policies were not as comprehensive as necessary for the retention of certain documents. Furthermore, certain documentation pertaining to the procurements was not retained. Our review of five contract procurements for such services totaling \$7.4 million, related to five major facility construction projects totaling \$176 million, disclosed deficiencies with four of the procurements totaling \$6.3 million.

- A certificate of insurance was not obtained for two procurements totaling approximately \$1.6 million, to document that insurance coverage was purchased in the type (for example, general liability) and amount (for example, \$2 million in aggregate) required. The contracts specified that a Certificate of Insurance confirming such coverage is to be submitted to FCPS prior to commencing work under the contract.
- For two procurements, totaling approximately \$2.7 million, related to construction management services, adequate documentation was not maintained of the technical evaluations performed for the proposals submitted. Although a summary of the technical evaluation scores was maintained for both projects, the individual technical scoring sheets were missing for two of four evaluators for one project and three of four for the other. We noted there was no existing Board policy requiring the retention of the individual scoring sheets for construction management service contracts. Furthermore, the technical evaluation summary for one of the projects did not identify who the three evaluators were that had prepared the missing scoring sheets. Consequently, there was a lack of assurance that appropriate personnel had performed the technical evaluations and that the scores used for ranking the proposals and making the award decisions were valid.
- The selection of the four finalists to submit financial proposals for one procurement was not consistent with the technical ranking of the contractors' proposals. Specifically, FCPS personnel could not explain, why a financial proposal was requested from the contractor ranked 6th technically, but not the 4th and 5th ranked bidders.

- For two procurements, the time periods allowed for the submission of the technical and financial proposals (14 and 16 days) were less than specified in the Board’s approved operating procedures (3 to 4 weeks). We were advised by FCPS personnel that the employee responsible for advertising for bids was complying with Maryland law, which required at least a 2 week period, and was unfamiliar with the applicable Board policy.

We commented on the inconsistent application of procurement policies and the inadequate documentation of procurement awards in our preceding audit report.

Recommendation 12

We recommend that FCPS ensure that procurement policies are applied consistently to all professional service contracts and the basis for procurement award decisions are properly documented. Specifically, we recommend that

- contract terms requiring the purchase of insurance are complied with;**
- Board policies be amended to require the retention of all bid documentation for construction management contracts;**
- technical evaluations of proposals, including individual scoring sheets and the identities of the evaluators be properly documented and retained by FCPS;**
- procurement selection and ranking procedures are consistently applied and that justification for any deviations from standard procedures are documented (repeat); and**
- the time period allowed for submission of proposals is consistent with Board policy (repeat).**

Finding 13
FCPS did not adequately document preventive maintenance work performed.

Analysis

Although FCPS has developed a comprehensive maintenance plan that includes preventive maintenance and task schedules, and required that inspections and preventive maintenance work be completed at certain intervals, documentation was not maintained to substantiate that maintenance was performed. FCPS has an automated work order system that is used to generate monthly maintenance task lists and work order forms. Work orders are signed by maintenance staff when completed and reviewed by maintenance supervisory personnel to ensure assigned tasks were properly performed. However, our test of one month’s schedule of preventive maintenance at 10 schools during fiscal years 2012 and 2013 disclosed a

lack of documentation to support that preventive maintenance was performed at 3 of these schools. Without appropriate documentation, there is a lack of assurance that all preventive maintenance required by its plan had been performed.

- For two schools, 30 percent or less of preventive maintenance work orders were completed for the month selected for testing. At one school only 10 out of the 80 (12.5 percent) preventive maintenance work orders were completed and at the other school only 24 out of the 80 (30 percent) were completed.
- FCPS could not provide documentation to support completion of any preventive maintenance for the month selected for testing for one school. Our expanded review of this school disclosed that FCPS did not have documentation to support that preventive maintenance was being completed for the period from August 2010 to July 2013. According to FCPS maintenance personnel, upon us bringing it to their attention, they found that all preventive maintenance tasks were removed from the work order system in 2008 when the preceding school of the same name was demolished. However, when the new school opened in August 2010, a new set of preventive maintenance tasks were never entered into the system. A preventive maintenance schedule for this school was established in July 2013 with 40 monthly work order tasks.

We commented on the inadequate documentation of the performance of required scheduled preventative maintenance in our preceding audit report.

Recommendation 13

We recommend that FCPS

- a. perform all required preventive maintenance in accordance with the comprehensive maintenance plan and maintain appropriate documentation of the work performed (repeat), and**
- b. ensure that appropriate preventive maintenance tasks are established and kept current for each facility.**

Transportation Services

Background

Based on land area, Frederick County is the largest county in the State. FCPS is responsible for the safe transportation of approximately 29,700 eligible students. These students were transported using 434 school system-owned

buses. According to FCPS audited financial statements, fiscal year 2013 transportation expenditures totaled approximately \$20.1 million.

FCPS Utilized Many Practices to Minimize Transportation Costs

FCPS has established many practices to actively manage the cost of transportation operations, some of which were unique. For example, FCPS has established a program that under certain circumstances pays parents to transport their special needs students to school in order to avoid using more expensive bus services. Also, FCPS' bus maintenance program includes periodic inspections and preventive maintenance of its buses to keep its bus fleet running efficiently and effectively. FCPS competitively procures fuel under a variety of methods to ensure it receives the best prices for differing circumstances. Based on MSDE and Local Education Agency data for fiscal year 2012, FCPS had the lowest per rider and per mile costs as compared to four similarly sized school systems (based on the number of students transported).

Finding 14

Inventory controls over Transportation Department parts were inadequate.

Analysis

Procedures and internal controls over Transportation Department parts inventories, which included parts and supplies used to service buses and other system fleet vehicles, were inadequate as two employees had virtually complete control over the inventory and related records. Specifically, our review disclosed the two employees responsible for custody of the parts inventory at the transportation warehouse were also responsible for taking the annual physical inventory, ordering parts from vendors, maintaining the detail inventory records, and making adjustments to the records. Furthermore our testing of inventory records disclosed the following

- FCPS could not provide adequate justification or explanations to support any of 20 negative inventory adjustments (adjustments reducing the quantities reflected on the inventory records) totaling \$30,834 tested. We were generally advised that the adjustments were made to bring the records in agreement with the last physical inventory counts. However, the reasons for why the discrepancies existed could not be adequately explained.
- Item quantities on hand were significantly lower than recorded on the detail inventory records in several instances. Our test of 10 items with a total cost of \$29,315 on the inventory records, as of October, 2013,

disclosed 3 items with a total value of \$8,271 where the quantities on hand were significantly less than quantities per related inventory records. In total, the value of these shortages for these 3 items totaled \$1,927.

In discussing these issues, FCPS personnel acknowledged that inventory controls over parts inventories were lacking, particularly over dispensing fluids and safeguarding inventory assets (such as, ensuring all parts inventories areas are locked). According to FCPS inventory records, parts on hand as of August 2013 totaled \$288,000 and the value of parts received during fiscal year 2013 totaled \$802,000. In addition, negative inventory adjustments totaled \$80,000 in fiscal year 2013.

Recommendation 14

We recommend that FCPS establish proper segregation of duties regarding custody, record keeping, and physical inventory counts and that adequate safeguards be implemented over transportation parts inventories.

Food Services

Background

FCPS organizes its schools into 11 complexes. Each complex includes approximately 4 to 7 schools and has a designated base school and a complex manager who is responsible for all schools within that complex. Food and related supplies are received at FCPS' central warehouse or at each complex base school and then transferred to each individual school as needed. Food is then prepared at each school. In fiscal year 2013, FCPS had approximately 120 cafeteria workers. According to FCPS' audited financial statements, food service operations expenditures (\$11,256,820) exceeded revenues (\$11,028,563) by \$228,257 for fiscal year 2013.

FCPS Took Measures to Address Operational Deficits in Food Service Operations

In our prior audit report, we noted that FCPS' food service was operating at significant and persistent deficits for an eight-year period. Our current audit disclosed that FCPS has taken measures to address food service deficits. While for some recent years, FCPS operations resulted in deficits, these deficits were not persistent and were offset by operational surpluses in other years. Based on our review of food service operations from fiscal year 2009 through 2013, food service total revenues over this five-year period exceeded total expenses by \$702,000. Another result is that FCPS has significantly reduced its cost per meal relative to similarly sized school

systems. Based on MSDE and Local Education Agency (LEA) data, from fiscal year 2006 to 2013, FCPS' per meal cost has gone from being the highest to the second lowest as compared to four similarly sized LEAs. These improvements in food service operations resulted from various measures FCPS has taken.

- FCPS is more fully maximizing its utilization of the United States Department of Agriculture (USDA) commodities resulting in cost savings to food service operations. For fiscal years 2013 and 2014, FCPS fully maximized its usage of USDA commodities.
- FCPS has been able to reduce food service payroll expenses over time by further assessing resource needs. According to FCPS records, food service payroll expenses have been reduced from \$3.83 million in fiscal year 2010 to \$3.65 million in fiscal year 2013. In addition, there has been an approximate 10 percent reduction in the number of food service full-time equivalent positions from fiscal year 2009 to 2013.
- Other actions that FCPS food service management personnel advised were taken included developing more detailed recipe sheets for better measurement of food products, continuous evaluation and removal of a-la-carte menu items from the menu that were not selling, and additional training provided to food service managers to ensure procedures and processes were implemented efficiently.

Finding 15

Independent reviews of school cafeteria cash handling procedures were not performed timely.

Analysis

FCPS did not ensure that reviews of cash handling operations at school cafeterias were performed timely. FCPS contracted with an independent CPA to conduct reviews at every school at least once per year to ensure that the cash handling procedures at each school cafeteria were proper and that any deficiencies identified were promptly corrected. However, our review in December 2013 of 65 FCPS schools with cafeterias disclosed 35 schools had not been subject to review for periods ranging from 642 to 797 days. FCPS personnel advised that the issue was partly due to a change in contractors during 2013; however, this does not fully explain delays approaching two years.

Recommendation 15

We recommend that FCPS ensure that all school cafeteria cash handling operations are reviewed timely (that is, annually).

Finding 16

Cash receipt duties were not properly segregated as transactions could be voided by cashiers without independent review or approval at the schools we reviewed.

Analysis

Cashiers in school cafeterias had the ability to void transactions on the automated point-of-sale system with no independent review or approval. Also, although the point-of-sale system is capable of generating output reports of voided transactions for subsequent review, the schools did not generate these reports. While FCPS advised that requiring independent management approval of each void at the point of sale would not be feasible as it would slow down the ability to get students through cafeteria lines, a documented independent analysis of voided transaction activity per the output reports could be performed after the fact to detect potential areas of concern, such as cashiers with high volumes of voids that may warrant further investigation or corrective actions.

According to FCPS records, 90,893 voids were processed by cashiers during fiscal year 2013. According to FCPS audited financial statements, food service revenue generated from charges for services totaled approximately \$5.3 million in fiscal year 2013.

Recommendation 16

We recommend that independent supervisory personnel, review and approve voids, at least on a test basis, and that such reviews be documented. To accomplish this, FCPS could generate periodic reports of all void transactions and document the analysis of this information for unusual trends that should be investigated, such as cashiers with abnormally high numbers of voids.

Finding 17

FCPS' controls over food services inventory were not adequate.

Analysis

A proper segregation of duties did not exist over the food service inventories at numerous locations. Specifically, detail inventory records are maintained by the individual schools; however, FCPS management advised that due to

limited staffing at many schools (particularly elementary schools) the same individual maintained the school's inventory records, conducted the physical inventory counts, and reported the inventory results to applicable FCPS complex managers. FCPS written inventory procedures state that no one individual should have responsibilities to purchase inventory, receive inventory, maintain inventory records, and conduct physical inventories. Furthermore, although FCPS had established certain audit processes whereby periodic school visits by food services senior staff were to be made to evaluate cafeteria operations, these reviews did not include individual school's food inventories and recordkeeping procedures. Finally, FCPS food services management personnel advised us that additional reviews of schools may be performed by complex managers at their discretion; however, there was no requirement that the results of these reviews be reported to central office personnel.

We commented on the lack of segregation of purchasing, records maintenance, and physical inventory duties, and the lack of centralized periodic monitoring of food and related supplies in our preceding audit report. According to FCPS records, expenditures for food and supplies totaled approximately \$3.5 million during fiscal year 2013.

Recommendation 17

We recommend that FCPS implement additional controls over its food inventory records (repeat). Specifically, FCPS should perform additional centralized monitoring and oversight procedures to ensure school food inventories are properly accounted for and controlled. For example, periodic centralized reviews could include surprise independent sample counts of inventories and documented analysis of school inventory data such as usage and spoilage ratios, and the investigation of significant anomalies.

School Board Oversight

Background

FCPS' Board of Education is composed of seven elected voting members and one nonvoting student representative. In its oversight responsibilities, the Board contracted with a certified public accounting firm for independent audits of the FCPS financial statements and federal programs. The Board has several established committees that discuss and provide advice on various areas of FCPS operations and governance.

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

The Board has adopted a detailed ethics policy that conforms to State law and includes provisions for conflicts of interest and financial disclosure and was approved by the State Ethics Commission. Provisions of this policy are applicable to Board members as well as all FCPS employees. FCPS established an Ethics Panel currently consisting of five members (the policy allows for up to seven members) who are appointed by the Board to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. According to the ethics policy, annual financial disclosure statements are required to be filed by Board members, candidates for the Board, the Superintendent, and a number of other administrators (such as school principals and agency buyers) by April 30th each year. Our review of the records for employees required to submit financial disclosure forms for the period May 1, 2012 through April 30, 2013, disclosed that forms were submitted as required.

FCPS Established a Confidential Hotline to Enable Employees to Report Suspected Fraud, Waste, or Abuse

The Board has implemented a third-party hotline and confidential reporting process for allegations of financial fraud, waste, abuse, or other illegal activities that may impact the school system's operations. The Board also approved a policy identifying the process for investigating these confidential allegations and reporting the investigatory results.

FCPS Adopted Cash Investment and Debt Management Policies

The Board has adopted reasonable cash investment and debt management policies to address prior audit recommendations.

Other Financial Controls

Healthcare Background

FCPS self-insures its employee healthcare costs. FCPS contracts with three third party administrator (TPA) firms for health care claims processing services for employee medical (including vision), dental, and prescription costs. FCPS also contracts with an insurance carrier for stop-loss coverage to protect against the risk of large claims each year. FCPS verifies the eligibility of employee dependents prior to enrollment in the health care plans. FCPS' largest TPA is responsible for processing claims for medical and vision costs. Medical providers submit claims to the TPA who pays them on behalf of FCPS. FCPS subsequently reimburses the TPA for the paid claims and also pays the TPA an administrative fee for these services.

FCPS Performed an Audit to Verify Propriety of Dependents

In 2010, FCPS performed an internal review to verify the propriety of individuals that were covered as dependents under the systems' health care plans. FCPS required all 2,705 employees with dependents to submit documentation to prove that each individual covered as a dependent was eligible under the criteria defined in FCPS' health care plan. As a result of this review, FCPS identified 208 ineligible dependents and removed them from employee health plans. FCPS has since implemented verification procedures in its enrollment procedures whereby employees must submit adequate documentation (such as, birth certificates) for any individuals the employee wants added as a dependent to their health plan.

Finding 18

FCPS did not verify the propriety of health claim reimbursements amounts paid to a TPA to the actual medical paid claims and service fees earned.

Analysis

FCPS paid its largest TPA for reimbursement of medical claims and certain service fees without verification that the amounts reimbursed were proper. Specifically, FCPS did not obtain a listing of the claims paid on its behalf by the TPA to ensure that the payment amounts to the TPA were correct. FCPS also did not verify that certain service fees paid to the TPA for negotiated reductions and savings obtained from health care providers had actually been earned. According to the FCPSs contract with the TPA, the TPA is entitled to a specified percentage of such aforementioned reductions and savings. As a result, there is a lack of assurance the amounts paid to the TPA for claims and service fees were proper. In fiscal year 2013, FCPS' health claims expenditures processed by this TPA totaled approximately \$49.6 million and this TPA's administrative fees totaled \$2.6 million.

Recommendation 18

We recommend that FCPS establish procedures to verify the amounts paid for health insurance and TPA service fees. Specifically, we recommend that FCPS obtain documentation to support actual claim payments and ensure that all of the service fees earned by the TPA are calculated correctly.

Audit Scope, Objectives, and Methodology

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

In planning and conducting our audit of FCPS, we focused on 11 major financial-related areas of operations as approved on September 14, 2004 by the Joint Audit Committee of the Maryland General Assembly in accordance with the enabling legislation. The scope of the work performed in each of these areas was based on our assessments of significance and risk. Therefore, our follow-up on the status of findings included in our preceding audit report on FCPS dated December 8, 2008, 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 FCPS 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 FCPS. We also interviewed personnel at FCPS 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 FCPS 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, 2010 through June 30, 2013. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits FCPS' 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 FCPS automated financial management system for the purpose of testing expenditure, inventory, and payroll transactions. We performed various audit procedures on the relevant data and determined the data were sufficiently reliable for the purposes the data were used during the audit.

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

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

We conducted our fieldwork from April 2013 to April 2014. The FCPS response to our findings and recommendations is included as an Appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise FCPS regarding the results of our review of its response.

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

APPENDIX

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Theresa R. Alban, Ph.D.
Superintendent of Schools
superintendent@fcps.org

April 2, 2015

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

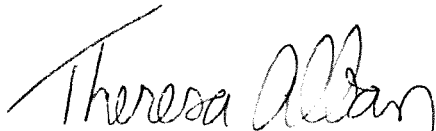
Dear Mr. Barnickel:

Enclosed are the revised responses to the findings and recommendations made in the Financial Management Practices Audit Report for Frederick County Public Schools (FCPS). This final revision includes minor clarifications in the responses to recommendations 4, 8 and 12.

FCPS appreciates the legislative auditors' comprehensive audit of our school system.

If you have any questions or require additional information, please do not hesitate to contact me.

Sincerely,



Theresa R. Alban, Ph.D.
Superintendent of Schools

Enclosure

cc: Brad Young, President, Board of Education of Frederick County
Leslie Pellegrino, Executive Director, Fiscal Services, FCPS
Robert Reilly, Director, Budget and Finance, FCPS

**FREDERICK COUNTY PUBLIC SCHOOLS
RESPONSES TO LEGISLATIVE AUDIT**

Finding 1

FCPS did not adequately monitor the work performed by the accountant contracted to review SAF.

Recommendation 1

We recommend FCPS ensure that

- a. a contract provision is established requiring that working papers be prepared to document the procedures performed, information obtained, and conclusions reached for each SAF review;
- b. the aforementioned working papers be periodically reviewed by FCPS management to ensure compliance with contract terms and that adequate support is maintained by the CPA; and
- c. the results of each school activity fund review are formally communicated to school officials, as required.

FCPS Response 1: Agree

- a. The CPA consultant contract was subsequently awarded to a new consultant. The new CPA consultant has been made aware of the contractual requirement to maintain adequate work papers to support work and document conclusions.
- b. The new CPA consultant has been informed verbally, and in writing, to have working papers available upon request for FCPS's reviews.
- c. FCPS will be more diligent in acquiring the signed checklists and confirming that the CPA consultant has met with each school's administrators to review the results of the audit and discuss corrective action.

Finding 2

FCPS had not established proper controls over non-cash credits.

Recommendation 2

We recommend FCPS

- a. establish procedures to ensure non-cash credit adjustments processed in its automated financial management system are properly authorized and supported. Specifically, FCPS should generate and review output reports of non-cash credit adjustments from the system and have an independent employee compare the adjustments to related approved authorizing documents;
- b. restrict access capabilities to perform non-cash credit adjustments to accounts receivable records to only users who need that capability to perform their job duties; and

- c. properly segregate the duties of the accounts receivable and cash receipt functions (repeat).

We advised FCPS on accomplishing the necessary separation of duties using existing personnel.

FCPS Response 2: Agree

- a. New procedures have been established to assure that non-cash credit adjustments are properly authorized and then reviewed. The Accounting Manager reviews each adjustment prior to entry and then also performs a month-end reconciliation by reviewing a system-generated report with supporting documentation to make sure all adjustments were done as pre-approved.
- b. A review of access for performing non-cash credit adjustments to accounts receivable records has been performed and is limited to required personnel.
- c. Since the reorganization of the Accounting department on July 1, 2014, the duties related to cash receipts have been further segregated for daily processing.

Finding 3

FCPS' controls over obtaining and retaining corporate purchasing cards were not adequate.

Recommendation 3

We recommend that FCPS

- a. segregate CPC ordering, receiving, and audit functions (repeat);
- b. maintain documentation to support supervisory approval of all cards issued; and
- c. conduct periodic evaluations of card usage and terminate cards that are determined to be unnecessary (repeat).

We advised FCPS on accomplishing the necessary separation of duties using existing personnel.

FCPS Response 3: Agree

- a. Effective January 2015, the Assistant Procurement Card Administrator (APCA) no longer has the ability to order cards, but is now the only one who can receive the cards from the bank. Only the Procurement Card Administrator (PCA) has the ability to order procurement cards.
- b. Documentation is retained in PeopleSoft to support supervisory approval of all cards. In June 2011 the request path for a procurement card was moved to this online environment. At the completion of the cardholder test, an email is sent to the cardholder's Approving Official for approval to order the account. No account is created without this email thread. All documentation relating to the cardholder, the test and all emails are maintained in PeopleSoft.

- c. In December 2014, the policy for evaluating inactive cards was updated to notify the approving official if the procurement card holder had no activity in 12 months and to terminate cards deemed unnecessary.

Finding 4

FCPS' procurement policies requiring Board approval of purchases of over \$25,000 was delegated for certain types of purchases without a formal corresponding Board reporting process.

Recommendation 4

We recommend FCPS modify its policies to require that, at a minimum, the Board to be notified of delegated sole and single source procurements exceeding \$25,000 (repeat).

FCPS Response 4: Agree

Beginning in January 2015, a quarterly report detailing all single/sole source procurements is issued to the Superintendent. The Superintendent subsequently provides this information to the Board of Education members, and the policy associated with the distribution of this quarterly report will be amended to reflect this requirement.

Finding 5

Capabilities assigned to users who would perform critical HR and payroll system functions was not adequately monitored and restricted. In addition, reviews of HR transactions were not always independently performed.

Recommendation 5

We recommend that FCPS take appropriate actions to ensure the propriety of assigned user access capabilities, and the propriety of HR and payroll transactions. Specifically, FCPS should

- a. perform a periodic documented review of user access capabilities for the HR and payroll functions to identify any incompatible and unnecessary capabilities and make appropriate changes (repeat);
- b. for any users found to have inappropriate capabilities, conduct a review to determine if the user performed any unauthorized transactions and take any necessary corrective actions; and
- c. perform a periodic documented independent review of personnel actions processed (repeat).

FCPS Response 5: Agree

- a. Human Resources staff members have worked with the IT staff to conduct an initial assessment of user access. A complete review will be conducted by December 31, 2015, with annual reviews conducted thereafter. Human Resources managers, with final review of the Executive Director, will ensure that user access directly correlates to the job duties held by that employee.
- b. During the assessment, if a user is found to have had access to data not applicable to his/her position, corrective action will occur and access will be suspended. An audit of the said user's actions will take place to be certain that no harm has occurred. If corrective action is prompted by harm, an appropriate staff member with due access will correct needed data.
- c. Human Resources managers have identified an independent department member to conduct scheduled audits of actions performed by Human Resources staff that impact employee compensation. This audit will occur prior to each pay, semi-monthly, and will serve as a representation of said actions within the prescribed time.

Finding 6

Adequate controls had not been established over a certain high-risk access capability that enabled users to change or delete historical personnel and payroll records.

Recommendation 6

We recommend that FCPS

- a. evaluate whether the use of CM is necessary and, if so, restrict that level of access to very few employees that require such access to perform their job duties; and
- b. implement a documented independent review process of all CM actions by an individual who cannot perform CM functions.

FCPS Response 6: Agree

- a. The use of correction mode is deemed necessary by Human Resources management as it relates to specified operations and business processes by designated staff within the Human Resources Department. Recognizing the risk associated with corrective action, an assessment has been initiated to ensure that this access is restricted to limited individuals whose positions directly necessitate this access. Human Resources managers, with final review by the Executive Director, will review the corrective action access list annually to maintain control.
- b. Staff recognizes the necessity of auditing such high risk actions (corrective) and will audit these actions at a database level. An independent staff member will audit each correction action prior to each pay, semi-monthly, with findings reviewed and logged within the department.

Finding 7

Physical inventories were not conducted as required by FCPS policy.

Recommendation 7

We recommend that FCPS ensure all departments comply with applicable FCPS inventory procedures.

FCPS Response 7: Agree

All departments are now in compliance with the annual inventory procedures. The Accounting Department has established a policy to conduct site visits and audit inventory samples at each individual site once every three years. Also noted in this finding, we began capturing sensitive assets effective January 2013. This was a change in procedure and was effective January 2013 going forward.

Finding 8

Proper access, account, and password controls were not established over critical applications, servers, and a database.

Recommendation 8

We recommend that FCPS

- a. limit read and modification access to the aforementioned files containing sensitive personal information to only those users requiring such access (repeat),
- b. limit network level access to the management consoles of all host servers to only those network administrators requiring such access, and
- c. establish appropriate account and password controls (repeat).

FCPS Response 8: Agree

- a. FCPS has set up current environments as directed by our financial information system software vendor at the time of implementation. During the audit period it was found that the "Domain Users" group had access to the web server. At the time the audit review team met with FCPS staff to verify results it was found that "the Domain Users" group could not actually get to the location on the server by logging on to or connecting to a share. However, during this meeting, it was determined that other methods could have been used to gain access during the audit period. FCPS is reviewing updated database software documentation that indicates it may be possible to further restrict access to the web server. This option is being tested as part of the financial information system software upgrade.
- b. By use of ACLs and/or VLANs, FCPS will segregate and restrict the ESXi management network on all physical hosts.

- c. Based on this finding, FCPS has instituted additional password and account controls. Per DOIT standards, the minimum domain password length has been adjusted to eight characters. Further, if no problems are introduced, the administrator database account username and password will also be changed and scheduled for renewal every 90 days. The domain password minimum age has also been adjusted per DOIT standards. In addition, FCPS will implement a process that will disable accounts that have not been actively signed on to the system in 180 days. This process will be in place by June 30, 2015.

Finding 9

FCG had unnecessary network level access to the entire FCPS network over all ports.

Recommendation 9

We recommend that the connection from the FCG to the FCPS be made to the FCPS Internet firewall and that the necessary network level traffic filters be defined on this firewall to properly protect the FCPS network.

FCPS Response 9: Agree

Based on this finding, FCPS has put in place an additional firewall for connections from FCG to FCPS.

Finding 10

Malware protection on FCPS workstations was not comprehensive.

Recommendation 10

We recommend that FCPS

- a. disable the settings which allow users to override and modify default security controls established by management,
- b. configure all FCPS computers with the most current anti-malware software version available,
- c. limit local administrative rights on user workstations to only personnel who require such rights for their job duties, and
- d. ensure that all computers are kept up-to-date for all critical security related updates to potentially vulnerable installed software.

FCPS Response 10: Agree

- a. FCPS has implemented this practice. FCPS will ensure the latest anti-malware software definitions are on all workstations and servers. In addition, whenever possible, settings will be invoked which would not allow users to disable implemented security controls.
- b. FCPS has implemented this practice. FCPS will regularly update operating system software updates.

- c. FCPS already implements this practice. Administrative privileges are restricted from all users, with the exception of those that require these rights in their job duties.
- d. FCPS has implemented critical security application updates to the most recent version which functions with all system-wide applications.

Finding 11

Monitoring controls over a database and application were not sufficient to protect critical data.

Recommendation 11

We recommend that the FCPS

- a. implement proper monitoring of critical database security and audit events and direct changes to student database grade tables;
- b. monitor additions, deletions, and changes to the aforementioned financial application's permission lists and security parameters; and
- c. regularly generate reports of application security events, review these reports, document these reviews, and retain the documentation for subsequent verification.

FCPS Response 11: Agree

- a. FCPS will request vendor to define and implement database auditing best practices. In addition, as budget permits, FCPS will evaluate and potentially procure a third party database auditing solution.
- b. FCPS has implemented database level triggers on security-related topics for all events noted.
- c. Reports will be developed by June 2015 that will be used to review changes on a weekly basis.

Finding 12

Policies were not always adhered to and documentation was not retained for critical documents related to the procurement of A&E and construction management services.

Recommendation 12

We recommend that FCPS ensure that procurement policies are applied consistently to all professional service contracts and the basis for procurement award decisions are properly documented. Specifically, we recommend that

- a. contract terms requiring the purchase of insurance are complied with;
- b. Board policies be amended to require the retention of all bid documentation for construction management contracts;
- c. technical evaluations of proposals, including individual scoring sheets and the identities of the evaluators be properly documented and retained by FCPS;

- d. procurement selection and ranking procedures are consistently applied and that justification for any deviations from standard procedures are documented (repeat); and
- e. the time period allowed for submission of proposals is consistent with Board policy (repeat).

FCPS Response 12: Agree

- a. The Purchasing Department now issues an award letter after Board of Education approval and requests the Certificate of Insurance (COI). The COI is reviewed by the Purchasing Department for compliance with amounts specified in the contract. The COI is retained in the Purchasing Department.
- b. Current operating procedures and regulations address retention requirements. The Board policy that addresses purchasing will be modified to reflect these requirements as well.
- c-e. The Purchasing Department and Facilities Services Department reviewed, modified and updated the policy regarding procurements of A&E and CM contracts that became effective March 2015. This revised policy formalizes FCPS's intent to comply with the documentation, record retention and policy application recommendations that were made during the legislative audit.

Finding 13

FCPS did not adequately document preventive maintenance work performed.

Recommendation 13

We recommend that FCPS

- a. perform all required preventive maintenance in accordance with the comprehensive maintenance plan and maintain appropriate documentation of the work performed (repeat), and
- b. ensure that appropriate preventive maintenance tasks are established and kept current for each facility.

FCPS Response 13: Agree

We agree with the finding that past practices associated with documenting preventive maintenance tasks have been weak. This was noted in the 2008 Legislative Audit. Since that time, the Maintenance and Operations Department has completed a comprehensive review of our computerized maintenance management system (CMMS) software and procedures. The outcome of this audit has resulted in the abandonment of the old CMMS software, and a new CMMS system has been implemented. Along with the selection of the new software, the Maintenance and Operations Department has completed a comprehensive update of all preventive maintenance procedures, including frequency of

inspections and time allocated to complete tasks. Finally, preventive maintenance tasks associated with recently constructed buildings have been incorporated into the program, and old records associated with buildings that have either been demolished or renovated have been purged.

Finding 14

Inventory controls over Transportation Department parts were inadequate.

Recommendation 14

We recommend that FCPS establish proper segregation of duties regarding custody, record keeping, and physical inventory counts and that adequate safeguards be implemented over transportation parts inventories.

FCPS Response 14: Agree

FCPS agrees with the recommendation and has been working to improve the parts inventory process. Transportation personnel and accounting personnel have been meeting bi-monthly to develop standard operating procedures related to inventory handling. The adjustment access in the system has been segregated from the Transportation Department to the Accounting Department. Physical inventory processes have been adjusted to include teams of people.

Finding 15

Independent reviews of school cafeteria cash handling procedures were not performed timely.

Recommendation 15

We recommend that FCPS ensure that all school cafeteria cash handling operations are reviewed timely (that is, annually).

FCPS Response 15: Agree

FCPS provides school cafeteria personnel with cash handling training, but also recognizes that the nature of cash handling warrants additional controls. For over 15 years, FCPS has hired an independent CPA consultant to perform annual audits. As mentioned in a previous finding, 2013 was a period of transition for the CPA consultant. A review of the current consultant's progress confirms that there will not be a problem in meeting the annual requirement to perform timely reviews.

Finding 16

Cash receipt duties were not properly segregated as transactions could be voided by cashiers without independent review or approval at the schools we reviewed.

Recommendation 16

We recommend that independent supervisory personnel, review and approve voids, at least on a test basis, and that such reviews be documented. To accomplish this, FCPS could generate periodic reports of all void transactions and document the analysis of this information for unusual trends that should be investigated, such as cashiers with abnormally high numbers of voids.

FCPS Response 16: Agree

The FCPS Food & Nutrition Services (FNS) Department has access to the district void report, and it can be accessed by the FNS Complex Manager for review for any school. Effective February 2, 2015, all Complex Managers will be required to review the void transaction report bi-monthly for each of the schools within their complex. Appropriate steps and further follow-up will occur if excess voids are identified.

Finding 17

FCPS' controls over food services inventory were not adequate.

Recommendation 17

We recommend that FCPS implement additional controls over its food inventory records (repeat). Specifically, FCPS should perform additional centralized monitoring and oversight procedures to ensure school food inventories are properly accounted for and controlled. For example, periodic centralized reviews could include surprise independent sample counts of inventories and documented analysis of school inventory data such as usage and spoilage ratios, and the investigation of significant anomalies.

FCPS Response 17: Agree

Beginning March 15, 2015, the Food and Nutrition Services' Complex Managers will conduct periodic unannounced inventory audit visits. During these visits, the Complex Manager will complete a periodic sampling of the inventory. Any discrepancies on the inventory counts and recorded amounts will be recorded on a periodic sampling inventory report and discussed by the Complex Manager and the Site Assistant or Assistant Manager. The periodic sampling inventory report will be submitted to the appropriate central office FNS Specialist for review.

The FCPS Food and Nutrition Services Department is also investigating purchasing an electronic inventory software program to automate and gain efficiencies in its inventory management.

Finding 18

FCPS did not verify the propriety of health claim reimbursements amounts paid to a TPA to the actual medical paid claims and service fees earned.

Recommendation 18

We recommend that FCPS establish procedures to verify the amounts paid for health insurance and TPA service fees. Specifically, we recommend that FCPS obtain documentation to support actual claim payments and ensure that all of the service fees earned by the TPA are calculated correctly.

FCPS Response 18: Agree

Reports are now available and are being reviewed to confirm the amounts calculated for health insurance and TPA service fees prior to payment. Procedures are in place regarding methods and document retention.

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