

Financial Management Practices Audit Report

Montgomery County Public Schools

May 2016



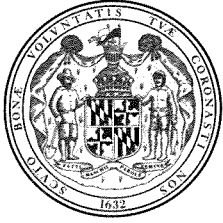
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MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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May 19, 2016

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Legislative Auditor

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate C. William Frick, 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 Montgomery County Public Schools (MCPS) 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 MCPS 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 MCPS needs to improve internal controls and accountability for a number of its financial operations including accounts receivable, cash receipts, procurement and disbursements, payroll processing, and information systems security. For example, certain critical user functions on the financial system, such as the ability to initiate and approve purchasing and disbursement transactions, were not properly restricted, thereby increasing the risk of improper transactions being processed without detection.

MCPS also needs to improve security and controls over its computer infrastructure. We found that MCPS' network firewalls were not properly configured to restrict access and systems were not in place to prevent and detect network intrusions. Also, workstations and servers were not sufficiently protected against malware and effective security monitoring for student information and financial management systems was lacking. Some systems employed versions of software no longer supported by the developers, thus increasing their vulnerability to security threats.

MCPS should also implement steps to improve cost-effectiveness and efficiency, especially over procurement practices and student transportation.

For example, MCPS should ensure purchases made through intergovernmental cooperative purchasing agreements are beneficial, as required by law. MCPS should also use formal targets and goals to guide the decisions made during the process of reviewing and revising bus routes and fully use its automated bus routing software to promote efficiency in planning efficient bus routes. Student ridership on 300 of the 1,900 bus routes was below 50 percent of capacity.

MCPS also needs to ensure the accuracy of payments for employee healthcare. For example, MCPS had not conducted reviews to verify the propriety of health care claim payments, which totaled \$295 million in fiscal year 2014. Such reviews have been found to be cost-effective by the State resulting in identification of improper claims consistently exceeding the related cost of the reviews.

The MCPS 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 MCPS.

Respectfully submitted,



Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Statistical Overview

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Montgomery County Public Schools (MCPS) ranks first in student enrollment among the 24 public school systems in Maryland. Fiscal year 2014 enrollment was 151,295 students. MCPS has 202 schools, consisting of 133 elementary, 38 middle, 25 high schools, 5 special schools, and 1 career and technology center.

According to MCPS' audited financial statements, operating and capital expenditures totaled \$2.7 billion in fiscal year 2014. The largest expenditure category was salaries and wages, including benefits, which accounted for 76 percent of total expenditures during fiscal year 2014. According to MSDE records, during the 2013-2014 school year, MCPS had 20,882 full-time equivalent positions, which consisted of 14,151 instructional and 6,731 non-instructional employees.

Oversight

MCPS is governed by a local school board, consisting of seven elected members and one student member with partial voting rights. Montgomery County government provides over 60 percent of MCPS' 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 MCPS to comply with the requirements and mandates of federal law. Montgomery County government exercises authority over MCPS, primarily through review and approval of MCPS' annual operating and capital budgets.

External and Internal Audits

MCPS engages a certified public accounting firm to independently audit its fiscal year-end financial statements. Additionally, the auditor conducts what is referred to as a Single Audit of MCPS federal grant programs (as required by federal regulations). We reviewed the resulting financial statement and Single Audit reports for fiscal years 2013 and 2014, and examined the related work

papers for the fiscal year 2014 audits, which were the latest work papers available when we commenced our fieldwork.

Due to similarities between the work of the independent certified public accounting firm that audited MCPS' financial statements 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, accounts receivable, and federal grant activity. In addition, we relied on the results of the work performed by the MCPS internal auditors related to school activity funds.

Status of Findings From Preceding Audit Report

Based on our assessment of significance and risk to our audit objectives, our audit included a review to determine the status of 17 of the 23 findings contained in our preceding audit report dated January 15, 2009. We determined that MCPS satisfactorily addressed 11 of these findings. The remaining 6 findings are repeated in this report, and appear as 8 findings.

Findings and Recommendations

Revenue and Billing Cycle

Background

MCPS revenues consist primarily of funds received from Montgomery County, the State, and the federal government. According to the MCPS audited financial statements, revenues from all sources totaled \$2.7 billion during fiscal year 2014. In addition to these revenue sources, schools also collect funds for various purposes, such as for student activities, clubs, and school publications. Because they are not considered school revenue, these student activity funds are accounted for separately by each school and are reported in summary in the audited financial statements. Although this revenue is raised through student-related activities, MCPS has a fiduciary duty to safeguard these funds. For fiscal year 2014, school activity fund collections totaled \$34 million and the June 30, 2014 balance was \$16 million.

External Audit Disclosed No Reportable Conditions Regarding Revenue Activities

Due to the similarities between the work of the independent certified public accounting firm that audited the MCPS financial statements and the objectives of our audit in this area, we placed significant reliance on the results of the firm's audit for certain revenues and accounts receivable (for example, amounts due from other governments). The auditor's procedural review and testing disclosed no material weaknesses or significant deficiencies regarding material revenue types or accounts receivable, the majority of which related to electronic fund transfers from other government entities and food service cash receipts.

Student Activity Funds Were Subject to Internal Auditor Review

MCPS' Internal Audit Unit reviews the student activity funds at each of the schools on a recurring basis. This review consisted of evaluating and testing internal controls over cash receipts and disbursements. The results of the internal auditor's review were provided to the school's principal and other MCPS administrative personnel including the respective associate superintendent. Our review of the internal auditor's work papers disclosed the reviews were conducted in accordance with Board policies and the MCPS Financial Manual. The Manual establishes standard procedures and designates persons responsible for the handling of student activity funds for each school. Furthermore, the internal auditor's reports we reviewed did not identify any significant improprieties or prevalent control weaknesses.

Finding 1

Checks received at certain locations were not recorded nor restrictively endorsed immediately upon receipt, and accountability over the transfer of collections to the Controller's Office for deposit was not established.

Analysis

Proper controls over collections initially received at various locations other than the Controller's office were not established. For example, checks received at four departments were not recorded or restrictively endorsed until the receipts arrived at the Controller's Office for posting to financial records and deposit processing. MCPS had not required certain departments that received checks to immediately record and restrictively endorse the checks to establish initial accountability. Furthermore, the collections received at these departments were handled by multiple employees before being forwarded to the Controller's Office. Additionally, the Controller's Office did not provide departments with any acknowledgement that their receipts had been transferred to and accepted by the Controller's Office for deposit.

As a result, cash receipts could be misappropriated without detection. According to MCPS records, cash receipts totaled approximately \$41 million during fiscal year 2014. According to MCPS records, one of the four aforementioned departments transferred collections totaling \$290,000 to the Controller's Office during fiscal year 2014. MCPS did not maintain records to indicate how much was collected by the remaining three departments.

Similar conditions were commented upon in our preceding audit report.

Recommendation 1

We recommend that MCPS

- a. ensure that all collections are immediately recorded and restrictively endorsed upon receipt by the department receiving the payment (repeat),
and
- b. ensure that an independent employee performs a documented verification that all collections recorded by the departments were subsequently transferred to and accepted by the Controller's Office for deposit (repeat).

Finding 2

MCPS had not sufficiently pursued collection of delinquent accounts receivable and non-cash credits could be processed without independent approval and adequate supporting documentation.

Analysis

MCPS did not adequately pursue collection of certain accounts receivable (such as for nonresident tuition, facility rentals, and employee health insurance premiums) and controls were not adequate over non-cash credits processed by the central accounting office.

- MCPS' debt collection procedures were not comprehensive because they did not specify the intervals for sending late payment notices, the conditions for deeming an account to be delinquent, and the processes for forwarding the accounts to its collection agency and writing off uncollectible accounts. As of July 16, 2015, outstanding accounts receivable (from both governmental and non-governmental agencies) totaled \$45 million, including \$3.5 million that was over 360 days past due according to MCPS records.

Our test of nine outstanding accounts (applicable to non-governmental entities) totaling \$456,560 that were over 360 days past due disclosed that MCPS had not sent any dunning notices or forwarded the unpaid balances to its collection agency for five accounts totaling \$135,187. Dunning notices are necessary in an attempt to collect outstanding amounts before referral to its collection agency, which charges a fee.

A similar comment was included in our preceding audit report. After the prior audit, MCPS adopted accounts receivable regulations to address certain debt collection issues, such as the necessity of sending late notices and referral to a collection agency, but did not address other aspects of an effective debt collection process.

- Three employees had the ability to process non-cash credits without independent approval. These credits reduced accounts receivable balances in the automated financial system without any funds being collected. Although MCPS had established a manual review process for non-cash credits to be approved by a supervisor, this review was based on documentation submitted to the supervisor by these employees rather than a system output report of all such credits processed. As a result, improper non-cash credits could be processed in the system without detection.

- During fiscal year 2015, non-cash credits totaled approximately \$365,000 according to MCPS records. Our test of 10 non-cash credits during this period totaling \$46,683 disclosed that MCPS could not provide supporting documentation (such as departmental requests or other correspondence) for 5 credits totaling \$22,037. As a result, we could not determine whether these credits were proper. We were advised by an MCPS management employee that these 5 credits were recorded to write off uncollectible accounts, but documentation that MCPS had properly made this determination was not provided.

Recommendation 2

We recommend that MCPS

- a. **develop comprehensive debt collection policies and procedures that address progressive collections steps to be performed to pursue outstanding accounts, including establishing predetermined intervals for sending late payment notices and for referring delinquent accounts to a collection agency (repeat);**
- b. **ensure independent supervisory personnel use a system output report to review non-cash credit adjustments and that these reviews be documented; and**
- c. **enhance its non-cash credit policy by including who can initiate a non-cash credit and what documentation is to be retained to support that the non-cash credit was justified and properly made.**

Federal Funds

Background

MCPS receives funds pertaining to federal government programs that are generally restricted for use for a specified program (such as the School Lunch Program or Special Education). According to the audited Schedule of Expenditures of Federal Awards, fiscal year 2014 expenditures of federal award funds totaled \$103.3 million.

Single Audit Report Disclosed No Reportable Conditions Regarding Federal Grant Management

Due to the work performed by the independent certified public accounting firm that conducted the Single Audit of the MCPS 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 MCPS 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 Expenditures of Federal Awards (which includes claimed and reported grant-

related expenditures) for fiscal year 2014. The related report stated that MCPS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with major federal programs, the auditor did not identify any material weaknesses or significant deficiencies.

Procurement and Disbursement Cycle

Background

MCPS has a comprehensive procurement policy and related procedures. The policy sets bidding requirements for goods, request for proposal requirements for services, and specifies when Board approval is required. MCPS uses a combination of manual and automated processes to process requisitions, purchase orders, invoices, and payments to vendors. According to MCPS records, total expenditures for goods and services, excluding payroll and benefit costs, were approximately \$465 million during fiscal year 2014.

MCPS also has a comprehensive credit card purchasing program and, during fiscal year 2014, MCPS employees used credit cards to make purchases totaling \$7.3 million. Monthly invoices for credit card purchases were paid directly by the school system. According to MCPS records, as of June 2014, 1,202 employees have been issued credit cards to facilitate purchasing.

Finding 3

A number of employees had procurement and disbursement system capabilities assigned which allowed them to perform incompatible functions.

Analysis

MCPS did not establish adequate internal controls over its automated financial management system to mitigate the risk of improper purchases and payments for goods and services. Our review of system access related to procurement and disbursement processing disclosed that 41 employees had been assigned system capabilities that allowed them to perform incompatible critical functions without independent review.

Specifically, 20 employees could initiate or modify, as well as approve purchase orders, 13 employees could initiate and approve invoice payments, and 8 employees were assigned these capabilities for both purchases and disbursements. In addition, 17 of the 28 employees who were assigned incompatible purchasing capabilities could also mark the items in the system as having been received (a required condition prior to payment). Further, 9 of

the employees could process disbursements and also add or update vendors and addresses, including one employee who also had access to the check printing room to retrieve related checks from the printer.

Finally, MCPS did not have a process in place to generate output reports of critical transactions to permit an independent review and approval of transactions processed by employees with incompatible functions. As a result, improper or erroneous transactions could be processed without detection, although the results of our testing did not disclose any indications of such transactions.

Recommendation 3

We recommend that MCPS

- a. strengthen its controls over the automated financial management system by segregating employee duties and restricting system capabilities so that incompatible critical procurement and disbursement processes cannot be performed by one employee acting alone; and**
- b. if there are instances where system capabilities cannot be adequately restricted, develop a process to identify and report on critical transactions processed by the aforementioned employees, for subsequent independent review.**

Finding 4

MCPS awarded a \$900,000 contract without using a competitive procurement process or justifying that decision, and for five other contracts tested, MCPS did not assess the benefits of intergovernmental cooperative purchasing agreements as required by State Law.

Analysis

Our test of contracts with 12 vendors for goods and services with payments totaling approximately \$61 million in fiscal year 2014 disclosed the following procurement issues for contracts with 6 vendors totaling approximately \$33.3 million:

- MCPS awarded a three-year \$900,000 contract with payments totaling \$300,000 in fiscal year 2014 to survey employees without using a competitive procurement process or preparing a sole-source justification even though this service (conducting surveys) is available from multiple firms. The documentation presented to the Board for the approval of this contract was ambiguous. Specifically, the documentation indicated this vendor was selected through a competitive procurement process, but also included a schedule indicating bidding was not applicable for this contract

without providing any justification. We were advised by a MCPS management employee that this vendor was selected based on instruction from an executive management official without any competition.

MCPS' policy, approved by the Board, established a Procurement Manual, which required that competition for procurements be sought to the maximum extent feasible. The Manual also requires that purchases made by sole source be accompanied with a sole source justification form.

- For five contracts (including computer equipment and fuel) that were based on intergovernmental cooperative purchasing agreements (ICPA), with payments totaling \$33.0 million in fiscal year 2014, MCPS did not prepare a written determination of the benefits of using an ICPA, as required by State law. This law, which specifically states it is applicable to local education agencies, allows the use of ICPAs only after the using entity has determined that the use of such arrangements will provide cost benefits, promote administrative efficiencies, or further other policy goals. We were advised by a MCPS management employee that MCPS had not prepared such written determinations for any of its ICPAs in our audit period.¹

Recommendation 4

We recommend that MCPS

- a. procure vendors through a competitive procurement process unless there is a documented justification to use the sole-source procurement method as required by MCPS policies, and**
- b. comply with State law and ensure that a written determination substantiating its use of an intergovernmental cooperative purchasing agreement is prepared.**

¹ Section 13-110 of the State Finance and Procurement Article, of the Annotated Code of Maryland in part, defines an intergovernmental cooperative purchasing agreement as a contract that is entered into by at least one governmental entity in a manner consistent with the purposes set forth in Section 11-201 of the Article, that is available for use by the governmental entity entering the contract and at least one additional governmental entity, and that is intended to promote efficiency and savings that can result from intergovernmental cooperative purchasing.

Finding 5**MCPS' monitoring of certain contracts did not ensure that the best value was obtained or that payments did not exceed the contract amounts.**

Our test of the contracts with 12 vendors disclosed there was a lack of sufficient contract monitoring for contracts with 4 vendors with payments totaling \$21.1 million in fiscal year 2014. Specifically, MCPS did not ensure payment arrangements provided for services to be obtained at the best value and that payments did not exceed the approved contract amount.

- MCPS had not determined the most cost-effective payment arrangement for certain legal services with payments totaling \$226,000 in fiscal year 2014. MCPS' contract with a legal firm to represent it at hearings involving special needs students and other services included two permissible payment scenarios: one was an all-inclusive per diem billing rate (referred to as a daily hearing rate) and the other a per employee hourly time charge for legal and paralegal services, plus expenses. The invoices submitted by the firm to MCPS frequently only included a daily hearing rate (\$6,300 per day), and MCPS was unaware of the number of hours provided for each case. This precluded MCPS from evaluating whether the daily hearing rate payment arrangement provided for related services to be obtained at the best value.

According to MCPS management, the daily hearing rate included the law firm's time to prepare for hearings and represented a better value than if the vendor had billed for all hours and expenses incurred on the cases. However, because the firm's invoices did not specify the hours expended per case, MCPS had no way of determining if the \$6,300 daily rate was a better value than hourly charges for all services rendered, which according to the contract ranged from \$185 and \$245 per hour for lawyer's services plus additional hourly costs for paralegal and associated administrative expenses.

- Payments for three contracts (including dairy products and computer equipment) were not adequately monitored. As a result, during fiscal year 2014, MCPS paid the vendors approximately \$1.3 million more than the contract amounts approved by the Board. For example, MCPS paid one vendor approximately \$1 million more than the \$10,376,130 contract amount for computer hardware and services for fiscal year 2014 without seeking or obtaining Board approval.

Recommendation 5

We recommend that MCPS

- a. evaluate vendor payment arrangements to ensure services are obtained at the best value;
- b. monitor contract costs to ensure total payments do not exceed the contract values, and seek Board approval to modify the contract when costs are expected to exceed the agreement amounts; and
- c. seek retroactive Board approval for the aforementioned contracts.

Human Resources and Payroll

Background

Payroll costs represent the largest single cost component in the MCPS budget. According to MCPS records for fiscal year 2014, salary, wage, and benefit costs totaled \$2.2 billion. According to Maryland State Department of Education reports, during the 2013 – 2014 school year, MCPS had 20,882 full-time equivalent positions, which consisted of 14,151 instructional and 6,731 non-instructional positions.

MCPS uses an automated integrated human resources and payroll system to maintain human resources information, record employee time, and track leave usage. Manual time records, including leave taken, are entered onto the system every two weeks by MCPS payroll clerks. Leave accumulation is automatically calculated by the system, which is also used to process and record all payroll transactions. Payroll checks and direct deposit advices are produced using a separate automated system.

Finding 6

Independent reviews did not provide sufficient assurance that certain critical personnel transactions, such as changes to employee information and salary, were proper.

Analysis

Independent reviews of certain personnel changes processed did not provide sufficient assurance that all personnel changes, such as changes to salaries and employee information, were authorized and supported. An MCPS management employee's quarterly review of a system output report of processed personnel changes, did not include a review to determine the propriety of those changes. Rather, the review's purpose was to ensure that changes were only made by designated employees. As a result, improper or

erroneous changes in the system could be processed without detection, although the results of our testing did not disclose any indications of such changes. A similar condition was commented upon in our preceding audit report.

Recommendation 6

We recommend that MCPS verify, at least on a test basis, the propriety of personnel changes recorded in the automated system (repeat).

Inventory Control and Accountability

Background

According to the MCPS audited financial statements, as of June 30, 2014, the undepreciated value of its capital equipment (including furniture and fixtures) was \$165 million. Equipment items with a cost of \$5,000 or more are capitalized and depreciated for financial statement reporting purposes.

MCPS uses a centralized fixed asset inventory system to track capital and sensitive equipment, including furniture, computers, audio and video items, and various other items, and conducts periodic physical inventories. Sensitive equipment is defined as non-capital equipment with a unit cost between \$500 and \$5,000 and a useful life greater than one year, which is transportable, easily concealable, or prone to theft. Certain individuals were responsible for the equipment at each location (that is, each school or administrative office).

Controls Over Equipment Inventories Were Established

MCPS has implemented procedures and controls to provide accountability over equipment inventories. MCPS has developed written policies and procedures that establish guidance and define responsibilities to facilitate effective controls over equipment inventories. These policies and procedures include requirements for periodic physical inventories, recordation of equipment, and disposition of equipment items. Our review of the procedures and controls and tests of the equipment records did not disclose any reportable conditions.

Information Technology

Background

The MCPS Office of the Chief Technology Officer maintains and administers the MCPS' computer network, computer operations, and certain information system applications. MCPS operates a wide area network, with Internet

connectivity, which connects the individual schools' local networks to the computer resources located at the MCPS data center. The MCPS network included two redundant core network firewalls to protect the MCPS network. MCPS also operates several significant administrative and academic-related applications including the finance application and the student information application. The finance application includes modules for budgeting, accounts payable, fixed assets, and purchasing.

Finding 7

The MCPS core network firewalls were not configured to properly secure the MCPS network, allowing overly broad network level access with insufficient security event logging and monitoring.

Analysis

The MCPS core network firewalls were not configured to properly secure the MCPS network.

- The firewall rules on the two core firewalls allowed overly broad network level access from all locations (including the Internet) to all devices on the MCPS network, thereby placing these network devices at risk. Also, over 200 additional firewall rules allowed certain source locations access to any destination on the MCPS network.
- Security event logging and monitoring of core firewall events was not sufficient. For example, the two core firewalls were not configured to send automatic email alerts to administrators concerning high severity firewall operational events and we were advised that regular reviews of the firewalls' logs were not performed.
- Administrative connections to these two core firewalls were not restricted to originate from only authorized source addresses. In addition, an insecure connection protocol, which transmitted information including logon credentials in clear text, was enabled on these firewalls for administration purposes.

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

Recommendation 7

We recommend that MCPS

- a. configure its firewalls to achieve a “least privilege” security strategy giving individuals and devices only the access needed to perform necessary tasks;
- b. configure its core firewalls to send email alerts to responsible administrators regarding critical firewall security events;
- c. regularly review its core firewalls’ logs and investigate unusual or suspicious items, with such reviews and investigations being documented and retained for future reference; and
- d. restrict administrative access to the core firewalls to only authorized source addresses and only use secure protocols for administrative connections to these firewalls.

Finding 8

The MCPS network was not sufficiently secured to assist in the detection/prevention of potential network security breaches and attacks, and restrict access to critical servers.

Analysis

The MCPS network was not sufficiently secured.

- The MCPS network was not subject to Intrusion Detection Prevention System (IDPS) coverage. Specifically, we determined that MCPS had not implemented either network or host based IDPS coverage for its network devices. A properly configured IDPS can aid significantly in the detection/prevention of and response to potential network security breaches and attacks. Best practices identified in the State of Maryland *Information Security Policy* require that networks be protected against malicious code and attacks by implementing protections including the use of IDPS to monitor system events, detect attacks, and identify unauthorized use of information systems and/or confidential information.
- Thirty critical non-public servers were improperly placed in a network segment that contained publicly accessible servers. In addition, 13 servers hosting email that should not be publicly accessible were publicly accessible, thereby unnecessarily exposing these servers to additional risk.
- Traffic from 86 third-party business partners (such as contractors that remotely support certain systems and applications) to the MCPS network

via a virtual private network connection was not adequately restricted. We noted that these third parties, via this connection, had network level access to the entire MCPS network. Best practices, as prescribed by the aforementioned *Information Security Policy*, state that information systems shall be configured to monitor and control communications at the external boundaries of the information systems.

Recommendation 8

We recommend that MCPS

- a. perform a documented review and assessment of its network security risks and identify how IDPS coverage should be best applied to its network and implement this coverage,**
- b. relocate the aforementioned non-public servers to the internal network and eliminate public access to the email servers, and**
- c. restrict network level access for each third-party business partner to only those devices that the business partner needs to access.**

Finding 9

Workstations and servers were not sufficiently protected against malware, as administrative access was not properly restricted and systems were running outdated or unsupported system software.

Analysis

Workstations and servers were not sufficiently protected against malware.

- Five of nine workstations tested were improperly configured with users having administrator rights. Administrator rights are the highest permission level that can be granted to users and it allows users to install software and change configuration settings. As a result, if these workstations were infected with malware, the malware would run with administrator rights and expose these workstations to a greater risk of compromise than if the workstations' user accounts operated with only user rights. In addition, because of the administrator rights assigned, users on these five workstations had the ability to disable the malware protection software on their workstations.
- All 12 computers tested (including 3 servers) were running outdated operating system software and the 9 workstations tested had not been updated with the latest releases for software products that are known to have significant security-related vulnerabilities, even though the software vendors frequently provide software patches to address these vulnerabilities. When we conducted our test, the 12 computers' operating

systems had not been updated for periods ranging from 10 months to over 3 years. Also, our test of 9 workstations for vendor patches related to three software products, disclosed that all of these devices were running older versions of these software products that had not been updated for periods ranging from 10 months to over 4 years. In this regard, MCPS did not have a regularly scheduled, automated update process to ensure computers were protected against known threats on an ongoing basis. A similar condition related to system software not being kept updated was commented upon in our preceding audit report.

- Although MCPS used an enterprise wide management tool to administer the anti-malware software on its workstations and servers, at the time of our audit test, this tool had not been supported by the vendor for over three years. Because of this condition, the installed management tool could not connect to and manage over 13,000 of its workstations. Therefore, MCPS lacked assurance that these 13,000 workstations had a fully operational and up-to-date anti-malware software installed.

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

Recommendation 9

We recommend that MCPS

- a. ensure that administrator rights on workstations are restricted to network administrators and other users requiring such rights;**
- b. promptly install all critical security-related software updates (including those for operating systems) on workstations and servers (repeat); and**
- c. ensure that the management tool used to administer the anti-malware software on its workstations and servers is being supported by the vendor, and use this tool to regularly confirm that all workstations and servers are configured with anti-malware software that is operating properly and up-to-date.**

Finding 10

Network, application, and database account and password controls were not sufficient to properly protect critical resources, as they did not meet minimum thresholds in accordance with recognized best practices.

Analysis

Network, application, and database account and password controls were not sufficient to properly protect critical resources. The account and password controls over network authentication and the student information and financial management system applications and databases did not meet certain minimum thresholds, as identified in best practices prescribed by the State of Maryland *Information Security Policy*. For example, network authentication password controls were deficient with respect to password length, complexity, maximum age, and history. A similar condition related to network authentication and application password controls was commented upon in our preceding audit report.

Recommendation 10

We recommend that MCPS establish appropriate network, application, and database account and password controls (repeat).

Finding 11

Controls over the critical student information and financial management system databases were not sufficient as security activity was not logged, and various software in use was no longer supported by the respective developers.

Analysis

Controls over the critical student information and financial management system databases were not sufficient.

- Both databases were not configured to log any database security activity including privileged operations.
- The student information system database software and the operating system software on the server hosting this database were susceptible to known vulnerabilities because both the database and operating system software versions used were no longer supported by the respective developers. For example, the installed version of the student information system database software had not been supported by its developer since January 2012. We identified 12 vulnerabilities that existed on the installed version of this database software that were addressed in later versions of this software.

A similar condition related to insufficient logging and review of system security-related activity was commented upon in our preceding audit report.

Best practices as prescribed by the State of Maryland *Information Security Policy* require that information systems generate audit records for all security-relevant events, including all security and system administrator accesses and that system hardening procedures shall be created and maintained to ensure up-to-date security best practices are deployed at all levels of IT systems (operating systems, applications, databases, and network devices).

Recommendation 11

We recommend that MCPS

- a. **set the student information and the financial management system databases to log all critical security related events, regularly review these logs, document these reviews and retain this documentation for future reference (repeat); and**
- b. **ensure that all production database and operating system software is supported by the respective developers.**

Finding 12

MCPS did not have a complete information technology Disaster Recovery Plan for recovering computer operations.

Analysis

MCPS did not have a complete information technology Disaster Recovery Plan (DRP) for recovering computer operations from disaster scenarios (for example, a fire or flood). The State of Maryland *Information Technology (IT) Disaster Recovery Guidelines* provide best practices on the minimum required elements needed for a DRP. MCPS' DRP did not address several of these minimum requirements. For example, the DRP did not contain complete listings of software components, technical considerations for restoring network connectivity, or critical vendor contact information. In addition, documentation did not exist to evidence that the DRP had been tested since May 2011. Without a complete and tested DRP, a disaster could cause significant delays (for an undetermined period) in restoring information systems operations beyond the expected delays that would exist in a planned recovery scenario.

Recommendation 12

We recommend that MCPS

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

Facilities Construction, Renovation, and Maintenance

Background

MCPS maintains 202 schools and a number of other facilities (such as administrative and support offices) with a staff of approximately 1,370 custodial and 360 maintenance personnel. According to the Capital Improvement Plan (CIP) prepared in fiscal year 2015, planned construction, major renovations, and systemic improvements to MCPS facilities over fiscal years 2015 through 2020 are estimated to cost \$1.7 billion.

MCPS Contracts and Expenditures for Capital Projects Were Proper

Our review of five construction-related procurements totaling \$277.6 million disclosed that MCPS had used appropriate processes to procure all five contracts, including obtaining Board approval. In addition, our test of invoices totaling \$16.0 million for these contracts disclosed that the invoices were properly reviewed and approved and the amounts invoiced were in accordance with the related contract terms.

Processes are in Place to Minimize Energy Costs

MCPS has developed a comprehensive energy management program and has established goals, strategies, and processes to minimize energy costs. For example, MCPS utilizes an energy management system to monitor energy usage and can remotely control heating, air conditioning, and other environmental factors from the central office location. In addition, MCPS has installed certain higher efficiency replacement equipment (such as heating, ventilation, and air conditioning) at a number of schools and has obtained available energy rebates.

Finding 13

Maintenance supervisors did not ensure work orders were completed timely and that the completion of work was properly recorded in the automated system.

Analysis

Maintenance supervisors did not ensure that maintenance work orders were completed timely and recorded as complete in the automated system. Consequently, the system was not accurately maintained which precluded effective overall monitoring of the progress of assigned tasks. According to a system report as of June 17, 2015, there were 12,725 open work orders, including 4,073 work orders that remained open from 0.5 to 8.5 years. MCPS prioritizes the work orders in its system. Of the older 4,073 work orders, 15 were identified as “Emergency” (requiring a same day response), 90 were “Urgent” (a 2 day response), 3965 were “Routine” (a 15 day response), and 3 were listed as “None” priority.

Our review of the detailed maintenance records in the system for 10 of these open work orders (2 were “Emergency” and 8 were “Routine”) disclosed that 9 of the work orders were closed in the system after we brought this matter to MCPS' attention in July 2015. We were advised by a maintenance management employee that the work for these 9 work orders had been completed previously, but supervisors had not addressed these items during their monthly review of the status of open work orders. The remaining work order had been open for 7 months and had still not been completed as of our review.

Recommendation 13

We recommend that MCPS ensure maintenance supervisors periodically perform effective reviews of system reports to ensure open work orders are completed timely and recorded as complete in the system.

Transportation Services**Background**

MCPS has approximately 98,000 students eligible to receive student transportation services. These students were transported using 1,120 school system-owned buses. According to the audited financial statements, fiscal year 2014 transportation costs totaled \$101 million. Of the 19 million reported route miles for the 2013-2014 school year, 47 percent represented miles traveled to transport disabled students.

Finding 14

MCPS did not use formal targets for revising bus routes or fully use its automated routing software to improve route efficiency. We found 300 routes with ridership significantly below bus ridership goals.

Analysis

MCPS did not use formal targets and goals to guide the decisions made during the process of reviewing and revising bus routes nor did it fully use its automated bus routing software to promote efficiency. Specifically, MCPS had developed bus ridership goals, but had not developed comprehensive policies that defined the relevant factors for MCPS to consider when determining the most appropriate bus routes, such as number of potential or expected rides and student ride times. Rather, MCPS used existing bus routes and made manual modifications to accommodate students' school assignment, based on the experience and knowledge of its transportation staff, without periodically reviewing all routes for efficiency on a system-wide basis.

The lack of system-wide route analysis could affect route efficiency. For example, our review of all 1,900 regular MCPS bus routes using fiscal year 2015 bus manifests (documents that record student ridership) disclosed that approximately 300 routes were below 50 percent of MCPS' bus capacity.² Fully using routing software capabilities is a recognized best practice that can reduce the time it takes to design efficient routes, help ensure that routes utilize existing bus capacity, and minimize the number of buses needed to transport students. The MCPS transportation staff's use of routing software was limited to displaying current bus routes as an aid to manually developing new routes and changing existing routes. A similar condition was noted in our preceding audit report.

Recommendation 14

We recommend that MCPS

- a. develop formal and comprehensive policies and procedures for its bus routes that include guidance regarding bus ridership goals and any other factors in order to assist in developing bus routes (repeat); and**
- b. use automated routing software to help ensure the efficient utilization of buses (repeat).**

² MCPS' formal school bus capacity was 57 students for transit style buses and from 36 to 48 students for conventional buses, which agreed to manufacturer specifications. The capacity for special education buses varied based on the riders' needs.

Finding 15

Bus maintenance work order records frequently did not reflect the current status of assigned maintenance work, and discrepancies in the maintenance parts and supplies inventory were not timely investigated and resolved.

Analysis

Bus maintenance work order records were not accurate. Also, sufficient controls and accountability had not been established over the bus maintenance parts and supplies inventory.

The automated bus maintenance system was not always updated upon completion of maintenance work orders for bus repairs. According to a system report of open work orders for bus repairs as of March 4, 2015, there were 933 open work orders, including 303 work orders that remained in the open status from at least 1 month to 2 years. However, our review of the detailed maintenance records in the system for 10 of these work orders disclosed that all 10 buses had been repaired and were back in service. As a result, MCPS work order reports in the system were not accurate and could not be used to reliably track the status of bus maintenance work.

Discrepancies identified during annual physical inventories were not properly investigated and resolved. As of April 2015, MCPS' bus maintenance parts and supplies inventory consisted of approximately 25,000 different items costing \$1.7 million. Specifically, physical inventories of bus maintenance parts and supplies from April 2014 and April 2015 collectively identified shortages totaling \$92,000 and overages totaling \$49,500. Our review of 6 shortages (3 shortages from each physical inventory) of bus parts and supplies from these inventories totaling \$14,000 (such as for transmission fluid and brake parts) disclosed that the cause of the discrepancies was not investigated and resolved as of June 2015.

Inventory items were not properly safeguarded as mechanics working the overnight shift had unrestricted access to the inventory items. Although these mechanics were expected to document any items withdrawn from inventory to perform maintenance work, there was no independent verification to ensure that all items withdrawn were appropriate based on the completed work orders and subsequently recorded in the automated system. As a result, inventory items could be misappropriated without immediate detection.

Recommendation 15

We recommend that MCPS

- a. **update maintenance records in the automated system to record the completion of work orders,**

- b. timely investigate and determine the cause of discrepancies identified during annual physical inventories and take appropriate corrective action, and
- c. ensure an independent employee verifies that inventory items withdrawn by overnight mechanics were appropriate and recorded in the automated system.

Food Services

Background

MCPS has one central location that prepares all meals for its 202 schools. In fiscal year 2014, MCPS had 583 food service employees (comprised of 570 cafeteria positions and 13 administrative positions). According to the fiscal year 2014 audited financial statements, food service expenditures (\$52.9 million) exceeded food service revenues (\$52.6 million) by \$326,679. While for some recent years, MCPS operations resulted in deficits, these deficits were not persistent and were offset by surpluses in other years. MCPS' fiscal year 2014 cost per meal was the second highest among the five largest Maryland public school systems, which was primarily due to MCPS' higher employee salary and benefit costs.

Cash Handling Procedures for Cafeteria Sales Were Established

MCPS has implemented procedures and controls designed to ensure that cafeteria receipts were properly accounted for, processed, and deposited. MCPS has developed a *Cash Handling Policies and Procedures Manual* to establish a uniform policy for the handling of all cafeteria sales. The *Manual* outlines responsibilities including, collection, reporting, and deposit practices. Periodically, staff from the Division of Food and Nutrition Services conducts unannounced audits to test for compliance by cafeteria staff with the procedures.

School Board Oversight

Background

MCPS' Board of Education consists of seven elected members and one student member with partial voting rights. In its oversight responsibilities, the Board contracted with a certified public accounting firm for independent audits of the MCPS financial statements and federal programs. The Board has established special committees to study and report on various matters, including an active, standing fiscal management/audit committee consisting of three Board members. Also, MCPS has an Internal Audit Unit that reports

organizationally to the Superintendent but reports audit results and submits its annual audit plan to the Board. Effective July 2016, MCPS' Internal Audit Unit will report organizationally to the Board.

MCPS Adopted an Ethics Policy that Met the Current Requirements of State Law

The Board has adopted a detailed ethics policy that conforms to State Law, 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 MCPS employees. MCPS established an Ethics Panel consisting of five members who are appointed by the Board of Education. The Panel acts as an advisory body to the Board, interprets the ethics code, and provides advisory opinions. 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, the Superintendent, Assistant Superintendents, and a number of other administrators (such as school principals and department heads) by April 30th of each year. Our test of the records for employees required to submit financial disclosure forms for calendar year 2014, disclosed that forms were submitted as required.

MCPS Has an Operational Fraud Hotline

In 2010, MCPS implemented a confidential fraud hotline to enable employees to confidentially report operational concerns and suspected fraud, waste, and mismanagement. The hotline is maintained by an independent third party that notifies the MCPS Internal Audit Unit of the allegations. The Internal Audit Unit reviews the allegations and identifies the appropriate means for investigation.

Other Financial Controls

Healthcare Background

MCPS participates in a cooperative purchasing agreement with other regional agencies to obtain employee and retiree health insurance. MCPS' healthcare expenditures, including claims expense, insurance premiums, and plan administrative fees, totaled approximately \$369 million during fiscal year 2014.

Finding 16**MCPS did not ensure the propriety of certain employee and retiree healthcare claims paid by its plan administrators.****Analysis**

MCPS did not verify the propriety of claims and benefits paid by program administrators. Rather, MCPS relied on the plan administrators' claims adjudication process to control healthcare costs. However, the adjudication process only reviews eligibility and pricing for claims submitted and does not ensure the services were actually provided. According to the audited financial statements, health care claims payments totaled \$295 million during fiscal year 2014. A similar condition was commented upon in our preceding audit report.

An MCPS management employee advised us that a contractor was hired to audit pharmaceutical claims in 2008. Since this audit did not identify any financial recoveries, MCPS determined it was not cost beneficial to hire a contractor to audit health insurance claims. Pharmaceutical claims account for only a portion of the total health insurance claims. For example, according to MCPS records, pharmaceutical claims accounted for 29 percent of total claim payments during fiscal year 2014. The State Office of Personnel Services and Benefits, which administers self-insured health plans for State employees, contracts for comprehensive reviews of claims paid by plan administrators. According to the Office, improper payments from these reviews have consistently exceeded the cost of the reviews.

Recommendation 16**We recommend that MCPS enhance its procedures to verify healthcare costs by ensuring the propriety of paid claims (repeat).**

Audit Scope, Objectives, and Methodology

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

In planning and conducting our audit of MCPS, 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 MCPS dated January 15, 2009, 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 MCPS 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 MCPS. We also interviewed personnel at MCPS, 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 MCPS 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, 2013 through December 31, 2014. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected. For certain areas within the scope of the audit, we relied on the work performed by the independent accounting firm that annually audits MCPS' 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 MCPS' automated finance 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.

MCPS' 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 MCPS that did not warrant inclusion in this report.

We conducted our fieldwork from November 2014 to July 2015. The MCPS response to our findings and recommendations is included as an appendix to

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

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

APPENDIX



MONTGOMERY COUNTY PUBLIC SCHOOLS
MARYLAND
www.montgomeryschoolsmd.org

May 12, 2016

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
State of Maryland
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, Maryland 21201



Dear Mr. Barnickel:

The response to recommendations made in the Financial Management Practices Audit Report that was issued for Montgomery County Public Schools (MCPS) in January 2016 is enclosed. In addition, an electronic copy was forwarded to you on January 29, 2016.

Throughout the audit, the auditors noted that MCPS is extremely well managed including comments that the federal A133 audit was the "cleanest they had ever seen." As you know, MCPS has been recognized for excellence in reporting for many years by both the Government Finance Officers Association and the Association of School Business Officials as well as being awarded the 2010 Malcolm Baldrige National Quality Award for performance excellence.

In addition, MCPS is audited by or on behalf of no less than nine other agencies, including the U.S. Department of Education, the U.S. Department of Defense, the U.S. Department of Agriculture, the Maryland State Department of Education, the Maryland State Public Schools Construction Program, the Maryland Department of Health and Mental Hygiene, the Maryland Office of Legislative Audits, the Montgomery County Office of Legislative Oversight, and the Montgomery County Inspector General, as well as external auditors who also conduct the audit work on behalf of the Maryland State Retirement Agency as well as the required federal A133 audit.

We would like to thank the legislative auditors for helping us identify several areas where we can improve our system's performance and efficiency. Staff appreciated the level of professionalism demonstrated by the auditors throughout the audit process.

Please do not hesitate to contact Dr. Andrew M. Zuckerman, chief operating officer, at 301-279-3627 if you have any questions or need additional information regarding this submission.

Sincerely,

Larry A. Bowers
Interim Superintendent of Schools

LAB:sn:sdg

Enclosure

Copy to:

Members of the Board of Education
Dr. Zuckerman

Office of the Superintendent of Schools

850 Hungerford Drive, Room 122 ♦ Rockville, Maryland 20850 ♦ 301-279-3381

Montgomery County Public Schools Response to Office of Legislative Audits Draft Financial Management Practices Audit Report

Finding 1

Checks received at certain locations were not recorded nor restrictively endorsed immediately upon receipt, and accountability over the transfer of collections to the Controller's Office for deposit was not established.

Recommendation

We recommend that MCPS:

- a. Ensure that all collections are immediately recorded and restrictively endorsed upon receipt by the department receiving the payment (repeat), and
- b. Ensure that an independent employee performs a documented verification that all recorded collections were subsequently transferred to and accepted by the Controller's Office for deposit (repeat).

Response

Montgomery County Public Schools (MCPS) agrees with this finding. In light of this finding, MCPS will review with all departments their procedures and processes to improve compliance. MCPS notes that it has already established procedures that require departments to immediately endorse and deposit receipts as well as monitor deposits recorded in our financial system. None of the many audits of MCPS by federal, state, and county agencies, including this audit, have identified misappropriation of cash receipts. Cash receipts by MCPS are a very small component of the MCPS budget, averaging \$4,636 per month during the current fiscal year.

In addition, MCPS departments have been provided with stamps to restrictively endorse checks upon receipt and Division of Controller (DOC) staff will remind offices of this requirement. Instructions on the deposit slip reinforce the requirement. Additionally, efforts will continue to move payments from cash and check to online payments to reduce the handling of cash receipts and risk of loss.

MCPS utilizes a remote check deposit scanner in the DOC, which provides additional security, eliminating the need to transport checks to the bank. Where cost effective, MCPS will explore additional remote check deposit scanners.

Receipts are recorded in the Financial Management System (FMS) and departments can verify independently that their receipts have been recorded. MCPS will reinforce the requirement to departments that an independent employee verify that recorded collections are deposited.

Finding 2

MCPS had not sufficiently pursued collection of delinquent accounts receivable, and non-cash credits could be processed without independent approval and adequate supporting documentation.

Recommendation

We recommend that MCPS:

- a. Develop comprehensive debt collection policies and procedures that address progressive collections steps to be performed to pursue outstanding accounts, including establishing predetermined intervals for sending late payment notices and for referring delinquent accounts to a collection agency (repeat);
- b. Ensure independent supervisory personnel use a system output report to review non-cash credit adjustments and that these reviews be documented (repeat); and
- c. Enhance its non-cash credit policy by including who can initiate a non-cash credit and what documentation is to be retained to support that the non-cash credit was justified and properly made.

Response

MCPS agrees with this finding. After the prior OLA audit, MCPS strengthened controls, and we will continue to work to improve processes in the account receivable and collection activity. MCPS does require that all receivables are created either as a result of an interface (e.g., retiree benefit billings) or an authorization from the originating office or department (e.g., overused leave after termination). Credits and adjustments require authorization from the originating office or department.

As part of our process improvements, the assistant controller will sample and review non-cash credit adjustments using system reports to ensure that adjustments have been properly authorized and documented. The monthly closing procedures will be updated to include the review of system output reports by the assistant controller and account receivable supervisor.

In addition, MCPS will review collection activity including adjustment limits and authority, determination of predetermined intervals for late payment notices and delinquent account collection referrals, and establish timelines that can be met by existing staff resources.

MCPS also will enhance its non-cash credit policy by including who can initiate a non-cash credit and define documentation requirements.

Finding 3

A number of employees had procurement and disbursement system capabilities assigned which allowed them to perform incompatible functions.

Recommendation

We recommend that MCPS:

- a. Strengthen its controls over the automated FMS by segregating employee duties and restricting system capabilities so that incompatible critical procurement and disbursement processes cannot be performed by one employee acting alone; and
- b. If there are instances where system capabilities cannot be adequately restricted, develop a process to identify and report on critical transactions processed by the aforementioned employees for subsequent independent review.

Response

MCPS does not agree with this finding. MCPS has instituted additional controls to offset potential improper or erroneous transactions. Procurement Unit staff cannot create and commit a requisition without account owner approval. This prevents unauthorized transactions. Procurement staff are required to obtain account owner approval for price changes and to attach appropriate authorizing documentation.

MCPS agrees that an individual should not have access both to check printing and checks and the ability to authorize payments and will reassign duties to provide this separation.

Auditor's Comment:

During the audit, we provided MCPS management with the list of 20 employees who could initiate or modify, as well as approve purchase orders without account owner approval of a requisition. We also provided MCPS management with documentation of a demonstration, which confirmed that a procurement user was capable of processing a purchase order on its financial system without a requisition and without notification to the account owner.

Finding 4

MCPS awarded a \$900,000 contract without using a competitive procurement process or justifying that decision, and for five other contracts tested, MCPS did not assess the benefits of intergovernmental cooperative purchasing agreements as required by State Law.

Recommendation

We recommend that MCPS:

- a. Procure vendors through a competitive procurement process unless there is a documented justification to use the sole-source procurement method as required by MCPS policies; and
- b. Comply with State law and ensure that a written determination substantiating its use of an intergovernmental cooperative purchasing agreement is prepared.

Response

While MCPS does not agree with this finding and believes its procurement processes are consistent with state law, it will review the recommendations regarding general procurement practices and will consider ways the current processes and activities could be improved. With respect

to intergovernmental cooperative purchasing agreements, MCPS notes, based on advice from its general counsel, that, in general, as the Office of Legislative Audits acknowledges, county boards of education are not units of state government for purposes of the State Finance and Procurement Article and, thus, are not subject to the state's general procurement laws for the purchase of goods and services that apply to state agencies. The Maryland Court of Appeals adopted this holding in *Chesapeake Charter, Inc. v. Anne Arundel County Board of Education*, 358 Md. 129 (2000), and reaffirmed it in *Beck Industries v. Worcester County Board of Education*, 419 Md. 194 (2011), and again in *Building Materials Corp. of America v. Board of Education of Baltimore County*, 428 Md. 572 (2012). Notably, in *Building Materials Corp.*, the Court of Appeals upheld a county board of education's right to purchase roofing services for school buildings through a group purchasing consortium. The Court of Appeals focused its analysis on Section 5-112(a)(3) of the Education Article, which permits "a county board's participation in contracts for goods or commodities that are awarded by other public agencies or by intergovernmental purchasing organizations if the lead agency for the contract follows public bidding procedures."

Through Montgomery County Board of Education Policy DJA, *MCPS Procurement Practices and Bid Awards*, compliance with the due diligence requirement of Section 5-112 is the responsibility of the procurement staff of MCPS. Staff takes steps to ensure that the lead agency follows public bidding procedures prior to "bridging" a contract awarded by another public agency or participating in a cooperative purchasing agreement. In addition, staff otherwise ensure compliance with the procedures set forth in the MCPS Procurement Manual and MCPS Regulation DJA-RA, *Procurement of Equipment, Supplies, and Services*.

In our view, when read in conjunction with Section 5-112 of the Education Article, Section 13-110 of the State Finance and Procurement Article does not impose additional requirements beyond those MCPS staff already follow. In *Building Materials Corp.*, the Court of Appeals noted that the General Assembly enacted legislation in 2009 that extends Section 13-110 of the State Finance and Procurement Law to encourage and authorize participation by county boards of education in cooperative purchasing agreements. *Id.* at 584 n.13 and 588 n.21. But the Court of Appeals' primary focus was assuring compliance with Section 5-112 of the Education Article, which expressly permits such procurements.

In any event, the due diligence that MCPS staff apply to meet the standard set forth in Section 5-112 of the Education Article, as well as the procedures set forth in the MCPS Procurement Manual, fully satisfy the requirement in Section 13-110(e) of the State Finance and Procurement Article—to the extent that it is applicable at all—that a local entity must demonstrate that participating in an existing contract by another government agency will:

- (1) provide a cost savings in purchase price or administrative burden; or
- (2) further other policy goals including operational and energy-efficiency goals related to the purchase, operation, or maintenance of the supply or service.

The MCPS Procurement Manual, expressly incorporates such policy goals into the objectives it sets forth for its procurement procedures. These objectives are well-aligned with Section 13-110(e) of the State Finance and Procurement Article, to the extent it is applicable. For the foregoing

reasons, it is my view that MCPS' practice of "bridging" contracts of other government agencies and participation in cooperative purchasing agreements complies with applicable state law.

With respect to the finding regarding sole-sourcing, MCPS agrees that prudent due diligence is critical to the responsibility to spend taxpayer funds wisely and has implemented procurement practices to ensure high-quality goods and services purchased in a timely manner at a reasonable cost. The OLA auditors claim that documentation presented to the Board of Education for the two contracts identified by the auditors as, "lacked critical details about the procurement process and contract terms." Yet, as shared with members of the Board, the contract for Employment Engagement Consulting was a unique service contract to assess school and staff climate and engagement. The organization, Gallup, has a national reputation and unique product for work of this nature. Members of the Board of Education were presented the contract for approval as an action item and provided the opportunity to question the specifics of the contract. MCPS does agree that there was a misstatement in the Board memorandum stating that there was a competitive process.

Auditor's Comment:

The audit finding does not question the legality of MCPS' use of Intergovernmental Cooperative Purchasing Agreements (ICPA); rather, the finding cites the necessity of complying with Section 13-110(e) of the State Finance and Procurement Article of the Annotated Code of Maryland. MCPS' response appears to question the applicability of the law even though OLA obtained advice from the Office of the Attorney General confirming that MCPS is subject to those requirements when using an ICPA. Although MCPS indicates that its staff perform certain due diligence procedures for ICPA's it used, we were advised during the audit by MCPS that there was no documentation to support that MCPS had determined for any ICPA's used during the audit period that the use of such arrangements would provide a cost savings in purchase price or administrative burden; or further other policy goals, as required by law. Further, MCPS' Procurement Manual does not contain requirements pertaining to the aforementioned section of law.

Finding 5

MCPS' monitoring of certain contracts did not ensure that the best value was obtained or that payments did not exceed the contract amounts.

Recommendation

We recommend that MCPS

- a. Evaluate vendor payment arrangements to ensure services are obtained at the best value;
- b. Monitor contract costs to ensure total payments do not exceed the contract values and seek Board approval to modify the contract when costs are expected to exceed the agreement amounts; and
- c. Seek retroactive Board approval for the aforementioned contracts.

Response

MCPS does not agree with this finding, but agrees to review the recommendations regarding general procurement and monitoring practices and will consider ways the current processes and activities could be improved.

MCPS notes, however, that, as previously explained in greater detail to the Office of Legislative Audits, MCPS program and procurement staff currently conduct detailed reviews of all contracts and present summary recommendations to the Board. For special education legal services, monthly billing records are carefully reviewed by the MCPS Office of the General Counsel and program staff in our Office of Special Education and Student Services. Additionally, monthly expenditures, including legal, are reported to the Board. With one of those vendors who has consistently provided high-quality legal services to the Board over many decades, MCPS has negotiated a flat fee based on the number of days of hearings before an administrative law judge required for a due process complaint. That flat fee encompasses not just the time required for participating in the hearing for that day, but also all of the lengthy preparation and filings leading up to and following the hearing, including compliance with the requirements of special education law, legal research, reviewing educational records and other documents, preparing the required disclosure documents, preparing and filing of motions and responsive letters to counsel for the opposing party, reviewing and responding to discovery requests, scheduling conferences, preparing for and participating in any settlement discussions or resolution sessions, meeting with witnesses, and preparing for hearings including meeting with witnesses and other MCPS staff. Such flat fees are utilized by other entities as a means to control costs, and MCPS has found that it receives good value at a rate that is comparable, if not better, than it would receive if this vendor were to charge hourly rates, based on staff's first-hand knowledge of the matters and the firm's work, as well as the extensive amount of time that the firm expends on the district's behalf. Based on ongoing staff review, it is MCPS's judgment that the flat rate provides good value for the firm's high-quality legal services and strong record of success in special education matters.

Auditor's Comment:

MCPS disagrees with the finding and claimed that it receives good value using the all-inclusive per diem billing rate, and that the cost is comparable, if not better, than the cost from the same vendor under the hourly rate structure. As commented upon in the finding, MCPS had not obtained appropriate documentation necessary to support that assertion.

Finding 6

Independent reviews did not provide sufficient assurance that certain critical personnel transactions, such as changes to employee information and salary, were proper.

Recommendation

We recommend that MCPS verify, at least on a test basis, the propriety of personnel changes recorded in the automated system (repeat).

Response

MCPS does not agree with this finding. In the 2009 report, when this finding was identified, MCPS implemented a mitigating control to address the limitations of the human resources system. Each quarter, the chief financial officer reviews the types of transactions by user for all employees who can modify employee information and confirms that only those employees who have a specific responsibility have entered that type of transaction. For example, only members of the salary and administration team enter salary changes. Therefore, any improper transaction would be detected.

MCPS does segregate the ability to add new employees from the ability to change employee salaries and benefits. New employees must be added through the online applicant tracking system and then authorized as hired by the Office of Human Resources and Development (OHRD). Changes to employee hours also are initiated by OHRD. The Employee and Retiree Service Center updates employee information such as salaries and benefits. One person cannot perform both functions without detection.

This recommendation suggests a level of double review that would be costly and inefficient, given other controls in place. Salaries and wage expenditures are monitored by account managers and unusual or unexpected changes would be detected through the financial monitoring processes in place. In addition, every employee whose record is changed receive a Personnel Action Notice (PAN) so the employee is notified of a change to his/her records.

Auditor's Comment:

MCPS indicated that it believes the quarterly review of personnel transactions is sufficient. When this issue was discussed with MCPS, we advised that this review would not detect improper transactions by certain employees responsible for updating salaries and benefits. In addition, the processes described by MCPS to compensate for this control weakness would not, in our opinion, provide sufficient assurance of detecting improper personnel transactions.

Finding 7

The MCPS core network firewalls were not configured to properly secure the MCPS network, allowing overly broad network level access with insufficient security event logging and monitoring.

Recommendation

We recommend that MCPS:

- a. Configures its firewalls to achieve a “least privilege” security statement giving individuals and devices only the access needed to perform necessary tasks;
- b. Configure its core firewalls to send e-mail alerts to responsible administrators regarding critical firewall security events;
- c. Regularly review its core firewalls’ logs and investigate unusual or suspicious items, with such reviews and investigations being documented and retained for future reference; and

- d. Restrict administrative access to the core firewalls to only authorized source addresses and only use secure protocols for administrative connections to these firewalls.

Response

MCPS agrees with this finding. Firewall rules have been updated and optimized to include only current configurations to ensure devices and users are only reaching the needed device(s) or subnet(s).

Extended access-list object groups have been created in lieu of the previous “any any” method of allowing access to large numbers of devices and/or clients. Firewall logs are now collected, sorted, and organized by a new Log Event Manager (LEM) product with alerting and e-mail capabilities. These logs are monitored on a daily and sometimes hourly basis. Reviews/investigations of these logs are saved to the LEM. The LEM reports are the subject of meetings with stakeholders to review any necessary changes. Administrative access to the firewall is only allowed using Secure Shell (SSH) sessions; this access is restricted to three network engineers.

Finding 8

The MCPS network was not sufficiently secured to assist in the detection/prevention of potential network security breaches and attacks and restrict access to critical servers.

Recommendation

We recommend that MCPS:

- a. Perform a documented review and assessment of its network security risks and identify how IDPS coverage should be best applied to its network and implement this coverage;
- b. Relocate the aforementioned non-public servers to the internal network and eliminate public access to the e-mail servers; and
- c. Restrict network level access for each third-party business partner to only those devices that the business partner needs to access.

Response

MCPS agrees with this finding. MCPS is actively engaged in a project to upgrade the web filter (SWG) as well as add intrusion detection/prevention (IDPS) and advanced malware protection. Pilot testing is currently underway with a full deployment scheduled for late June 2016. Full functionality is expected by the end of June 2016. The additional time was necessary to consider the proper selection of an appropriate vendor for all of these technologies and a realistic time frame to install them responsibly. We worked with partners and industry experts to identify the proper technologies which are now being tested for implementation. As reported previously in 2015, the 30 servers in question are all on the internal network only. The servers on the private DMZ network do not have a public IP assigned to them and are not accessible externally. Similarly, the servers within the public IP Address ranges are configured on MCPS’ internal server network and are not a part of the DMZ network or available remotely.

Public access to all of the mailbox servers was immediately addressed at the time of the initial recommendation in 2015 by blocking port 25, on the firewall, from outside access to these servers. To control the level of access for all nonemployees, the final phase of an identity management software product was deployed in September 2015 to properly assign and restrict nonemployee access to only those devices to which they require access. The access is defined by a form submitted to us from the nonemployee's sponsor (an MCPS supervisor or executive staff member).

Finding 9

Workstations and servers were not sufficiently protected against malware, as administrative access was not properly restricted and systems were running outdated or unsupported system software.

Recommendation

We recommend that MCPS:

- a. Ensure that administrator rights on workstations are restricted to network administrators and other users requiring such rights;
- b. Promptly install all critical security-related software updates (including those for operating systems) on workstations and servers (repeat); and
- c. Ensure that the management tool used to administer the anti-malware software on its workstations and servers is being supported by the vendor and use this tool to regularly confirm that all workstations and servers are configured with anti-malware software that is operating properly and up-to-date.

Response

MCPS agrees with this finding. Since the recommendation was initially made in 2015, MCPS staff has modified our process to ensure that the default permissions for all users does not include administrator rights. To address those with the elevated rights, we have begun to review access requirements on an office-by-office basis and are planning to remove elevated rights that are deemed unnecessary. We are using our change-management process to roll out critical updates as appropriate. The process informs all necessary stakeholders of the update and allows them to weigh in with any relevant questions or concerns to ensure the change does not impact operations. New servers were purchased to upgrade the anti-malware management servers we are currently using. This will allow us to upgrade to the newest version of the server-side software. The new servers and upgraded software are currently being tested and are scheduled to be deployed at the end of June 2016. Additionally, once the new servers are operational, the client anti-malware software also will be upgraded to match that of the new server-side software. That also will take place between the months of June and August 2016.

Finding 10

Network, application, and database account and password controls were not sufficient to properly protect critical resources, as they did not meet minimum thresholds in accordance with recognized best practices.

Recommendation

We recommend that MCPS establish appropriate network, application, and database account and password controls (repeat).

Response

MCPS agrees with this finding. Since the recommendation was initially made in 2015, MCPS staff has set FMS and student system password logins to the same password policies as set in the MCPS user account login policy. Additionally, for our database software, we set password restrictions in accordance with best recognized practices.

Finding 11

Controls over the critical student information and financial management system databases were not sufficient as security activity was not logged, and various software in use was no longer supported by the respective developers.

Recommendation

We recommend that MCPS:

- a. Set the student information and the FMS databases to log all critical security related events, regularly review these logs, document these reviews, and retain this documentation for future reference (repeat); and
- b. Ensure that all production database and operating system software is supported by the respective developers.

Response

MCPS agrees with this finding. Since the recommendation was initially made in 2015, we enabled the database logging parameters for both student and FMS applications. MCPS has created an upgraded database that is being tested for those critical systems that are not yet on the latest version of the database software. While testing is currently taking place, the plan will be to migrate to the latest versions of the database software with the launch of new applications for those who are accessing the legacy databases. The new databases were created using parameters determined by the requirements of the pending upgraded applications.

Finding 12

MCPS did not have a complete information technology Disaster Recovery Plan for recovering computer operations.

Recommendation

We recommend that MCPS:

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

Response

MCPS agrees with this finding. While the disaster recovery plan we have in place is still designed to help in the event of an unexpected emergency, we are actively in the process of updating the disaster recovery plan. Meetings with necessary stakeholders are underway, as well as a visit to our off-site recovery facility. MCPS conducted its annual disaster recovery test on June 3–4, 2015, for specific systems and functions. The plan is in revision and in preparation for the annual test in the fourth quarter for 2017.

Finding 13

Maintenance supervisors did not ensure work orders were completed timely and that the completion of the work was properly recorded in the automated system.

Recommendation

We recommend that MCPS ensure maintenance supervisors periodically perform effective reviews of system reports to ensure open work orders are completed timely and recorded as complete in the system.

Response

MCPS agrees with this finding. In September 2015, the MCPS Division of Maintenance implemented a new report and procedure related to outstanding work review. Each week, shop supervisors receive an automated report via e-mail from the division's computerized work order management system. Supervisors then review the report and update the work order status and comments as needed. In addition, for any outstanding work requests greater than 180 days old (which may legitimately exist due to logistical or funding constraints), the supervisors will implement a plan to address the request, update the status remarks field, and notify the requestor as necessary regarding the delay.

Finding 14

MCPS did not use formal targets for revising bus routes or fully use its automated routing software to improve route efficiency. We found 300 routes with ridership significantly below bus ridership goals.

Recommendation

We recommend that MCPS:

- a. Develop formal and comprehensive policies and procedures for its bus routes that include guidance regarding bus ridership goals and any other factors in order to assist in developing bus routes (repeat); and
- b. Use automated routing software to help ensure the efficient utilization of buses (repeat).

Response

MCPS does not agree with this finding. MapNet, the current routing software used by the Department of Transportation (DOT), as well as all other computer assisted routing packages, has limitations that prevent its use for automated routing. As an example, the computer does not have the capacity to know about safety issues regarding stop locations. MCPS will continue to review software available in the marketplace and seek to identify improvements in future replacement systems.

When automated routing is attempted, currently systems must “overbook” buses to ensure that ridership is near bus capacity as the computer does not know which students will ride and which students will have alternate transportation. Even at schools for which every student is eligible for bus transportation, many students are transported by parents and/or ride with friends or drive themselves in the case of high school students. DOT has found that the use of historical ridership data is a more accurate predictor of future ridership from each neighborhood, and, therefore, we use that method to maximize ridership per bus rather than a general prediction of overbooking.

Periodically, DOT allows the computer to create automated routes and compares those routes to existing routes to determine if any proposed changes by the computer would be viable.

The four-tiered bell time system, which results in each bus serving multiple schools, creates time limitations on individual route segments. While serving multiple schools creates tremendous efficiencies in bus usage, the time limitations result in low ridership on some segments, particularly in more rural areas where it takes so long to collect students from stops with few or only one student.

Auditor’s Comment:

MCPS’ practice of primarily relying on historical ridership to design bus routes does not assure cost effectiveness as MCPS operates hundreds of buses on a daily basis at less than half of the ridership capacity. OLA has noted several local school systems that have used routing software to aid in maximizing bus ridership and other systems have acknowledged its usefulness and plan to more effectively use routing software.

Finding 15

Bus maintenance work orders frequently did not reflect the current status of assigned maintenance work, and discrepancies in the maintenance parts and supplies inventory were not timely investigated and resolved.

Recommendation

We recommend that MCPS:

- a. Update maintenance records in the automated system to record the completion of work orders;
- b. Timely investigate and determine the cause of discrepancies identified during annual physical inventories and take appropriate corrective action; and
- c. Ensure an independent employee verifies that inventory items withdrawn by overnight mechanics were appropriate and recorded in the automated system.

Response

MCPS agrees with this finding. To ensure compliance is met regarding the proper use of FASTER, fleet maintenance automated record keeping software, shop staff will be required to log on and off each work order in accordance with the time spent repairing the vehicle. An “Active Work Orders by Shop” report will be run biweekly to determine if work orders are remaining open beyond the suggested two-week period. The report will be reviewed by the shop supervisor to determine what action can be taken to close any unclosed work orders in a timely manner.

Furthermore, the lack of control of bus maintenance parts inventory during the first shift will be addressed by ensuring a work order is presented to the parts department staff prior to issuing the part. Once the parts staff have the work order, they will retrieve the required part and charge it to FASTER before releasing the part to the mechanic. To further control inventory shortages on the first shift, only parts personnel are authorized to charge parts to work orders. As a final step, we will explore having the auto parts supervisor run an audit report once a month to determine inventory variances. Once a discrepancy is noted, the auto parts supervisor will investigate and resolve any discrepancy with satellite parts staff.

To control bus maintenance parts inventory on the second and third shifts, we will explore having the shift supervisor be responsible for issuing and charging parts to each work order in FASTER, thus ensuring proper authorized access. Following this plan will take the shift supervisor away from shift leadership to work on vehicles himself to perform parts clerk duties that may not make strategic sense. Staffing second and third shifts with parts staff is cost prohibitive and would cost far more than the cost of the inventory discrepancy problem it would potentially solve.

Finding 16

MCPS did not ensure the propriety of certain employee and retiree healthcare claims paid by its plan administrators.

Recommendation

We recommend that MCPS enhance its procedures to verify healthcare costs by ensuring the propriety of paid claims (repeat).

Response

MCPS does not agree with the finding. MCPS completed an independent pharmaceutical claim audit in 2008 upon the recommendation of the auditors at the cost of \$60,000. No recoverable claim payments were found from that audit. MCPS will continue to discuss and consider best practices for claims audits and other cost savings with our benefits consultant.

Auditor's Comment:

Due to the significant expense represented by employee and retiree health care at the local school systems, a health care claims audit or review is a reasonable approach for detecting health care billing errors or fraud and ensuring plan administrators only issued claims payments for allowable benefits for eligible participants. OLA also reiterates that the named State agency has stated that the recoveries of improper payments found have exceeded the costs of the reviews. Finally, the results of MCPS' 2008 pharmaceutical claim audit may not be indicative of current circumstances or the results of an audit of the larger portion of its health care costs.

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