

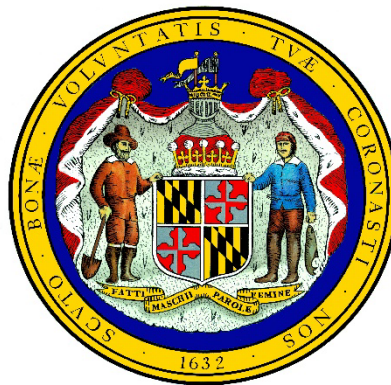
Financial Management Practices Audit Report

Anne Arundel County Public Schools

May 2025

Public Notice

In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.



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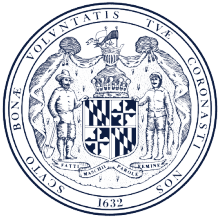
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DEPARTMENT OF LEGISLATIVE SERVICES
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MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
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Brian S. Tanen, CPA, CFE
Legislative Auditor

May 2, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted an audit of the financial management practices of the Anne Arundel County Public Schools (AACPS) 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 AACPS' 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 certain requirements of AACPS' procurement policies were not being consistently used when obtaining goods and services under intergovernmental cooperative purchasing agreements and the policies were not sufficiently comprehensive. In addition, AACPS did not publish 25 contract solicitations and awards, each valued over \$50,000 and in aggregate totaling \$166.9 million, on *eMaryland Marketplace Advantage* as required by State law. Furthermore, AACPS did not execute formal written contracts or obtain approval from the Anne Arundel County Board of Education for special education services received from two non-public schools it paid \$58.4 million during fiscal years 2020 through 2023.

Furthermore, our audit disclosed cybersecurity-related findings. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact

cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term “cybersecurity” is defined in the State Finance and Procurement Article, Section 3.5-301(b), and using our professional judgment we have determined that the redacted findings fall under the referenced definition. The specifics of the cybersecurity findings were previously communicated to those parties responsible for acting on our recommendations.

Finally, our audit disclosed that AACPS had not competitively bid its third-party administrator (TPA) services for healthcare plans since at least 2004. In addition, AACPS did not adequately monitor the performance of its TPA that provided health care claims processing services. Similar concerns with the TPA have been included but not corrected from one or more prior reports dating back to June 2014.

AACPS’ response to this audit is included as an appendix to this report. Consistent with State law, we have redacted the elements of AACPS’ response related to the cybersecurity audit findings. We reviewed the response to our findings and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by AACPS.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

Table of Contents

Background Information	5
Statistical Overview	5
Oversight	8
External Audits	9
Status of Findings From Preceding Audit Report	10
Findings and Recommendations	12
Revenue and Billing Cycle	12
Federal Funds	12
Procurement and Disbursement Cycle	
Finding 1 – Certain requirements of State law and recognized best practices were not incorporated into the Anne Arundel County Public Schools’ (AACPS) procurement policies and were not consistently used when participating in intergovernmental cooperative purchasing agreements.	15
Finding 2 – AACPS did not always publish contract solicitations or awards on <i>eMaryland Marketplace Advantage</i> as required by State procurement law.	17
Finding 3 – AACPS did not execute formal written contracts or obtain approval from the Board for special education services.	17
Human Resources and Payroll	18
Equipment Control and Accountability	19
Information Technology	
Finding 4 – Redacted cybersecurity-related finding.	19
Finding 5 – Redacted cybersecurity-related finding.	20
Facilities Construction, Renovation, and Maintenance	20
Transportation Services	
Finding 6 – Redacted cybersecurity-related finding.	21

Food Services	22
School Board Oversight	22
Management of Other Risks	
* Finding 7 – AACPS did not competitively bid its third-party administrator (TPA) services since at least 2004.	23
* Finding 8 – AACPS did not adequately monitor the performance of its TPA that provided health care claims processing services.	24
Audit Scope, Objectives, and Methodology	26
Agency Response	Appendix

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

Background Information

Statistical Overview

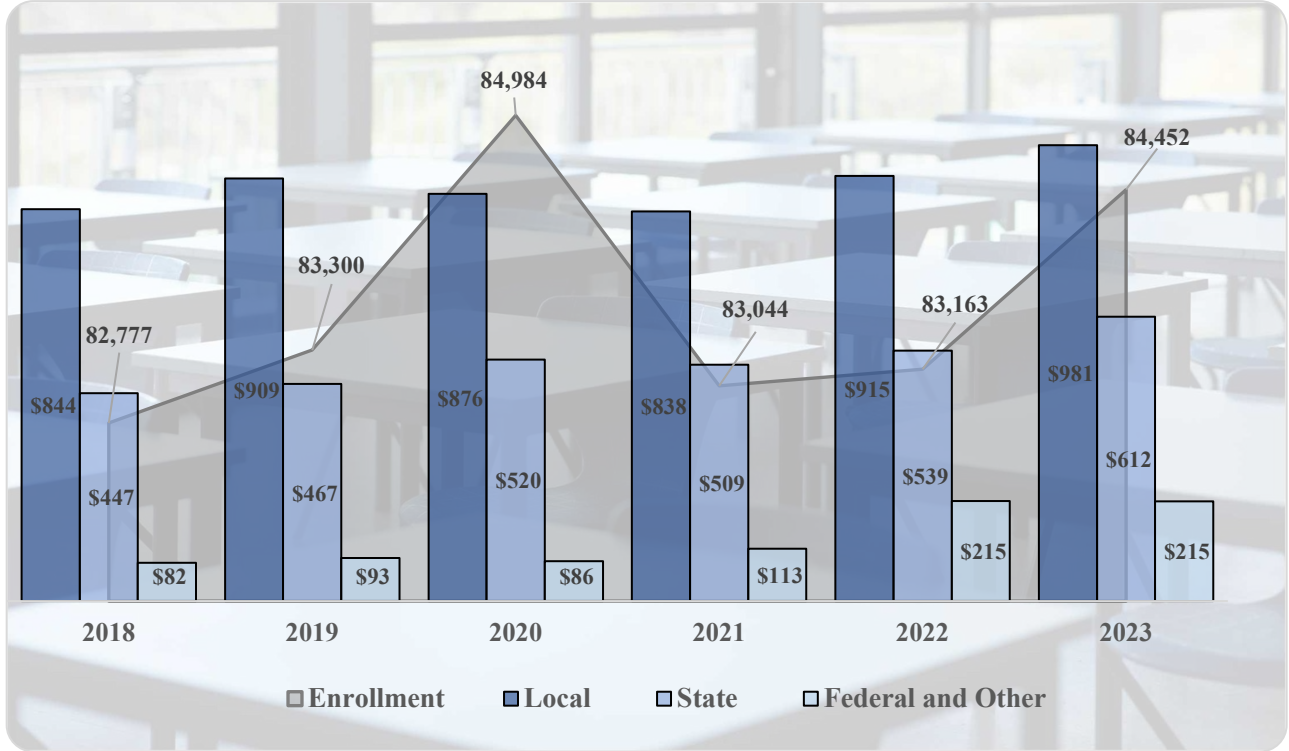
Enrollment

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Anne Arundel County Public Schools (AACPS) ranks 4th in student enrollment among the 24 public school systems in Maryland. Fiscal year 2023 full-time student enrollment was 84,452 students. AACPS had 126 schools, consisting of 81 elementary, 19 middle schools, 14 high schools, and 12 other types of schools (including special education, alternative, career and technical, and charter/contract schools).

Funding

AACPS revenues consist primarily of funds received from Anne Arundel County, the State, and the federal government. According to AACPS' audited financial statements, revenues from all sources totaled approximately \$1.8 billion in fiscal year 2023. See Figure 1 for AACPS' enrollment and funding by source for the six-year period from fiscal year 2018 through fiscal year 2023. See Figure 2 for revenue sources per enrolled student in fiscal year 2023 according to its audited financial statements.

Figure 1
AACPS Enrollment and Funding by Source
Fiscal Years 2018 through 2023
(dollar amounts in millions)

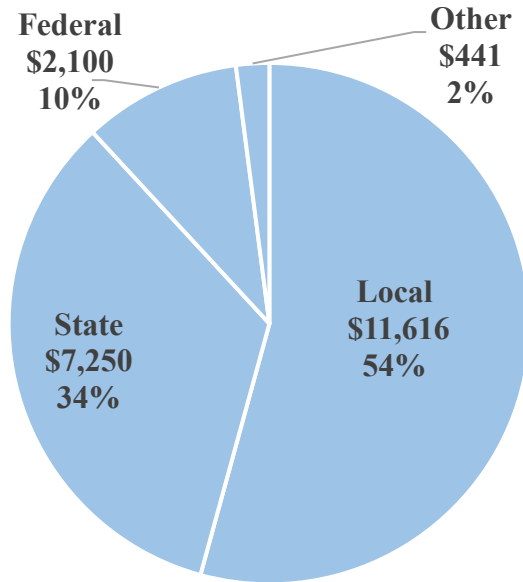


State funding for fiscal year 2023 included:

- \$448 million for Blueprint for Maryland’s Future grants
- \$74 million for Capital Projects
- \$63 million for the State-share of employee pension costs
- \$27 million for Other State Funding

Source: AACPS’ Fiscal Year 2023 Audited Financial Statements and MSDE Data

Figure 2
AACPS' Revenue Sources Per Enrolled Student
Fiscal Year 2023



Source: AACPS' Fiscal Year 2023 Audited Financial Statements and MSDE Data

Blueprint for Maryland's Future (Blueprint)

Blueprint is a State-funded grant program based on recommendations of the Maryland Commission on Innovation and Excellence in Education.¹ Chapter 771, Laws of Maryland, 2019, effective June 1, 2019, established principles of the Blueprint that are intended to transform Maryland's early childhood, primary, and secondary education systems to the levels of the highest-performing systems. Blueprint specifies how funding is calculated to support programs and initiatives from prekindergarten through college and career.

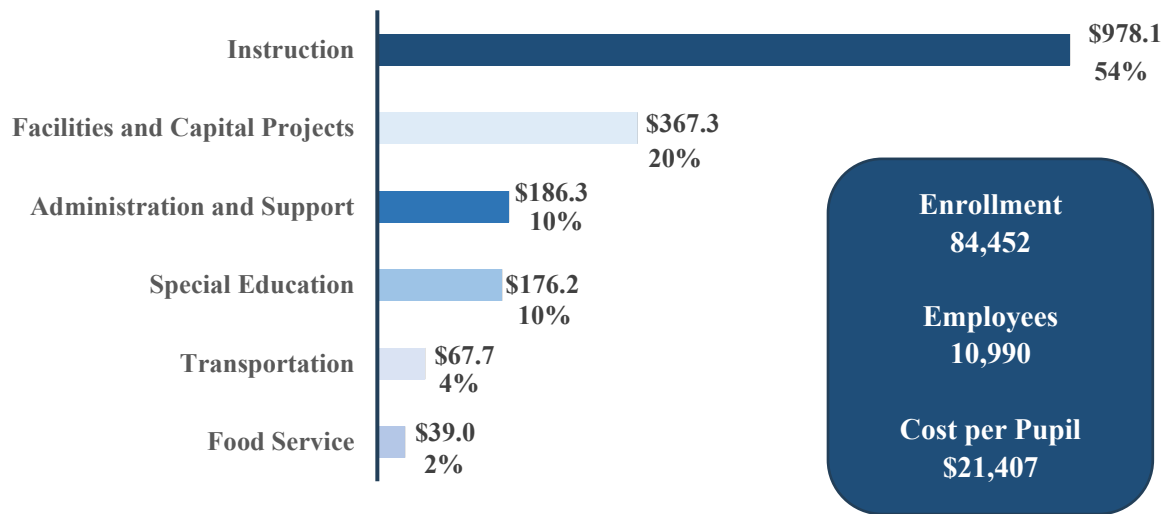
Blueprint allocates funding to schools based on a weighted-student formula. The funding formula provides resources to local education agencies based on the number of students enrolled at each school (known as Foundation Aid) and the characteristics of those students (such as, Special Education, Concentration of Poverty, and Compensatory Education Aid). Blueprint also provides additional funding for specific programs that schools offer (such as, Prekindergarten Aid).

¹ The Maryland Commission on Innovation and Excellence in Education was established by Chapters 701 and 702, Laws of Maryland 2016, effective June 1, 2016 to review the adequacy of funding for education.

Expenditures

According to AACPS' audited financial statements, fiscal year 2023 expenditures were approximately \$1.8 billion. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 67 percent of total expenditures during fiscal year 2023. According to MSDE records, during the 2022-2023 school year, AACPS had 10,990 full-time equivalent positions, which consisted of 8,141 instructional and 2,849 non-instructional. Instruction accounted for 54 percent of AACPS' expenditures on a categorical basis (see Figure 3).

Figure 3
AACPS Expenditures by Category and Selected Statistical Data
Fiscal Year 2023
(dollar amounts in millions)



Source: AACPS' Fiscal Year 2023 Audited Financial Statements and MSDE Data

Oversight

AACPS is governed by a local school board, consisting of seven elected voting members and one elected student voting member.² MSDE exercises considerable oversight of AACPS 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 AACPS to comply with the requirements and mandates of federal law. The Anne Arundel

² According to Chapter 473, Laws of Maryland 2017, effective December 7, 2020, the AACPS Board membership was reduced, after the terms of previous appointed members expired, to seven elected voting members and one elected voting student member.

County government also exercises authority over AACPS primarily through the review and approval of AACPS' annual operating and capital budgets.

Accountability and Implementation Board (AIB)

The AIB was authorized by State Law as an independent unit of State government in February 2021 and is responsible for holding State and local governments, including local education agencies, accountable for implementing the Blueprint State-funded grant program and for evaluating the outcomes. Specifically, the AIB reviews the use of school-level expenditures and monitors school system compliance with Blueprint requirements. The AIB consists of a seven-member Board appointed by the Governor, with advice and consent of the Senate. The Board Chair is designated by the Governor, the Senate President, and the Speaker of the House.

Office of the Inspector General for Education (OIGE)

The OIGE was established by State law as an independent unit of State government effective June 2019. The OIGE is responsible for examining and investigating complaints or information regarding the management and affairs of local boards of education, local school systems, public schools, nonpublic schools that receive State funds, the Maryland State Department of Education, and the Interagency Commission on School Construction. Specifically, the law provides that the OIGE may receive and investigate information and complaints concerning potential fraud, waste, and abuse of public funds and property; civil rights violations involving students or employees; whether policies and procedures governing the prevention and reporting of child abuse and neglect comply with applicable federal and State laws; and compliance with other applicable federal and State laws.

The OIGE initiates examinations and investigations based on its assessment of complaints and information it receives from various sources, including State and outside agencies and through its fraud, waste, and abuse hotline. The OIGE also conducts an annual review of local school systems to ensure policies and procedures governing the prevention and reporting of child abuse and neglect comply with applicable federal and State laws. During the period covered by our audit the OIGE issued two public reports related to AACPS reviews and investigations. We considered these reports during our current audit.

External Audits

As required by State law, AACPS engages a certified public accounting firm to independently audit its annual financial statements. The firm performs procedures to verify the amounts and disclosures in the financial statements. The

firm also evaluates the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. In the related audit reports, the firm stated that the financial statements presented fairly, in all material aspects, the financial position of AACPS as of June 30, 2018, 2019, 2020, 2021, 2022, and 2023 and the respective changes in its financial position and, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Additionally, in accordance with *Government Auditing Standards*, as part of the audited financial statements the accounting firm also issued separate reports on AACPS' control over financial reporting and its tests of AACPS' compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. These reports are an integral part of the annual independent audited financial statements. The accounting firm also conducts the Single Audit of AACPS' federal grant programs. The Single Audit is intended to provide assurance to the federal government that adequate internal controls are in place, and the entity is generally in compliance with program requirements

We reviewed the aforementioned financial statement audits and Single Audit reports for fiscal years 2018 through 2023 and examined the related work papers for the fiscal year 2023 audit, which were the latest available during our audit fieldwork. Our review did not note any deficiencies that warranted inclusion in this report. In addition, certain work of the independent certified public accounting firm, which we determined was reliable, covered areas included in the scope of our audit. As a result, we did not conduct any audit work related to the following areas:

- State and local government revenues received via electronic fund transfer
- Accounts receivable
- Federal grant activity

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of 11 findings contained in our preceding audit report dated October 24, 2019. See Figure 4 for the results of our review.

**Figure 4
Status of Preceding Findings**

Preceding Finding	Finding Description	Implementation Status
Finding 1	AACPS did not always obtain vendor price lists from intergovernmental cooperative purchasing agreement vendors to verify invoices.	Not repeated
Finding 2	AACPS' equipment record keeping policies were not comprehensive, detail records were incomplete, and physical inventories were not conducted.	Not repeated
Finding 3	AACPS' procedures for logging and monitoring its critical student information system database's security events were not sufficient.	Status Redacted ³
Finding 4	Thirty-one publicly accessible servers were improperly located within the internal network, and AACPS' network resources were not secured against improper access from high school students using computer labs and media centers.	Status Redacted ³
Finding 5	AACPS had not established comprehensive bus routing procedures and did not periodically perform a system-wide analysis of routes and related bus capacities to maximize efficiency.	Not repeated
Finding 6	AACPS did not periodically re-evaluate the cost effectiveness of its method for procuring and paying bus contractors.	Not repeated
Finding 7	Procedures and controls were not sufficient to ensure that bus contractors were paid the proper amounts.	Not repeated
Finding 8	AACPS had not competitively bid its third party administrator (TPA) services since at least 2004, and relied on a consultant to negotiate the best value for healthcare costs.	Repeated (Current Finding 7)
Finding 9	AACPS did not maintain a current contract to support TPA payments for its healthcare services.	Not repeated
Finding 10	AACPS did not adequately monitor the TPA's performance.	Repeated (Current Finding 8)
Finding 11	AACPS did not independently determine if it would be cost beneficial to purchase stop-loss medical insurance coverage.	Not repeated

³ Specific information on the current status of this cybersecurity-related finding has been redacted for the publicly available report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

Findings and Recommendations

Revenue and Billing Cycle

Background

Anne Arundel County Public Schools (AACPS) revenues consist primarily of funds received from Anne Arundel County, the State, and the federal government. According to AACPS' audited financial statements, revenues from all sources totaled approximately \$1.8 billion in fiscal year 2023 including approximately \$612 million from the State.

External Audits

There were similarities between the work of the independent certified public accounting firm (CPA) that audited AACPS' financial statements and the objectives of our audit for certain revenue activities. As a result, we relied on this work to provide audit coverage for State and local government revenues received via electronic funds transfer and accounts receivable, for which the auditor's procedural review (related to the fiscal year 2023 audit) and testing disclosed no material weaknesses or significant deficiencies.

School Activity Funds

Schools collect funds for other purposes such as student activities, clubs, and school publications. Because they are not considered school revenue, these school activity funds are accounted for separately by each school and reported in summary in the audited financial statements. During fiscal year 2023, school activity collections totaled \$11.5 million and the June 30, 2023 fund balance was \$10.3 million. Based on our assessment of the relative significance of this activity, we did not review the procedures and controls over these funds.

Conclusion

Based on our current assessment of significance and risk relative to our audit objectives, we relied on the work of the CPA to provide audit coverage in this area including procedures and controls related to the accounting for and safeguarding of cash receipts with respect to revenue and billing.

Federal Funds

Background

AACPS receives funds pertaining to federal government programs that are generally restricted for use for a specific program (such as the School Lunch Program or Special Education). According to AACPS' Single Audit, fiscal year

2023 (latest available at time of our audit) federal expenditures totaled \$170.7 million, not including federally funded fee-for-service programs such as Medicaid reimbursement for special education services.

According to the audited financial statements, federal fund revenues (excluding Medicaid) increased, from \$64.9 million in fiscal year 2020 to \$177.3 million in fiscal year 2023 (173 percent), due to COVID-19 pandemic grant funding. Specifically, according to AACPS' records, as of June 30, 2023, AACPS was awarded federal COVID-19 pandemic grant funds totaling \$213.8 million to be distributed over federal fiscal years 2021 to 2024 under the Coronavirus Aid, Relief, and Economic Security Act, the Coronavirus Response and Relief Supplemental Appropriations Act, and the American Recovery Plan.⁴

As of June 30, 2023, according to AACPS records, expenditures related to these COVID-19 grants totaling \$139.2 million, and were primarily comprised of staffing, laptops, instructional software and materials, personal protection equipment, and sanitary supplies. On March 28, 2025, the United States Department of Education (DOE) notified every State that it was ending the liquidation period for COVID-19 grants effective immediately. The DOE notification indicated that it would consider an extension to the liquidation period on an individual project specific basis. AACPS advised us that it had approximately \$668,800 in COVID-19 grants that had not been liquidated as of March 28, 2025. As of April 2, 2025, AACPS, in conjunction with the Maryland State Department of Education (MSDE), was determining what options it had to request an extension.

Single Audit Reports

There were similarities in the work performed by the independent CPA that conducted the Single Audit of AACPS' federal grants and the objectives of our audit in this area. In addition to expressing an opinion on AACPS 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 expenditures) for fiscal years 2018 through 2023. Our review of the Single Audits did not identify any issues that warranted inclusion in this report.

⁴ In addition to the federal grants, AACPS was also awarded a State broadband connectivity grant totaling \$65,776, which had been spent as of 6/30/2024. State and local grants are subject to review and testing during our audit.

Medicaid Funds for Eligible Services

AACPS has established a procedure to identify children eligible for Medicaid-subsidized services and the services rendered. Medicaid is an entitlement program for which certain service costs can be reimbursed to AACPS. Medicaid activity is not covered by the Single Audit of federal grants.

MSDE's Interagency Medicaid Monitoring Team issued a report in February 2023 of the results of its review of 45 student case files for 61 criteria. The report did not specifically address the propriety of Medicaid billing but overall concluded that AACPS was generally compliant with most criteria. For example, AACPS was 100 percent compliant with 52 criteria and from 94 to 99 percent compliant with 3 criteria.

According to AACPS records, fiscal year 2023 state and federal reimbursements for Medicaid-subsidized services totaled approximately \$8.1 million, which was an increase of approximately \$1.6 million from the previous fiscal year. Based on our current assessment of significance and risk relative to our audit objectives, our audit did not include a review of Medicaid-subsidized services.

Conclusion

We relied on the work of the independent CPA that conducted the Single Audits for the work in the federal fund area, including policies, procedures, and controls with respect to federal grants and expenditures.

Procurement and Disbursement Cycle

Background

According to the audited financial statements and AACPS' records, disbursements (excluding payroll) totaled \$590.7 million during fiscal year 2023. AACPS uses a combination of manual and automated methods to process purchases and disbursements. AACPS' current financial management system for purchases and disbursements has been used since 1989, and it is highly reliant on manual processes. Requisitions are manually created and approved by a supervisor in the requesting department. Approved requisitions are then entered into the financial management system and converted to purchase orders by the purchasing department, which also generally handles the solicitation, bid evaluation, and establishment of contracts.

Invoices are submitted by vendors to the requesting school or department for approval and then submitted to the accounts payable department for entry into the financial management system. AACPS manually matches invoices to appropriate

purchasing documents and verification of receipt. The system then prints the vendor checks or processes an electronic payment and posts the payment to the financial records.

AACPS written *Procurement Policy* and its purchasing manual, requires that procurements equal to or exceeding \$100,000 be competitively bid in accordance with Section 5-112 of the Education Article of the Annotated Code of Maryland (prior to October 1, 2023 the amount was \$50,000). Procurements of contracts and agreements valued at \$100,000 or more, are to be approved by the Anne Arundel County Board of Education (the Board).

AACPS is currently in the process of upgrading to a new financial management system which is estimated to be completed by March 2026.

Finding 1
Certain requirements of State law and recognized best practices were not incorporated into AACPS’ procurement policies and were not consistently used when participating in intergovernmental cooperative purchasing agreements (ICPAs).

Analysis

Certain requirements of State law and recognized best practices were not incorporated into AACPS’ procurement policies and were not consistently used by AACPS when participating in an ICPA. State law, which legal counsel to the Maryland General Assembly advised us is applicable to local education agencies, allows the use of ICPAs only after the using entity has met the statutory requirement of determining (or assessing) that the use of such arrangements will provide cost benefits, promote administrative efficiencies, or promote intergovernmental cooperation.⁵

Our review of AACPS *Procurement Policy* and purchasing manual disclosed that the above statutory requirement as well as the following critical best practices were not included:

⁵ Section 13-110 of the State Finance and Procurement Article of the Annotated Code of Maryland, in part, defines an ICPA as a contract that is entered into by at least one governmental entity in a certain manner, 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. The aforementioned law applies to all ICPAs regardless of the services, goods, or commodities purchased. In addition, Section 5-112(a)(3) of the Education Article, of the Code provides that local education agencies do not need to conduct competitive procurements for goods and commodities if they use a contract awarded by public agencies or intergovernmental purchasing organizations and the originating procuring agency followed public bidding procedures.

- Analyze all costs of conducting competitive solicitations;
- Research, compare, and evaluate available ICPAs;
- Verify ICPA has a clause allowing utilization by other parties;
- Verify the ICPA solicitation was competitively bid and publicly advertised;
- Verify terms, scope of services, specifications and price meet our needs;
- Execute an addendum of participation with lead agency and remove or incorporate necessary local terms and conditions; and
- Obtain a copy of ICPA and related price lists for invoice verification.

We tested AACPS' participation in five ICPAs (selected based on risk and significance) during fiscal years 2021 through 2024, with contract awards totaling \$21.2 million. Our review disclosed that AACPS did not adhere to some of the aforementioned best practices in the ICPAs tested. For example, AACPS did not analyze the costs of conducting competitive solicitations for all five ICPAs tested. Incorporating ICPA best practices into AACPS procurement policies could help ensure they are consistently used.

We did find that other best practices were performed despite not being included in AACPS' policies. For example, AACPS had performed a written assessment of the benefits of using an ICPA, verified that there was a clause allowing utilization by other parties, had executed an addendum of participation with the lead contract, and obtained a copy of the ICPA and related price lists, for all five tested ICPAs. We could not obtain the total number or value of contracts awarded via ICPAs as AACPS' current system does not capture this information.

The Institute for Public Procurement, formerly known as the National Institute of Government Purchasing, as well as other public and educational organizations have published ICPA best practices. These practices include comprehensive multi-step checklists that require, among other things (as per the list above), that prospective ICPA users verify that the contract allows other entities to participate. In addition, the practices also require that ICPA users ensure that the contract was awarded through a competitive procurement process, that addendums be executed documenting their participation, and that all local required terms and conditions are incorporated.

Recommendation 1

We recommend that AACPS incorporate the aforementioned statutory requirements and other identified and acknowledged best practices into its procurement policies and ensure that the performance of the requirements and best practices are documented when evaluating and participating in ICPAs.

Finding 2

AACPS did not always publish contract solicitations or awards on *eMaryland Marketplace Advantage (eMMA)* as required by State procurement law.

Analysis

AACPS did not always publish contract solicitations or awards on *eMMA* as required by State procurement law. State law requires the solicitation and award of contracts of \$100,000 or more (prior to October 1, 2023 the amount was \$50,000) procured by public schools after July 1, 2022 to be published on *eMMA*.⁶

Our test of 38 contracts totaling \$206.2 million (selected based on risk and materiality) disclosed that AACPS did not publish contract solicitations and awards for 25⁷ contracts totaling \$166.9 million. In addition, AACPS did not publish the awards for 3 contracts totaling \$13.1 million within 30 days as required by State regulations. Rather these contracts were published two to five months after the contracts were awarded. Publishing solicitations and awards on *eMMA* provides transparency over State procurements, including information about winning bidders and the amount of the related awards.

Recommendation 2

We recommend that AACPS publish contract solicitations and awards on *eMMA* as required, including those noted above.

Finding 3

AACPS did not execute formal written contracts or obtain approval from the Board for special education services.

Analysis

AACPS did not execute formal written contracts or obtain approval from the Board for special education services. AACPS provides special education services in accordance with the individualized education program (IEP) developed for each student. According to AACPS' records, it paid two Maryland State Department of Education (MSDE) certified non-public schools a total of \$58.4 million for special education services during fiscal years 2020 through 2023.

⁶ *eMMA* is an Internet-based, interactive procurement system managed by the State of Maryland's Department of General Services.

⁷ Of the 25 contracts included in our test, 16 were before the law change increasing the threshold for publication on *eMMA*.

Our review disclosed that AACPS did not have a contract with the two non-public schools, and did not obtain Board approval for the services as required by its *Procurement Policy* for contracts (including special education services) over \$100,000. Although not specifically required by its *Policy*, written contracts set forth all financial terms and conditions, define the duties and responsibilities of the parties, and protect each party in the event of default, and provide other critical terms for items such as resolution of disputes, termination for convenience, and retention of records.

AACPS management advised us that it did not follow the *Policy* because MSDE certified the special education services and approved the rates of services provided by non-public schools. However, there was no exemption for these services in AACPS' *Policy* and regardless, AACPS did not have the safeguards and controls provided by a contract and Board approval.

Recommendation 3

We recommend that AACPS

- a. modify its *Procurement Policy* to require formal written contracts for special education services, and**
- b. comply with its *Policy* by obtaining Board approval for special education services.**

Human Resources and Payroll

Background

Payroll expense represents the largest single cost component in the AACPS budget. According to AACPS' records, fiscal year 2023 salary, wage, and benefit costs totaled approximately \$1.2 billion, representing 67.4 percent of total expenditures. According to MSDE reports, during the 2022-2023 school year, AACPS had 10,990 full-time equivalent positions, which consisted of 8,141 instructional and 2,849 non-instructional positions.

AACPS uses automated systems to maintain human resources information, record employee time, track employee leave usage, and process and record payroll transactions. The system generates payroll checks and direct deposit advices. Payroll processing involves both automated processes (such as compiling leave and running edit reports) and manual processes (such as data entry of new employee information).

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of AACPS' internal control over the human resources and payroll areas of operations reviewed. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Equipment Control and Accountability

Background

According to AACPS' audited financial statements, the undepreciated value of its capital equipment inventory (furniture, fixtures, and equipment) totaled \$78.4 million as of June 30, 2023. AACPS maintains centralized automated records for all equipment including assets with a cost of \$5,000 or more that are capitalized for financial statement purposes. Control and recordkeeping of laptop computers assigned to schools, students, and employees was maintained in a database by the Office of Technology Support Services regardless of cost. AACPS has established written equipment policies.

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of AACPS' internal control over financial-related areas of operations for equipment. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Information Technology

We determined that the Information Technology section, including Findings 4 and 5 related to "cybersecurity," as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with AACPS' responses, have been redacted from this report copy.

<p>Finding 4 Redacted cybersecurity-related finding.</p>
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Finding 5
Redacted cybersecurity-related finding.

Facilities Construction, Renovation, and Maintenance

Background

AACPS employs a staff of 896 employees to maintain its 126 schools and a number of other facilities (such as administrative and support offices). According to its fiscal year 2025 Capital Improvement Plan, construction, major renovations, and systemic improvements to AACPS' facilities over the next six years are estimated to cost \$851.7 million.

Our review of 25 construction-related procurements (selected based on materiality) awarded during fiscal years 2020 through 2024 totaling \$174.7 million disclosed that the contracts were generally competitively procured. In addition, our test of sixteen invoices totaling \$13.3 million for these contracts disclosed that the invoices were properly supported, reviewed, and approved, and the amounts invoiced were in accordance with contract terms.

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

Our review disclosed that AACPS has processes in place to promote ongoing facility maintenance and minimize energy costs. For example, AACPS provides preventative maintenance of its buildings and equipment with the goal of preventing emergency repairs. In addition, AACPS participates in a consortium with other Baltimore-area entities to purchase energy at the best possible terms for members of the consortium. AACPS also utilizes a vendor energy management program to monitor and control heating and air conditioning usage and a utility billing management system to monitor related costs. AACPS has written best practices that encourage both students and employees to be aware of and limit their energy use and monitors building energy on a centralized basis. Further, AACPS makes limited use of solar and geothermal alternative energy sources.

Conclusion

Our audit did not disclose any significant deficiencies in the design or operation of AACPS' internal control over financial-related areas of operations for facilities construction, renovation, and maintenance. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

Transportation Services

Background

According to statistics compiled by MSDE, AACPS has approximately 61,900 students eligible to receive student transportation services. These students were transported using 609 contractor-owned buses and 60 county-owned buses. AACPS reported that 11.3 million route miles were traveled to transport students for the 2022-2023 school year. According to AACPS' financial statements, fiscal year 2023 transportation costs totaled \$66.9 million, of which \$50.1 million (approximately 75 percent) were payments for contracted bus services for various costs.

School Bus Camera Safety Program

As allowed by State and County law, AACPS contracted for the use of school bus safety cameras to monitor drivers who illegally pass a stopped school bus and entered into a Memorandum of Understanding (MOU) with Anne Arundel County and the Anne Arundel County Police Department to process citations and receive the County's share of program revenue. In June 2022, AACPS' School Board approved a five-year contract to a vendor to install and operate cameras that would be owned and maintained by the vendor on AACPS' contracted school buses. The contract also provided for cameras to monitor the conduct of drivers and students inside the bus along with global positioning units to track the buses.

Consultant Review of AACPS Transportation Operations

AACPS contracted with a consultant in July 2019 to complete a review of AACPS school transportation operations. The review performed by the outside consultant included areas pertaining to routing, bell times, operational and capital costs, staffing, and related operating procedures. Our review did not disclose any issues that warranted inclusion in this report.

We determined that Finding 6 related to "cybersecurity," as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following finding, including the analysis, related recommendation(s), along with AACPS' responses, have been redacted from this report copy.

Finding 6
Redacted cybersecurity-related finding.

Food Services

Background

According to AACPS' audited financial statements, food services operating expenditures totaled approximately \$39 million in fiscal year 2023, and were primarily funded with federal funds totaling \$28 million and food sales totaling \$8 million. The federal funds are received from the United States Department of Agriculture based on an established rate per meals served. AACPS is allowed to retain federal funds it receives in excess of its annual food service operating costs to be used to offset certain future food service operating costs. According to AACPS' audited financial statements, the balance in AACPS' Food Services Fund totaled \$24.6 million as of June 30, 2023.

Conclusion

Based on our current assessment of significance and risk relative to our audit objectives, our audit did not include a review of policies, procedures, and controls related to Food Services financial area of operations.

School Board Oversight

Background

Prior to December 7, 2020, the Board was composed of four elected members, four members appointed by the Governor, and one voting student representative. Effective, December 7, 2020, a State law change⁸ revised the composition of the Board to reduce the number of members to seven elected members and one voting student representative when the remaining appointed members were replaced at the end of their terms.

The Board contracted with a certified public accounting firm to conduct independent audits of the AACPS financial statements and federal programs. The Board has established a Citizen Advisory Committee, which is a structured group that provides advice to the Board on certain issues.

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

The Board has adopted a detailed ethics policy that conforms to State Law and was approved by the State Ethics Commission. The policy is applicable to both Board members and AACPS employees and includes provisions for conflicts of interest and financial disclosures by Board members and certain employees. Specifically, annual financial disclosure statements are required to be filed by

⁸ Chapter 473, 2017 Laws of Maryland

Board members, candidates for the Board, the Superintendent, and other administrators (such as supervisors, directors and school principals) by April 30th of each year.

In accordance with the policy, AACPS established an Ethics Panel consisting of five members appointed by the Board to interpret ethics policies and provide advice on policy implementation. The Panel also reviews and rules on any reported complaints of ethics violations. Our review of the records for Board members and AACPS employees required to submit financial disclosure forms for calendar year 2023 disclosed that all forms were submitted as required.

Conclusion

Our audit did not disclose any reportable conditions related to school board oversight.

Management of Other Risks

Healthcare Background

AACPS is self-insured and uses a third-party administrator (TPA) to oversee and administer its employee and retiree healthcare plans. Specifically, for medical coverage, AACPS contracts with a TPA to provide administrative services, such as claims processing for participants' medical, vision, pharmacy, and dental costs. Medical providers submit claims to the TPA who pays on behalf of AACPS. AACPS reimburses the TPA for the claims it reports as paid on behalf of AACPS and pays an administrative fee for these services. According to AACPS' records, healthcare expenditures totaled \$250.7 million in fiscal year 2023, including administrative fees totaling \$8.0 million.

AACPS contracts with a consultant to help manage the health plans. The consultant performs data analysis of the utilization of health services and costs, provides recommendations on potential rate changes, and evaluates the merits of the health plan proposals. As of July 22, 2024, AACPS provided health insurance benefits to 33,143 enrolled employees, dependents, and retirees.

Finding 7

AACPS did not competitively bid its third-party administrator (TPA) services since at least 2004.

Analysis

AACPS had not competitively bid its TPA services for healthcare plans since at least 2004 (20 years). During fiscal year 2023, AACPS paid the TPA

approximately \$8 million in administrative fees. The Government Finance Officers Association’s best practices recommend that requests for proposals be issued periodically (such as every few years) for healthcare plans to test the market and ensure that competitive pricing is obtained.

Our comparison of administrative fees for AACPS’ TPA with similar plans for two comparably sized school systems disclosed that AACPS’s costs were comparable. AACPS advised us that a new consultant hired in July 2023 would help perform a competitive procurement process for the TPA services.

A similar condition regarding the need to competitively procure its TPA services was commented upon in our preceding audit report. In its response to that report, AACPS stated it would decide to either competitively bid a new contract or exercise an option year on its TPA contract. However, AACPS exercised the option year and then extended the contract without attempting to competitively bid a new contract.

Recommendation 7

We recommend that AACPS periodically competitively bid for TPA services or document justification for not obtaining such bids (repeat).

Finding 8

AACPS did not adequately monitor the performance of its TPA that provided health care claims processing services.

Analysis

AACPS did not adequately monitor the performance of its TPAs that provided health care claims processing services.

- AACPS did not obtain and review detailed claims data to support the amounts billed by the TPA for healthcare claims. Rather, AACPS was provided with an invoice that included the total claims paid for each health plan. AACPS approved the claim payments with no review of supporting documentation or verification that the charges were for eligible plan participants.
- AACPS did not verify that self-reported performance measures and related penalties⁹ were supported and accurate. The medical and pharmacy TPA reported self-assessed penalties of approximately \$59,000 in calendar year 2023. Our review disclosed that AACPS did not have a process to verify the

⁹ The TPA contract allowed for the assessment of penalties if the TPA did not meet the performance measures.

TPA's reported compliance with reported performance measures and self-reported penalties.

Similar conditions regarding the verification of TPA billings, claims data, and performance measures were commented upon in our two preceding audit reports dating back to June 2014. In its response to our most recent report, AACPS stated it would develop an automated way to employ administrative fee data to audit invoices, enhance procedures to independently verify the accuracy of healthcare claims paid by the TPA, and determine a process to independently verify performance measure compliance levels. However, our review disclosed that AACPS had not implemented the recommendations as stated.

Recommendation 8

We recommend that AACPS

- a. establish procedures to independently verify the propriety of TPA billings (repeat); and**
- b. establish a process to independently verify, on an annual basis, the TPAs' compliance with reported performance measures and assess penalties when performance goals are not met (repeat).**

Audit Scope, Objectives, and Methodology

We have conducted a performance audit of the Anne Arundel County Public Schools (AACPS). We conducted this audit under the authority of the State Government Article, Section 2-1220(e) of the Annotated Code of Maryland, which generally requires that every 6 years we audit each of the 24 local school systems to evaluate the effectiveness and efficiency of financial management practices. This performance audit was performed in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We had two broad audit objectives:

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

In planning and conducting our audit of AACPS, we focused on 11 major financial-related areas of operations as approved on December 6, 2016 by the Joint Audit and Evaluation Committee of the Maryland General Assembly in accordance with the enabling legislation. The 11 major financial-related areas included revenue and billing; federal funds; procurement and disbursements; human resources and payroll; equipment control; information technology security and control; facilities; transportation; food services; school board oversight; and the management of other risks (such as health care).

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 AACPS dated October 24, 2019, 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 AACPS 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 AACPS. We also interviewed personnel at AACPS and the Maryland State Department of Education (MSDE), and staff at other local school systems in Maryland (as appropriate). Our audit procedures included inspections of documents and records, and to the extent practicable, observations of AACPS 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, 2021 to December 31, 2023.

Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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 AACPS' financial statements and conducts the federal Single Audit, as well as the reviews of student activity funds performed by AACPS' Internal Audit department.

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

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

AACPS' 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. As

provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to AACPS, were considered by us during the course of this audit.

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

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3.5-301(b), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation.” Based on that definition, and in our professional judgment, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to AACPS and those parties responsible for acting on our recommendations in an unredacted audit report.

We conducted our fieldwork from March 2024 to December 2024. AACPS’ response to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise AACPS regarding the results of our review of its response.

APPENDIX



ANNE ARUNDEL
COUNTY PUBLIC SCHOOLS

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April 29, 2025

Office of Legislative Audits
Att: Brian S. Tanen, CPA, CFE
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, Maryland 21201

Mr. Tanen,

Thank you so much for sharing the draft of the Audit Report of Anne Arundel County Public Schools. We have reviewed the findings and we appreciate the effort put forth into compiling the report. As requested, we've used the Agency Request Form to provide our responses to the findings.

Should there be any further comments or additional points for discussion, please feel free to reach out to us.

Thank you once again for your collaboration on this matter.

Best regards,

A handwritten signature in blue ink, appearing to read 'M. Stanski', is written over a horizontal line.

Matthew Stanski
Chief Financial Officer

MS:as

Cc: Ken Johanning, OLA
Mark T. Bedell, Superintendent

Anne Arundel County Public Schools

Agency Response Form

Procurement and Disbursement Cycle

Finding 1

Certain requirements of State law and recognized best practices were not incorporated into the Anne Arundel County Public Schools' (AACPS) procurement policies and were not consistently used when participating in intergovernmental cooperative purchasing agreements (ICPAs).

We recommend that AACPS incorporate the aforementioned statutory requirements and other identified and acknowledged best practices into its procurement policies and ensure that the performance of the requirements and best practices are documented when evaluating and participating in ICPAs.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	AACPS current Policies and Regulations are consistent with State Law and procurement best practices. However, AACPS concurs that best practices regarding cooperative purchasing were not consistently documented in the contract file.		
Recommendation 1	Agree	Estimated Completion Date:	2025-2026
Please provide details of corrective action or explain disagreement.	AACPS agrees to incorporate procurement best practices into its Policies and Regulations. AACPS will reference State statutes and regulations in its policies and regulations when appropriate.		

Anne Arundel County Public Schools

Agency Response Form

Finding 2

AACPS did not always publish contract solicitations or awards on *eMaryland Marketplace Advantage (eMMA)* as required by State procurement law.

We recommend that AACPS publish contract solicitations and awards on *eMMA* as required, including those noted above.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	AACPS consistently published competitively awarded contracts in eMaryland Marketplace Advantage (eMMA). However, cooperative contracts and contract awards restricted to prequalified contractors were not published in eMMA. AACPS incorrectly interpreted the eMMA posting requirement as applying to only contracts awarded through open procurements such as request for bids or request for proposals.		
Recommendation 2	Agree	Estimated Completion Date:	Current
Please provide details of corrective action or explain disagreement.	AACPS concurs that cooperative contracts and awards restricted to prequalified contractors should have been posted in eMMA and have complied since being alerted to the omissions by OLA.		

Anne Arundel County Public Schools

Agency Response Form

Finding 3

AACPS did not execute formal written contracts or obtain approval from the Board for special education services.

We recommend that AACPS

- a. modify its *Procurement Policy* to require formal written contracts for special education services, and**
- b. comply with its *Policy* by obtaining Board approval for special education services.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	Currently, State- approved cost sheets are applied as individual student contracts. This is the same process for all Type I placements. Specifically, MSDE approves the price based on the submitted school budget and monitors all programs to ensure certification compliance		
Recommendation 3a	Agree	Estimated Completion Date:	2025-2026
Please provide details of corrective action or explain disagreement.	AACPS will modify its current Purchasing Policies to require formal contracts with existing providers for special education services. It is important to note that LEA cost of Nonpublic Tuition is determined at the State level.		
Recommendation 3b	Agree	Estimated Completion Date:	2025-2026
Please provide details of corrective action or explain disagreement.	AACPS Division of Specialized Instruction and Early Intervention Services will ensure a clear description of Type I (private separate day or residential) and Type II (or class co-location) in the annual Staffing Plan (Nonpublic continuum description). This document is approved by the Superintendent and Board annually. AACPS will also seek Board of Education approval of new and continuing contracts on an annual basis		

Anne Arundel County Public Schools

Agency Response Form

Information Technology

The Office of Legislative Audits (OLA) has determined that the Information Technology section, including Findings 4 and 5 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Although the specifics of the following findings, including the analysis, related recommendations, along with AACPS’ responses, have been redacted from this report copy, AACPS’ responses indicated agreement with the findings and related recommendations.

Finding 4
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 5
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Anne Arundel County Public Schools

Agency Response Form

Transportation Services

OLA has determined that Finding 6 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Although the specifics of the finding, including the analysis, related recommendation(s), along with AACPS’ responses, have been redacted from this report copy, AACPS’ responses indicated agreement with the finding and related recommendations.

Finding 6
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Anne Arundel County Public Schools

Agency Response Form

Management of Other Risks

Finding 7

AACPS did not competitively bid its third-party administrator (TPA) services since at least 2004.

We recommend that AACPS periodically competitively bid for TPA services or document justification for not obtaining such bids (repeat).

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	Certain limiting language in previous Collective Bargaining Agreements (CBAs) hindered AACPS’s ability to competitively solicit a new contract with competition from other TPAs. The language has been removed from the CBA, enabling AACPS to draw more robust competition through an open solicitation.		
Recommendation 7	Agree	Estimated Completion Date:	2027/28
Please provide details of corrective action or explain disagreement.	AACPS will be issuing a competitive request for proposals for a new TPA contract to begin January 2027.		

Anne Arundel County Public Schools

Agency Response Form

Finding 8
AACPS did not adequately monitor the performance of its TPA that provided health care claims processing services.

We recommend that AACPS

- a. establish procedures to independently verify the propriety of TPA billings (repeat); and**
- b. establish a process to independently verify, on an annual basis, the TPAs' compliance with reported performance measures and assess penalties when performance goals are not met (repeat).**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	AACPS has engaged the services of a consultant and has an agreed timeline to audit healthcare claims. A medical claims audit was completed in December 2024 with future audits scheduled every two years. In addition to the medical audit, AACPS will have audits performed on pharmacy, dental and vision. It should be noted that pharmacy audits are also scheduled to occur every two years.		
Recommendation 8a	Agree	Estimated Completion Date:	May 2025
Please provide details of corrective action or explain disagreement.	AACPS is collaborating with our Technology team to develop reports that will enable us to reconcile claims submitted by the TPA with the employees enrolled in AACPS healthcare benefits on a monthly basis. Any discrepancies will be addressed with the TPA for resolution.		
Recommendation 8b	Agree	Estimated Completion Date:	June 2025
Please provide details of corrective action or explain disagreement.	As a result of medical audit, it was recommended that AACPS consider having the TPA update the performance guarantee calculation methodology to include all claims. In addition, AACPS will request a quarterly review of guarantees. During these reviews, AACPS will document any reasons for underperformance and discuss a remedy to get back on track. Performance guarantees will also be reviewed at the annual TPA meeting. AACPS will discuss with our consultant how to assess penalties as provided for in the contract when performance guarantees are not met.		

AUDIT TEAM

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