

## Financial Management Practices Audit Report

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### Charles County Public Schools

January 2023

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#### 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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MARYLAND GENERAL ASSEMBLY**

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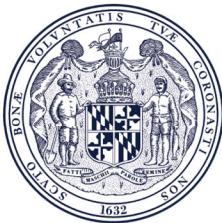
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DEPARTMENT OF LEGISLATIVE SERVICES  
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MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber  
Executive Director

Gregory A. Hook, CPA  
Legislative Auditor

January 10, 2023

Senator Clarence K. Lam, M.D., 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 Charles County Public Schools (CCPS) 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 CCPS' 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 CCPS' procurement policies were not sufficiently comprehensive and were not always consistently used when obtaining goods and services under intergovernmental cooperative purchasing agreements. Furthermore, certain components of the payments to bus contractors did not reflect actual costs or could not be supported.

Our audit also disclosed that CCPS needs to improve internal controls and accountability in certain areas, including corporate purchasing cards (CPC), payroll, and human resource processing. For example, CCPS allowed multiple employees to share a CPC and did not make use of Level-3 detailed purchasing data to help ensure the propriety of purchases. Additionally, CCPS did not ensure critical human resources and payroll transactions were independently reviewed for propriety in a timely manner.

In addition, significant risks existed within CCPS' computer network. However in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted these 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 3A-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 CCPS as well as those parties responsible for acting on our recommendations.

Finally, our audit included a review to determine the status of 15 findings contained in our preceding audit report. For the non-cybersecurity-related findings, we determined that CCPS satisfactorily addressed 8 of those 11 findings. The remaining 3 findings are repeated in this report.

CCPS’ response to this audit is included as an appendix to this report. In accordance with State law, we have reviewed the response and, while CCPS agrees with the recommendations in this report, we identified an instance in which statements in the response required clarification. In this instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted government auditing standards, we have included an “auditor’s comment” within CCPS’ response to explain our position. We will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with CCPS. Consistent with the requirements of State law, we have redacted the elements of CCPS’ response related to cybersecurity audit findings.

We wish to acknowledge the cooperation extended to us during our audit by CCPS and its willingness to address the audit issues and to implement appropriate corrective actions.

Respectfully submitted,



Gregory A. Hook, CPA  
Legislative Auditor

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

## Background Information

### Statistical Overview

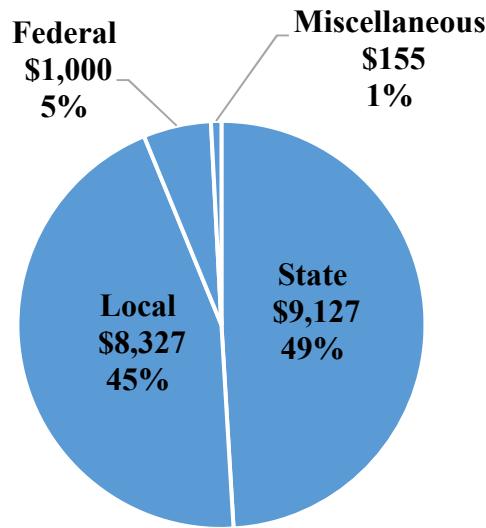
#### Enrollment

According to student enrollment records compiled by the Maryland State Department of Education (MSDE), Charles County Public Schools (CCPS) ranked 9<sup>th</sup> in student enrollment among the 24 public school systems in Maryland. Fiscal year 2021 full-time student enrollment was 26,768 students. CCPS had 39 schools, consisting of 22 elementary schools, 8 middle schools, 7 high schools, and 2 other types of schools (vocational and special education).

#### Funding

CCPS revenues consist primarily of funds received from the State, Charles County, and the federal government. According to CCPS' audited financial statements, revenues from all sources totaled approximately \$498.1 million in fiscal year 2021; including approximately \$244.3 million from the State. See Figure 1 below for CCPS' revenue sources per enrolled student in fiscal year 2021 according to its audited financial statements.

**Figure 1**  
**CCPS Revenue Sources Per Enrolled Student**  
**Fiscal Year 2021**

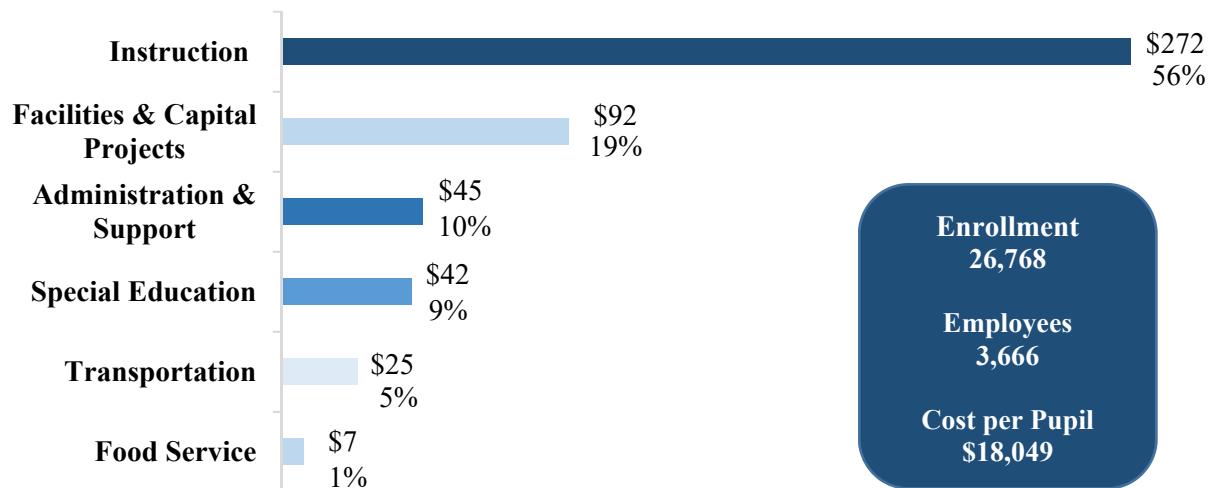


Source: CCPS' Fiscal Year 2021 Audited Financial Statements and MSDE Data

## Expenditures

According to CCPS' audited financial statements, fiscal year 2021 expenditures were approximately \$483 million. The largest expenditure category was salaries and wages, including benefits, which accounted for approximately 64 percent of total expenditures during fiscal year 2021. According to MSDE records, during the 2020-2021 school year, CCPS had 3,666 full-time equivalent positions, which consisted of 2,650 instructional and 1,016 non-instructional positions. Instruction accounted for over half of CCPS' expenditures on a categorical basis (see Figure 2).

**Figure 2**  
**CCPS Expenditures by Category and Selected Statistical Data**  
**Fiscal Year 2021**  
**(amounts in millions)**



Source: CCPS' Fiscal Year 2021 Audited Financial Statements and MSDE Data

## Oversight

CCPS is governed by a local school board, consisting of seven elected voting members and one non-voting student member. In accordance with State law, MSDE exercises considerable oversight of CCPS 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 CCPS to comply with the requirements and mandates of federal

law. The Charles County government exercises authority over CCPS primarily through review and approval of CCPS' annual operating and capital budgets.

## **External Audits**

CCPS 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 respects, the financial position of CCPS as of June 30, 2016, 2017, 2018, 2019, 2020 and 2021, and the changes in its financial position and 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 CCPS' control over financial reporting and its tests of CCPS' compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. This report is an integral part of the annual independent audited financial statements. Furthermore, the accounting firm also conducts the Single Audit of CCPS' 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 2016 through 2021, and examined the related work papers for the fiscal year 2020 audits, which were the latest available during our audit fieldwork.

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 wire transfer
- Accounts receivables
- Federal grant activity
- Student Activity Funds

The independent accounting firm did not disclose any material deficiencies in these areas.

## Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the 15 findings contained in our preceding audit report dated February 13, 2017. As disclosed in Figure 3, for the non-cybersecurity-related findings, we determined that CCPS satisfactorily addressed 8 of those 11 findings. The remaining 3 non-cybersecurity-related findings are repeated in this report.

**Figure 3**  
**Status of Preceding Findings**

Preceding Finding	Finding Description	Implementation Status
Finding 1	CCPS did not adequately restrict user access capabilities on its automated procurement and accounts payable system.	Status Redacted <sup>1</sup>
Finding 2	CCPS did not assess the benefits of using intergovernmental cooperative purchasing agreements (ICPA) as required by State law, nor in most cases did it establish that the ICPA contracts were awarded through a competitive procurement process.	Not repeated
Finding 3	Certain contracts were awarded as sole source procurements without appropriate justification, were not properly approved, or were not published in <i>eMaryland Marketplace</i> , as required.	Not repeated
Finding 4	CCPS allowed certain corporate purchasing cards (CPC) to be used by multiple employees and CPCs were used to purchase gift cards.	<b>Repeated</b> (Current Finding 2)
Finding 5	Human resources and payroll system user access capabilities were not adequately restricted. In addition, independent documented reviews of personnel and payroll transactions were not performed.	<b>Repeated</b> (Current Finding 3) <sup>2</sup>
Finding 6	CCPS did not perform a complete annual physical inventory of computers as required and access to the automated inventory records was not adequately restricted.	Not repeated
Finding 7	Numerous users had unnecessary modification access to critical files and programs.	Status Redacted <sup>1</sup>
Finding 8	Numerous third parties and students had unnecessary network level access to the entire CCPS internal network.	Status Redacted <sup>1</sup>
Finding 9	Publicly accessible servers were improperly located on the internal network and intrusion detection prevention system coverage for encrypted traffic did not exist.	Status Redacted <sup>1</sup>

<sup>1</sup> Specific information on cybersecurity findings has been redacted from this publicly available audit report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

<sup>2</sup> Specific information on the current status of the cybersecurity-related portion of this finding, related to restricting access capabilities to the human resources and payroll system, has been redacted from this publicly available audit report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

**Figure 3**  
**Status of Preceding Findings**

<b>Preceding Finding</b>	<b>Finding Description</b>	<b>Implementation Status</b>
Finding 10	CCPS lacked documentation it advised the Board that the price paid for land purchased for a new school was significantly higher than the land's appraised value.	Not repeated
Finding 11	CCPS did not base certain elements used to determine the per vehicle allotment on market conditions or actual costs.	Not repeated
Finding 12	CCPS could not substantiate the basis for certain amounts paid to bus contractors and those payments were higher than necessary.	<b>Repeated</b> (Current Finding 9)
Finding 13	CCPS did not ensure the accuracy of data used to compute certain payments to the bus contractors and lacked sufficient internal controls over the automated payment system.	Not repeated
Finding 14	Stop-loss coverage for employee and retiree health care was not competitively procured.	Not repeated
Finding 15	CCPS did not ensure the propriety of certain claim payments for employee and retiree health care costs.	Not repeated

## **Findings and Recommendations**

### **Revenue and Billing Cycle**

#### **Background**

Charles County Public Schools (CCPS) revenues consist primarily of funds received from the State, Charles County, and the federal government. According to CCPS' audited financial statements, revenues from all sources totaled approximately \$498.1 million in fiscal year 2021; including approximately \$244.3 million (or 49 percent) from the State.

#### **External Audits**

There were similarities between the work of the independent certified public accounting firm (CPA) that audited the CCPS financial statements and the objectives of our audit of certain revenue activities. As a result, we relied on this work to provide audit coverage for State and local government revenues received via wire transfer and accounts receivable, for which the auditor's procedural review 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 2021, school activity collections totaled \$1.7 million and the June 30, 2021 fund balance was \$2.7 million.

CCPS' Board of Education has a fiduciary responsibility to ensure that school activity funds were used only for intended purposes. CCPS contracts with a CPA to conduct reviews of all schools' activity funds, on an annual rotating basis. The results of the CPA's reviews were provided to CCPS management to be addressed. Our review of the CPA's findings during fiscal years 2016 through 2020 disclosed that the management of these funds was generally adequate and that any control weaknesses identified were not prevalent. The CPA's testing did not identify any improprieties in regards to the use of funds.

#### **Conclusion**

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

## **Federal Funds**

### **Background**

CCPS 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 CCPS' Single Audit, fiscal year 2020 federal expenditures totaled \$18.5 million, excluding federally funded fee-for-service programs such as Medicaid reimbursement for special education services totaling \$1.3 million.

According to CCPS' records, CCPS was awarded federal COVID-19 pandemic grant funds totaling \$63 million to be distributed over federal fiscal years 2020 to 2024 under the Coronavirus Aid, Relief, and Economic Security Act; Coronavirus Response and Relief Supplemental Appropriations Act; and American Recovery Plan Act. Reported CCPS expenditures related to these COVID-19 grant programs totaled \$20.6 million, from March 2020 to March 2022, and were primarily comprised of personal protection equipment, sanitary supplies, and student laptops. CCPS initially funded the expenditures with State and local funds and intends to pursue reimbursement from the aforementioned programs to the extent allowed.

### **Single Audit Reports Disclosed No Material Weaknesses**

There were similarities in the work performed by the independent certified public accounting firm that conducted the Single Audits of CCPS' federal grants and the objectives of our audit in this area. In addition to expressing an opinion on CCPS' 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 Schedules of Expenditures of Federal Awards (which includes claimed and reported grant expenditures) for fiscal years 2016 to 2020. The aforementioned Single Audits conducted through fiscal year 2020 did not include COVID-19 grant funds.

The related reports stated that CCPS complied, in all material respects, with the requirements applicable to its major federal programs. With respect to internal controls over compliance with, and the operation of major federal programs, the auditor did not identify significant deficiencies or material weaknesses.

### **Medicaid Funds for Eligible Services**

CCPS 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 CCPS. Medicaid activity is not covered by the Single Audit of federal grants.

The Maryland State Department of Education's Interagency Medicaid Monitoring Team issued a report on August 27, 2020 of the results of its review of 47 student case files for 68 criteria (including the correct billing of Medicaid for eligible services). The report found that CCPS was 100 percent compliant with 57 criteria and between 50 to 99 percent compliant with the remaining 11 criteria.

According to CCPS records, fiscal year 2020 state and federal reimbursements for Medicaid-subsidized services totaled approximately \$937,000, which was 34 percent lower than the previous year. We were advised by CCPS that this decrease was due to the impact of the COVID-19 pandemic health crisis, as certain services could not be provided or did not qualify for reimbursement in a virtual environment.

### **Conclusion**

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. Further, we relied on the work of the independent certified public accounting firm that conducted the Single Audits for all other work in the federal funds 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 CCPS records, disbursements (excluding payroll) totaled \$173.2 million during fiscal year 2021. CCPS uses an automated system for purchases and disbursements. Requisitions are created in paper copy by departments and are subject to departmental approvals. Purchase orders are prepared on the system as a result of the departmental requisition approvals. The purchasing department generally handles the solicitation, bid evaluation, and establishment of contracts. The receipt of goods and services is confirmed by the receiving school or department. Payments are processed by the finance department through the automated system, which either prints vendor checks or transfers the funds electronically, and then posts the payment to the financial records.

CCPS' written procurement policies require that procurements exceeding \$25,000 be competitively bid in accordance with Section 5-112 of the Education Article of the Annotated Code of Maryland. Contracts and agreements exceeding \$25,000 are to be approved by the Board.

**Finding 1**

**CCPS procurement policies did not incorporate certain recognized best practices when participating in intergovernmental cooperative purchasing agreements (ICPA).**

**Analysis**

Certain recognized best practices were not incorporated into CCPS procurement policies and were not used consistently by CCPS 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 determined (or assessed) in writing that the use of such arrangements will provide cost benefits, promote administrative efficiencies, or promote intergovernmental cooperation<sup>3</sup>.

Our review of CCPS procurement policies disclosed that the following critical best practices for the use of ICPAs were not included.

- Analyze all costs of conducting competitive solicitations
- Research, compare, and evaluate available ICPAs
- Verify the ICPA solicitation was competitively bid and publicly advertised and obtain originating agency's competitive procurement documentation (including public advertisements and proposal evaluations)
- Verify terms, scope of services, specifications, and price meet its needs

We tested CCPS' participation in three ICPAs (selected based on significance) during fiscal years 2019 to 2021, with contract awards totaling approximately \$3.8 million. Our review disclosed that three of the four best practices (analyzing the costs of conducting competitive solicitations; researching, comparing, and evaluating other available ICPAs; and verifying terms, scope of services, specifications and price meet its needs) were not performed for the three ICPAs tested. However, we did find that other best practices were performed despite not being included in CCPS' policies. Specifically, CCPS verified that the ICPA had a clause allowing utilization by other parties, executed an addendum of participation with the lead contract, and obtained a copy of the ICPA and related

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<sup>3</sup> 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.

price lists for invoice verification for the three ICPAs we reviewed. Incorporating ICPA best practices into CCPS procurement policies could help ensure they are consistently used.

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, ICPA users should ensure that the contract was awarded through a competitive procurement process, and requires that addendums be executed documenting their participation and incorporating local required terms and conditions.

### **Recommendation 1**

**We recommend that CCPS incorporate the aforementioned best practices into its procurement policies, and ensure that the performance of the best practices is documented when evaluating and participating in ICPAs.**

### **Finding 2**

**CCPS allowed multiple employees to share corporate purchasing cards (CPC) and did not make use of Level-3 detailed purchasing data to help ensure the propriety of purchases.**

### **Analysis**

CCPS allowed multiple employees to share certain CPC and did not make use of Level-3 purchasing data to help ensure the propriety of the purchases. According to CCPS records, as of August 3, 2021, there were 204 active cards and related expenditures totaled approximately \$2.4 million during fiscal year 2021.

- CCPS issued shared CPCs (known as “site” cards) to specific departments or schools that were used by multiple employees to process transactions. During fiscal year 2021, CCPS had 84 active “site” cards that had monthly credit limits ranging from \$1,000 to \$50,000 and were used to process transactions totaling approximately \$687,000. Although CCPS policy required the maintenance of logs recording who used the cards, it would be difficult to identify the employee responsible for any unauthorized transactions. Specifically, employees using the card could maintain the card’s information and make online purchases at a later date, negating the accountability of the CPC log. Additionally, the bank’s card holder agreement provides that accounts that are not issued to an individual (such as site cards) will be the

sole responsibility of CCPS, and no claims or requests can be made of the bank with respect to any unauthorized use. Consequently, CCPS would assume liability for improper use of site cards.

- Supervisors did not use available detailed Level-3 data to ensure the propriety of purchases. CCPS management advised that Level-3 data is not available for all transactions and the supervisor's monthly review of detail receipts and invoices is satisfactory. CCPS further advised that Level-3 data can be reviewed by supervisors at their discretion if a transaction is deemed questionable, but is not required to be used. Incorporating a required review of Level-3 data is important for reviewing propriety of transactions, and has been required of State CPC users. In this regard, the Comptroller of Maryland's *Corporate Purchasing Card Program Policy and Procedures Manual* requires State agencies to verify Level-3 data to transaction logs and document monthly reviews of Level-3 data as part of transaction monitoring. Level-3 data, which are provided by certain merchants, consist of detailed descriptions of items purchased and provide supervisory personnel with additional information to help detect questionable purchases. Our review of the available Level-3 data and related testing did not identify any improper transactions.

A similar condition regarding the use of "site" cards was commented upon in our prior audit report. In response to the prior finding, CCPS acknowledged the validity of our finding and related recommendation, but felt that its policies and procedures provided controls to address the added risk involved with using site cards. Since the credit card company advised that CCPS would assume risk for any fraudulent transactions on these cards, we continue to believe the site cards should be discontinued.

## **Recommendation 2**

### **We recommend that CCPS**

- establish individual accountability for CPC procurement transactions by assigning a separate purchasing card to each authorized user (repeat); and**
- require supervisors to use Level-3 data, when available, as a part of the monthly supervisory review to aid in the assessment of the propriety of purchases.**

## **Human Resources and Payroll**

### **Background**

Payroll expense represents the largest single cost component in the CCPS budget. According to CCPS' records, fiscal year 2021 salary, wage, and benefit costs totaled \$309.9 million, representing approximately 64 percent of the total expenditures. According to Maryland State Department of Education reports, during the 2020-2021 school year, CCPS had 3,666 full-time equivalent positions, which consisted of 2,650 instructional and 1,016 non-instructional positions.

CCPS uses automated systems to maintain human resources information, record employee time, track leave usage, and process and record payroll transactions. Leave for full time employees is approved by supervisors in a time management system which is then uploaded to the payroll system to create electronic bi-weekly time records, and any adjustments are processed by central payroll personnel. Manual timesheets are used to record overtime hours, which are approved by supervisors prior to processing by central payroll personnel.

### **Finding 3**

**CCPS did not ensure critical human resources and payroll transactions were independently reviewed for propriety in a timely manner.**

### **Analysis**

CCPS did not ensure critical human resources and payroll transactions were independently reviewed for propriety in a timely manner. Specifically, the employee who performed the manual review of transactions (such as personnel additions and salary changes) prior to system entry also had access to make critical changes to human resources and payroll transactions. Furthermore, while CCPS advised us that the Internal Audit unit routinely performed an independent review, on a test basis, of critical human resources and payroll transactions at the conclusion of each pay period, the reviews were not always conducted timely. For example, our test of the reviews for 12 pay periods during fiscal year 2021 disclosed that the reviews for 5 pay periods were conducted 59 to 107 days after the related payments.

As a result, improper or erroneous additions and salary changes could be processed without timely detection. Our testing did not disclose any such improper transactions. According to CCPS records, during fiscal year 2021, 351 employees were added to the payroll and salary increases totaling \$3.4 million.

A similar condition regarding the lack of an independent review of human resources and payroll transactions was commented upon in our two preceding

audit reports dating back to July 2010. In response to our prior report, CCPS indicated that procedures had been implemented to ensure critical transactions were subject to independent review. As noted above, while a procedure was in place, the verifications were not independent and/or timely.

### **Recommendation 3**

**We recommend that CCPS independently review critical human resources and payroll transactions recorded in the system (such as, personnel additions and salary changes) in a timely manner (such as, within 30 days) (repeat).**

**We advised CCPS on using existing personnel to review critical human resources and payroll transactions independently.**

## **Equipment Control and Accountability**

### **Background**

According to CCPS' audited financial statements, the undepreciated value of its capital equipment inventory was \$32.9 million as of June 30, 2020. CCPS maintains centralized automated inventory records for equipment with a cost of \$5,000 or more (including assets capitalized for financial statement purposes). In addition, CCPS' Department of Information Technology maintains inventory records of certain computer hardware assigned to schools, students, and employees. CCPS has established comprehensive written equipment policies and has processes to perform annual inventories.

### **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 with respect to the equipment area of operations.

## **Information Technology**

We determined that Findings 4 through 8 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available report in accordance with the State Government Article, Section 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with CCPS' responses, have been redacted from this report copy.

**Finding 4**

**Redacted cybersecurity-related finding.**

**Finding 5**

**Redacted cybersecurity-related finding.**

**Finding 6**

**Redacted cybersecurity-related finding.**

**Finding 7**

**Redacted cybersecurity-related finding.**

**Finding 8**

**Redacted cybersecurity-related finding.**

## **Facilities Construction, Renovation, and Maintenance**

### **Background**

CCPS employs a staff of 347 employees to maintain 39 schools (including vocational and special education) and a number of other facilities (such as administrative and support offices). According to its fiscal year 2021 Capital Improvement Plan, necessary construction, major renovations, and systemic improvements to CCPS' facilities over the next six years are estimated to cost approximately \$292 million.

### **CCPS Capital Projects Were Properly Approved and Related Expenditures Were Generally Properly Supported**

Our review of five high dollar value construction-related procurements awarded during fiscal years 2017 through 2021 totaling \$86.4 million disclosed that the contracts were competitively procured and properly approved by the Board. In addition, our test of four invoices totaling \$1.5 million for these contracts disclosed that they were properly supported and in accordance with contract terms.

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

Our review disclosed that CCPS has processes in place to promote ongoing facility maintenance and to minimize energy costs. For example, CCPS provides preventive maintenance of its buildings and equipment with the goal of preventing emergency repairs. In addition, CCPS reviews utility billings to monitor energy usage and related costs. CCPS participates in various programs with the local utility companies such as the Demand Response Program that reduces energy usage during various non-peak periods, like the summer months.

### **Conclusion**

Our audit did not disclose any significant deficiencies in the design or operation of CCPS' internal control over the facilities construction, renovation, and maintenance financial-related areas of operations reviewed. 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 the Maryland State Department of Education (MSDE), CCPS has approximately 25,700 students eligible to receive student transportation service. CCPS reported that 7.2 million route miles were traveled to transport students for the 2019-2020 school year<sup>4</sup> using 381 contractor-owned buses. CCPS bus contracts are for the 15-year service life of the contractor's bus, subject to the Board's right to terminate the contract for various reasons (such as, available funding, cause, contractor insolvency, termination of routes to reduce or consolidate routes). According to CCPS financial records, fiscal year 2020 transportation costs totaled \$30.1 million, of which \$28.5 million (95 percent) were payments for the contracted bus services for various costs. The cost components for contractor bus payments for fiscal year 2019 are summarized in Figure 4.

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<sup>4</sup> Due to the COVID-19 pandemic, student transportation stopped on March 13, 2020 and did not resume until March 22, 2021. During this time, CCPS continued to pay its bus contractors at its agreed-upon rates. CCPS advised us that it used its bus contractors to deliver food to students' homes.

**Figure 4**  
**Cost Components for Bus Contractor Payments**  
**Fiscal Year 2019\***  
**(dollar amounts in millions)**

Cost Component	Amount	
Reimbursements for Drivers Hourly Rates	\$ 10.70	39%
Maintenance Fee and Fuel Costs	8.16	30%
Per-Vehicle Allotment (PVA) – reimbursement for the cost of purchasing a bus	4.12	15%
School Activities (Field Trips, Athletics), Out-of-County Transportation, and Summer School	2.31	8%
Other Costs – (such as Spare Buses, Benefit Trust Contribution, Driver Sick Leave, Administrative Costs, Sales Tax, Insurance)	2.19	8%
Operations Fee - reimbursement of certain administrative costs (such as rent and utilities)	0.08	0%
<b>Total</b>	<b>\$ 27.56</b>	

\* Fiscal year 2019 was used for our analysis since it represented a full year of bus operations, whereas bus operations for fiscal year 2020 were shortened due to the onset of the COVID-19 pandemic in March 2020 that led to school closures, virtual learning, and the decline in student transportation services.

Source: CCPS Records

### School Bus Safety Cameras

As allowed by State and County law, school bus safety cameras are used to monitor drivers who illegally pass a stopped CCPS school bus. CCPS advised us that it was not involved in selecting the vendor or negotiating the terms and conditions of the contract, and the decision to install cameras and implement this monitoring process was collectively taken by CCPS, the Charles County Government, and the Charles County Sheriff's Department. Further, the vendor was selected by Charles County Government based on its procurement process (which was not included in the scope of this audit).

A five-year contract was awarded to a vendor in July 2021 (with five one-year renewal options) to install and operate cameras on CCPS' school buses, and the cameras would be owned and maintained by the vendor. The cameras take images of vehicles (including a specific image of the vehicle license plate) illegally passing a bus that is operating its alternating flashing red lights. The contract also provided for cameras inside the bus to monitor the conduct of drivers and students, along with global positioning units to track the buses.

Vendor employees identify the registered owner(s) of the vehicles using access provided to MVA databases. The Charles County Sheriff's Department verifies the image of the event constitutes a violation and a citation is printed and mailed to the registered owner and related payments are processed by the vendor. As of the date of the contract, vehicles that are caught on camera illegally passing a bus are assessed a \$250 violation. The contract provided that the vendor would receive a monthly technology fee of \$85 per bus and citation revenue would be disbursed 60 percent to the vendor and 40 percent to the County.

As noted above, CCPS' role in the procurement and monitoring of the externally mounted cameras to take images of motorists illegally passing a school bus is extremely limited, and therefore we did not perform audit work in this area (including cybersecurity over the vendor's system). Although CCPS does have a monitoring role with the cameras inside the buses, it has no discernable financial impact, and was not reviewed during this audit.

### **Finding 9**

**CCPS did not ensure amounts paid to bus contractors were reasonable and properly supported.**

#### **Analysis**

CCPS did not ensure amounts paid to bus contractors were reasonable and properly supported.

- CCPS could not document how it determined the reasonableness of the annual operations fee paid to bus contractors beginning in school year 2017-2018<sup>5</sup>. The operations fee is intended to reimburse the bus contractors for administrative costs, such as rent and utilities. Operation fee payments for all contractors for the 161 buses purchased from 2017 through 2021 will total \$27.8 million over the 15 year lives of these buses.
- CCPS could not support the propriety of the estimated \$6 million paid to bus contractors for per-mile bus maintenance costs (\$0.93 per mile) during fiscal year 2019. The per-mile bus maintenance cost is intended to fund the expenses incurred by the bus contractors for maintaining the bus. A similar condition was commented upon in our preceding report. In response to that report, CCPS indicated that it would establish a work group with a goal to produce actual bus operating cost and payroll costs to associate with its

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<sup>5</sup> Contractors receive differing annual operations fee payments based on the year that their bus was placed into service. For example, for school year 2021-2022, the annual operations fee payments were \$11,600 per bus.

payment schedule by fiscal year 2018. However, as noted above, procedures had not been implemented during our current audit.

- The standard contract language used by CCPS for its bus contracts did not include a right to audit provision. Such a provision would allow CCPS to verify the contractors' actual costs of purchasing and maintaining the buses to support the PVA, the hourly reimbursements for drivers, per-mile maintenance fee, fuel costs, and the annual administrative fees. The State of Maryland has established a preference in regulation that all contracts require contractors to make their records available for audit by authorized representatives of the State at all reasonable times.

### **Recommendation 9**

#### **We recommend that CCPS**

- document the reasonableness of the operations fee paid to contractors;**
- use actual documented maintenance costs, cost studies, or independently derived estimates for establishing contractor rates for per-mile maintenance costs (repeat); and**
- include provisions to audit the bus contractors in future contracts and use it, as deemed appropriate, to determine the actual cost of operating contractor buses.**

## **Food Services**

### **Background**

According to CCPS' audited financial statements, food service operating expenditures totaled \$11.0 million in fiscal year 2020 and were primarily funded with federal funds totaling \$6.9 million and food sales totaling \$3.6 million.

According to MSDE records, in fiscal year 2020 CCPS had 111 food service positions for its 39 schools, consisting of 106 cafeteria positions and 5 administrative positions.

Similar to other Maryland Local Education Agencies, CCPS continued to serve meals from certain schools during the COVID-19 pandemic health crisis by distributing food through the use of refrigerated food trucks and backpack food sacks.

### **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 with respect to the Food Service financial area of operations.

## **School Board Oversight**

### **Background**

The Charles County Board of Education (the Board) is composed of seven elected members and one non-voting student member. The Board contracts with a certified public accounting firm to conduct independent audits of the CCPS financial statements and federal programs. To assist in its oversight of various areas of CCPS operation and governance, the Board established several committees, such as a citizen advisory board and an ethics panel.

### **CCPS Adopted an Ethics Policy that Met the Requirements of State Law**

The CCPS 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 CCPS 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 Board members, candidates for the Board, the Superintendent, and other administrators (assistant superintendents, executive directors, directors, and school principals) by April 30<sup>th</sup> of each year.

In accordance with the policy, CCPS established an Ethics Panel consisting of five members (a combination of Board members and public citizens) 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 CCPS employees required to submit financial disclosure forms for calendar year 2020 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**

CCPS is self-insured and covers the cost of the medical services received by its employees, dependents, and retirees. CCPS negotiates contracts with a third-party administrator (TPA) firm to process health care claims for employee and retiree medical, vision, dental, pharmacy costs, and for stop-loss insurance coverage.

CCPS reimburses the TPA for claims paid on behalf of employees, dependents, and retirees in the prior month. In addition, CCPS pays a monthly administrative fee that includes stop-loss insurance to indemnify CCPS against health insurance claims that exceed \$250,000 per participant per plan year (as of the 2021 plan year). As of November 2021, CCPS health insurance benefits were provided to approximately 4,200 enrolled employees, dependents, and retirees. According to CCPS records, during calendar year 2021 CCPS paid the TPA \$45.6 million, including \$40.9 million for reimbursement of claim payments, \$2.2 million for administrative fees, and \$2.5 million for stop-loss insurance coverage.

CCPS hired an independent firm to audit the propriety of the medical claims paid on its behalf by the TPA in calendar year 2019 to ensure that the services were actually provided, were covered by the health plans, and were appropriately priced. The audit concluded that claims payments were reasonable and disclosed no significant discrepancies. CCPS management advised us that it plans to perform claims audits every three years.

### **Conclusion**

Our audit did not disclose any reportable conditions related to the management of other risks area of operations reviewed, including health care insurance.

## **Audit Scope, Objectives, and Methodology**

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

We had two broad audit objectives:

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

In planning and conducting our audit of CCPS, 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 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 CCPS dated February 13, 2017, 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 CCPS 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 CCPS. We also interviewed personnel at CCPS 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 CCPS 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, 2018 to July 8, 2021.

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 CCPS' financial statements and conducts the federal Single Audit.

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

We also extracted data from the CCPS 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.

CCPS' 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 CCPS, 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 CCPS that were not deemed significant and, consequently, did not warrant inclusion in this report.

We conducted our audit fieldwork from July 8, 2021 to February 10, 2022. On March 16, 2020, due to the COVID-19 pandemic health crisis, the State Superintendent of Schools decided to close school and administrative buildings to employees and the public for a two-week period. This was eventually extended for the remainder of the 2019-2020 school year with limited access by certain employees. All CCPS buildings were open during the entire period of our fieldwork, so the objectives and scope of our audit were not impacted.

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 3A-301(b), states that cybersecurity is defined as “the 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 judgement, 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 CCPS and those parties responsible for acting on our recommendations in an unredacted audit report.

CCPS’s 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 CCPS regarding the results of our review of its response.

## APPENDIX



# CHARLES COUNTY PUBLIC SCHOOLS

**Maria V. Navarro, Ed.D.**  
Superintendent of Schools

**Karen M. Acton**  
Chief Financial Officer

**5980 Radio Station Road**  
P.O. Box 2770  
La Plata, MD 20646  
[www.ccboe.com](http://www.ccboe.com)

**Office of Fiscal Services**  
301-934-7350

December 8, 2022

Mr. Gregory A. Hook, CPA  
Legislative Auditor, State of Maryland  
Office of Legislative Audits  
The Warehouse at Camden Yards  
351 West Camden Street, Suite 400  
Baltimore, Maryland 21201

Dear Mr. Hook:

Please accept this letter as our response to the Department of Legislative Services audit of Charles County Public Schools. Enclosed are the Charles County Public Schools' responses and application actions on the recommendations.

As requested, an electronic copy of the responses has been emailed to [response@ola.state.md.us](mailto:response@ola.state.md.us).

Please contact Ms. Karen M. Acton, Chief Financial Officer, at (301) 934-7350 if you have questions or need further assistance regarding this submission.

Respectfully,

KM<sup>A</sup>  
Maria V. Navarro, Ed.D.  
Superintendent

Enclosure

cc: Michael K. Lukas, Chairman, Charles County Board of Education  
Karen M. Acton, Assistant Superintendent, Fiscal Services, CCPS  
Carole Koller, Accounting Manager, Fiscal Services, CCPS

# Charles County Public Schools

## Agency Response Form

### Procurement and Disbursement Cycle

#### Finding 1

CCPS procurement policies did not incorporate certain recognized best practices when participating in intergovernmental cooperative purchasing agreements (ICPA).

We recommend that CCPS incorporate the aforementioned best practices into its procurement policies, and ensure that the performance of the best practices is documented when evaluating and participating in ICPAs.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	CCPS purchasing department addressed this concern by adding a checklist to the back of Requisitions for use by requesting parties and Purchasing Staff. A Purchasing Review/Cost Price Analysis Template is also a part of the process. These additions were made after 2015, however, the policy manual was not updated. We have included the templates that we use to satisfy this requirement.		
<b>Recommendation 1</b>	Agree	<b>Estimated Completion Date:</b>	8/12/2022
Please provide details of corrective action or explain disagreement.	Procurement Manager provided OLA with an updated CCPS Policy Manual including the requested "Best Practices" that were applicable.		

# Charles County Public Schools

## Agency Response Form

### **Finding 2**

**CCPS allowed multiple employees to share corporate purchasing cards (CPC) and did not make use of Level-3 detailed purchasing data to help ensure the propriety of purchases.**

**We recommend that CCPS**

- a. establish individual accountability for CPC procurement transactions by assigning a separate purchasing card to each authorized user (repeat); and
- b. require supervisors to use Level-3 data, when available, as a part of the monthly supervisory review to aid in the assessment of the propriety of purchases.

<b>Agency Response</b>		
<b>Analysis</b>	<b>Factually Accurate</b>	
<b>Please provide additional comments as deemed necessary.</b>	Review of CCPS P-card program by OLA is not complete. Written controls are in place to manage the program and to mitigate the risk. Users of the shared corporate purchasing cards must get pre-approval for the purchase, sign check-out log once purchase is approved, and return the card with the receipt that shows the purchase matches the pre-approved item. Since the receipts are turned in and are used by the supervisor to reconcile the statement and match the charges with the pre-approval forms and the receipts turned in, the Level 3 data isn't necessary. In addition, Level 3 data is not supported by most vendors/merchants used by CCPS.	
<b>Recommendation 2a</b>	Agree	<b>Estimated Completion Date:</b> 09/2023
<b>Please provide details of corrective action or explain disagreement.</b>	The current controls in place mitigate the risk. The controls referenced are: Pre-approval of purchase, sign-out log, return of the card and the receipt that verifies the pre-approved item was purchased, but we will transition to individual cards.	
<b>Recommendation 2b</b>	Agree	<b>Estimated Completion Date:</b> 09/2023
<b>Please provide details of corrective action or explain disagreement.</b>	Level 3 data is not available by most vendors. CCPS requires all receipts for purchases to be turned in and used to reconcile the statement, but we will add the requirement to use level 3 data when available.	

# Charles County Public Schools

## Agency Response Form

### Human Resources and Payroll

#### **Finding 3**

**CCPS did not ensure critical human resources and payroll transactions were independently reviewed for propriety in a timely manner.**

**We recommend that CCPS independently review critical human resources and payroll transactions recorded in the system (such as, personnel additions and salary changes) in a timely manner (such as, within 30 days) (repeat).**

**We advised CCPS on using existing personnel to review critical human resources and payroll transactions independently.**

<b>Agency Response</b>			
<b>Analysis</b>	<b>Factually Accurate</b>		
<b>Please provide additional comments as deemed necessary.</b>	<p>An independent audit is done after each payroll. Every attempt will be made to perform it in a timelier manner based on staffing availability. Prior to processing payroll payments, the steps below are performed to ensure critical transactions are reviewed.</p> <ol style="list-style-type: none"><li>1. All personnel and salary change requests (adding new employees, changes in salary) are processed and reviewed by Human Resources staff and a PAR is created by the HR assistant.</li><li>2. After approved PAR changes are entered into the system, changes are calculated by a payroll analyst, and reviewed and approved by the head of payroll or delegate.</li><li>3. The Accounting Manager also performs a final review of critical personnel changes regarding terminations and leave payouts. These processes all occur prior to the pay run.</li></ol> <p>Each of the three (3) controls above occur prior to payroll runs. Separate from the controls listed above, CCPS completes an additional backend control where an independent auditor performs a payroll audit on every payroll. This review verifies system output reports including exception reports and adjustments.</p> <p>Formal written procedures for the review of payroll are part of documented processes.</p>		
<b>Recommendation 3</b>	Agree	<b>Estimated Completion Date:</b>	Completed

## Charles County Public Schools

### Agency Response Form

<b>Please provide details of corrective action or explain disagreement.</b>	Independent audits are done after each pay run. Every attempt is made to utilize existing personnel to conduct these audits in a timely manner.
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# **Charles County Public Schools**

## **Agency Response Form**

### **Information Technology**

The Office of Legislative Audits (OLA) has determined that Findings 4 through 8 related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with State Government article 2-1224(i). Although the specifics of the findings, including the analysis, related recommendations, along with CCPS’ responses, have been redacted from this report copy, CCPS’ responses indicated agreement with the findings and recommendations.

<b>Finding 4</b> <b>Redacted cybersecurity-related finding.</b>
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**Agency Response has been redacted by OLA.**

<b>Finding 5</b> <b>Redacted cybersecurity-related finding.</b>
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**Agency Response has been redacted by OLA.**

<b>Finding 6</b> <b>Redacted cybersecurity-related finding.</b>
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**Agency Response has been redacted by OLA.**

<b>Finding 7</b> <b>Redacted cybersecurity-related finding.</b>
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**Agency Response has been redacted by OLA.**

<b>Finding 8</b> <b>Redacted cybersecurity-related finding.</b>
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**Agency Response has been redacted by OLA.**

# Charles County Public Schools

## Agency Response Form

### Transportation Services

#### **Finding 9**

**CCPS did not ensure amounts paid to bus contractors were reasonable and properly supported.**

#### We recommend that CCPS

- a. document the reasonableness of the operations fee paid to contractors;
- b. use actual documented maintenance costs, cost studies, or independently derived estimates for establishing contractor rates for per-mile maintenance costs (repeat); and
- c. include provisions to audit the bus contractors in future contracts and use it, as deemed appropriate, to determine the actual cost of operating contractor buses.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	See explanation below		
Recommendation 9a	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	The operational fee is paid to contractors as an additional annual payment that was restructured beginning in 2017-2018. Prior to 2017-18 the operational fee was included in the annual PVA. As a result of a previous finding in the audit, the operational fee was removed from the PVA for new buses and stated as standalone item so it could be better distinguished. The financial support for the contractor to operate his/her business on a daily basis is provided through this operational fee. Examples of expense that a contractor would use to support the contracted operation are: Utilities, Mortgage / Lease, Accounting, Legal, Sub Drivers, Management Staff, Company Auto Security, Bank fees and dues, Abuse and Molestation Insurance, Liability Insurance, Collision Insurance, General Liability Insurance, Excess Liability Insurance, Building & Property Insurance, Comprehensive Insurance, Umbrella Policy, Property & Buildings Maintenance/Upkeep, Cleaning supplies, City Water, Septic, Internet, Phone - Cell and Landline, Computers / Printers, IT Support, Software Subscriptions, Office Supplies, Property Taxes, Personal Property Taxes, Retirement Fund Audit, Uninsured Motorist Coverage, Tags, Dumpster / Trash Service, Health / Life /Retirement Contribution, Parking Lot Repair, and upkeep. Charles County Public School will attempt to compare our bus contract to other bus contracts with other Maryland LEA's for reasonableness.		

## Charles County Public Schools

### Agency Response Form

<b>Recommendation 9b</b>	<b>Agree</b>	<b>Estimated Completion Date:</b>	<b>Completed</b>
<b>Please provide details of corrective action or explain disagreement.</b>	<p>Determination of the maintenance rate paid to contractors each year is based upon multiple factors. Those factors include but are not limited to: data from publications including the Consumer Price Index (CPI). The CPI amount is based on the annual one-year change from the previous calendar year of the Washington-Arlington-Alexandria region transportation CPI (not seasonally adjusted). The annual CPI adjustment shall not increase in excess of 5%. Annual comparisons are made to the rates used by other Maryland LEAs, new school bus specification requirements, experience with school system owned buses, and available funding. The contractor payment formula for each school year, which includes the per mile maintenance rate for that year, receives final approval by CCPS executive staff.</p> <p>As formula specifically for school buses was not available, the index used was for commercial diesel vehicles with similar amounts of miles traveled. According to Government Fleet Magazine, the “Average Maintenance Cost Per Mile” for a similar Class B vehicle was:</p> <p>Government Fleet Magazine Rate Charles County Rate 2015 \$0.84 per mile FY15 \$.8074 per mile</p> <p>2016 \$0.96 per mile FY16 \$.8236 per mile</p> <p>2017 \$0.91 per mile FY17 \$.8236 per mile</p> <p>2018 \$1.10 per mile FY18 \$.9078 per mile</p> <p>2019 \$1.26 per mile FY19 \$.9305 per mile</p> <p>In an October 2020 comparison to 15 other LEAs which use the formula payment, maintenance rates ranged from the lowest of \$.70 per mile to the highest of \$1.06 while the Charles County rate was \$.9621. While considering all the available information, Charles County believes the maintenance rate paid to school bus contractors is appropriate, reasonable, and fair. The CCPS Transportation Department will ensure this annual review and analysis is documented for future audits.</p>		

# Charles County Public Schools

## Agency Response Form

**Auditor's Comment:** Although CCPS agrees with recommendation 9b, its response cited a \$.9621 maintenance cost per mile that was based on the average maintenance cost of a commercial diesel vehicle that was not a school bus, due to the fact that a formula specifically for school buses was not available. Consequently, we are unsure of the comparability of the two vehicle types or the validity of the resultant cost per mile. CCPS then uses this rate for comparison with other LEAs. We believe that this comparison over-simplifies the issue and does not yield a valid conclusion, as this rate-setting practice at other LEAs is often the subject of a similar audit finding regarding unsupported maintenance costs. Finally, we had multiple meetings with CCPS during the course of the audit wherein we advised CCPS that the information it used could not reasonably justify the \$.9621 cost per mile and recommended, as stated in our report, that CCPS should use documented maintenance costs, cost studies, or independently derived estimates. To date, CCPS has not been able to provide any additional support for its position.

<b>Recommendation 9c</b>	<b>Agree</b>	<b>Estimated Completion Date:</b>	<b>In Progress</b>
<b>Please provide details of corrective action or explain disagreement.</b>	Staff from the Transportation Department will work with all stakeholders including bus contractors, staff attorney and senior leadership regarding verbiage to be included in the 2022-2023 Master School Bus Contract regarding future audits of school bus contractors to determine their actual operating costs. The verbiage will be included, if agreed to, through contract negotiations.		

## AUDIT TEAM

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Audit Manager

**R. Brendan Coffey, CPA, CISA**  
**Edwin L. Paul, CPA, CISA**  
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