TEAM BCPS

FOLLOW-UP TO EXTERNAL AUDIT – OFFICE OF LEGISLATIVE AUDITS (OLA) FINANCIAL MANAGEMENT PRACTICES AUDIT REPORT

This report summarizes the results of Internal Audit's follow-up activities to determine if BCPS management successfully implemented the corrective action required to address the recommendations in OLA's report, dated November 19, 2020.

February 17, 2022

Refer to Exhibit A for the report distribution list.

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Background

The Office of Legislative Audits (OLA) conducted an audit of the financial management practices of the Baltimore County Public Schools (BCPS) 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 BCPS' procedures and controls were effective in accounting for and safeguarding its assets and whether its policies provided for the efficient use of financial resources. OLA conducted their fieldwork from May 2019 to February 2020. Their report, issued on November 19, 2020, identified 11 findings[1].

BCPS management concurred with the findings noted in OLA's report and provided responses to the recommendations made by OLA.

Follow-Up Approach and Limitations

Approach

Internal Audit completed document review and inquiry of staff to determine if management implemented the corrective actions indicated in its responses to the OLA.

Follow-up Limitations

The Office of Internal Audit experienced limitations through-out the follow-up process because of the November 24, 2020 cyber-attack:

1. Little or no documentation was available for review, therefore, some results are based on inquiry only.
2. Corrective actions were delayed or suspended, and
3. Recovery efforts took precedence over all other activities.

Implementation Status of Corrective Action

Internal Audit reviewed documentation and contacted staff to determine if management's corrective actions to address the recommendations were implemented:

Implementation Status	Number of Corrective Actions
Implemented	2
In Process	7
No longer relevant	2

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[1] The full report can be found on the OLA website at:
https://www.ola.state.md.us/umbraco/Api/ReportFile/GetReport?fileId=5fb6cfeea1ce5812f4ffaf42

Outstanding Matters Noted

Internal Audit identified outstanding matters in five areas:

Outstanding Matter	Related Finding(s)
1. Contract provisions	#1, #2
2. Procedures/SOP development and updates	#2, #4, #6, #10
3. System implementation	#4, #5, #10
4. Report development	#5, #6
5. Claims validation	#11

Risk Considerations

We identified specific risks associated with the outstanding matters noted in our monitoring of the corrective action plan. We will consider these risks in the development of our annual risk-based audit plan and focus on those areas that present the highest risk to BCPS.

Result Details

See pages 5 - 15 for details related to the follow-up results.

Finding #1

Procurements were not always made in accordance with established policies or applicable State law.

Implementation Status - In Process

Results -

- The required multi-agency language was included within seven of eight cooperative contracts reviewed.
- The evaluation of potential vendors for procurement of instruction materials was maintained for the six contracts reviewed.
- The "Due Diligence Checklist"[2] includes a step to ensure that the cooperative procurement notice of award is completed. Additionally, the purchasing manager indicated that all future cooperative contract solicitations would be posted on eMaryland Marketplace as required in the State Finance and Procurement Article 17-502, except for materials of instruction.

Outstanding Matter(s) -

- Support for one of the eight cooperative contracts reviewed, Focus Schools Software, LLC – April 2021, did not have the provision "for use by other parties" clause.

Potential Risks -

When procurements are not in compliance with policies and State law:

- Increased risk of fraud or error
- Ineffective and inefficient procurement processes
- Lack of competitive pricing

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[2] The Due Diligence Checklist was developed by the Office of Purchasing to assist agents to be compliant with BCPS policies and State law when procuring goods and services.

Finding #2

BCPS' written policy did not define the criteria for what constitutes a contract modification and did not require a signed contract modification to support changes to contract terms and conditions.

Implementation Status - In Process

Results -

- The amendments to the policy have not been completed. The purchasing manager indicated that revisions to procedures have been slow since the cyber-attack, as recovery efforts have taken precedence over all other activities.
- We could not validate that the contract modification noted in the OLA report was presented to the Board. However, per the purchasing manager, contract modifications are aligned with policy and rule 3215.

Outstanding Matter(s) -

- Procedure 3240.002 has not been amended.
- There is no evidence to support that the contract modification noted in the OLA report has been presented to the Board for review and approval.

Potential Risks -

When procurement procedures are not updated and contract modifications are not properly communicated, there is potential for:

- Increased risk of fraud or error
- Ineffective and inefficient procurement processes
- Adherence to outdated or obsolete processes
- Non-compliance with current statutes

Finding #3

BCPS did not use an Inter-governmental Cooperative Purchasing Agreement (ICPA) for purchasing school buses in a manner intended and limited competition for those procurements. BCPS also did not maintain supporting documentation to enable the OLA to determine whether BCPS received the best value.

Implementation Status - Implemented

Results -

- The lowest overall price per bus was the basis for selecting the vendor for recent bus purchases.
- Bus purchases made after FY20 used a competitively bid contract, therefore, the ICPA process was not used.
- The "Due Diligence Checklist" includes a step to identify the method of award and the pricing justification.

Outstanding Matter(s) - None

Potential Risks - None

Finding #4

BCPS did not have a written policy requiring the documentation of the receipt of goods and services prior to making the related payment and permitted the prepayment of vendors for services without a formal policy. Further, BCPS did not ensure that contracts were always properly executed prior to payment.

Implementation Status - In Process

Results -

- The policy was not drafted due to delays caused by the cyber-attack. The estimated completion date is extended to April 15, 2022,
- The implementation of the financial system upgrade was delayed due to the cyber-attack. The system upgrade is projected to be fully implemented by December 2022. Training will be incorporated into the rollout of the system upgrade.

Outstanding Matter(s) -

- A written policy regarding the receipt of goods and services prior to payment has not been drafted.
- The financial system upgrade, and associated training, are not fully implemented.

Potential Risks -

When procurement to payment procedures are not updated and communicated, there is potential for:

- Increased risk of fraud or error
- Ineffective and inefficient procurement processes
- Adherence to outdated or obsolete processes
- Non-compliance with current statutes

Finding #5

BCPS did not ensure certain personnel and payroll transactions processed were subject to independent review and approval, resulting in overpayments to six employees totaling $70,839 going undetected.

Implementation Status - In Process

Results -

- A report of personnel actions and newly hired and transferred employees is needed to review and verify that salaries are correct for new hires and transfers. This report is not currently accessible due to the cyber-attack. The Department of Human Resources continues to work to recover this critical report.
- The CASE Master Agreement prevents BCPS from recovering the overpayments under the terms of the bargaining unit agreement.
- BCPS has fully reviewed similar payroll transactions and found no other overpayments.
- Access to the electronic timekeeping system was lost due to the cyber-attack. A new electronic timekeeping system is planned for implementation in early FY23.

Outstanding Matter(s) -

- A report of personnel actions and newly hired and transferred employees is not available to verify that salaries are correct.
- A replacement electronic timekeeping system has not been implemented.

Potential Risks -

When personnel and payroll changes are not properly reviewed there is potential for:
- Payroll overpayments
- Time-keeping errors
- Unapproved payroll changes

Finding #6

BCPS did not ensure that employee access to its automated financial systems was appropriate and adequately controlled, resulting in employees with unnecessary or incompatible access.

Implementation Status - In Process

Results -

- The process of providing a list of employees' system access to management was suspended due to the cyber-attack. Reporting to management is anticipated to resume by the Fall of 2022. An SOP would be drafted in conjunction with the distribution of these reports to management.
- Changes were made to the access of the identified employees.
- The automated ordering system, ESchoolMall, referenced in OLA's audit report was replaced with an internally hosted site effective January 2021. This system requires the use of procurement cards for payment and every payment transaction requires on-line documentation and supervisory approval.

Outstanding Matter(s) -

- The system access report for management's use is not available until FY23.
- A SOP has not been implemented regarding the reporting of employees' system access to management.

Potential Risks -

When employees' system access is not reviewed by management:
- Employees may have unnecessary or incompatible duties.
- Unapproved or fraudulent transactions could occur.

Finding #7

Sensitive BCPS personally identifiable information was maintained in a manner that did not provide adequate security safeguards.

Implementation Status - No Longer Relevant

Results -

- The recommendation in the OLA report is no longer applicable due to BCPS' migration to cloud-based systems. Sensitive PII is now maintained by web-based software vendors and is no longer maintained on locally hosted databases. Under this Software as a Service (SaaS) model, controls over sensitive PII are the responsibility of the software vendors, and they provide BCPS with a copy of an annual System and Organizational Controls (SOC 2) report. This report details organizational controls related to security, availability, processing integrity and confidentiality.

Outstanding Matter(s) - None

Potential Risks - None

Finding #8

For two critical systems' databases, security and audit event logging and monitoring procedures were not adequate, and unnecessary elevated system privileges were granted to numerous user accounts.

Implementation Status - No Longer Relevant

Results -

- The critical systems referenced in the OLA audit report are now cloud based and are no longer locally hosted. BCPS staff do not have server level access to these systems as they are hosted by the respective software vendors. Under this Software as a Service (SaaS) model, database monitoring controls are the responsibility of the software vendors, and they provide BCPS with a copy of an annual System and Organizational Controls (SOC 2) report. This report details organizational controls related to security, availability, processing integrity and confidentiality.

Outstanding Matter(s) - None

Potential Risks - None

Finding #9

Twenty-six publicly accessible servers were improperly located within the internal network, intrusion detection prevention system coverage for untrusted traffic did not exist, and BCPS network resources were not secured against improper access from students using wireless connections and high school computer labs.

Implementation Status - Implemented

Results -

- BCPS has migrated to a "largely cloud based SaaS model" that has eliminated "the vast majority of public facing servers."
- Publicly accessible servers that could expose the network to attack from outside sources are no longer in use:

    o the 26 servers identified in the prior audit were encrypted and are now protected in the BCPS DMZ[3].
    o the DMZ provides an additional layer of security to BCPS' local area network and limits access from external sources.
    o new firewall rules were implemented and student access to the entire data center was removed.

Outstanding Matter(s) - None

Potential Risks - None

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[3] A physical or logical sub-network that separates a local area network from other untrusted networks.

Finding #10

BCPS did not use its automated bus routing software to periodically perform a system-wide analysis of routes and related bus capacities to maximize efficiency and had not established comprehensive bus routing procedures.

Implementation Status - In Process

Results -

- Improvements to the bus routing process and documentation of those processes are still in process. Progress on improvements were hampered by the pandemic, cyber-attack, and staffing issues. Recovery efforts and driver/staff shortages have taken precedence over all other activities.
- The Office of Transportation implemented routine team meetings, in the fall of 2021, to begin optimizing the bus routing process using the new cloud-based software. They are in the process of hiring a consultant, who is familiar with the software and has experience with bus routing improvements, to assist in this effort.
- There are plans to revamp the system's bus routing, to include specified target bus capacities, ridership goals, and student ride-time limits. During this process, new standard operating procedures will also be established.

Outstanding Matter(s) -

- An improved bus routing process to maximize bus routes and ridership has not been completed.
- Comprehensive standard operating procedures that specify target bus capacities, ridership goals, and student ride-time limits, have not been developed.

Potential Risks -

When bus routing processes are not reviewed to maximize efficiency and comprehensive procedures are not established, there is potential for:

- Inefficient and ineffective use of resources
- Unnecessary costs
- Inadequate and unsafe conditions for students
- Non-compliance with current regulations

Finding #11

Claims payments totaling approximately $152.2 million during fiscal year 2019 were not reviewed for propriety.

Implementation Status - In Process

Results -

- The OLA report did not include a response for this finding; therefore, Internal Audit contacted the executive director of Fiscal Services. The executive director indicated that he has raised the issue of auditing health care claims with the county government, however, the county "was not interested in auditing claims payments."
- The Baltimore County Efficiency Review report, dated January 27, 2022, suggests that the county obtain "a one-time benefit from conduction *[sic]* a backward-looking claims audit to investigate payment integrity over the last several years."

Outstanding Matter(s) -

- A claims review process has not been established between the BCPS and the county government.

Potential Risks -

- When health care claims are not reviewed, there is a lack of assurance of propriety of billed services.

Exhibit A

Follow-Up to External Audit –
Office of Legislative Audits (OLA)
Financial Management Practices Audit Report

Name	Title	Division/Department/Office
Dr. Darryl L. Williams	Superintendent	BCPS
Ms. Margaret-Ann Howie	General Counsel	BCPS
Mr. Pedro Agosto	Chief Information Officer	Office of the Superintendent
Mr. Christopher Hartlove	Chief Financial Officer	Office of the Superintendent
Ms. Shiria Anderson	Chief Human Resources Officer	Division of Human Resources
Mr. George Sarris	Executive Director	Fiscal Services
Mr. Charles Patillo	Executive Director	Business Services Operations
Ms. Andrea Barr	Chief Auditor	Office of Internal Audit