

MEMBERS OF THE BALTIMORE COUNTY PUBLIC SCHOOLS BOARD OF EDUCATION – MY NAME IS JACK REAGAN, AND I AM A MANAGING DIRECTOR AT UHY ADVISORS MID-ATLANTIC MARYLAND INC. UHY ADVISORS IS ONE OF THE TOP PROFESSIONAL SERVICES FIRMS IN THE US, AND UHY INTERNATIONAL IS ONE OF THE LARGEST ACCOUNTING NETWORKS IN THE WORLD. WE PROVIDE AUDIT, TAX, AND CONSULTING SERVICES TO CLIENTS IN A WIDE VARIETY OF INDUSTRIES, INCLUDING STATE AND LOCAL GOVERNMENTS. WE ARE LOCATED LOCALLY IN COLUMBIA, MARYLAND.

PERSONALLY, I HAVE SERVED LOCAL GOVERNMENTS MY ENTIRE CAREER.

DURING MY 30 YEAR CAREER, I HAVE SERVED LARGE LOCAL GOVERNMENTS SUCH AS THE CITY OF BALTIMORE, MONTGOMERY COUNTY MARYLAND, ANNE ARUNDEL COUNTY MARYLAND, THE DISTRICT OF COLUMBIA, AND NEW YORK CITY TO NAME BUT A FEW. AND I SINCERELY APPRECIATE BEING HERE TONIGHT TO PRESENT TO YOU THE RESULTS OF OUR PERFORMANCE AUDIT.

THE SCHOOLS ISSUED SOLICITATION LKO-423-18 ON MARCH 15, 2018, AND ISSUED 2 SUBSEQUENT ADDENDA. WE WERE AWARDED THIS CONTRACT IN MID MAY 2018, AND WE HELD A KICKOFF MEETING IN LATE JUNE 2018.

THE SCOPE OF OUR WORK WAS SPECIFIED IN THE SOLICITATION DOCUMENT. WE WERE REQUESTED TO EXAMINE THE PROCUREMENT POLICIES, PROCESSES, AND PROCEDURES EMPLOYED BY BCPS OVER 18 SPECIFIED CONTRACTS WHICH WERE AWARDED DURING THE PERIOD JANUARY 1, 2012 THROUGH DECEMBER 31, 2017. IN ORDER TO BETTER UNDERSTAND CERTAIN RELATIONSHIPS BETWEEN BCPS AND ITS VENDORS, WE REQUESTED TO REVIEW THE ANNUAL FINANCIAL DISCLOSURE STATEMENTS SUBMITTED BY BCPS BOARD MEMBERS AND SELECTED BCPS EMPLOYEES THAT WERE CRITICAL TO THE MANAGEMENT AND OVERSIGHT OF THE CONTRACTS TO BE REVIEWED. WE WERE ALSO REQUESTED TO REVIEW THE TRAVEL EXPENDITURES, CONFERENCE FEES, PROFESSIONAL MEMBERSHIPS AND PROFESSIONAL DUES FOR THE BOARD OF EDUCATION, THE SUPERINTENDENT AND MEMBERS OF THE SUPERINTENDENT'S CABINET FOR THE SAME PERIOD DESCRIBED ABOVE. THE RESULTS OF OUR TESTING ONLY EXTEND TO THOSE ITEMS SPECIFIED ABOVE. THEY EXTEND NO FURTHER THAN THAT.

AT OUR KICKOFF MEETING, WE WERE INSTRUCTED THAT CERTAIN MEMBERS OF THE BOARD, CALLED AN AD-HOC COMMITTEE, WOULD BE RESPONSIBLE FOR OVERSEEING OUR CONTRACT. THIS AD-HOC COMMITTEE WAS AN IMPORTANT

WAY FOR THE BOARD TO EXERCISE ITS FIDUCIARY RESPONSIBILITY. FURTHER, BCPS ALSO IDENTIFIED A SMALL NUMBER OF EMPLOYEES WHO WOULD BE OUR PRIMARY POINTS OF CONTACT FOR DATA REQUESTS AND OTHER MATTERS OF CONTRACT EXECUTION. WE MEET ON A REGULAR BASIS WITH THIS GROUP THROUGH THE CONDUCT OF OUR WORK TO APPRISE THEM OF THE PROGRESS, DISCUSS ANY QUESTIONS THAT WE HAD, AND TO ENSURE THAT THE SCOPE OF OUR TESTING WAS APPROPRIATE. IN FACT, AT A MEETING WITH THIS GROUP IN NOVEMBER 2018, IT WAS DETERMINED, WITH THE INPUT FROM THE AD-HOC COMMITTEE MEMBERS, THAT THE SCOPE OF THE TESTING OVER THE TRAVEL EXPENDITURES, CONFERENCE FEES, PROFESSIONAL MEMBERSHIPS AND PROFESSIONAL DUES EXTENDED ONLY TO THE MEMBERS OF THE SUPERINTENDENT'S CABINET. IN A SUBSEQUENT MEETING, WE DETERMINED THAT CERTAIN ADMINISTRATIVE PROFESSIONALS WERE MAKING TRAVEL ARRANGEMENTS FOR PERSONS THAT WERE CONSIDERED "IN SCOPE", AND WE EXTENDED OUR PROCEDURES IN THIS AREA TO COVER THOSE ADMINISTRATIVE PROFESSIONALS.

AS PART OF REVIEWING THE 18 CONTRACTS, WE REVIEWED THOUSANDS OF DOCUMENTS, INCLUDING PURCHASE ORDERS, INVOICES, CHECKS AND OTHER

DOCUMENTATION SUPPORTING THE EXECUTION OF THOSE CONTRACTS. SIMILARLY, WE LOOKED AT THOUSANDS OF DOCUMENTS RELATED TO TRAVEL, CONFERENCE, AND PROFESSIONAL MEMBERSHP EXPENDITURES, WHICH INCLUDED TRAVEL PRE-APPROVAL FORMS, REIMBURSEMENT REQUESTS, AND THE SUPPORTING RECEIPTS, AMONG OTHER ITEMS.

AS I PREVIOUSLY MENTIONED, WE WORKED CLOSELY WITH A SMALL NUMBER OF BCPS EMPLOYEES IN EXECUTING OUR WORK. IF WE HAD A QUESTION ABOUT SOMETHING THAT AROSE DURING OUR TESTING, WE WENT TO THIS GROUP TO PROVIDE US WITH ADDITIONAL INFORMATION TO ASSIST US IN RESOLVING THE MATTER. IT IS NORMAL DURING THE CONDUCT OF PROCEDURES SUCH AS THESE FOR US TO IDENTIFY MATTERS THAT WE WOULD CONSIDER FOR INCLUSION IN OUR REPORT. WE PROVIDED THESE BCPS EMPLOYEES WITH A WRITE UP OF THE MATTER, INCLUDING PROVIDING SUPPORTING DOCUMENTATION. WE ASKED FOR BCPS TO EITHER (1) CONCUR WITH OUR CONCLUSION OR (2) PROVIDE US WITH ADDITIONAL DOCUMENTATION TO CLARIFY THE INFORMATION WE USED TO REACH OUR CONCLUSION. THIS WORKING GROUP ALSO PROVIDED US WITH THE OFFICIAL BCPS RESOPNSE TO THE MATTER. THIS "GIVE AND TAKE" AROUND POTENTIAL

MATTERS IS A NORMAL PART OF THE AUDIT PROCESS, AND THIS FRAMEWORK WAS ESTABLISHED AT OUR INITIAL KICKOFF MEETING. ONCE I FELT COMFORTABLE THAT WE HAD SUFFICIENT INFORMATION TO REACH A CONCLUSION THAT A MATTER SHOULD BE INCLUDED IN OUR REPORT, I THEN DETERMINED HOW THE MATTER WAS TO BE REPORTED.

A MATTER PRESENTED IN OUR REPORT IS EITHER CONSIDERED A FINDING OR AN OBSERVATION. A FINDING IS A MATTER WHICH INDICATES THAT A BOARD POLICY, A SUPERINTENDENT RULE, A DEPARTMENTAL PROCEDURE, OR A STATE OF MARYLAND LAW OR REGULATION MAY NOT HAVE BEEN COMPLIED WITH. AN OBSERVATION IS A MATTER WHICH, IN OUR JUDGEMENT, COULD RESULT IN INCREASED OPERATING EFFECTIVENESS OR EFFICIENCY OF THE FINANCIAL MANAGEMENT OPERATIONS OF BCPS.

ONCE WE DETERMINED HOW THE MATTERS WERE TO BE CLASSIFIED, WE THEN BEGAN TO DRAFT OUR REPORT. THE DRAFT REPORT WAS PRESENTED TO THE WORKING GROUP FOR THEIR REVIEW. THIS WORKING GROUP PROVIDED ADDITIONAL COMMENT AND FEEDBACK ON THE REPORT. AGAIN, THIS IS A NORMAL PART OF THE AUDIT REPORTING PROCESS AND IS EXTREMELY

VALUABLE IN ENSURING THE FACTUAL ACCURACY OF INFORMATION PRESENTED IN THE REPORT.

AFTER WE DEVELOPED THIS DRAFT OF THE REPORT, WE PROVIDED A DRAFT COPY OF THE REPORT TO MEMBERS OF THE AD-HOC COMMITTEE. THE MEMBERS OF THE AD-HOC COMMITTEE REVIEWED THIS DRAFT AND PROVIDED A SERIES OF QUESTIONS AND OBSERVATIONS WHICH WERE EXTREMELY VALUABLE IN ENSURING THE COMPLETENESS OF THE ITEMS PRESENTED IN THE REPORT. THIS AD-HOC COMMITTEE WAS SUBSEQUENTLY DISBANDED AND OVERSIGHT WAS EXECUTED BY THE COMMITTEE OF THE WHOLE. THE REVIEW BY THE AD-HOC COMMITTEE AND THE COMMITTEE OF THE WHOLE WAS ANOTHER DEMONSTRATION OF THE FIDUCIARY RESPONSIBILITY EXECUTED BY THE BOARD.

PLEASE NOTE THAT, WHILE COMMENTS WERE PROVIDED BY BOTH BCPS AND BY THE BOARD, NOT EVERY ITEM BROUGHT UP AS A POTENTIAL EDIT TO THE REPORT BY EITHER BCPS OR THE BOARD WAS MADE. THE ULTIMATE EDITORIAL CONTROL OF THE REPORT WAS RETAINED BY ME.

ONCE THE FIRST ROUND OF EDITS WAS MADE TO THE DRAFT REPORT, A SECOND DRAFT WAS CIRCULATED, FIRST TO THE BCPS WORKING GROUP AND THEN TO THE COMMITTEE OF THE WHOLE. THIS IS, AGAIN, THE WAY THAT THE REPORTING PROCESS IS MEANT TO WORK. COMMENTS WERE AGAIN PROVIDED BY BOTH BCPS AND THE COMMITTEE OF THE WHOLE FOR CONSIDERATION IN THE FINAL REPORT, WHICH I AM PRESENTING TO YOU NOW.

WE HAD ONE MATTER WHICH WE CONSIDER TO BE A FINDING. WE IDENTIFIED THAT THE TIMELY FILING OF THE ANNUAL FINANCIAL DISCLOSURE STATEMENTS WAS NOT ADHERED TO AND NEEDS TO BE MONITORED MORE RIGOROUSLY. FURTHER, WE BELIEVE THAT ADDITIONAL TRAINING COULD AID IN THE TIMELY AND COMPLETE FILING OF THE FINANCIAL DISCLOSURE STATEMENTS.

WE HAD TWELVE MATTERS WHICH WE CONSIDER TO BE OBSERVATIONS: SIX OF WHICH INVOLVE THE PROCUREMENT TO PAYMENT PROCESS AND SIX OF WHICH INVOLVE THE ADMINISTRATION OF THE PROCUREMENT CARD PROCESS USED TO PAY FOR TRAVEL EXPENDITURES, CONFERENCE FEES, PROFESSIONAL MEMBERSHIPS AND PROFESSIONAL DUES.

PROCUREMENT TO PAYMENT PROCESS

- **THE CONTROLS OVER THE UTILIZATION OF CONFIRMING PURCHASE ORDERS COULD BE IMPROVED. CONFIRMING PURCHASE ORDERS ARE UTILIZED WHEN AN INVOICE IS RECEIVED THAT EXCEEDS THE AMOUNT AVAILABLE ON A PURCHASE ORDER.**
- **MANY BCPS FINANCIAL MANAGEMENT PROCEDURES HAVE NOT BEEN REVISED FOR A NUMBER OF YEARS. WE RECOMMEND THAT SUCH PROCEDURES BE UPDATED PERIODICALLY, NOT TO EXCEED THREE YEARS.**
- **BCPS SHOULD IMPROVE ITS PROCEDURES OVER THE RETENTION OF PRE-PROPOSAL ACTIVITIES SUCH AS THE REQUIREMENTS DEFINITION, SCORING RUBRIC DETERMINATION, AND SCORING DOCUMENTATION, AMONG OTHER ACTIVITIES. BCPS HAS ALREADY BEGUN IMPLEMENTING SUCH IMPROVEMENTS IN ORDER TO COMPLY WITH CERTAIN FEDERAL GRANT REQUIREMENTS.**
- **WHILE THE DIVISION OF CURRICULUM AND INSTRUCTION IS PERMITTED UNDER MARYLAND LAW TO FOLLOW MORE FLEXIBLE PROCUREMENT POLICIES, WE RECOMMEND THAT THEY ADHERE TO MANY OF THE SAME**

REQUIREMENTS FOR NON C&I PROCUREMENTS AS THESE REPRESENT INDUSTRY BEST PRACTICES.

- **WHEN BCPS AVAILS ITSELF OF THE USE OF COOPERATIVE CONTRACTS, AS IS PERMITTED BY STATE LAW, IT SHOULD ENSURE THAT ALL THE REQUISITE DOCUMENTATION IS MAINTAINED. BCPS HAS ALEADY IMPLEMENTED PROCEDURES TO IMPROVE DOCUMENTATION OF THE CONSIDERATION OF THE USE OF SUCH CONTRACTS.**
- **WE IDENTIFIED SEVERAL SMALLER MATTERS INVOLVING DOCUMENTATION OF THE PROCUREMENT TO PAYMENT PROCESS WHICH COULD BE IMPROVED.**

PROCUREMENT CARD PROCESS

- **WE IDENTIFIED ONE CARD HOLDER WHOSE PROCUREMENT CARD BATCHES WERE NOT FORMALLY APPROVED BY THEIR MANAGER FOR AN ALMOST SIX YEAR PERIOD. WE RECOMMEND THAT BCPS ESTABLISH A MONITORING PROCEDURE TO ENSURE THAT ALL SUCH BATCHES ARE REVIEWED TIMELY.**
- **WE ALSO IDENTIFIED THAT THE MANAGERIAL REVIEW WAS NOT ALWAYS EVIDENCED BY A FORMAL SIGN OFF ON THE BATCHES. THE MONITORING**

PROCEDURE PREVIOUSLY RECOMMENDED COULD ALSO BE USED TO ENSURE SUCH REVIEWS ARE EVIDENCED.

- **BCPS SHOULD MODIFY ITS EXISTING TRAVEL PROCEDURES TO EMPHASIZE AND DOCUMENT THE CONSIDERATION AND USE OF APPROVED GENERAL SERVICES ADMINISTRATION TRAVEL RATES FOR TRAVEL AND LODGING.**
- **BCPS SHOULD IMPROVE ITS ADHERENCE TO THE REQUIRED POLICY THAT ALL PROCUREMENT CARD TRANSACTIONS BE EVIDENCED BY A RECEIPT FOR THE ITEM PURCHASED WITH THE CARD.**
- **BCPS SHOULD IMPROVE ITS ADHERENCE TO THE REQUIRED POLICY THAT OVERNIGHT TRAVEL BE PRE-APPROVED, AND THAT EVIDENCE OF THAT PRE-APPROVAL BE MAINTAINED.**
- **WE IDENTIFIED ONE INSTANCE WHERE A CREDIT CARD TRANSACTION WAS SPLIT INTO SMALLER TRANSACTIONS IN ORDER TO MEET THE APPROVED TRANSACTION LIMITS.**

IN CONCLUSION, I WISH TO RE-EMPHASIZE A FEW POINTS:

- **THE REVIEW OF DRAFT FINDINGS AND OBSERVATIONS AND THE DRAFT REPORT BY THE SELECTED BCPS EMPLOYEES IS A NORMAL PART OF THE AUDIT PROCESS**

- **THE REVIEW OF THE DRAFT REPORT BY THE AD-HOC COMMITTEE AND THE COMMITTEE OF THE WHOLE IS AN APPROPRIATE EXERCISE OF THE BOARD'S FIDUCIARY RESPONSIBILITY TO OVERSEE THIS CONTRACT AND IS A NORMAL PART OF THE AUDIT PROCESS**
- **THE FINAL SAY ON WHETHER AN ITEM RECOMMENDED FOR INCLUSION, EXCLUSION, OR EDITORIAL CHANGE IN THE REPORT BY BCPS OR BY THE BOARD RESIDES SOLELY WITH ME.**

I WISH TO THANK BARBARA BURNOPP, GEORGE SARRIS, AND MELANIE WEBSTER FOR THEIR ASSISTANCE AND SUPPORT DURING THIS PROJECT. I ALSO VERY MUCH APPRECIATE THE WORK OF ANDREA BARR AS THE BCPS LIAISON ON THIS PROJECT. FINALLY, I WISH TO THANK THE AD HOC COMMITTEE AND THE COMMITTEE OF THE WHOLE FOR THEIR VALUABLE OVERSIGHT AND EXECUTION OF THEIR FIDUCIARY RESPONSIBILITY IN THIS PROJECT.

THIS CONCLUDES MY REMARKS AND I WILL ANSWER ANY QUESTIONS THAT YOU MAY HAVE.

THANK YOU.