

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

**Report of Independent Public Accountants on Applying
Agreed-Upon Procedures to the Budgetary Process**

**For the Fiscal Years Ended June 30, 2023 and 2024,
And the Period July 1, 2024 through November 30, 2024**

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON
APPLYING AGREED-UPON PROCEDURES**

Queen Anne's County
Centreville, Maryland

We have performed the procedures enumerated below on the budgetary process for the Board of Education of Queen Anne's County (the Board) for the years ended June 30, 2023 and 2024, and the period July 1, 2024, through November 30, 2024. The Board's management is responsible for the budgetary process for the fiscal years ended June 30, 2023 and 2024, and the period July 1, 2024 through November 30, 2024.

Queen Anne's County, Maryland (the County) has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assisting the County with understanding the budgetary challenges of the Board for the periods of this report. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures performed and the associated findings are as follows:

1. Met with County to understand and walkthrough identified issues and information provided by the Board.

SB & Company, LLC (SBC) met with the County Administrator, Director of Budget & Finance and Chief of Accounting & Budget Operations of the County on October 4, 2024. The County identified the following concerns:

- concern the Board requested additional funding from the County during fiscal year 2024, then subsequently amended that request, and then rescinded that request as it did not need the additional funding;
- concern about the financial reporting process;
- concern about the annual budget development process;
- concern about how budget assumptions are developed and used in the annual budget process;
- concern about the process for monitoring the budget vs actual expenditures during the year;
- concern about key Board financial personnel turnover;
- concern about errors between the budgetary detail and the summary budget approved by the Board;
- concern about the process of budget availability and expenditure approval for expenditures;



- concern about the lack of budget updates and financial forecasting during the year to modify approved spending levels based on financial position, expected revenue, and expenditures to data; and
- concern about furlough days needed to manage the salaries and benefits cost being over budget.

2. Met with the Board to understand and walkthrough the overall budget process.

SBC met with the Chief Financial Officer, Assistant Superintendent, and various finance staff of the Board on October 16, 2024, to understand and walkthrough the overall budget process. Separate interviews were also held that included the Superintendent, certain Board Members, and others throughout the organization. SBC discussed the timing of the budget process, the stakeholders involved in the process, and the assumptions used to build the budget (including revenue sources, salaries and benefits, transportation and other costs, and budget amendments). See summary of process flowchart in appendix C.

The observations noted through our walkthroughs and documents reviewed are as follows:

- the lack of continuity of staffing from the Chief Financial Officer (CFO) level (there were four CFO's from the period of June 30, 2016 through June 30, 2025) as well as support staff and a lack of historical and institutional knowledge due to new personnel in positions;
- the lack of documentation to support historical budgetary decisions and assumptions used to build the annual budget under previous decision makers;
- the mismatch of expenditure decisions to be made in the budget versus when State and County funding levels would be finalized (such as the State and County revenue appropriations and managing the expenditure side of the budget to be properly balanced with available appropriations);
- delivery of the final draft budget to the Board was on the day of the Board meeting to approve the budget which made the process to make informed decisions before finalizing the annual budget more challenging;
- there are estimated costs in the annual budget (ie: health insurance) that are difficult to estimate for the entire fiscal year and the budget was not adjusted on a timely basis to account for the increased cost projecting health insurance costs;
- differences in the approach to classify certain maintenance costs as operating budget expenditures as opposed to being categorized as expenditures in the capital budget, thus caused the use of operating revenue to be used on certain capital costs;
- During fiscal year 2023, there was an actual budgetary deficit of \$3,699,538, with several categories of expenditures over budget (ie: Instruction, Operation of plant, Capital outlays). This contributed to a decrease in the fund balance of the general fund of \$4,023,832 as of June 30, 2023. During fiscal year 2024, there was an actual budgetary deficit of \$2,760,236. This contributed to a decrease in the fund balance of the general fund of \$570,768 as of June 30, 2024;

- The budgetary issues have occurred over multiple fiscal years, and the available fund balance to balance the budget has decreased over these years, management informed us of no significant changes in budgetary formulation and monitoring processes over the fiscal years; and
- 85%, 84%, 83% of the total operating budget for fiscal years 2023, 2024 and 2025, respectively, was related to salary and benefits.

3. Met with the Board to understand and walkthrough salary and benefit budget process.

SBC met with the Chief Financial Officer, Assistant Superintendent, and various finance staff of the Board on October 16, 2024, to understand and walkthrough the salary and benefit budget process. See summary of process flowchart in appendix D.

The observations noted through our walkthroughs and documents reviewed are as follows:

- management did not identify that salary and benefits would be in excess of funding sources until after the deadline to terminate fiscal year 2025 employment contracts;
- to address missing the deadline to terminate fiscal year 2025 employment contracts to lower the salary and benefits budget, management instead used projected attrition of personnel that were in excess of historical averages as a means to reduce projected salary and benefit cost to balance the budget;
- subsequently the budgeted staffing attrition did not occur which led to management considering the use of furloughs to be able to balance the budget; and
- management did not have the documentation of the calculation of required attrition to reduce salaries and benefits to balance the budget and as such it is difficult to determine whether attrition would have actually balanced the budget.

4. Tested salary and benefit (health and retirement) budget amounts based on description provided in step 3.

SBC obtained a copy of the budgets for fiscal years 2023, 2024, and 2025 and noted the following information.

	2023	2024	2025	Change from 24 to 25
Budgeted Salaries & Wages	\$ 65,669,465	\$ 70,177,572	\$ 70,312,144	\$ 134,572
Budgeted FTEs	950	967	893	-74
Average per FTE	\$ 69,101	\$ 72,572	\$ 78,737	\$ 6,165

SBC also reviewed the underlying support provided by the Board’s management and noted that there were 996 positions filled during the time the 2025 budget was prepared compared to 893 budgeted positions in the 2025 budget. This would imply an attrition rate of 103 positions from the time the budget was prepared to when fiscal year 2025 began. At an average salary of \$72,572 per employee, that would equate to a reduction of roughly \$7.5 million in salaries before the beginning of fiscal year 2025. The Board’s average annual attrition rate was 83 positions over the last five fiscal years.

In discussions with management, we were notified that the fiscal year 2024 budgeted health insurance cost on the summary page of the budget was lower than the actual amount included in the detail, which created an unidentified over budget issue in the design of the budget.

5. Compared salary and benefit cost information with four other Board of Education’s to be selected by the County.

SBC compared salary and benefit cost information to the Frederick, Carroll, Talbot and Cecil County School Systems. See appendix A for further information.

6. Met with the Board to understand and walkthrough transportation budget process.

SBC met with the Chief Financial Officer, Assistant Superintendent, and various finance staff of the Board on October 16, 2024, to understand and walkthrough the transportation budget process. See summary of process flowchart in appendix E.

The observations noted through our walkthroughs and documents reviewed are as follows:

The original transportation budget for fiscal years 2023 and 2024 were not sufficient to support the known cost of transportation services in those years. See step 7 which contains the original budget, final budget and actual amounts for fiscal years 2023 and 2024.

7. Tested transportation budget amounts.

SBC obtained a copy of the budgets for fiscal years 2023, 2024, and 2025 and agreed the budget to the supporting calculations provided by the Board’s management. The budget to actual results for the transportation budget for fiscal year 2023 and 2024 is as follows:

Fiscal Year	Original Budget	Final Budget	Actual	Increase from Original to Final Budget	Actual variance from Final Budget
2023	\$ 8,018,889	\$ 9,092,639	\$ 9,476,933	\$ 1,073,750	\$ 384,294
2024	9,290,689	9,607,624	9,607,624	316,935	-

SBC calculated the average transportation cost per student over the last five fiscal years using the actual student transportation cost compared to number of students and noted the average cost as follows:

<u>Fiscal Year</u>	<u>Cost per Student</u>	<u>Change from Prior Year</u>
2024	\$ 1,293	1.6%
2023	1,273	11.7%
2022	1,140	20.3%
2021	947	-1.5%
2020	962	

8. Met with the Board to understand State of Maryland, Federal, and local revenue budget process.

SBC met with the Chief Financial Officer, Assistant Superintendent, and various finance staff of the Board on October 16, 2024, to understand State of Maryland, Federal, and local revenue budget process. See summary of process flowchart in appendix F.

9. Tested State of Maryland and Federal budget amounts.

SBC obtained a copy of the budgets for fiscal years 2023, 2024, and 2025 and agreed the budget to the supporting calculations provided by the Board's management.

The budget to actual results for the State of Maryland revenue budget is as follows:

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Increase from Original to Final Budget</u>	<u>Actual variance from Final Budget</u>
2023	\$ 40,915,143	\$ 40,915,143	\$ 41,667,551	\$ -	\$ 752,408
2024	41,585,933	41,585,933	41,616,252	-	30,319

The budget to actual results for the Federal revenue budget is as follows:

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Increase from Original to Final Budget</u>	<u>Actual variance from Final Budget</u>
2023	\$ 14,086,998	\$ 20,341,744	\$ 14,412,969	\$ 6,254,746	\$ (5,928,775)
2024	6,532,898	6,532,898	12,799,567	-	6,266,669

10. Discussed with the Board FY24 and FY23 budget to actual variances.

SBC met with the Chief Financial Officer, Assistant Superintendent, and various finance staff of the Board on October 16, 2024, to discuss budget to actual variances. The results of the budget to actual for FY24 and 23 are in Exhibit B.

We noted the following observations in our review of the budgets:

Fiscal Year 2024

- The original budgeted revenues and expenditures were \$117,774,050.
- The final budgeted revenue was \$117,774,050, and the final budgeted expenditures were \$119,903,752, requiring use of fund balance of \$2,129,702 to balance the final budget.
- The final budgeted amounts agreed to the actual amounts for all expenditure categories except for maintenance of plant, fixed charges and restricted programs.
- The final budgeted amount use of fund balance was \$2,129,702, compared to the actual shortfall of \$2,760,236.

Fiscal Year 2023

- The original budgeted revenues were \$119,527,360, expenditures were \$119,857,360, requiring use of fund balance of \$330,000 to balance the original budget.
- The final budgeted revenues were \$125,782,107, expenditures were \$127,544,822, requiring use of fund balance of \$1,762,715 to balance the final budget.
- The following expenditure categories were over budget for the fiscal year: Administration (\$63,430), Instruction (\$581,714), Student health services (\$31,639), Student transportation (\$384,294), Operation of plant (\$623,924), Fixed charges (\$549,170), and capital outlay (\$1,038,550).
- Excluding restricted and federal activity, the actual expenditures were over budget by \$2,863,446.
- The final budgeted amount use of fund balance was \$1,762,715, compared to the actual shortfall of \$3,699,538.

11. Met with the Board to understand and walkthrough budget amendment process.

SBC met with the Chief Financial Officer, Assistant Superintendent, and various finance staff of the Board on October 16, 2024, to discuss the budget amendment process.

The observations noted through our walkthroughs and documents reviewed are as follows:

- Budget amendments are prepared by management and approved by the Board.

12. Tested budget amendments.

SBC obtained a copy of the budget amendment for fiscal year 2024 (year end is June 30, 2024). The budget amendment was prepared on August 29, 2024 and approved on September 4, 2024.

13. Met with the Board to understand and walkthrough cash flow forecasting process.

The Board's management informed us that there is no formal process or procedure for cash flow forecasting.

14. Met with the Board to understand the following:

- a. The workload of the finance department
- b. Turnover and needing time to train the new staff
- c. Education mix of staff
- d. Discuss the reasons for budget shortfalls for fiscal years 2023 and 2024

The observations noted through our walkthroughs and documents reviewed are as follows:

- The Board's management informed us that the majority of the finance staff are new and that there has been turnover in the CFO and other staff positions over the past few years.
- There are no opportunities for staff to attend external trainings due to budgetary constraints.
- The reasons for the budget shortfalls are related to the following: Health insurance was not properly budgeted for in FY24 and FY23, thus leading to a negative variance from budget to actual.

We were engaged by the County to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the budgetary process for the fiscal years ended June 30, 2023, 2024 and through November 2024. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the County and the Board and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

Owings Mills, Maryland
February 19, 2025

SB + Company, LLC

RECOMMENDATION LETTER

Queen Anne's County
Centreville, Maryland

In planning and performing our agreed upon procedures of the Board of Education of Queen Anne's County (the Board) for the years ended June 30, 2023 and 2024, and for the period July 1, 2024 through November 30, 2024, in accordance with attestation standards established by the American Institute of Certified Public Accountants, we have identified certain observations and recommendations that can assist Queen Anne's County and management of the Board with their responsibilities related to the subject matter of the agreed upon procedures and to improve the financial management of the Board. Our observations were observed in combination with the most recent State Legislative Audit that deficiencies were noted at several levels of administration (and were not exclusive to the finance function).

Our recommendations were not designed to identify all deficiencies in internal controls that might be significant deficiencies or material weaknesses or all of the weaknesses in the Board's financial management, and therefore, there can be no assurance that all deficiencies, significant deficiencies, material weaknesses, or opportunities for improvements have been identified. However, as discussed below, we identified certain matters involving the internal controls and other operational matters that are presented for your consideration. This letter does not affect our report dated February 19, 2025 on the agreed upon procedures of the Board. Our comments are summarized as follows:

1. Define the critical duties and responsibilities required to complete the required accounting, budget, and finance functions and establish strong financial management and reporting. After these duties and responsibilities are defined, determine the people and job skills and experience required to fill each position. Based on this evaluation, consider which new roles your present staff are best to fill and what external hires you need to properly staff the finance function.
2. Develop an improved budget development, monitoring, expenditure budget approval, budget monitoring and budget reporting process. The process should ensure realistic assumptions are used in the budgeting process for reliable sources, should monitor actual results and data compared to budget and budget assumptions, should revise the budget and financial forecast based on the variance and periodically report the budget vs actual, and annual forecast to the Superintendent, Board Chair, and other appropriate levels of management.
3. Develop bimonthly cash flow forecast to be monitored by the Superintendent, CFO, and Deputy Superintendent.
4. Complete a preliminary draft of the budget before contracts with employees are set for the next fiscal year, so that decisions can be made on staffing and changes can be made timely.



5. Assess the needs and the skills of each member of the finance department and develop a training plan.
6. Develop a retention and development plan for personnel. New administrative staff should have demonstrated competencies for both instructional and noninstructional support positions.
7. Develop a comprehensive training plan for new Board members including a full understanding of the collective bargaining process.
8. Develop a charter for the duties and responsibilities for a finance committee and consider adding non board member financial experts to the finance committee.
9. Develop an approach to address the historical budgetary process issues and consider the benefit of engaging with a consultant to assist with the implementation of new and revised procedures.
10. Consider obtaining a third-party CFO, either as a bridge to a full-time person or as a long-term solution.
11. Create a hiring committee to determine the CFO position duties and the screening criteria. Engage personnel from the County to participate on the committee.
12. Improve the controls around disbursements, hiring and procurement to require budget authorization and availability as part of the approval process.
13. Review policies and procedures which may directly inflate budgets in subsequent years and ensure the Board of Education has an understanding of the developed policies. (Example: hiring practices that compensates incoming instructional staff from other jurisdictions for all their experience and steps without limitation).
14. Consider engaging a transportation consultant to develop a reimbursement formula per vehicle allotments and price for fuel adjustments.

We believe that the implementation of these recommendations will provide the Board with a stronger system of budgetary internal controls, improve financial management, and provide better management reporting, while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This communication is intended solely for the information and use of management of the County, Board of County Commissioners, Board management, and the Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Owings Mills, Maryland
February 19, 2025

SBC + Company, LLC

Appendix A

	Queen Anne's	Frederick	Carroll	Talbot	Cecil
Budgetary Data of Current Expense Fund - FY24					
Total Budgeted Salaries & wages	\$ 70,177,572	\$ 536,533,704	\$ 264,563,089	\$ 45,337,990	\$ 158,803,119
Average budgeted salary & wages per employee	\$ 72,572	\$ 75,113	\$ 83,696	\$ 64,022	\$ 78,190
Minimum and Maximum Salaries for 2023-2024					
Bachelor's Degree Minimum	\$ 51,359	\$ 53,851	\$ 52,063	\$ 52,920	\$ 53,803
Bachelor's Degree with Standard Professional Certification Maximum	\$ 52,665	\$ 65,295	\$ 82,607	\$ 63,532	\$ 92,853
Master's Maximum	\$ 94,335	\$ 101,242	\$ 94,908	\$ 89,319	\$ 94,828
Personal median income (per 2022 U.S. Census)	\$ 79,866	\$ 72,151	\$ 71,235	\$ 88,449	\$ 56,050
FTE by Category					
Administration & Mid-Level Administration	100	703	347	61	228
Instruction & Special Education	717	5,248	2,362	488	1,544
Student personnel services, Health, Transportation, Plant	150	1,192	452	160	259
Total	967	7,143	3,161	708	2,031
FTE % by Category					
Administration	10%	10%	11%	9%	11%
Instruction & Special Education	74%	73%	75%	69%	76%
Health, transportation, plant	16%	17%	14%	23%	13%
Total	100%	100%	100%	100%	100%

Exhibit B

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2024

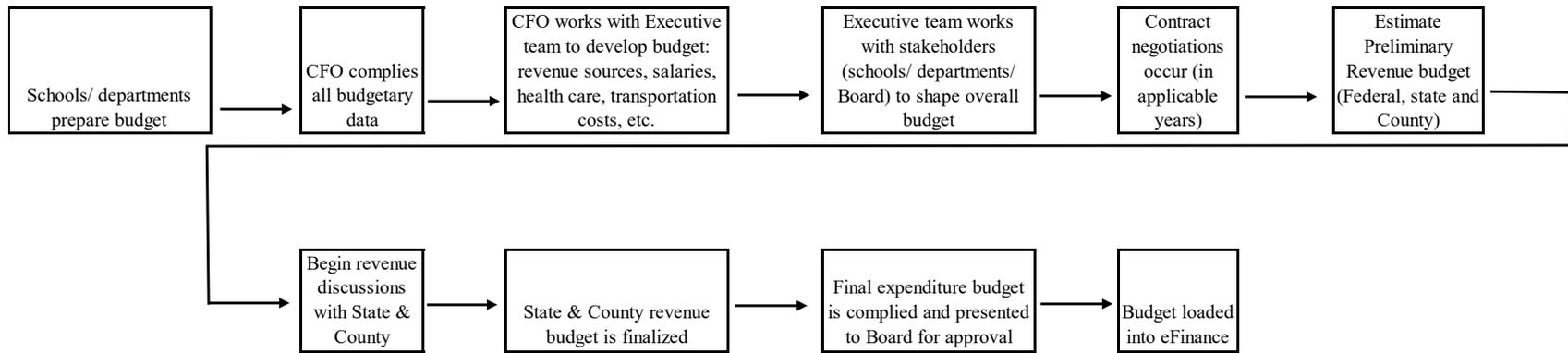
	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
County appropriation	\$ 68,885,219	\$ 68,885,219	\$ 68,885,219	\$ -
State of Maryland	41,585,933	41,585,933	41,616,252	30,319
Restricted federal, state and other	6,532,898	6,532,898	12,799,567	6,266,669
Other sources	770,000	770,000	791,709	21,709
TOTAL REVENUES	117,774,050	117,774,050	124,092,747	6,318,697
EXPENDITURES				
Administration	2,546,280	2,706,513	2,706,513	-
Mid-level administration	6,823,295	6,679,152	6,679,152	-
Instruction	46,716,621	45,950,877	45,950,877	-
Special education	10,454,620	10,376,726	10,376,726	-
Student personnel services	879,095	820,277	820,277	-
Student health services	1,227,113	1,219,863	1,219,863	-
Student transportation	9,290,689	9,607,624	9,607,624	-
Operation of plant	7,424,047	7,818,360	7,818,360	-
Maintenance of plant	2,920,392	3,552,949	3,546,212	6,737
Fixed charges	22,959,000	24,638,513	25,327,812	(689,299)
Capital outlay	-	-	-	-
Restricted programs	6,532,898	6,532,898	12,799,567	(6,266,669)
TOTAL EXPENDITURES AND ENCUMBRANCES	117,774,050	119,903,752	126,852,983	(6,949,231)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	-	(2,129,702)	(2,760,236)	(630,534)
OTHER FINANCING SOURCES (USES)				
Fund balance appropriated	-	2,129,702	2,129,702	-
TOTAL OTHER FINANCING SOURCES (USES)	-	2,129,702	2,129,702	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	\$ (630,534)	\$ (630,534)

Exhibit B (continued)

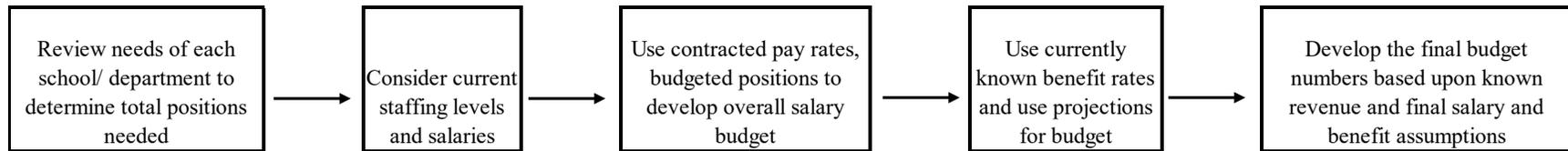
BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2023

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget Favorable (Unfavorable)
REVENUES				
County appropriation	\$ 64,085,219	\$ 64,085,219	\$ 64,085,219	\$ -
State of Maryland	40,915,143	40,915,144	41,667,551	752,407
Restricted federal, state and other	14,086,998	20,341,744	14,412,969	(5,928,775)
Other sources	440,000	440,000	614,216	174,216
TOTAL REVENUES	119,527,360	125,782,107	120,779,955	(5,002,152)
EXPENDITURES				
Administration	2,232,794	2,362,079	2,425,509	(63,430)
Mid-level administration	5,539,625	6,300,995	6,285,811	15,184
Instruction	45,470,214	44,277,409	44,859,123	(581,714)
Special education	10,088,106	10,047,856	9,874,537	173,319
Student personnel services	585,933	726,683	719,693	6,990
Student health services	1,057,081	1,095,081	1,126,720	(31,639)
Student transportation	8,018,889	9,092,639	9,476,933	(384,294)
Operation of plant	6,664,303	6,930,553	7,554,477	(623,924)
Maintenance of plant	2,356,408	3,308,658	3,094,876	213,782
Fixed charges	23,757,009	23,061,125	23,610,295	(549,170)
Capital outlay	-	-	1,038,550	(1,038,550)
Restricted programs	14,086,998	20,341,744	14,412,969	5,928,775
TOTAL EXPENDITURES AND ENCUMBRANCES	119,857,360	127,544,822	124,479,493	3,065,329
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	(330,000)	(1,762,715)	(3,699,538)	(1,936,823)
OTHER FINANCING SOURCES (USES)				
Fund balance appropriated	330,000	1,762,715	2,412,582	649,867
TOTAL OTHER FINANCING SOURCES (USES)	330,000	1,762,715	2,412,582	649,867
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	\$ (1,286,956)	\$ (1,286,956)

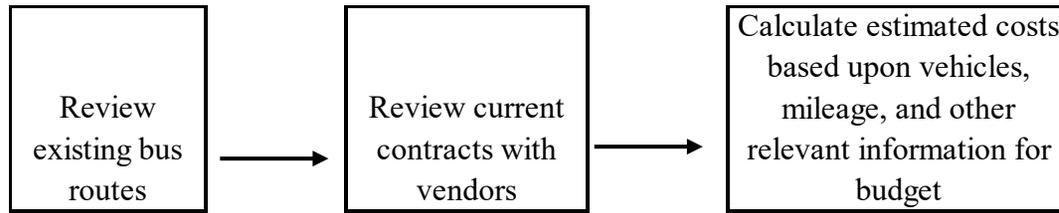
Appendix C - Overall Budget Flowchart



Appendix D – Salary and Benefits Budget Flowchart



Appendix E – Transportation Budget Flowchart



Appendix F – Revenue Budget Flowchart

