



September 12, 2014

To: Board of Education

Dr. Renee Foose, Superintendent

This report conveys the results of my audit of risk management in HCPSS. The report includes a series of recommendations for strengthening risk management, and for implementing zero-based budgeting and achieving Vision 2018¹ as they pertain to risk management.

BACKGROUND

Risk management is the range of activities an organization intentionally undertakes to understand and reduce the effect of uncertainties in achieving its objectives. Risk management has traditionally focused on activities such as safety, workers' compensation, and emergency preparedness, but has more recently evolved for many organizations into a more comprehensive or enterprise-wide process integrated with strategic planning. The Risk Management Office is the HCPSS office with the most responsibility for traditional risk management activities. The Office was moved from the Division of Facilities and Transportation to the Division of Operations in July 2014.

External and internal studies and reports have identified a number of traditional risk management activities that HCPSS does well, such as the effective management of the HCPSS insurance program and a comprehensive emergency operations plan template that each school uses in developing its school specific plan. However, an external study² of HCPSS in 2011 identified several weaknesses in HCPSS's traditional risk management activities, including unauthorized access to school buildings, inadequate review of contracts, and insufficient staffing in the Risk Management Office. The study suggested that the Internal Auditor review the weaknesses and identify ways to strengthen them. In addition, other studies and reports have identified weaknesses with HCPSS's traditional risk management activities. For example, the Task Force

¹ *Vision 2018, Fulfilling the Promise of Preparation*, HCPSS Strategic Plan, July 2013

² *Internal Control Risk Assessment of HCPSS*, Clifton Gunderson LLP, March 2011

on School Safety³ identified concerns with physical security at certain schools and with the training and testing for school emergency plans.

HCPSS implemented zero-based budgeting with the fiscal year 2015 budget cycle in support of Vision 2018. Zero-based budgeting is a method of budgeting in which all activities within an organization are analyzed against their statutory responsibilities, purposes, costs, and desired performance measures. Performance measures are used for the ongoing monitoring of and reporting on progress towards pre-established goals. HCPSS has developed and reported on performance measures for some risk management activities, as discussed below.

Vision 2018 calls for HCPSS to become a world class school system. World class means being the best in the world in business and organizational practices – by being efficient and effective, by supporting innovation and progress, and by incorporating performance measurement and monitoring for business purposes, including for risk management. Vision 2018 also calls for HCPSS to utilize international standards in risk management.⁴ Those standards support an enterprise-wide approach to risk management integrated with strategic planning for achieving an organization's goals and objectives.

OBJECTIVES, SCOPE, AND METHODOLOGY

To strengthen traditional risk management activities, and to facilitate implementation of zero-based budgeting and ensure achievement of Vision 2018 as they pertain to risk management, this audit determined the extent to which HCPSS:

- I. Addressed weaknesses in risk management activities identified in external and internal studies and reports;
- II. Plans to develop, monitor, and periodically report on performance measures for risk management activities as part of zero-based budgeting and for reporting on progress towards Vision 2018; and
- III. Might consider a more enterprise-wide approach for risk management activities.

The audit included identifying and reviewing external and internal studies and reports on risk management; reviewing actions taken to address the weaknesses identified in the studies and reports; reviewing the HCPSS budget, Vision 2018, and Progress Report on Vision 2018⁵ as they pertain to risk management; researching guidance on benchmarking and the development and use

³ *Final Report of the Joint Task Force on School Safety, Presented to the County Executive and Superintendent of Schools, March 2013*

⁴ *Vision 2018, Strategy 4.1.3*

⁵ *Progress Report on the Strategic Plan, Vision 2018: Fulfilling the Promise of Preparation, May 2014*

of pre-established measures for monitoring and reporting on the achievement of performance goals; researching national and international standards for risk management; and interviewing HCPSS staff involved in risk management activities. The audit was conducted in accordance with generally accepted government auditing standards with the exception of peer review.

ACTIONS TO ADDRESS IDENTIFIED WEAKNESSES

HCPSS has taken action to address certain risk management weaknesses identified in external and internal studies and reports. However, more needs to be done to address other identified weaknesses. In particular, HCPSS needs to take more substantive actions to address weaknesses related to safety, emergency preparedness, and contract oversight. Those actions will call for more comprehensive planning and consideration of additional resources.

Safety

The external study of HCPSS in 2011 found that schools had less ability to mitigate accidents when they occurred because HCPSS did not have a comprehensive plan to manage insurable risks, the Risk Management Office at the time had three safety staff, and schools did not have any safety staff. The 2014 annual report issued by the Risk Management Office stated that HCPSS had experienced a rise in workers' compensation claims and costs to a degree higher than the proportionate increase in the workforce, although the report noted that HCPSS has historically paid claims at a rate less than the industry average.

The Risk Management Office has put in place a number of steps to help reduce the severity of claims, such as on-line training for employees on workers' compensation rules and reviewing return-to-work recommendations and requests for accommodations. HCPSS also began subscribing to the SafeSchools online training system in 2012, and has had over 60,000 course completions since its inception. However, HCPSS does not have a comprehensive plan to manage insurable risks, policies or other written guidance on safety other than a circular on blood pathogens, or an organization-wide system to ensure that employees complete all mandatory SafeSchools courses. Also, HCPSS has not added any additional safety staff to the Risk Management Office or to schools. Further, HCPSS has not increased staff assigned to managing workers' compensation claims, even though the number of claims has increased and the staff person managing the claims works a significant number of extra hours during the school year in order to manage the claims in a timely and responsible manner.

Emergency Preparedness

Both the external study of HCPSS in 2011 and the Joint Task Force on School Safety cited the risk of unauthorized access to school buildings due to multiple points of entry and other weaknesses. In response, HCPSS installed integrated buzzer, visitor badging, and camera and communications systems in all elementary and middle schools, began installing digital camera systems on all school buses, and took certain other safety and security steps.

The Task Force on School Safety commended HCPSS for having a comprehensive template for schools to use in developing their individual emergency plans and for having the plans reviewed by central administration on an annual basis. However, the Task Force raised concern with the lack of awareness and drills related to the plans, and HCPSS later acknowledged that school administrators had difficulty in completing certain risk assessment steps that are required by the plans. The Task Force made several recommendations, including for example, that all school staff be trained annually on the plans and that schools conduct required drills and exercises related to the plans. HCPSS has not developed a formal training program for school emergency plans, but has taken certain steps to raise awareness of the plans and to ensure that schools conduct all of the required drills. For example, the Chief Operating Officer began providing feedback to individual schools and senior HCPSS Management after fiscal year 2013 on the extent to which schools were conducting required drills. As a result, the number of schools completing all required drills increased from 18 schools in 2013 to 61 schools in 2014. The Task Force also suggested that HCPSS create an emergency management specialist position. HCPSS created the position at the beginning of fiscal year 2014, but has not filled it.

The Task Force also suggested that the Executive Director of Facilities, Planning, and Management provide an update every 6 months on the status of recommendations related to emergency preparedness. The Executive Director provided an update to the PTA Council of Howard County in December 2013 on the status of recommendations, but did not formally update other HCPSS staff.

In 2012, the Howard County Government conducted an emergency preparedness vulnerability study of 38 county sites, including the HCPSS Central Office and 16 schools. The study identified a number of vulnerabilities which were present in the majority of schools. The vulnerabilities and mitigation suggestions were shared with the HCPSS Executive Team and with the school Principals; however, there was no formal follow-up process for determining the extent to which the suggestions were implemented.

Contract Oversight

The external study of HCPSS in 2011 noted that the decentralized nature of business conducted at schools increased the risk that individual schools would enter into contracts without

appropriate review to ensure that there were no legal issues. HCPSS addressed the issue of legal review of school contracts when it realigned its legal services delivery model in 2012. The model called for all school contracts to be forwarded to the Risk Management Office for review, and for the Manager of the Office, in consultation with certain other senior staff, to determine if legal review was warranted. However, according to the Manager of the Office, less than half of the schools regularly send contracts to the Office for review, and therefore many contracts are not being evaluated to determine whether legal review is warranted. It is not clear why all schools are not sending contracts to the Office for review.

Maintenance and Construction

The external study of HCPSS in 2011 raised concerns with delayed maintenance due to budget constraints and with maintenance and construction being performed while students were in school. The former Chief Facilities Officer believed that increased emphasis on training maintenance technicians and broader use of management techniques such as Lean⁶ helped minimize the impact of reduced maintenance funding. Further, he believed that incorporation of LEED criteria and sustainable practices for school construction and renovation, such as required air quality standards and physical barriers during construction,⁷ successfully mitigated the majority of concerns by Principals and others with conducting maintenance and construction while students were in school. However, the former Chief Facilities Officer said that HCPSS presented projections to the County Council that showed maintenance needs increasing and revenue decreasing over the past 10 years, which will continue to build the size of the deferred maintenance backlog and drive increasing future maintenance needs.

PLANS TO USE PERFORMANCE MEASURES

HCPSS recognizes the importance of using performance measures to manage the achievement of its strategic plan. HCPSS began implementing zero-based budgeting with the fiscal year 2015 budget cycle in support of the strategic plan and as a way to introduce the use of performance measures. Zero-based budgeting includes identifying and aligning each key activity with the strategic plan, identifying the resources required to conduct the key activities, and developing performance measures for the activities. HCPSS expects to complete the development of performance measures in 2015, and to report on the measures in 2016 for all of its key activities.

Vision 2018 calls for HCPSS to routinely benchmark its business operations with comparison organizations.⁸ Benchmarking against other organizations can help to identify relevant measures

⁶ Lean is an analytical approach that focuses on the flow of services throughout an organization rather than just optimizing a single service.

⁷ Leadership in Energy and Environmental Design (LEED) 2009 for Schools Construction and Major Renovations Rating System; LEED is a set of rating systems for the design, construction, operation, and maintenance of green buildings, homes, and neighborhoods.

⁸ *Vision 2018*, Strategy 4.6.3

and be used as both an external measure of performance and as a means to assist in establishing internal measures. Benchmarking also typically includes mapping out current processes and comparing them with other organizations' processes, identifying the best practices, collecting data, identifying barriers that prevent progress or improvement, and developing performance measurement goals. Performance goals for risk management might include, for example, a specified limit on the number of lost work days resulting from workers' compensation claims, a specified percentage of employees who complete all mandatory SafeSchools training, having all schools complete all required emergency drills each year, and/or having all schools send all contracts to the Risk Management Office for review in a timely manner.

HCPSS has developed and reported on performance measures for some risk management activities based on benchmarks, although it did not cite pre-established goals for the measures. For example, Vision 2018 identifies safety survey results as a performance measure, and the Progress Report on Vision 2018 cited the decrease in incident rate and days away from work and the decrease in the number of miles between school bus accidents as examples of improved safety. HCPSS will need to develop performance measures and pre-established goals that relate to all the traditional risk management weaknesses discussed earlier in this report.

CONSIDERATION OF AN ENTERPRISE-WIDE APPROACH

Vision 2018 calls for HCPSS to utilize international standards in risk management. International standards⁹ support an enterprise-wide approach to risk management (ERM) that views risk as anything that affects an organization's ability to achieve its objectives. ERM formally integrates risk management into all aspects of an organization's strategic planning, policy development, business processes, and decision-making, rather than serving as a stand-alone activity. Some of the defining characteristics of ERM include developing an organization-wide risk management policy and plan, making risk management a transparent and inclusive part of all decision-making, and making risk management an explicit part of all employees' responsibilities rather than just the responsibility of a risk management office or manager.

Part of the challenge in implementing ERM is that strategic risks are difficult to quantify and measure, and they may manifest themselves over longer periods of time than managers are accustomed to evaluating. Further, many organizations have historically managed risk within individual departments or "silos" rather than managing risk as an integrated process across all departments, and changing to an enterprise-wide approach can be a difficult and time-consuming cultural change. Some studies of ERM have suggested that organizations take a more incremental approach to ERM, starting with one or more critical risks to an organization or in

⁹ *ISO 31000:2009, Risk Management – Principles and Guidelines*; ISO is the International Organization for Standardization, which consists of 162 national standards institutes, including the American National Standards Institute (ANSI). ANSI represents the interests of more than 125,000 organizations in the United States.

one business unit, and using that initial approach as a possible model for other organizational risks or units.

HCPSS has taken steps that are consistent with certain aspects of an ERM approach. For example, HCPSS developed Vision 2018 in a highly transparent and inclusive manner; explicitly considered risks when it revised individual Board policies, such as Policy 3050 on Records Management, Policy 8080 on Responsible Use of Technology and Social Media, and Policy 8100 on Field Trips; and considered risks when it recently established a data privacy project that in part addressed potential data breaches from computer losses. Data breaches from computer losses were a risk management weakness identified in the external study of HCPSS in 2011.

RECOMMENDATIONS

The Chief Operating Officer should take the following actions to strengthen risk management, and to facilitate implementation of zero-based budgeting and ensure achievement of Vision 2018 as they pertain to risk management:

1. Take or complete actions to address all unresolved weaknesses identified above, including developing:
 - a. A comprehensive plan for managing insurable risks;
 - b. Written guidance on all significant aspects of safety, possibly including a safety plan;
 - c. Procedures to ensure that all employees complete mandatory SafeSchools training;
 - d. Procedures to ensure that school administrators fully understand school emergency plans and complete required emergency drills; and
 - e. Clearer direction for ensuring that schools send all contracts to the Risk Management Office for review.
2. Develop a process to ensure that HCPSS implements all recommendations to strengthen security and emergency preparedness, including regular status reports to the Executive Team.
3. Benchmark all significant traditional activities, particularly those identified as weaknesses in external and internal studies and reports as discussed above.

4. Use the benchmarking to develop and propose performance measures with pre-established goals to be used in the zero-based budgeting process and reporting on progress towards Vision 2018.
5. Consider developing a written plan that identifies the processes and resources to be used for managing the activities and achieving the goals.
6. Consider the extent to which an incremental enterprise-wide approach might be used for certain activities and as a possible model for other HCPSS non-traditional risk management activities.

MANAGEMENT COMMENTS

I shared a draft of this report with senior management and they agreed with the issues and recommendations included in it.

This report is intended for the information and use of the Board of Education and HCPSS Management. Any questions about the report should be addressed to the Board or to Management, or can be addressed to me at David_Clark@HCPSS.Org or 410-313-1562.



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