Business Process/Turnover Audit
Fairfax Villa Elementary School
Report Number: 18-2521

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Prepared by
Office of Auditor General

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Executive Summary

This audit report summarizes the results of the Office of Auditor General’s Business Process/Turnover Audit of Fairfax Villa Elementary School conducted on July 30, 2018. The audit was performed in accordance with the Fiscal Year 2018 audit plan approved by the Fairfax County School Board. The primary objective of the audit was to determine the adequacy of controls and processes in place for managing local school activity funds and appropriated funds during Fiscal Year 2018. There were five reportable findings noted during this audit.

We appreciate the consultation, cooperation, and courtesies extended to our staff by the finance technician and principal of Fairfax Villa Elementary School.

Background, Scope and Objectives, and Methodology

Background

All departments and schools are responsible for business processes that support their core mission. These processes include procuring goods and services needed to meet their objectives, processing cash receipts, and processing time sheets and leave requests for employees. For departments, most of these processes are limited to appropriated fund transactions. However, in a school, there are both appropriated fund transactions and local school activity fund transactions.

These audits will be performed on an ad hoc basis depending upon school employee turnover, specifically principals and finance technicians. The potential concern is the inability for the new key school staff members to perform job duties according to the required policies, procedures, and guidance. The primary regulations include, but are not limited to:

- Regulation 5810 School Activity Funds Management
- Regulation 5350 Procurement Card Management
- Regulation 5012 Purchasing Goods and Services Using Appropriated and Nonappropriated Funds

Scope and Objectives

We conducted this audit in accordance with generally accepted government auditing standards, with the exception of peer review. 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. The audit covered fiscal year 2018 financial activity. The audit’s objectives were to:

- Evaluate the effectiveness of office processes
- Assess compliance with applicable regulations and policies
- Determine if internal controls are adequate and functioning as intended
- Determine if transactions are reasonable and do not appear to be fraudulent
- Review sampled transactions (procurement card, receipt, disbursement, etc.)
To answer the audit objectives the audit team used various methods, including the following:

- Meeting with school based staff
- Reviewing FCPS documents
- Obtaining laws, rules, and regulations
- Reviewing prior audits and reviews
- Obtaining policies and regulations from the FCPS website

The FCPS Office of Auditor General is free from organizational impairments to independence in our reporting as defined by government auditing standards. The office reports directly to the School Board through the Audit Committee. We report the results of our audits to the Audit Committee and the reports are made available to the public via the FCPS website.

Methodology

The Office of Auditor General’s audit approach assessed the school’s current management of internal controls covering local school activity funds, and appropriated funds. The structure of this audit was designed to assist principals and finance technicians in understanding the question “where are we now?” and what processes and controls must be in place to ensure compliance with FCPS regulations and best practice guidelines moving forward. The audit examined monthly expenditures, records, and statements; reviewed monthly reconciliations; conducted interviews with appropriate employees; with the goal of understanding the school’s current standing moving forward. Information was extracted from Payment Net, Great Plains, and FOCUS for sampling and verification to source documentation during the audit; however, our audit did not include an independent review of system controls.

Audit Findings, Recommendations, and Management’s Responses

Table 1: Risk criteria

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Controls are not in place or are inadequate. Compliance with legislation and regulations or contractual obligations is inadequate. Important issues are identified that could negatively impact the achievement of FCPS program/operational objectives.</td>
</tr>
<tr>
<td>Moderate</td>
<td>Controls are in place but are not sufficiently complied with. Compliance with subject government regulations or FCPS policies and established procedures is inadequate, or FCPS policies and established procedures are inadequate. Issues are identified that could negatively impact the efficiency and effectiveness of FCPS operations.</td>
</tr>
<tr>
<td>Low</td>
<td>Controls are in place but the level of compliance varies. Compliance with government regulations or FCPS policies and established procedures varies. Issues identified are less significant but opportunities exist that could enhance FCPS operations.</td>
</tr>
</tbody>
</table>
During this audit, OAG identified five low risk findings which are detailed below:

Finding 1 – Reconciliations
Risk Rating – Low

Condition:
While reconciliations were being completed, they were not consistently signed and/or dated to evidence approval and timely completion, as follows:

- May 2018 Position and Non-Position Financial Management Report (FMR) printed reconciliation was not signed or dated by the principal
- April 2018 local school activity funds (LSAF) procurement card reconciliation was signed, but not dated by the principal
- June and May 2018 local school activity funds (LSAF) procurement card reconciliations were not signed or dated by the principal
- March 2018 appropriated funds (AF) procurement card reconciliation was signed, but not dated by the principal
- April 2018 Bank of America bank reconciliation was signed and dated by the principal on 07/01/18

Criteria:
- Regulation 5111 Financial Management Reports (FMR) Reconciliation establishes the responsibilities and procedures for the reconciliation of the monthly FMR. In addition, the School Finance Handbook states that FMR reports are submitted “for approval and signature by the principal…and retained on site.”
- Regulation 5350 Procurement Card Management states, “The principal/program manager must ensure that reconciliations are done on a timely basis and must review, sign, and date the reconciliation report.”
- Regulation 5910 Monetary Receipts states, “Bank reconciliations must be performed on a monthly basis. Any ensuing adjustments and corrections must be recorded prior to the following month-end close.” The School Finance Handbook provides a detailed explanation of how the reconciliation should be performed.

Effect:
Reconciliations reduce the risk of undetected errors, increase the timeliness of corrections, and provide a confirmation of funds available to be spent for the benefit of students.

Recommendation:
OAG recommends that reconciliations be signed and dated to evidence timely completion and approval.

Management Response (Actions and Due Date):
A management response is not required for this audit. The school will be subject to further review during the annual local school activity fund audit scheduled to be performed later in the year.
Finding 2 – Insufficient Documentation  
Risk Rating – Low

Condition:
Appropriate documentation for purchases made were not attached to the corresponding check as follows:

- An appropriated fund procurement card purchase to SSI School Specialty for $76.86 dated 04/30/18 was supported by an invoice, but did not have a pre-approved purchase order
- Check 117300581 to Campers Trophies and Awards for $42.06 dated 05/29/18 was supported by a purchase order and an invoice without a date

Criteria:
Regulation 5810 School Activity Funds Management states, “A copy of the check, the file copy of the purchase order, if applicable, and supporting documents such as invoices and sales receipts shall be assembled and filed together in all appropriate fund account files as documentation of the disbursement.”

Effect:
Disbursements made without proper supporting documentation prevents verification of the appropriateness of the amount and items purchased.

Recommendation:
OAG recommends that all expenditures should be supported by a properly completed, approved purchase order and an original itemized receipt.

Management Response (Actions and Due Date):
A management response is not required for this audit. The school will be subject to further review during the annual local school activity fund audit scheduled to be performed later in the year.

Finding 3 – Timely Deposits - Deposits in Transit  
Risk Rating – Low

Condition:
The bank reconciliation for the month of June 2018 had three deposits outstanding longer than five days:

- 05/25/18 DEP 00226 for $5,098.00
- 05/29/18 DEP 00229 for $0.58
- 06/04/18 DEP 00235 for $77.56

Criteria:
The School Finance Handbook states that “amounts listed as deposits in transits at the end of a month should appear on the bank statement on the first business day of the following month. If not, a written explanation must be provided.” Regulation 5910 Monetary receipts states, “Bank
reconciliations must be performed on a monthly basis. Any ensuing adjustments and corrections must be recorded prior to the following month-end close.”

Effect:
Reconciliations reduce the risk of undetected errors and increase the timeliness of corrections. Additionally, reconciliations provide a confirmation of funds available to be spent for the benefit of students.

Recommendation:
OAG recommends that reconciling items be cleared, in a timely manner.

Management Response (Actions and Due Date):
A management response is not required for this audit. The school will be subject to further review during the annual local school activity fund audit scheduled to be performed later in the year.

Finding 4 – Past Due Balance
Risk Rating – Low

Condition:
The JP Morgan Chase procurement card statement showed a past due balance of $488.07 with $4.09 in finance charges in the month of June 2018.

Criteria:
Regulation 5810 School Activity Funds Management states, “Disbursements must be processed in a timely manner to avoid late fees and take advantage of discounts.” Regulation 5350 Procurement Card Management further states, “Late fees must be noted on the statement with a written explanation of why the late fee was incurred.”

Effect:
Paying late fees results in the ineffective use of funds and decreases the funds available to support students. Obligations should be paid promptly to avoid penalty fees.

Recommendation:
OAG recommends that the JP Morgan Chase account be paid in full on a monthly basis to avoid penalty fees.

Management Response (Actions and Due Date):
A management response is not required for this audit. The school will be subject to further review during the annual local school activity fund audit scheduled to be performed later in the year.

Finding 5 – Fund and Deficit Balance
Risk Rating – Low

Condition:
One fund account, 35301 Fundraising 1 - General, held a deficit balance of $61,760.90 at year-end. The deficit was created by a posting error that was not properly corrected before year end.

Criteria:
The *School Finance Handbook* states that “Individual accounts in this category may hold a deficit balance throughout the current school year. An effort should be made to clear all deficits before the end that academic year.”

**Effect:**
The Activities Account fund serves to benefit the entire student body or institution. Activities funded by the Activities Account include those with elected student officials, as well as those without student officers that are guided and supervised by appointed school staff members.

**Recommendation:**
OAG recommends that every effort be made to clear all deficits before the end of the academic year.

**Management Response (Actions and Due Date):**
A management response is not required for this audit. The school will be subject to further review during the annual local school activity fund audit scheduled to be performed later in the year.