Business Process/Turnover Audit
Bailey’s Lower Elementary School
Report Number: 18-2524

September 2018

Prepared by
Office of Auditor General

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# Table of Contents

Executive Summary .................................................................................................................. 3

Background, Scope and Objectives, and Methodology ........................................................ 3
  Background ............................................................................................................................ 3
  Scope and Objectives ............................................................................................................. 3
  Methodology ........................................................................................................................... 4

Audit Findings, Recommendations, and Management’s Responses ................................. 4
Executive Summary

This audit report summarizes the results of the Office of Auditor General’s Business Process/Turnover Audit of Bailey’s Lower Elementary School conducted on June 22, 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 four reportable findings noted during this audit.

We appreciate the consultation, cooperation, and courtesies extended to our staff by the finance technician and principal of Bailey’s Lower 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**

The findings within this report has been attributed a risk rating in accordance with established risk criteria as defined in Table 1:

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td><strong>High</strong> One or more of the following exists:</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><strong>Moderate</strong> One or more of the following exists:</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><strong>Low</strong> One or more of the following exists:</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>
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During this audit, OAG identified four 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:

- April 2018 appropriated funds procurement card reconciliation was signed and dated by the principal in June 2018
- March 2018 Bank of America Bank Reconciliation was signed and dated by the principal and finance technician in May 2018
- April 2018 Bank of America Bank Reconciliation was signed and dated by the principal and finance technician in June 2018

**Criteria:**
- 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 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 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 – Accounting Procedures-Bank Reconciliation**  
**Risk Rating – Low**

**Condition:**  
While the bank reconciliation for the month of April 2018 was completed, discrepancies were found at the time of the audit, as follows:

- Adjusted book balance detailed in the bank reconciliation for the month of April 2018 did not agree with the Trial Balance Summary. A difference of $102.50 was found.
• Statement ending balance detailed in the bank reconciliation for the month of April 2018 did not agree with the bank statement ending balance. A difference of $694.83 was found.
• Interest of $0.38 earned on the Bank of America account for April 2018 was not properly posted as an adjustment.

Criteria:
The School Finance Handbook states that, “The adjusted checkbook balance, as of the cutoff date listed on the Reconciliation Posting Journal Report for the month of review, should agree with the amount shown on the Great Plains summary trial balance report for the month being reconciled.” “Any reconciling adjustments should be entered and posted in the Great Plains accounting records.”

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 steps be taken to bring the school accounts into balance. The School Finance Handbook provides a detailed explanation of how the reconciliation should be performed.

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 – Pre-Approval for Purchases
Risk Rating – Low

Condition:
While purchase orders were being submitted, the purchase orders were being approved after their corresponding purchases were made:

• LSAF procurement card purchase to Panera had an invoice for $100.81 dated 11/17/2017 and had a purchase order approved on 11/22/2017
• LSAF procurement card purchase to BJ's had an invoice for $44.03 dated 11/20/2017 and had a purchase order approved on 11/22/2017
• LSAF procurement card purchase to Party City had an invoice for $69.90 dated 11/11/2017 and had a purchase order approved on 11/22/2017

Criteria:
The School Finance Handbook states, “All purchases of goods or services made from school activity accounts, including AAF shall be supported by the prior submission and approval of a school purchase order.” “After receiving written evidence for the receipt of the goods or services, the PO, the invoice, and other supporting documentation are to be attached to the check stub for filing.”
Effect:
All purchases must be properly approved to minimize the risk of inappropriate fund usage.

Recommendation:
OAG recommends that purchases should be supported by a properly completed, approved purchase order, an original itemized receipt, and confirmation that items/services were received prior to payment.

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 – Timely Deposit
Risk Rating – Low

Condition:
A deposit for $53.30 was received by the finance technician on 04/23/18, but not deposited in the bank until 05/01/18.

Criteria:
Regulation 5910 Monetary Receipts states that “while the preferred method is to deposit funds the next day…Amounts totaling $25 or less must be deposited within 10 business days (and) amounts exceeding $25 …must be deposited within 5 business days.”

Effect:
Timely deposits reduce the risk of loss. All receipts should be deposited in a timely manner.

Recommendation:
OAG recommends that all funds should be deposited in a timely manner to reduce the risk of loss.

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.