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Executive Summary

This audit report summarizes the results of the Office of Auditor General’s Business Process/Turnover Audit at Langston Hughes Middle School conducted on March 28, 2019. The audit was performed in accordance with the Fiscal Year (FY) 2019 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 FY 2019. There were three low risk findings identified during the audit.

We appreciate the consultation, cooperation, and courtesies extended to our staff by the finance technician and principal at Langston Hughes Middle 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 and processing cash receipts. 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 performing 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 FY 2019 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

To answer the audit objectives the audit team used various methods, including the following:

- Meeting with school based staff
• Reviewing relevant laws, rules, FCPS policies and regulations
• Reviewing prior audits and reviews
• Testing sampled transactions (procurement card, receipt, disbursement, etc.)

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

Table 1: Risk criteria

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>Criteria</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 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 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 operations.</td>
</tr>
</tbody>
</table>

Starting in FY 2019, all completed Business Process/Turnover Audits with findings in which the risk ratings are deemed moderate or high will require a management response. During this audit, OAG identified three low risk findings which are detailed below:
Finding 1 – Accounting Procedures - Reconciliations
Risk Rating – Low

Condition:
While Financial Management Reports (FMR) reconciliations were being completed, the reconciliation for one of the three months sampled was not approved in a timely manner. Specifically, the December 2018 Non-Position FMR reconciliation was not signed by the principal until February 22, 2019. The completion date set by Financial Services for December 2018 was January 31, 2019.

Criteria:
- Regulation 5111 Financial Management Reports (FMR) Reconciliation establishes the responsibilities and procedures for the reconciliation of the monthly FMR.
- Regulation 5111 also states, “Principals/program managers are responsible for:
  a) Ensuring the timely completion of the FMR (Position Data and Non-Position Data) reconciliation as set forth in Notice 5111.
  b) Reporting the completion of the FMR reconciliations to the Office of the Comptroller each month using the online FMR reconciliation reporting application.
  c) Ensuring that all monthly FMR Position Data Reports and Non-Position Data Reports and relevant supporting.”

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 reconciling items be reviewed in a timely manner.

Management Response (Not Required):
A management response is not required for this finding. The school will be subject to further review during the annual local school activity fund audit scheduled to be performed later in the year and continuous audit procedures conducted throughout the year.

Finding 2 – Cash Disbursements - Sufficient Documentation
Risk Rating – Low

Condition:
One of the 30 disbursements sampled totaling $20.00 out of $6,429.83 of was made without proper supporting documentation. Check# 132100941 was written on January 23, 2019 to VA-ACDA. There was no invoice on file to support the amount charged or provide evidence of what was purchased.

Criteria:
Regulation 5810 School Activity Funds Management states, “The principal will approve all disbursements provided proper supporting documentation such as a pre-approved purchase order and related invoice are submitted. Reimbursements for purchases made or committed without the prior submission of a school purchase order may be declined by the principal.” “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, an original itemized receipt, and confirmation of goods received.

Management Response (Not Required):
A management response is not required for this finding. The school will be subject to further review during the annual local school activity fund audit scheduled to be performed later in the year and continuous audit procedures conducted throughout the year.

Finding 3 – Accounting Procedures - Deposit Outstanding Greater than 30 days in Great Plains 15
Risk Rating – Low

Condition:
One deposit totaling $35.00 on the bank reconciliation for the month of February 2019 has been outstanding over 30 days in Great Plains 15, as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Deposit Number</th>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>00000302</td>
<td>September 7, 2018</td>
<td>$35.00</td>
</tr>
</tbody>
</table>

Criteria:
The School Finance Handbook states "Amounts listed as deposits in transit (receipts posted in the accounting records but not deposited at the bank) 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."

Effect:
All deposits should be cleared promptly to ensure all funds are available for use to support student activities.

Recommendation:
OAG recommends that deposits outstanding should be investigated in accordance with finance guidelines.

Management Response (Not Required):
A management response is not required for this finding. The school will be subject to further review during the annual local school activity fund audit scheduled to be performed later in the year and continuous audit procedures conducted throughout the year.