Business Process Turnover Audit
Bush Hill Elementary School
Report Reference Number: 19-13123

June 2019

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 at Bush Hill Elementary School conducted on February 5, 2019. The audit was performed in accordance with the Fiscal Year 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 moderate risk and three low risk findings identified during the audit.

We appreciate the consultation, cooperation, and courtesies extended to our staff by the administrative assistant and principal at Bush Hill 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 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>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>High (one or more of these 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 program/operational objectives.</td>
</tr>
<tr>
<td>Moderate (one or more of these 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 operations.</td>
</tr>
<tr>
<td>Low (one or more of these 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 operations.</td>
</tr>
</tbody>
</table>

Starting in FY19, 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 moderate risk and three low risk findings which are detailed below:
Finding 1 – Accounting Procedures- Reconciliations
Risk Rating – Moderate

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

- The reconciliations for two appropriated procurement cards for three months sampled were not signed and dated by the principal. Specifically:
  - November and December 2018 reconciliations for Instructional Supplies card
  - October and November 2018 reconciliations for Textbooks card
- The reconciliation for one non-appropriated procurement card for two of three months sampled were not dated and/or signed as evidence of timely review by the principal. Specifically:
  - December 2018 and January 2019 reconciliations for Student Activities card

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.”

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 (Required):
A management response is required for this finding due to the moderate risk rating. In addition, 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.

<table>
<thead>
<tr>
<th>Planned Action</th>
<th>Expected Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Principal was out on leave December 2018 through March 2019.</td>
<td>September 30, 2019</td>
</tr>
<tr>
<td>• Interim principal was in place during this time.</td>
<td></td>
</tr>
<tr>
<td>• Principal and administrative assistant (AA) will have daily</td>
<td></td>
</tr>
<tr>
<td>meetings. Once per month, principal and AA will schedule to</td>
<td></td>
</tr>
<tr>
<td>review reconciliations together and principal will sign.</td>
<td></td>
</tr>
</tbody>
</table>
Finding 2 – Cash Disbursements- Pre-Approval of Purchases
Risk Rating – Moderate

Condition:
11 of the 29 disbursements sampled totaling $1,890.19 out of $6,869.59 were not pre-approved by the principal, to include the following:

<table>
<thead>
<tr>
<th>Item</th>
<th>Purchase Type</th>
<th>Account</th>
<th>Date</th>
<th>Vendor</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Non- Appropriated procurement card</td>
<td>SA1</td>
<td>September 20, 2018</td>
<td>BJ’S Wholesale</td>
<td>$182.27</td>
</tr>
<tr>
<td>2</td>
<td>Non- Appropriated procurement card</td>
<td>SA1</td>
<td>September 20, 2018</td>
<td>BJ’S Wholesale</td>
<td>$55.00</td>
</tr>
<tr>
<td>3</td>
<td>Non- Appropriated procurement card</td>
<td>SA1</td>
<td>September 20, 2018</td>
<td>Paisanos</td>
<td>$142.58</td>
</tr>
<tr>
<td>4</td>
<td>Non- Appropriated procurement card</td>
<td>SA1</td>
<td>October 29, 2018</td>
<td>Safeway</td>
<td>$78.20</td>
</tr>
<tr>
<td>5</td>
<td>Non- Appropriated procurement card</td>
<td>SA1</td>
<td>October 24, 2018</td>
<td>MGC Landscaping</td>
<td>$75.00</td>
</tr>
<tr>
<td>6</td>
<td>Non- Appropriated procurement card</td>
<td>SA1</td>
<td>October 19, 2018</td>
<td>Burke Nursery &amp; Garden</td>
<td>$270.00</td>
</tr>
<tr>
<td>7</td>
<td>Non- Appropriated procurement card</td>
<td>SA1</td>
<td>November 09, 2018</td>
<td>BJ’S Wholesale</td>
<td>$152.17</td>
</tr>
<tr>
<td>8</td>
<td>Non- Appropriated procurement card</td>
<td>SA1</td>
<td>November 08, 2018</td>
<td>Paisanos</td>
<td>$92.27</td>
</tr>
<tr>
<td>9</td>
<td>Non- Appropriated procurement card</td>
<td>SA1</td>
<td>November 11, 2018</td>
<td>Dunkin Donuts</td>
<td>$63.08</td>
</tr>
<tr>
<td>10</td>
<td>Non- Appropriated procurement card</td>
<td>SA1</td>
<td>November 14, 2018</td>
<td>Paisanos</td>
<td>$35.66</td>
</tr>
<tr>
<td>11</td>
<td>Non- Appropriated procurement card</td>
<td>SA1</td>
<td>July 23, 2018</td>
<td>Custom Ink LLC</td>
<td>$743.96</td>
</tr>
</tbody>
</table>

Total: $1,890.19

Total Expenditures Sampled: $6,869.59

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.
Management Response (Required):
A management response is required for this finding due to the moderate risk rating. 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.

<table>
<thead>
<tr>
<th>Planned Action</th>
<th>Expected Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Principal and AA utilize the Teacher Online Purchasing System (TOPS) application now to pre-approve all purchases. When TOPS is unavailable, a paper purchase order is completed in advance.</td>
<td>September 30, 2019</td>
</tr>
</tbody>
</table>

Finding 3 – Cash Disbursements- Sufficient Documentation
Risk Rating – Moderate

Condition:
Four of the 29 disbursements sampled totaling $1,175.39 out of $6,869.59 did not have the proper supporting documentation. There were no purchase orders and/or invoices on file to support the amount charged or provide evidence of what was purchased, as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Disbursement Type</th>
<th>Account/Check Number</th>
<th>Date</th>
<th>Payee</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Non-Appropriated</td>
<td>SA1</td>
<td>July 14, 2018</td>
<td>Ikea</td>
<td>$119.20</td>
</tr>
<tr>
<td>2</td>
<td>procurement card</td>
<td></td>
<td>July 02, 2018</td>
<td>The Home Depot</td>
<td>$41.30</td>
</tr>
<tr>
<td>3</td>
<td>Non-Appropriated</td>
<td>SA1</td>
<td>October 23, 2018</td>
<td>Nalls Produce Inc</td>
<td>$308.00</td>
</tr>
<tr>
<td>4</td>
<td>procurement card</td>
<td></td>
<td>September 4, 2018</td>
<td>Individual</td>
<td>$706.89</td>
</tr>
<tr>
<td></td>
<td>LSAF-Check Disbursement</td>
<td>00603</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total</td>
<td>$1,175.39</td>
</tr>
</tbody>
</table>

**Total Expenditures Sampled** $6,869.59

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 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 (Required)
A management response is required for this finding due to the moderate risk rating. 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.

<table>
<thead>
<tr>
<th>Planned Action</th>
<th>Expected Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Principal and AA utilize the TOPS application now to pre-approve all purchases. When TOPS is unavailable, a paper purchase order is completed in advance.</td>
<td>September 30, 2019</td>
</tr>
<tr>
<td>• Principal and AA implemented a filing system for all vendors to file documentation and receipts.</td>
<td></td>
</tr>
</tbody>
</table>

Finding 4 – Cash Disbursements- Sales Tax
Risk Rating – Low

Condition:
One of the 29 disbursements sampled totaling $706.89 out of $6,869.59 for the reimbursement of paint and shelving supplies included sales tax in the final amount dispersed. Specifically, we noted that reimbursement check 00603 written on September 4, 2018 had three supporting itemized receipts in which the total amount of sales tax paid was $40.02.

Criteria:
Regulation 5320 Sales and Use Tax states that, “Employees will not be reimbursed sales tax from any FCPS funds for purchases made with personal funds.”

Effect:
Paying sales tax when not necessary results in the ineffective use of funds.

Recommendation:
OAG recommends that sales tax should not reimbursed when reimbursing an employee for purchases made using personal funds.

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 5 – Cash Disbursements- Prompt Payment Obligations
Risk Rating – Low

Condition:
Finance charges were incurred on two payments to JP Morgan Chase, as follows:
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.”
- *The School Finance Handbook* states, “Promptly mail the check for the total balance due, regardless of disputes or anticipated credits, to avoid incurring finance charges”
- 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.

Recommendation:
OAG recommends that obligations should be paid promptly to avoid penalty fees.

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 6 – Cash Disbursements- Fund Usage**
**Risk Rating – Low**

**Condition:**
One of the 29 disbursements sampled totaling $55.00 out of $6,869.59 were charged to the incorrect fund account. The Administrative account was used instead of the Educational Contingency account. Even though the expenses were made for the interest of the school, funds from the Administrative account are to be used for the benefit of the entire student population. The one disbursement is as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Disbursement Type</th>
<th>Account/Check Number</th>
<th>Date</th>
<th>Payee</th>
<th>Finance Charge Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>LSAF-Check Disbursement</td>
<td>00602</td>
<td>August 24, 2018</td>
<td>JP Morgan Chase</td>
<td>$0.11</td>
</tr>
<tr>
<td>2</td>
<td>LSAF-Check Disbursement</td>
<td>00605</td>
<td>November 27, 2018</td>
<td>JP Morgan Chase</td>
<td>$5.78</td>
</tr>
</tbody>
</table>

Total Finance Charges Due $5.89
Criteria:
- Regulation 5810 School Activity Funds Management states, "Cash disbursements from an account shall reflect the purpose for which the account was established." The School Finance Handbook states that “Fund expenditures should support the appropriate instructional program to the extent deemed necessary by the principal.”
- Guidelines for the Educational Contingency Account states that, “ECA funds may be used for: Light refreshments for meetings involving parents, community members, staff, and/or faculty and light refreshments for staff recognition. Membership dues to wholesale clubs (e.g., Costco, BJ’s, and Sam’s Club).”

Effect:
When incorrect accounts are used for purchases, account integrity is lost and funds are not properly spent on students.

Recommendation:
OAG recommends that expenses are properly allocated to the appropriate fund sources as required by the 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.