June 26, 2019

TRANSMITTAL LETTER

TO: Members of the Fairfax County School Board and Audit Committee

SUBJECT: Office of Auditor General FY 2019 Annual Report

The Office of Auditor General (OAG) is pleased to present its inaugural Annual Report, with the purpose of raising awareness of OAG’s mission and accomplishments, highlighting the internal audit process within Fairfax County Public Schools (FCPS), as well as summarizing the results of recent audits and upcoming projects.

Results and Accomplishments
OAG promotes accountability and transparency through independent audits and reviews and conducts outreach to FCPS employees. We also manage an anonymous fraud, waste, and abuse hotline and perform a timely review of inquiries received. We continue to focus on growing internal leaders and providing relevant professional development. For FY 2019, we are on track to complete all audit assignments as planned and completed the implementation of Pentana, an audit management software, which enhances audit efficiency and effectiveness, improves internal management reporting, and automates many existing tasks.

Looking Forward
As FY 2019 winds down, OAG is gearing up to present the FY 2020 Audit Plan to the School Board. Through the FY 2020 Risk Assessment process, we were able to obtain input and feedback on the identification of potential audit topics. We appreciate the cooperation of the School Board and Audit Committee as well as FCPS management in collaborating with us on the annual risk assessment process.

Finally, OAG would like to thank the Fairfax County School Board and members of the Audit Committee for their continued support as well as FCPS Superintendent and Leadership Team for fostering a collaborative work environment that promotes Fairfax County Public Schools achievement of its strategic goals, particularly in the area of resource stewardship.

Sincerely,

Esther Ko, CPA, CIA, CFE
Auditor General
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The Fairfax County Public Schools (FCPS) Office of Auditor General (OAG), organized within the Fairfax County School Board Office, independently determines whether the ongoing processes for controlling fiscal and administrative operations throughout FCPS are adequately designed, functioning in an effective manner, and fully accountable to its citizens. In this capacity, OAG conducts both financial and performance audits as recommended by the School Board Audit Committee. The Audit Committee serves to promote, maintain, and enhance the independence and objectivity of the audit function by ensuring broad audit coverage, adequate consideration of audit reports, and appropriate action on recommendations.

**How We Do It**

OAG provides the following services to FCPS:

- Annual risk assessment and audit plan
- Performance and financial internal audits
- Special audits requested by area management
- Management of the Fraud, Waste, and Abuse Hotline
- Internal investigation
- Technical assistance and training on audit and compliance issues

These services are summarized within the following four pillars of responsibility:
Risk Assessment and Audit Plan

Annually, OAG conducts an independent risk assessment to evaluate the financial, operational and reputational risks faced by FCPS. OAG develops its annual audit plan based upon the risk assessment results. The objectives of OAG’s audit plan are:

- To accomplish OAG’s mission, which is to independently determine whether the existing processes for FCPS are adequately designed, operating in an efficient, effective manner, and fully accountable to the Fairfax County citizens, and
- To promote FCPS achievement of its strategic goals, particularly in the area of resource stewardship

The risk assessment and annual audit plan prioritize auditable areas by evaluating the risks associated with each area. Risk factors include:

- Financial impact
- Potential reputational and operational risks driven by:
  - Quality of internal controls and the likelihood of errors
  - Complexity of the audit area
  - Turnover of key personnel and stability in management
  - Inputs received from the School Board and FCPS leadership
  - Relevant risks faced by other public school systems
- Frequency and results of prior audits
- Opportunity for improvement

OAG presents the results of the risk assessment to the Audit Committee and School Board annually through the proposed audit plan.

<table>
<thead>
<tr>
<th>Identification</th>
<th>Risk Assessment Process Flow</th>
<th>Prioritization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annually, OAG examines the FCPS organization and identifies the audit universe, which includes potential audit topics within each department/office. OAG further refines the audit universe by: - Reviewing prior year risk assessments - Utilizing data and knowledge acquired throughout the year - Benchmarking other school districts - Evaluating results of prior year audits</td>
<td>Identification &gt; Prioritization &gt; Determination</td>
<td>OAG further prioritizes audit topics into primary, secondary, and long term priorities by: - Interviewing Leadership Team (LT) members and other personnel - Requesting School Board feedback - Examining available financial data - Evaluating each area by financial, reputational, and operational risk factors</td>
</tr>
<tr>
<td>Identification</td>
<td>Prioritization</td>
<td>Determination</td>
</tr>
<tr>
<td>Identification</td>
<td>Prioritization</td>
<td>Once audit topics have been identified and prioritized, the results are presented in the proposed annual audit plan.</td>
</tr>
</tbody>
</table>
Internal Audit

Upon completion of the risk assessment process, as illustrated above, audits are performed in phases, beginning with planning where OAG obtains an understanding of the area(s) to be audited, testing of controls, issuing a report, and following up on the implementation of management's actions. Lines of communication are open to all parties involved throughout the audit process.

**Audit Planning**

Planning is the phase where the auditor obtains a comprehensive understanding of the audit topic to finalize the scope and objectives. OAG reviews written procedures, memoranda, organization charts, regulations, and budgets. Program staff are interviewed to collect, summarize, and evaluate information that will be used to identify potential audit issues and develop an audit program. A thorough planning is essential to a successful audit.

One of the critical procedures during the audit planning stage is to identify relevant risk areas. This helps limit the amount of testing required, as well as produces a more cost-effective, timely, and relevant audit. The objectives of risk identification are to:

- Identify the major risks or threats associated within the program
- Conduct a preliminary assessment of the internal controls that management has in place to mitigate those threats
- Develop an audit program to test areas of highest vulnerability

**Audit Execution (Fieldwork)**

Fieldwork involves testing and evaluating key controls of the functions being audited. Auditors use a variety of review techniques including observing, interviewing, sampling, analyzing, and verifying to determine whether controls are adequate and whether operations are conducted in an efficient and effective manner. Sufficient evidence will be developed to support audit findings and recommendations for improvement.

**Audit Reporting**

Reporting begins with a written draft report. This draft report is discussed with departmental management at an exit conference to review findings and observations.
Departmental management provides feedback and comments on the draft. Meanwhile, OAG verifies that each statement of fact in the report is supported in the audit working papers. These processes help ensure that the report is balanced and accurate. The final audit report summarizes key issues, findings, recommendations, and includes management’s response. Audit reports are issued to the School Board Audit Committee, the appropriate leadership team member, and departmental management. The reports are public documents and are available in BoardDocs and OAG’s webpage.

**Audit Recommendation Follow-Up**

Follow-up is a periodic review in which the progress and implementation status of agreed upon improvements are assessed and validated. Upon completion of a review, OAG issues a memo to the School Board Audit Committee and recipients of the original report indicating the status of the recommended actions.

**Fraud, Waste, and Abuse Hotline**

As stated in Regulation 1410, *Procedures for Reporting and Investigating Embezzlement, Fraud, Waste or Abuse, and Other Financial Wrongdoing*, the Auditor General is authorized to receive and preliminarily review (and as necessary investigate, either directly or in conjunction with internal investigators of the Department of Human Resources) credible reports of fraud, waste, and abuse, where observed or reasonably believed to have occurred, involving any FCPS employee or FCPS assets if such has caused or is likely to cause injury to the school division.

OAG provides FCPS employees and the general public a confidential means for reporting suspected wrongdoing involving fraud, waste, and abuse of school assets and resources.

Violations include, but are not limited, to the following:

- theft or misuse of school funds or property
- serious abuse of FCPS time such as unauthorized time away from work, falsification of work hours reported, or excessive use of county time for personal business
- neglect of duties or responsibilities, noncompliance with FCPS policies and regulations

OAG takes all complaints and reports seriously and makes every effort to investigate reports in accordance with applicable laws, codes, policies, or regulations.

**Fraud, Waste, and Abuse Hotline:**

(571) 423-1333 (anonymous voicemail)

[InternalAudit@fcps.edu](mailto:InternalAudit@fcps.edu) (email is not anonymous)

**Outreach and Education**

OAG may work in an advisory capacity with the Superintendent and staff members in evaluating internal controls in new or existing systems, training staff members in financial controls and audit principles, or directing staff members to other resources within and outside FCPS who can help improve program controls and operations.

**Training and Education**

**FCPS In-House Audit Training**

From July 1, 2018 through April 30, 2019, OAG provided 19 presentations to over 800 FCPS personnel, including FCPS school administrators, school personnel, and departmental staff. As a highlight, OAG was pleased to present to nearly 200 school finance technicians and administrative assistants during a break-out session at the
2019 School Finance Conference. OAG informed the participants about OAG’s role at FCPS and participants were provided the opportunity to test their audit IQ by reviewing actual school finance documentation to identify potential red flags.

Other FY 2019 OAG training and education topics included: Introduction to OAG, OAG FY 2019 Updates, FY 2018 Key Audit Outcomes, and FY 2018 Local School Activity Fund (LSAF) Highlights.

Exchange Best Practices with International and National Audit Professionals
In March 2019, OAG welcomed 12 audit leaders from the Guangdong Audit Office (Southern China Region) to FCPS. The two audit teams discussed topics such as independence, how to use big data to better inform audit topics and objectives, and tips to conduct a successful performance audit. This exchange provided a great opportunity to discuss best audit practices as well as common audit challenges.

In May 2019, the Auditor General presented a session of “Fraud Risk Assessment” at the Association of Local Government Auditors’ (ALGA) 31st Annual Conference held in Kansas City, Missouri. Over 100 audit professionals participated in this session. The Auditor General also facilitated an investigation round table at this Annual Conference where best practices were shared and discussed.

Separately, in May 2019, the Auditor General served as a peer reviewer in an ALGA organized peer review of a local government internal audit department based in Pennsylvania. During this endeavor, the Auditor General assessed the compliance with relevant audit requirements of this internal audit department and brought insight to further strengthen OAG audit processes.

Celebration of Internal Audit Awareness Month
The month of May is designated as Internal Audit Awareness Month by the Institute of Internal Auditors. On May 9, 2019, during the School Board Regular Meeting, Megan McLaughlin, Audit Committee Chairman, recognized May as Internal Audit Awareness Month to raise awareness and to recognize OAG. At this meeting, Ms. McLaughlin highlighted the importance of internal auditing by emphasizing internal auditors’ roles and responsibilities such as providing insight and assessing controls; reviewing processes and procedures; evaluating risks; promoting ethics; monitoring compliance; evaluating safeguards; investigating fraud and communicating results.

Audit Buzz
OAG’s periodical, Audit Buzz, provides an update into our office’s work by summarizing the results of completed audit projects, describing upcoming audits, and providing insight into other audit-related tasks. The newsletter, which can be found on OAG’s webpage, is also distributed via the weekly Employee News and Infogram shortly after publishing. With over 500 current subscribers, OAG continues to grow the Audit Buzz subscriber base by seeking additional exposure outlets.

The most recent edition of Audit Buzz, Spring 2019 Issue, summarizes key takeaways from recently completed audits, including the performance audit on the use trades and staffing reserve and the performance audit on the Medicaid reimbursement program. It also highlights OAG’s meeting with the Guangdong Audit Office, Fairfax County School Board’s recognition of Internal Audit Awareness Month, and a look into current and future OAG work. Subscriptions to Audit Buzz are available via FCPS News You Choose.
A. Introduction

The Superintendent and the Leadership Team are responsible for the effective and efficient administration of FCPS. This responsibility includes sound financial management, adequate reporting, maintaining an effective system of internal controls, complying with applicable policies, rules and regulations, and maintaining the highest standards of ethical conduct. The School Board is responsible for ensuring compliance with laws and regulations, by visitation or other means, and for ensuring efficient operations (Code of Virginia 22.1-79). The School Board directs the Superintendent in these matters by adopting the budget and establishing School Board policy. Together the Superintendent and the School Board are responsible for achieving the school division’s mission. To aid them in fulfilling their responsibilities, the School Board has formed an audit committee and has established the Office of Auditor General, whose reporting responsibility is to the School Board through the Audit Committee.

This policy serves as a guide to the Office of Auditor General in the performance of its duties and does not include, nor is it intended to include, all of the office's duties or responsibilities, as they may exist from time to time.

B. Authorization and Responsibilities

The Office of Auditor General shall have unrestricted access to all school division activities, properties, personnel, information, and records which are relevant to the area under review.

It is understood that certain items are confidential in nature and special arrangements will be made by the Office of Auditor General when examining such items.

The Office of Auditor General shall be entitled to consult with Division Counsel as needed. The Office of the Auditor General shall report to the full Board as needed.

C. Independence

The Office of Auditor General will maintain a professional and cooperative relationship with the administration of FCPS. However, the office shall be independent of the administration in the performance of its functions.

Independence, in fact and in appearance, permits an internal auditor to render the impartial and unbiased judgments essential to the proper conduct of any internal audit. To assure independence, the office reports to the School Board through its Audit Committee.

Personnel in the Office of Auditor General may have neither direct responsibility for, nor authority over, any of the activities under review. Nothing herein, however, shall prohibit the office from working in an advisory capacity with the Superintendent and staff members in evaluating internal controls in new or existing systems, training staff members in financial controls and audit principles, or directing staff members to other resources within and outside FCPS who can help improve program controls and operations.

D. Organizational Reporting

The Audit Committee serves to promote, maintain, and enhance the independence and objectivity of the internal audit function of the school division by ensuring broad audit coverage, adequate consideration of audit or review reports, and appropriate action on recommendations. The Audit Committee shall approve changes to the approved annual plan. Requests for additional audits from School Board members, the Superintendent, other members of the Leadership Team, and program staff members shall be directed to the Auditor General for referral to the Audit Committee. Requests will be evaluated based on the risks associated with the area and the impact on the current year audit plan. The Auditor General may conduct minor audit assignments as deemed necessary upon notification to the Audit Committee. If, however, the initial assignment would affect the audit work plan, Audit Committee approval would be obtained. Additionally, if the Office of Auditor General is unable to accept the request, efforts will be made to identify an alternative source,
schedule the project at a later time, or include the request as an objective in a routine audit.

The authority to employ or dismiss the Auditor General will rest with the School Board, at the recommendation of the Audit Committee, with support and guidance provided by the Department of Human Resources. The authority to employ or dismiss professional staff within the Office of Auditor General rests with the Auditor General in compliance with then applicable FCPS policies and regulations and with the support and guidance provided by the Department of Human Resources.

E. Audit Standards and Ethics

The Office of Auditor General will carry out its responsibilities in accordance with generally accepted auditing standards. All work completed by the Office of Auditor General will be conducted in accordance with FCPS policies and regulations.

F. Audit Work Plan

The Auditor General shall submit annually to the Audit Committee a work plan for the coming fiscal year which is to be presented for approval by the School Board. The plan serves as a guide and proposed changes to the plan shall be approved by the Audit Committee.

G. Audit Reports

At the conclusion of each audit, the Auditor General will request the auditee to prepare a written response to the findings and recommendations within 21 business days. The auditee's written response will become part of the final report and if the response is not received within the required time frame, the Auditor General will note that in the report. The final report will be issued to the Audit Committee and made available on the FCPS website.
School Board Audit Committee

Megan McLaughlin, Audit Committee Chairman, Braddock District Representative

McLaughlin is a community leader and an education advocate. She holds her master's in social work from the University of Maryland at Baltimore and a bachelor of arts from the University of Pennsylvania. She is the former president and co-founder of FAIRGRADE; chairman and co-founder of Fairfax Education Coalition; president of Little Run Elementary School PTA; advisor for Fairfax Zero Tolerance Reform; leader with Restore Honors Courses; representative for 2003 Braddock District School Bond; and representative for Rutherford Swim Team and member of pool board. She is a former Georgetown University undergraduate admissions officer; Fairfax County Juvenile and Domestic Relations Court family counselor; and Easter Seals of New Castle, Delaware employment developer. McLaughlin is the mother of three FCPS students.

Her board service began in January 2012.

Janie Strauss, Dranesville District Representative

Strauss has been active in education for over 30 years. She is a former elementary and preschool teacher and holds her master of arts in teaching from Harvard Graduate School of Education and bachelor of arts in history from George Washington University. Strauss is the past president of the Franklin Sherman PTA and the Fairfax County Council of PTAs and past chair of the council’s education and budget committees. She has served on numerous education and youth affairs committees including the FCPS Career and Technical Preparation Task Force, the Division Planning Committee, the Citizens Bond Committee, and the Fairfax Framework for Student Success Committee. She is the mother of four FCPS graduates.


Karen Keys-Gamarra, Member-at-Large

Keys-Gamarra is one of three at-large members on the Fairfax County School Board. A graduate of Tulane University and Washington University School of Law, Keys-Gamarra is an attorney who currently handles family law matters and works as a court-appointed Guardian ad Litem in Northern Virginia representing the best interests of children. Keys-Gamarra has extensive experience with school discipline and special education issues. Keys-Gamarra is a child advocate who often collaborates with various state and local agencies to improve the lives of children and families.

Karen Keys-Gamarra was sworn into office as an At-Large School Board Member on September 14, 2017, following a special election to fill a vacancy.
Ilryong Moon, Member-at-Large

Moon is a partner with the law firm of Moon, Park, and Associates. He holds his juris doctor degree from the Marshall-Wythe School of Law, College of William and Mary, and bachelor of arts in East Asian studies (China focus) from Harvard University. He is a member of the Annandale Rotary Club and the former treasurer of the American Youth Philharmonic Orchestras. Moon has served as a member of the Fairfax County Planning Commission, the Governor's Urban Policy Task Force, and the Virginia Advisory Committee of the U.S. Civil Rights Commission. He is also a former member of the Fairfax-Falls Church Regional Council of the United Way, the Community Service Fund (Fairfax-Falls Church Region), and the United Way. Moon is a former ESOL student and father of two FCPS graduates. He enjoys teaching Sunday school.


Clay Hale, Citizen Member

Hale has served as Chief Financial Officer for KBRwyle since August 1, 2018. He plays a key role in driving the company's business strategies and investments as well as holds the responsibility for overseeing all aspects of financial management, accounting, shared services, and controls. Prior to joining KBRwyle, Hale served as Chief Financial Officer for Siemens Government Technologies, where he was responsible for the finance, accounting, IT, and internal audit functions. Hale joined Siemens in 1994 and over his career has served in roles with increasing responsibility in multiple industries and locations, both in the US and overseas. He began his career in 1985 as an accountant with Price Waterhouse in Raleigh, North Carolina where he focused on the manufacturing and banking industries. In 1988 he joined AVX Corporation, formerly Corning Electronics, as controller for their Raleigh Electronics Manufacturing facility.

Hale is a North Carolina CPA and holds a B.S. in Business Administration from The Citadel and an MBA from Duke University. He is an Army National Guard veteran, served as an armor company commander, and has served on multiple boards.

Daniel Warco, Citizen Member

Warco began his career teaching accounting with the United States Peace Corps before joining the accounting firm Deloitte and Touche. After seven years working as an auditor specializing in not-for-profit entities, he began working with the Elizabeth Glaser Pediatric AIDS Foundation where he currently serves as the Vice President of Finance and Accounting. Warco has accounting and music degrees from Furman University in Greenville, SC and enjoys spending time with his two teenage children.

Warco is a Virginia CPA.
Esther Ko, Auditor General

Esther was named Auditor General in July 2017. Esther has over 20 years of experience in corporate audit, investigation and financial management. Prior to joining OAG, Esther served as the global director of internal audit for Family Health International, a non-governmental organization, where she was responsible for managing and developing operational and procedural audits and investigations. She also led and managed risk assessment and governance related matters. Prior to that, Esther served as an advisory forensic services manager and an audit manager at PriceWaterhouseCoopers (PwC), where she led enterprise fraud risk management, and financial and compliance audits. Esther was also employed by the Arthur Andersen and Co., and Goldman Sachs (Asia) before joining PwC. She is a graduate of Chinese University of Hong Kong. Esther is a Certified Public Accountant (CPA), a Certified Internal Auditor (CIA) and a Certified Fraud Examiner (CFE).
OAG Results

OAG is on track to complete all FY 2019 audits as approved by the School Board in the Annual Audit Plan.

FY 2018 Local School Activity Fund (LSAF) Financial Statement Audit

In accordance with the FY 2018 audit plan and the Code of Virginia (8VAC20-240-40), OAG performed an audit of FCPS school activity accounts at 204 sites for the period from July 1, 2017 to June 30, 2018. The primary purpose of the audit was to determine if cash\(^1\) balances were properly stated as of June 30, 2018, but an important secondary purpose was to determine the level of compliance with policies and procedures.

In OAG’s opinion, the financial statements were presented fairly and were properly stated as of June 30, 2018. While we did not note any findings that had a material effect on the financial statements, our review of the schools identified exceptions related to compliance with policies and procedures. OAG referred 15 schools to Financial Services for additional assistance.

Please refer to the following hyperlinks for the full audit report:
FY 2018 School Activity Funds Audit and FY 2018 School Activity Funds Audit Exceptions Noted

Business Process/Turnover Audits (BPTA) for Schools

BPTA’s are performed on an ad hoc basis dependent upon school employee turnover, specifically principals and finance technicians. The purpose of BPTA’s are to determine the adequacy of controls and processes in place for managing local school activity funds (LSAF) and appropriated funds.

The primary objectives of these audits were to perform the following:

- Evaluate the effectiveness of processes and compliance with applicable regulations and policies
- Determine if controls are adequate and functioning as intended
- Determine if transactions are reasonable and do not appear to be fraudulent
- Review sampled transactions

Through May 2019, OAG has completed 15 FY 2019 BPTA’s, with the following results:

<table>
<thead>
<tr>
<th>BPTA Finding Themes</th>
<th>Findings</th>
<th>Risk Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>Moderate</td>
</tr>
<tr>
<td>Appropriate Use of Funds</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Bank Reconciliation</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Non-Bank Reconciliation</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>Safeguarding of Assets</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Sufficient Documentation</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Timely Deposit</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Timely Payment</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Timely Receipt</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>39</td>
<td>17</td>
</tr>
</tbody>
</table>

As a result of these audits, OAG provided schools with recommendations to increase compliance with FCPS policies and regulations, and operational effectiveness. Management concurred with these recommendations.

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\(^1\) Cash includes all cash and cash equivalents: currency, coins, and checks.

\(^2\) Findings are rated in accordance with the risk rating chart in Appendix.
Please refer to the following hyperlink for a listing of audit reports, including the 15 FY 2019 BPTA reports completed as of May 2019:
Office of Auditor General - Audit Reports

Performance Audit of Specific Contracts – Instructional Services and Information Technology

The purpose of this audit was to evaluate whether Instructional Services (ISD) and Information Technology (DIT) follow applicable procurement controls and processes and to ensure accountability and monitoring of vendor performance and delivery of services and goods. The audit covered contracts active, at any time, during the period July 1, 2017 to June 30, 2018 (FY 2018), regardless of when the contract was awarded.

The primary objectives of the audit were to perform the following:

- Obtain and review laws, rules and regulations, FCPS directives, and contractual terms and conditions applicable to procurement and contract management within ISD and DIT
- Determine whether ISD and DIT procurement controls and processes are followed in accordance with the laws, rules and regulations, FCPS directives, and contractual terms and conditions by reviewing a sample of ISD and DIT contracts (including sole source), and contract management documentation
- Evaluate whether ISD and DIT has controls in place to ensure accountability and monitoring of vendor performance and delivery of services and goods by reviewing sample of ISD and DIT contracts (including sole source), and contract management documentation

While the focus of this audit was on the contract management and procurement processes specifically within ISD’s and DIT’s span of responsibility, OAG found that Office of Procurement Services (OPS) plays an active role in both areas. Overall, both ISD and DIT demonstrated appropriate contract management responsibilities; however, as a result of this audit, OAG identified the following:

- Disconnect between the departments and OPS as it relates to the assignment of contract management responsibilities (Finding 1)
- Contract amendment not executed prior to purchase (Observation 1)
- Sole Source procurement method not justified (Observation 2)

OAG recommended that FCPS regulation be revised to include authority to assign contract management responsibility. Management concurred with this recommendation and indicated that Regulation 5012 would be updated to identify factors and processes for contract ownership.

Please refer to the following hyperlink for the full audit report:
Specific Contracts - Instructional Services and Information Technology (19-1101)

Performance Audit of Use of Staffing Trades and Reserves

The purpose of this audit was to evaluate the trades and staffing reserve methods used across FCPS to manage allocated resources. The audit scope period covered July 1, 2016 to October 31, 2018 (28-month scope period).

FCPS staffing resources are governed by the School Board approved staffing formula. Trades and staffing reserve are two discrete ways where flexibility is provided to FCPS in managing the allocated resources based upon the actual school needs. Both trades and staffing reserve are overseen by the FCPS Financial Services and Human Resources offices.

The primary objectives of the audit were to perform the following:

- Understand and determine compliance with related policies, regulations and procedures
- Determine trend information on the practice of reallocating funds and positions
- Analyze trends in the use of trades and staffing reserve amongst schools and departments
- Assess the design and operating effectiveness of internal controls to meet objectives
As a result of the audit, OAG identified the following:

- Effectiveness of the current staffing methods (Finding 1)
- Efficiencies of the trade request and authorization process (Finding 2)
- Clarity of FCPS regulation (Finding 3)
- Trading across position and nonposition funds (Observation 1)

OAG recommended that Talent Acquisition and Management and Office of Budget Services collaborate to reduce the volume of trades and consider implementing automation during the trades process. Management concurred with these recommendations.

Please refer to the following hyperlink for the full audit report:
Use of Trades and Staffing Reserve Audit Report (19-1102)

Performance Audit of Medicaid Reimbursement Program

The purpose of this audit was to evaluate whether the Medicaid reimbursement program follows relevant compliance requirements and is effectively obtaining Medicaid reimbursement. This audit covered the period July 1, 2017 to June 30, 2018 (FY 2018) as well as data trends covering FY 2015 through 2018.

The Individuals with Disabilities Education Act (IDEA) requires local education agencies, such as FCPS, to provide students with disabilities a free appropriate public education, including special education and related services according to each student’s Individualized Education Program (IEP). While FCPS is financially responsible for educational services provided to special education students, related services identified in a Medicaid eligible student’s IEP may be eligible for reimbursement from Virginia Department of Medical Assistance Service (DMAS), whom Centers for Medicare and Medicaid Services (CMS) has authorized to reimburse for services.

The primary objectives of the audit were to perform the following:

- Assess whether FCPS Medicaid reimbursement program follows the relevant compliance requirements
- Determine if FCPSMED (EasyTrac), the system established in 2015 to generate Medicaid claims for submission to the Virginia Department of Medical Assistance Services, serves its intended purpose
- Evaluate effectiveness of the FCPS process for identifying Medicaid eligible students and obtaining Medicaid reimbursement

The FCPS Medicaid reimbursement team has made considerable progress in increasing reimbursements for each year during the past four fiscal years and continues to explore new areas for growth.

While no instances of non-compliance with Medicaid program requirements were identified during testing, OAG identified several areas for improvement related to:

- Timeliness of required plan of care documentation (Finding 1)
- Vendor compensation agreement (Observation 1)
- Training participation (Observation 2)

As a result of the finding, OAG recommended that the Medicaid reimbursement program review existing FCPSMED Manual guidance and collaborate with service providers to enhance plan of care requirements by adding specific, measurable timeliness requirements. Management concurred with these recommendations.

Please refer to the following hyperlink for the full audit report:
Medicaid Reimbursement Program Audit Report (19-1103)
Performance Audit of Payroll Oversight and Process

The purpose of this audit was to evaluate controls and processes managed by the Payroll office. The audit covered the period from January 1, 2017 through December 31, 2018.

Payroll expenditures represent the largest portion of the School Operating Fund expenditures. At FCPS, total employee compensation, which includes total salaries (contracted pay, non-contracted pay, salary supplements, etc.) and employee benefits (retirement, insurance, social security taxes, etc.), makes up approximately 89% of operating expenditures each year. The Payroll Office is responsible for all wage payments and deductions for all employees; manages pay and leave-related data, tax-related data, direct deposit information, and time and attendance data from across all work locations with FCPS; and processes payments to all vendors providing benefits or services on behalf of FCPS employees through payroll deductions.

The primary objectives of the audit were to perform the following:

- Determine whether payroll practices were in compliance with applicable federal and state requirements, established FCPS policies, regulations and procedures
- Determine whether these practices and relevant internal controls effectively reduce the risk of potential payroll irregularities

The Payroll Office works diligently and effectively with Human Resources (HR), school staff, principals, and department program managers to ensure accurate and timely payment of wages to FCPS employees and payment of all payroll-related obligations. While principals and program managers are responsible for ensuring that time and attendance is correctly reported, the Payroll Office conducts a sufficient level of monitoring and reasonableness checks to validate the accuracy of payroll expenditures.

As a result of this audit, OAG identified the following two observations:

- Insufficient Evidence of Healthcare Invoice Review (Observation 1)
- Documentation of Operating Guidelines (Observation 2)

While no findings were identified, OAG encouraged management to increase collaboration with Benefits Services to enhance the healthcare invoice review process and improve clarity in the operating guidelines related to reasonableness checks by including specific criteria.

Please refer to the following hyperlink for the full audit report:
Payroll Oversight and Process Audit Report (19-1104)

Performance Audit of Safety and Security Compliance

The purpose of this in-progress audit is to evaluate whether FCPS complies with state mandated safety and security regulations. The scope of this audit will cover compliance with Code of Virginia (22.1-279.8) for the most recently completed component of School Safety Audit Program during period January 1, 2017, through December 31, 2018.

The primary objectives of the audit are to perform the following:

- Assess whether FCPS follows the Code of Virginia (22.1-279.8) and the relevant requirements, including compliance with the school safety reporting requirements of the Virginia Center for School and Campus Safety (VCSCS) Department of Criminal Justice Services (DCJS)
- Evaluate if FCPS’ policies and regulations adequately address the Code of Virginia (22. 1-279.8) and DCJS reporting requirements

This performance audit kicked off in March 2019 and is expected to be completed in July 2019.
FY 2019 Local School Activity Fund (LSAF) Financial Statement Audit

In accordance with the Code of Virginia (8VAC20-240-40), all Local School Activity Funds (LSAF) (i.e. including all the approximate 200 FCPS sites) shall be audited annually no later than the end of the following fiscal year. Division-wide year-end LSAF balances as of June 30, 2017 and June 30, 2018 were $22.2M and $22.8M, respectively. The LSAF financial statement audit requires verification that the local school financials are not materially misstated at year-end.

As part of the LSAF financial statement audit process, OAG reviews selected revenue and expenditure transactions to ensure that these transactions are processed in accordance with applicable FCPS policies, regulations or guidance. Non-appropriated procurement card transactions are also examined during the audit.

During FY 2019, OAG performed continuous LSAF auditing procedures. Continuous auditing refers to testing of controls by sampling transactions throughout the school year. Transactions are sampled based on an analysis of high risk attributes. In addition to these continuous procedures, OAG will perform additional testing to confirm the school activity fund balances at year-end (June 30, 2019).

OAG expects the FY 2019 LSAF financial statement audit to be completed in October 2019.

Fraud, Waste, and Abuse Hotline

Between July 1, 2018 and May 15, 2019, OAG received 19 inquiries via the fraud, waste, and abuse hotline, the InternalAudit@fcps.edu e-mail account, direct mails, or walk-ins. All inquiries received prior to July 1, 2018 were closed.

<table>
<thead>
<tr>
<th>Inquiry Areas</th>
<th>Total</th>
<th>Closed</th>
<th>Open</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conflict of Interest</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Documentation</td>
<td>3</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Human Resources</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Not related to fraud, waste, and abuse at FCPS</td>
<td>6</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Procurement</td>
<td>2</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Residency</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Use of Assets</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Vendor/Contractual Execution</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19</strong></td>
<td><strong>17</strong></td>
<td><strong>2</strong></td>
</tr>
</tbody>
</table>

Fraud, Waste, and Abuse Hotline
Audit Recommendation Follow-Up

As of March 31, 2019, OAG is tracking the status of agreed upon corrective actions for seven performance audits and 12 BPTA’s. Of the 49 total corrective actions associated with these audits, 16 have been closed while 33 remain open. OAG tracks the status of outstanding corrective actions on an ongoing basis and presents the results to the Audit Committee quarterly.

<table>
<thead>
<tr>
<th>Audit Type</th>
<th>Report Issue Date</th>
<th>Total</th>
<th>Closed</th>
<th>Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Substitute Management</td>
<td>July 2017</td>
<td>16</td>
<td>13</td>
<td>3</td>
</tr>
<tr>
<td>Private Transportation</td>
<td>February 2018</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Contracting and Procurement</td>
<td>April 2018</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Facilities Maintenance</td>
<td>June 2018</td>
<td>5</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Adult and Community Education</td>
<td>June 2018</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Specific Contracts</td>
<td>December 2018</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Use of Trades and Staffing Reserve</td>
<td>March 2019</td>
<td>3</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td><strong>Performance Audit Subtotal</strong></td>
<td></td>
<td>32</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>FY 2019 BPTAs&lt;sup&gt;3&lt;/sup&gt;</td>
<td>Various&lt;sup&gt;4&lt;/sup&gt;</td>
<td>17</td>
<td>-</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>49</td>
<td>16</td>
<td>33</td>
</tr>
</tbody>
</table>

The actions listed as outstanding are not past due and will be reviewed when the anticipated implementation date has come to pass. In addition, several items are contingent upon the approval of additional funding/resources as part of the School Board budget approval process.

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<sup>3</sup> In FY 2019, OAG began following-up on all moderate and high risk rated BPTA findings.

<sup>4</sup> BPTA’s are performed on an ad hoc basis dependent upon school employee turnover, specifically principals and finance technicians.
### Appendix – Risk Rating Criteria

<table>
<thead>
<tr>
<th>Rating</th>
<th>Criteria (one or more exists)</th>
</tr>
</thead>
</table>
| **High** | • 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. |
| **Moderate** | • 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. |
| **Low**   | • 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. |
Fraud, Waste, and Abuse Hotline:
571-423-1333 (anonymous voicemail)
InternalAudit@fcps.edu (email is not anonymous)