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# Business Process Audit Herndon Elementary School Report Reference Number: 24-13276

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# Executive Summary

This audit report summarizes the results of the Office of Auditor General's (OAG) Business Process Audit (BPA) at Herndon Elementary School conducted on December 5, 2023. The audit was performed in accordance with the Fiscal Year (FY) 2024 audit plan approved by the Fairfax County School Board (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 2024. There were two 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 Herndon Elementary School.

## Background, Scope and Objectives, and Methodology

### Background

All Fairfax County Public Schools (FCPS) 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 non-appropriated fund, or Local School Activity Fund (LSAF), transactions.

These audits will be performed on an ad hoc basis depending on (1) changes in management/staff, (2) the results of the continuous audit process, or (3) situations as deemed necessary. The potential risks are (1) job duties not performed in accordance with required policies, procedures, and guidance; and (2) questionable transactions not timely identified. The primary regulations include, but are not limited to:

- Regulation 5111 *Financial Management Reports (FMR)*
- Notice 5111 *Financial Management Report (FMR) Distribution and Reconciliation Schedule*
- 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. 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 2024 financial activity. The audit's objectives were to:

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

OAG 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**

OAG's audit approach assessed the school's current management of internal controls covering LSAF and appropriated funds. The structure of this audit was designed to assist principals and administrative assistants (AA) 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 PaymentNet, Great Plains, and Fairfax County Unified System (FOCUS) for sampling and verification to source documentation during the audit; however, our audit did not include an independent review of system controls.

To satisfy the audit objectives, OAG performed the following:

- Met with school-based staff.
- Reviewed relevant laws, rules, FCPS policies and regulations.
- Reviewed prior audits and reviews.
- Performed a test of transactions, on a sampling basis, to ensure expenditures are accurate and allowable, complied with FCPS requirements, and proper supporting documentation is maintained.

## **Sample Selection**

### **Procurement Card, Cash Disbursement, and Cash Receipt Transactions**

OAG utilized ACL Analytics, a data analytical software by Diligent, to randomly select samples, as follows:

- Ten appropriated procurement card transactions,
- Ten non-appropriated procurement card transactions,
- Ten cash disbursement transactions,
- Five voided cash disbursement transactions
- One cash receipt transaction, and
- Ten voided cash receipt transactions.

### **Bank and Procurement Card Reconciliations and Asset Security Procedures**

OAG reviews current reconciliations and assets, as follows:

- Most current month FMR reconciliation,
- Three most current months of bank reconciliations,
- Three most current months of appropriated procurement card reconciliations for up to two procurement cards,
- Three most current months non-appropriated procurement card reconciliations for up to two procurement cards, and
- Physical assets such as safes, drop boxes, procurement cards, and check stock.

Transaction samples are pulled from the available population and can result in less transactions being tested than what is stated above.

# Audit Findings, Recommendations, and Management's Responses

Finding(s) within this report are attributed a risk rating in accordance with established risk criteria as defined in Table 1.

**Table 1 – Risk Criteria**

Type	Description
High	One or more of the following exists: <ul style="list-style-type: none"> <li>• Controls are not in place or are inadequate.</li> <li>• Compliance with legislation and regulations or contractual obligations is inadequate.</li> <li>• Important issues are identified that could negatively impact the achievement of program/operational objectives.</li> </ul>
Moderate	One or more of the following exists: <ul style="list-style-type: none"> <li>• Controls are in place but are not sufficiently complied with.</li> <li>• Compliance with subject government regulations or FCPS policies and established procedures is inadequate, or FCPS policies and established procedures are inadequate.</li> <li>• Issues are identified that could negatively impact the efficiency and effectiveness of operations.</li> </ul>
Low	One or more of the following exists: <ul style="list-style-type: none"> <li>• Controls are in place, but the level of compliance varies.</li> <li>• Compliance with government regulations or FCPS policies and established procedures varies.</li> <li>• Issues identified are less significant, but opportunities exist that could enhance operations.</li> </ul>

All completed Business Process Audits with findings in which the risk ratings are deemed moderate or high will require a management response. During this audit, OAG identified two low risk findings:

## **Finding 1 – Non-Bank Reconciliation**

### **Risk Rating – Low**

#### **Condition:**

The Financial Management Position Report (FMPR) reconciliations for three of four months sampled were not approved in a timely manner. Specifically:

- August, September, and October 2023 FMPR reconciliations were not approved in the Online Application. The completion dates set by Financial Services for August, September, and October 2023 were September 29, October 31, and November 30, respectively.

OAG would like to note that evidence of the physical monthly review was present and supporting documentation was available.

#### **Criteria:**

Regulation 5111 *Financial Management Reports (FMR) Reconciliation* establishes the responsibilities and procedures for the reconciliation of the monthly FMR. Per the regulation, "Principals or program managers must ensure the timely reconciliation, review and certification of the Financial Management Position Report (FMPR) and Financial Management Expenditure Report (FMER) as set forth in Notice 5111." For the FMPR, "[the reconciler will] provide principals or program managers with the completed reconciliation (signed and dated hard copy required as evidence of review) and supporting documentation for their review. Principals or program managers are required to sign and date the monthly FMPR reconciliation report." In addition, the regulation also states, "Principals or program managers are required to certify that the reconciliations are complete and approved using the FMR application."

#### **Effect:**

Reconciliations not being completed timely could allow for errors or discrepancies to go unnoticed.

#### **Recommendation:**

OAG recommends that the principal and administrative assistant review reconciliations in a timely manner.

## **Finding 2 – Bank Reconciliation**

### **Risk Rating – Low**

#### **Condition:**

The adjusted book balance detailed in the bank reconciliation for the month of October 2023 does not agree with the amount shown on the summary trial balance. A difference of \$50.00 was found.

OAG noted that part of the \$50.00 variance in October was cleared by the November reconciliation, which left a variance of \$10.00 in December. The administrative assistant is working with Financial Services to clear the \$10.00 variance.

#### **Criteria:**

The FCPS *School Finance Handbook* states, "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.”

**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 the administrative assistant takes the appropriate steps to bring the school accounts into balance.