



**Business Process Audit
Holmes Middle School
Report Reference Number: 24-13111**

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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 Holmes Middle School conducted on January 23, 2024. 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 was one moderate and two 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 Holmes Middle 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. In this situation, the current finance technician (FT) at Holmes Middle assumed the role beginning on October 2, 2023. The previous FT departed Holmes at the end of July 2023, and support was provided to the school by Financial Services (FS) while the position was still vacant. In addition, the current principal at Holmes Middle assumed the role beginning on September 20, 2023, after the departure of the previous principal on July 5, 2023.

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 finance technicians (FT) 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 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"> • 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	One or more of the following exists: <ul style="list-style-type: none"> • 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	One or more of the following exists: <ul style="list-style-type: none"> • 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.

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 one moderate and two low risk findings:

Finding 1 – Non-Bank Reconciliation

Risk Rating – Moderate

Condition:

(a) The Financial Management Report (FMR) reconciliations for months sampled were not approved in a timely manner.

- The July 2023 Financial Management Expenditure Report (FMER) was not reconciled in the online application until December 14, 2023, and was not approved by the principal as of January 23, 2024. The August, September, October, and November 2023 FMERs were not reconciled or approved in the online application as of January 23, 2024.
- The August, September, October, and November 2023 Financial Management Position Reports (FMPR) were not reconciled or approved in the online application as of January 23, 2024.

Below are the reconciliation completion dates set by Financial Services (FS):

The Month of	Month-end Close	Available On	Reconciliation Completed by
July 2023	August 4, 2023	August 11, 2023	August 31, 2023
August 2023	September 8, 2023	September 12, 2023	September 29, 2023
September 2023	October 6, 2023	October 10, 2023	October 31, 2023
October 2023	November 3, 2023	November 7, 2023	November 30, 2023
November 2023	December 8, 2023	December 12, 2023	December 29, 2023

(b) Reconciliations were not consistently signed and/or dated to evidence approval and timely completion, as follows:

- FMRs were not consistently signed and dated by the principal and reconciler. Specifically:
 - The November 2023 FMER was not signed and dated by the principal and reconciler as of January 23, 2024.
 - The November 2023 FMPR was signed and dated by the principal and reconciler on January 4, 2024. The due date set by FS for November 2023 was December 29, 2023.
- Appropriated procurement card reconciliations for three of the three months sampled were not signed and dated by the principal and finance technician. Specifically:
 - September, October, and November 2023 reconciliations for HOLMES MS IS and HOLMES MS SD cards were not signed and dated by the principal and finance technician as of January 23, 2024.
- Non-appropriated procurement card reconciliations for three of the three months sampled were not signed and dated by the principal and/or finance technician. Specifically:
 - September and October 2023 reconciliations for HOLMES MS SA1 card were not signed and dated by the principal and finance technician as of January 23, 2024. The November 2023 reconciliation for HOLMES MS SA1 card was not signed and dated by the finance technician as of January 23, 2024.
 - The October 2023 reconciliation for HOLMES MS SA2 card was not signed and dated by the principal and finance technician as of January 23, 2024.

The November 2023 reconciliation for HOLMES MS SA2 card was not signed and dated by the finance technician as of January 23, 2024.

Pen marks were made next to transactions appearing on the procurement card statements, indicating a review was done. However, OAG could not verify who reviewed the transactions or when the review was done.

Criteria:

(a) 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 and FMER, "[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/FMER reconciliation report." In addition, R5111 states, "Principals or program managers are required to certify that the reconciliations are complete and approved using the FMR application."

(b) Regulation 5350 *Procurement Card Management* states, "The reconciler must initial and date the procurement card statement when the reconciliation is complete and to verify receipts for all transactions are attached." It also 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 not being completed timely could allow FMR and procurement card transactions to go unverified and funds to be misappropriated.

Recommendation:

OAG recommends that the principal and finance technician review reconciliations in a timely manner, and that the principal and finance technician sign and date reconciliations to show evidence of 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.

Planned Action	Action Owner(s)	Expected Completion Date
<p>We concur with the finding. As of 2/8/2024, all our reconciliations are up-to-date, and we have processes to maintain them as we move forward. Currently, our finance technician (FT) is following all the Best Practices as set forth by the Office of Financial Services. We continue to contact the Financial Team for guidance and support. My FT and I meet weekly and are in immediate communication when the need arises.</p>	<p>Principal and FT</p>	<p>May 20, 2024</p>

Finding 2 – Bank Reconciliation

Risk Rating – Low

Condition:

(a) Monthly bank reconciliations were not approved/completed in a timely manner, as follows:

- The November 2023 bank reconciliation was not approved by the principal until January 5, 2024. The FS completion date for November 2023 was December 15, 2023.

(b) Monthly bank reconciliation reports were not consistently signed and/or dated to evidence approval and timely completion, as follows:

- The November 2023 bank reconciliation posting journal was signed but not dated by the finance technician as of January 23, 2024.
- The October 2023 Bank of America bank statement was not signed and dated by the finance technician as of January 23, 2024. The November 2023 Bank of America bank statement was not signed and dated by the principal and finance technician as of January 23, 2024.

Criteria:

The FCPS *School Finance Handbook* states, "The finance technician (FT)/administrative assistant (AA) will perform bank reconciliations in a timely manner. The principal is responsible for the safeguarding, managing, and accounting of school activity funds." This includes ensuring that "monthly bank reconciliations are completed on a timely basis." Regulation 5810 *School Activity Funds Management* states, "All bank account statements must be reconciled according to the annual month end closing schedule." In addition, the *FT/AA's Month-End Financial Checklist - LSAF*, a resource guide prepared by Financial Services, states, "The actual bank statement must be signed and dated by the Principal and the FT/AA."

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 principal and finance technician sign and date the bank reconciliation and bank statement according to the FS closing schedule to show evidence of timely completion and approval.

Management Response (Not Required):

A management response is not required for this finding due to the low risk rating.

Finding 3 – Sufficient Documentation

Risk Rating – Low

Condition:

(a) One sampled appropriated procurement card (PCard) purchase was made without proper supporting documentation, totaling \$80.97. The sample consisted of ten transactions, totaling \$3,858.35.

Item	PCard Name	Transaction Date	Vendor Name	Documentation	Dollar Amount
1	HOLMES MS IS	9/7/2023	AMZN MKTP US	No support maintained	\$80.97

(b) One sampled cash disbursement was made without proper supporting documentation, totaling \$257.90. The sample consisted of eight transactions, totaling \$11,721.77.

Item	Check Number	Check Date	Payee Name	Documentation	Dollar Amount
1	111101411	8/7/2023	FAIRFAX COUNTY PUBLIC SCHOOLS	Missing form FS-133	\$257.90

(c) Two sampled cash receipts were voided without proper supporting documentation, totaling \$135.70. The sample consisted of five receipts, totaling \$364.94.

Item	Receipt Number	Receipt Date	Description	Amount
1	RCT000619140	8/10/2023	Change	\$25.70
2	RCT000627350	10/2/2023	Computer repairs/chargers	\$110.00

There was no support available for the receipts when they were originally posted, or documented explanations as to why each receipt was voided.

Criteria:

(a) Regulation 5350 *Procurement Card Management* states, "The principal/program manager or designee must retain original charge tickets, receipts, invoices, and other supporting documentation along with the procurement card statement and the reconciliation." The FCPS *School Finance Handbook* states, "[Purchase orders] must be kept on file with all appropriate backup documentation."

(b) Regulation 5810 *School Activity Funds Management* states, "All purchases of goods or services made from school activity accounts 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 documents are to be attached to the check stub for filing."

(c) The *Great Plains 2018 Training Manual* states that when voiding cash receipts, "Print the Bank Transactions Posting Journal and keep a copy in the Voided Cash Receipts file... If a new cash receipt is not entered, document the reason." In addition, the FCPS *School Finance Handbook* states, "Documentation of [deposits] must be retained by the FT/AA and filed chronologically within the month in which they were prepared. A completed file would include... other relevant backup documents (e.g., reason for voided transactions)."

Effect:

Items purchased without proper supporting documentation could allow for funds to be misappropriated and funds managed irresponsibly. Not maintaining adequate support for receipts could cause an understatement of balances or could increase the risk of fraud occurring.

Recommendation:

OAG recommends that all expenditures should be supported by a properly completed, approved purchase order and an original itemized receipt, and that the finance technician maintain all support relating to cash receipts and document the reasoning for a void if necessary.

Management Response (Not Required):

A management response is not required for this finding due to the low risk rating.