

Forensic Review of Fiscal Year 2014

Examination Limitations

The examination was subject to some limitations that could affect its findings. In 2014 there were 3,350 separate General Ledger expenditure accounts for all Funds (not just the Operating Fund) maintained by the Schools. Consistent with what was reported for 2013, the then Director of Budget and Grants (the "Former Director") created spreadsheets outside of the Stafford County Public Schools' (Schools) official accounting system to facilitate her determination of how to fulfil budget adjustment requests. Due to the sheer number of accounts which could have been and were utilized by the Former Director for Budget Adjustments ("BAs")¹ and the number of rows in her spreadsheets, it was not feasible to examine all accounts/rows.

Similarly, the accountants identified 1,834 BAs (excluding those made by the County or affecting only revenues), affecting 2,194 individual General Ledger expenditure accounts during fiscal year 2014, such that an examination of each BA was not practical.² Accordingly, based upon a year-end pattern of BAs that were identified, the accountants selected those BAs and accounts that appeared to have been most affected during and around fiscal year 2014's year-end for their examination.

As was previously reported for 2013, the email software used by the Schools in fiscal year 2014 did not allow for an efficient identification of e-mail communications relevant to the examination. The accountants did not restore backups of the Former Director's emails, which could possibly allow the reconstruction of e-mail chains that could be relevant to the examination. The only e-mails available for examination were those maintained by the Former Director and it appeared that she did not maintain all of her e-mails and/or permanently deleted many "sent items," such that a full examination of the relevant communications associated with any particular e-mail was not always possible.³ As a result, the accountants applied searches of the Former Director's e-mails in a manner that balanced its efficiency with its effectiveness, but believe that other relevant e-mail communications likely existed/exist that could affect these findings.⁴

Executive Summary

¹ 2,194 of the total 3,350 separate General Ledger expenditure accounts (65%) were affected by the 1,834 fiscal year 2014 BAs.

² Each BA was often made up of numerous line item entries, such that the 1,834 BAs identified above resulted in 9,428 total line items.

³ The examination identified e-mails that one would have reasonably expected to find "replies" to for which none could be identified. Also, it appeared that at times, instead of using the "reply" or "reply all" functions, the Former Director would create a new e-mail when responding, such that the information within the e-mail(s) to which she was responding (the "e-mail chains") were not contained within the body of those e-mails.

⁴ The finding that would likely be most affected would be that regarding the level of detail of knowledge that others may have had regarding the year-end BA practice during fiscal year 2014. Such an examination would require that e-mails of many other persons would have to be collected (possibly restored), staged, and examined, which would be a very time-consuming and costly effort.

As was reported for 2013, there appeared to be a long-standing practice in the Budget and Grants Department concerning how BAs, both routine and those associated with year-end funding requests, were made. Knowledge of the specific accounts from which funds were moved to fulfill BAs appears to have been primarily limited to persons in the Budget and Grants Department, who were directly involved in that practice.

Throughout fiscal year 2014, the Former Director continued as the primary person responsible for the BA practice, both with regard to making BAs and reporting them. After the fiscal year 2014 Budget was adopted, the Former Director appears to have closely tracked its usage and would routinely make on-going BAs, which were recorded on the internal Schools' accounting system, throughout the year.

In addition to the routine BAs made throughout the course of fiscal year 2014, there were also BAs specifically associated with year-end funding requests. As previously reported, it appeared that it was generally known that at the end of a fiscal year there were large amounts of excess funds in budget accounts that might be moved to cover Departmental needs not included in the original adopted Budget, and there appeared to be a long-standing practice of various Department heads submitting requests near the end of the fiscal year for budget funds beyond those which had been designated in the original adopted Budget. It could not be determined within the scope of the examination when this end-of-year practice began; however, based on the information developed during the examination, it is believed that this practice existed for a lengthy period of years prior to 2013 and was generally known and accepted.

The accountants identified and examined 19 BAs in fiscal year 2014 associated with year-end funding requests totaling approximately \$3.47MM. Some of these year-end funding requests were solicited, apparently by the Former Director, while others were made by Departments without any apparent solicitation or prompting. From e-mail communications, it appeared that two of the year-end requests that were examined may have been initiated by Departments with the Assistant Superintendent for Financial Services, rather than with the Former Director.⁵ In both of those instances, the Assistant Superintendent for Financial Services appeared to have coordinated with the Former Director about fulfilling those requests.

In fulfilling the year-end requests the Former Director would export information from the Schools' accounting system into a spreadsheet to find accounts with balances less than budget and then move funds from those accounts to fulfill the requests. The Assistant Superintendent for Financial Services and others were copied on e-mails from the Former Director advising the respective Departments of the movement of funds to fulfill all or parts of five (5) of the fiscal year 2014 year-end requests that were examined. Those communications reflected the amounts moved and the accounts into which they were moved, but not the accounts from which they came.

The question whether the Assistant Superintendent for Financial Services or others outside of Budget and Grants either knew or should have known of the specific accounts used to fulfill year-end requests during fiscal year 2014 cannot be conclusively determined from the

⁵ Based upon the e-mail review, 10 fiscal year 2014 year-end funding requests were identified, which resulted in the 19 year-end BAs that were examined.

information available for the examination. There was no information identified during the examination that showed that anyone outside of Budget and Grants inquired about and/or was aware of the specific accounts from which the Former Director moved funds to fulfil the year-end requests; however, one email from the Assistant Superintendent for Financial Services indicated that, in considering a particular year-end funding request, he had verbal communication(s) with the Former Director about the status of the fiscal year 2014 budget and the use of “*FY 2014 unspent budgeted funds*” to fulfill the request (see Exhibit 1).⁶

Also, as was the case during fiscal year 2013, the Former Director prepared quarterly Budget Reports⁷ during fiscal year 2014 for the School Board, which she appears to have adjusted in such manner as to effectively conceal variances with the original adopted 2014 Budget.

Consistent with the findings for 2013, the timing of the 2014 year-end BAs, combined with inaccurate quarterly Budget Reports and a budgeting process that did not reconcile/compare budgeted amounts with actuals, permitted variances to become absorbed by fiscal year-end balances such that they were not ever known and/or fully appreciated.⁸ The result was that the Board did not appear to be aware during and at the end of fiscal year 2014 that some accounts within the School Operating Fund were under- budget or that others had needs that the original adopted Budget had not considered, thereby depriving the Board of its ability to fully exercise its oversight obligations.

As it concerned fiscal year 2014, slightly more than half of the accounts from which funds were used to fund other accounts through year-end BAs were from the School Operating Funds’ Personnel and Benefits Accounts. It appears that the School Operating Funds’ Personnel and Benefits accounts had an excess of at least \$1.8MM toward the end of fiscal year 2014. That fund balance was used to fill needs not included in the original adopted budget of other Departments without the Board’s knowledge and approval and it was not carried forward into fiscal year 2015. An additional \$1.6MM of “overages” were also moved at the end of fiscal year 2014 from dozens of accounts other than the Personnel and Benefits accounts to fill requests from Departments for needs beyond those in the original adopted budget (see also Table #1 below).⁹

It appeared that the Former Director was the person primarily responsible for determining how the \$3.47MM in overages were used/moved, as well as for concealing budget variances from the Board in her quarterly reporting. As previously noted, there was no information identified during the examination that showed that anyone outside of Budget and Grants inquired about

⁶ The Assistant Superintendent for Financial Services chose not to renew his contract and took leave, such that the accountants were unable to interview him about this e-mail and this specific year-end funding request.

⁷ The quarterly Budget Reports referred to were entitled “School Operating Fund Quarterly Financial Report.”

⁸ Though the accountants’ examination focused only on fiscal years 2013 and 2014, there were indications that had the Former Director not taken ill in the latter half of 2014 and passed away in early 2015, the overage of funds that led to this examination may not have been discovered at that time.

⁹ To determine the full extent of the overage(s) would require an examination of each BA during fiscal year 2014, which would be a highly burdensome and costly task. The examination instead focused on BAs made towards the end of fiscal year 2014, in accordance with the year-end BA practice that was identified and which appeared most relevant to the “overages” that led to this examination. Accordingly, the calculation(s) should not be relied upon as determining the complete and actual overage(s) in the affected accounts during fiscal year 2014.

and/or was aware of the specific accounts from which the Former Director moved funds to fulfill the year-end requests; however, it did appear that the Assistant Superintendent for Financial Services played an active role in some of the fiscal year 2014 year-end requests and was copied on e-mails from the Former Director to Departments showing the amount(s) of funds and accounts funded for five (5) of the fiscal year 2014 year-end funding requests.

The current BA process has been modified to provide more control/oversight. The design of the BA process currently in place was assessed and it appears to be effectively designed to ensure that School Officials and the Stafford County School Board will be aware of year-end budget overages and be responsible for determining whether and how those overages might be utilized prior to the close of a fiscal year. Among other things, it is recommended that the changes that have been made be formalized in the form of official policy or regulation, which would provide clear and official guidance to (and accountability for) those involved in requesting, processing, approving, and/or overseeing/auditing BAs. All of the recommendations for strengthening/improving the BA process are listed at the end of this Report.

Each aspect of the examination's scope as it related to fiscal year 2014 is discussed below:

Analysis of the Budget Process (Fiscal Year 2014 Only)

For fiscal year 2014, it appeared that the Former Director continued to have primary responsibility for developing an overall draft 2014 Budget that she coordinated with the Superintendent and the Board before being finalized and adopted by the Board. It did not appear that Finance played any significant role in the fiscal year 2014 budget development process. The development of the fiscal year 2014 Budget appeared to use as its basis the fiscal year 2013 Budget, which was then adjusted in accordance with a budget needs survey of Department heads conducted by the Former Director, along with input from the Superintendent and the Board.

As previously reported, the Former Director had been an employee of the Schools since 1993 and it appeared that she worked almost exclusively in Budget and Grants since that time. She began as a "Budget Analyst" and assumed the role of Director in 2000. There appeared to be little or no internal controls around the budget development process for fiscal year 2014.

Though there was a "Budget Adjustment Request Form" template within the Finance Manual, there were no policies or written procedures concerning the required use of the BA request form or the BA process in fiscal year 2014. It appeared that any person from any Department could submit a BA request to the Budget and Grants Department and that each request had no reliable review, authorization, and/or approval process, either within the requesting Department or by any other Departments.

Unlike fiscal year 2013, the examination of fiscal year 2014 found two year-end requests that appeared to have been initiated by Departments with the Assistant Superintendent for Financial Services rather than directly with the Budget and Grants Department (which falls under Financial Services). Since the Former Director reported directly to the Assistant Superintendent for Financial Services, it appears there may have been some degree of apparent "external" oversight/approval as it regarded these two year-end requests and subsequent BAs. For all other fiscal year 2014 year-end requests and all routine BA requests during fiscal year 2014, the

decision regarding whether to fulfill each request and from where to move funds to do so appeared completely under the control of the Former Director.

In fiscal year 2014 the Stafford County School Board requested from the Stafford County Board of Supervisors a lump-sum appropriation of \$252,275,203 for the fiscal year 2014 School Operating Budget; however, the County appropriated the funds by category, which placed restrictions on the movement of funds between categories.¹⁰

During fiscal year 2014, no formal internal comparisons/reconciliations of original budgeted amounts with actual amounts were identified in fiscal year 2014.

Analysis of Revenues and Expenditures (Fiscal Year 2014 Only)

As previously noted, the appropriation for the School Operating Fund for fiscal year 2014 was categorical, which was different from fiscal year 2013, in which the County appropriated in a lump sum amount. Accordingly, restrictions were placed on the movement of funds between categories. Significantly, it appears that the Budget and Grants Department was aware of and followed these restrictions throughout fiscal year 2014.¹¹

As it was the case for fiscal year 2013, the Schools financial reporting on budget categories was at a very high level in fiscal year 2014, such that the year-end BAs of over \$3.47MM that occurred in fiscal year 2014, and that were examined, were not self-evident. Moreover, the Schools had 3,350 individual General Ledger expenditure accounts that rolled up into the budget categories being reported in fiscal year 2014, 2,248 of which were affected by the Former Director's 1,834 BAs during fiscal year 2014, further burying the BAs within the high level categories being reported (see also Table #2 below).

The Schools revenues are impacted by its Average Daily Membership/Revenue ("ADM") projections and final determination. Each school submits its student numbers to the Schools' IT Department, which uses them to create a "submission package" that is sent to the State. In developing the Budget, the Schools Budget and Grants and Finance Departments use IT's projections of ADM until the ADM is finalized. The Schools' Superintendent and others appeared to be informed throughout the process, such that the ADM did not appear susceptible to any manipulations that would not have been noticeable to multiple persons in various roles outside of Budget and Grants. As a result, they were not further examined or tested in accordance with the original scope of the examination.

Analysis of Budgetary Adjustments (2014 Only)

Though there was a "Budget Adjustment Request Form" ("BA Request Form") template within the Finance Manual, there were no policies or written procedures concerning the BA process in

¹⁰ For fiscal year 2014, the appropriation was made categorically for the School Operating Fund for the following categories: instruction, administration attendance and health, transportation, operation and maintenance, instructional technology and information services, food service, facilities, debt service, and contingency.

¹¹ A small number of instances were identified where the Former Director denied BA requests by Departments because they would have crossed categories. Additionally, one instance was identified where a cross-category BA was made. It is important to note, however, that it appeared to be an error that was caught and reversed/corrected the next day by the Former Director.

fiscal year 2014. Though the BA Request Form had an “Approved By” and “Finance Approval” space, to the extent that a BA Request Form was among the documents supporting the BAs that were tested,¹² numerous instances were found where those portions of the BA Request Form (“Approved By” and “Finance Approval”) were not completed or appeared to have been completed by someone in the Budget and Grants Department.

While it appeared that any person from any Department could submit a BA request, the examination found that using a BA Request Form did not appear to be a requirement that was consistently complied with. BA requests, both routine and year-end, were also made during fiscal year 2014 by e-mail or verbally (i.e. telephone or face-to-face). As previously noted, two of the fiscal year 2014 year-end requests appeared to have been initiated by Departments with the Assistant Superintendent for Financial Services, who then involved the Former Director.

During fiscal year 2014, though the Assistant Superintendent for Financial Services appeared aware of many of the year-end requests, there appeared to be no reliable review, authorization, and/or approval process around these requests in general, either within the requesting Department or by any other Departments, including Finance.¹³ For all routine and most of the year-end BA requests, the Budget and Grants personnel were effectively acting as both reviewer and approver of those requests. For routine BA requests, the decision regarding whether to fulfill the requests and where funds would be moved from to do so appeared completely under the control of the Former Director. It appeared that the Former Director may have coordinated with the Assistant Superintendent for Financial Services about whether to fulfill two of the fiscal year 2014 year-end requests and that the Former Director determined where to move funds from to cover those requests.¹⁴

After receiving a BA request, the Former Director would export information from the Schools accounting system into spreadsheets that she used to make a decision about whether and how to construct a BA to fulfill that request.¹⁵ After determining how to fulfill a BA request, the Former Director would make an entry into the Schools accounting system and place a copy of the entry, sometimes accompanied by supporting or reference documentation (i.e. BA Request Form, an e-

¹² No copies of the BA Request Form were found among the documents supporting most of the fiscal year 2014 year-end BAs that were tested.

¹³ In many instances, the Assistant Superintendent for Financial Services was copied on e-mails from the Former Director to Department personnel notifying them of the movement of funds to cover year-end requests. The Former Director only identified the amount moved and the accounts into which the funds were moved, not the accounts from which the funds were moved. Also, because the Assistant Superintendent for Financial Services was aware of at least two of the year-end requests prior to the requests being filled, there would appear to have been some degree of oversight and/or “approval” of those requests outside of the Budget and Grants Department.

¹⁴ As previously noted, no direct evidence was found during the examination that showed knowledge by anyone outside of Budget and Grants regarding the source of the funds that were moved to cover the year-end requests. Whether the Assistant Superintendent for Financial Services or anyone else outside of the Former Director’s department inquired about the source of the funds, it did appear that for one year-end request that verbal communications were held between the Former Director and the Assistant Superintendent for Financial Services regarding the use of unspent 2014 budgeted funds to cover that request (see Exhibit 1).

¹⁵ Consistent with the findings for fiscal year 2013, it appeared that this task required significant organization and effort during fiscal year 2014, facilitated by large and complex spreadsheets that the Former Director used. As an example, to fulfil BA#11592, the Former Director appeared to have identified over 20 different accounts having balances less than budget from which she moved funds of varying amounts to complete the \$31,688 BA request (see Table #2 below).

mail, a handwritten note, etc.), into a file. The “file” was a box that the Former Director maintained in her office.¹⁶ There was no policy nor apparent consistency regarding what was included as support for each BA and it was not determined whether all 1,834 BAs made during fiscal year 2014 had support in the BA file.¹⁷

The examination found that the practice that had developed from year to year where Department heads would submit, towards the end of a fiscal year, a year-end funding list (“wish list”) to the Former Director to move funds into accounts where the Department heads had needs beyond what had been included in the original adopted Budget, continued during fiscal year 2014.¹⁸ It appeared that Department heads knew of this end-of-year adjustment process as they were not necessarily solicited to submit their fiscal year 2014 year-end requests.¹⁹ It did not appear that the Department heads questioned where the Former Director got the funds from to fulfil their requests.

During fiscal year 2014, the Former Director made three quarterly reports to the Board on the Budget (October 1, 2013; January 1, 2014; and April 1, 2014). To create these reports, the Former Director would export a trial balance from the Schools accounting system to a spreadsheet, incorporate other data, and reformat it into the quarterly reporting format. It appeared that the Former Director, as the Director of Budget and Grants, was solely responsible for creating and delivering these reports to the Board. It did not appear that these reports were subject to input, approval, or oversight by anyone else prior to being delivered to the Board during fiscal year 2014.

The examination of the quarterly reports delivered to the Board found that the Former Director “plugged” the “Projected” amount in a column entitled “Encumbrances and Projected” that caused each budgetary category reported on to reflect little or no variance between budget and actual. While the figure that comprised the amounts in the “Encumbrances” column appeared to be supported and actual, the figure in the “Projected” column was neither. The two figures were combined, such that an outside reader could not differentiate the amounts encumbered from those projected.

During fiscal year 2014, the Former Director reported directly to the Assistant Superintendent for Financial Services. While it was evident from the Former Director’s e-mails that the Assistant Superintendent for Financial Services was aware of the end of year funding practice, there was

¹⁶ During the course of examining fiscal year 2013, it was represented that after the Former Director’s death, boxes containing the support for BAs were in her office dating back to 2011; however, the boxes for fiscal years 2011 and 2012 had bugs in them and were removed from the office, and possibly discarded. The accountants searched for but found no such boxes, which makes an effective examination of the BAs during those years impossible.

¹⁷ Such a determination would require an item-by-item physical examination and reconciliation of each BA during fiscal year 2014. The benefit of doing so did not appear to justify the costs.

¹⁸ As previously reported, the term “wish list” was used in reference to the described end of year BA practice by some parties who were interviewed, as well as by others in less formal verbal communications during the course of the examination. It appears that the term “wish list” was developed and applied after the Schools internal examination of the overage that led to this examination.

¹⁹ Department end of year funding requests appeared to sometimes be unsolicited, indicating that the departments knew that funds might be available at the end of a fiscal year for their use prior to the close of the fiscal year. It was indicated that this practice had existed prior to fiscal years 2013 and 2014, but it could not be accurately determined when or how it began or by whom.

no information developed that positively showed that he had knowledge of the accounts from which she moved funds to cover year-end requests in fiscal year 2014. There was no policy in place that required that the Assistant Superintendent for Financial Services be informed of where funds were being moved from for year-end BAs; however, as the head of Finance, it might be expected that he be informed about such transactions.

During fiscal year 2014, a total of 1,834 BAs (both routine and year-end) were made (excluding those made by the County or affecting revenue), affecting 2,194 (65%) of the 3,350 total General Ledger expenditure accounts. The 1,834 BAs resulted in 9,428 line item entries. The total dollar figure of these 9,428 BAs during fiscal year 2014 was \$53,326,119.

BAs were routinely made by the Former Director throughout the 2014 fiscal year, with no particular pattern; however, the BAs that appeared most relevant to the examination occurred in the fourth quarter, many in connection with the year-end funding requests previously described. The accountants identified 19 such budget adjustments, which together moved more than \$3.47MM of unspent, budgeted funds to other various accounts for one-time purchases at the end of fiscal year 2014. Of the \$3.47MM, \$1.86MM was moved from accounts within Personnel and Benefits, as illustrated in Table #1 below:

BA#	Date	Category Funded	Accounts Funded	Total Funds Moved	From Personnel & Benefits Accounts	From Non-Personnel & Benefits Accounts
10187	04/28/14	68	Materials/Supplies / Software & Online Content	\$ 75,000	\$ 75,000	-0-
11004	05/20/14	61	Materials/Supplies / Textbooks/Workbooks	\$ 250,000	\$ 250,000	-0-
11032	05/20/14	61	Materials/Supplies / Textbooks/Workbooks	\$ 220,000	\$ 220,000	-0-
11108	05/22/14	63	Capital Outlay-Replacement / Motor Vehicle & Equip	\$ 133,627	-0-	\$ 133,627
11126	05/22/14	63	Capital Outlay-Replacement / Motor Vehicle & Equip	\$ 262,000	-0-	\$ 262,000
11214	05/27/14	64	Materials/Supplies/Carpeting (\$60K); Materials/Supplies/ Furn/Equip < \$5,000/item (\$100K);	\$ 250,000	-0-	\$ 250,000
11342	05/29/14	63	Internal Services / Fleet Services Charges	\$ 250,000	\$ 250,000	-0-
11354	05/29/14	64	Capital Outlay-Additions / Service Sys/Built-in Eq	\$ 160,000	-0-	\$ 160,000
11539	06/03/14	63	Capital Outlay-Replacement / Motor Vehicle & Equip	\$ 124,000	\$ 124,000	-0-
11592	06/04/14	61	Materials/Supplies / Furn/Equip <\$5,000/item	\$ 31,688	\$ 17,169	\$ 14,519
11593	06/04/14	68	Computer Equipment-Hardware	\$ 15,000	-0-	\$ 15,000
11705	06/08/14	64	(9 Various Accounts Funded)	\$ 497,829	-0-	\$ 497,829
11958	06/13/14	63	Capital Outlay-Replacement / Motor Vehicle & Equip	\$ 184,046	\$ 174,046	\$ 10,000
11985	06/16/14	61	Materials/Supplies / Textbooks/Workbooks	\$ 400,000	\$ 400,000	-0-

11990	06/16/14	68	Materials/Supplies / Computer, Parts/Accessories	\$ 160,000	\$ 60,000	\$ 100,000
12212	06/19/14	68	Materials/Supplies / Computer, Parts/Accessories	\$ 148,000	\$ 123,000	\$ 25,000
12398	06/24/14	61	Materials/Supplies/Textbooks/Workbooks (\$149K); Maintenance Services/Equipment Maintenance (\$12K)	\$ 161,000	\$ 161,000	-0-
12524	06/26/14	64	Maintenance Services / Repairs & Maintenance	\$ 67,504	-0-	\$ 67,504
12656	06/30/14	63	Capital Outlay-Replacement / Motor Vehicle & Equip	\$ 85,000	\$ 7,500	\$ 77,500
Total				<u>\$ 3,474,694</u>	<u>\$ 1,861,715</u>	<u>\$ 1,612,979</u>

In each of the BAs reflected in Table #1 above, “overages” of varying amounts were moved from multiple accounts to meet the needs of the “Accounts Funded” in Table #1, as illustrated in Table #2 below:

BA#	Number of Accounts Affected
10187	2
11004	8
11032	4
11108	11
11126	2
11214	7
11342	2
11354	7
11539	2
11592	26
11593	4
11705	12
11958	6
11985	5
11990	6
12212	17
12398	3
12524	3
12656	6

Based on the findings relating to FY2013 and the internal controls in place in FY2014, the accountants found it highly improbable that the funds that were moved were not used in accordance with the requests and/or not in compliance with the Schools expenditure policies and practices.²⁰ As a result, they did not trace the funds to expenditure.

²⁰ Internal Controls around the expenditure process appeared to be robustly designed (they were not tested as part of this examination) and included verification that funds were budgeted prior to being authorized for expenditure. Due to the Former Director’s BAs, which moved funds into the relevant budget accounts prior to the initiation of an expenditure, accounting would have found the funds in the appropriate budgets and, therefore, would have continued to process the relevant expenditures. While not technically a “circumvention” of controls as they existed in fiscal year 2014, it could be argued to have effectively acted as such and would not have been reasonably apparent to either internal Finance personnel or external reviewers (e.g. auditors).

Design Assessment²¹ of Current BA Process & Recommendations

Currently, requests for BAs are to be made using a BA Request Form that is sent to the Budget and Grants Department, as was done during the periods subject to the examination (fiscal years 2013 and 2014); however, a completed BA Request Form is now required and the persons authorized to submit and approve a BA Request Form are now limited to those in authority within the requesting Departments or schools (e.g. school bookkeepers). Aside from personal knowledge of the identity those persons, there does not appear to be a mechanism currently in place for the Budgets and Grants office to verify that the person making and/or approving a BA request was authorized. When the School converts to its new electronic system, this ability will be systematically controlled, such that only those persons who are authorized to initiate and approve a BA request can do so.²² Until such time, the Schools might consider the use of a “signature sheet” or other document that sufficiently ensures that the Budget and Grants Department can validate that BA requests are made and approved by authorized persons.

Additionally, BA Request Forms are now required (in prior years, they were not always required), must be signed by the appropriately authorized persons, and must identify both the accounts from and into which funds are being moved. Incomplete BA Request Forms are to be sent back to the requesting Department or school for completion.

Those making a BA request are to also provide a copy of any documents supporting the request, which in most instances may be the BA Request Form itself, since no other such documents (i.e. proposals, invoices, etc.) may exist at the time of a request. The use of a completed BA Request Form, submitted and approved by appropriately authorized persons, would normally serve as sufficient “support” for a BA request.

Any appropriately initiated and approved BA request under \$10,000 can be approved by the Budget and Grants Department and processed without further approval. BA requests for more than \$10,000 require additional approval from the Director of Finance and Accounting prior to being processed. The Director of Finance and Accounting receives a report of all BAs, enabling him/her to ensure that all BA requests over \$10,000 were reviewed and approved.²³ Additionally, the Director of Finance and Accounting provides a report identifying all BAs over \$10,000 to the Board’s Finance and Audit Committee on a quarterly basis.

The approval process for BAs, including those over \$10,000, is currently manually done, which could present opportunities for errors; however, the new electronic system is planned to automate

²¹ A “design assessment” is only intended to assess whether a policy/process is designed to meet its objectives. It does not include testing to assess whether the policy/process is actually working and/or being applied in accordance with its design.

²² It is planned that the electronic system is to be set up so that each BA request will be placed in a queue for electronic/online approval by the requesting Department head or school Principal. Once approved, it will be sent to the Budget and Grants Department for further consideration and processing.

²³ BAs made by the Budget and Grants Department that are not “externally” requested must be approved by the Finance Department and would be conspicuous on the BA reports now being sent to the Director of Finance and Accounting.

the process/work-flow in such manner as to mitigate errors and otherwise ensure that approvals are appropriately made by authorized persons and BAs reported.

As it regards year-end BAs, Departments may continue to provide a list of needs near the end of a fiscal year to either the Budget and Grants Department or the School's Chief Financial Officer ("CFO" - a planned title change for the Assistant Superintendent for Financial Services); however, there is no formal process to ensure that all Departments participate in submitting such needs.²⁴ The CFO and the Budget and Grants Department will then compile a list of all submitted year-end needs and identify/forecast year-end budgeted savings which might be used to fund needs.

The list of needs and anticipated unspent available funds are then provided to the Superintendent, who prioritizes the needs. A report of the needs (with prioritization) and the amount of unspent/available funds is then provided to the Board, which determines whether and how to use the unspent/available funds.²⁵ Based upon the Board's determination and authorization, the appropriate BAs are then made by the Budget and Grants Department.

Recommendations:

1. Formalize the BA Process in Policy or Regulation - A formal policy or regulation not only provides a narrative of the process that can be easily accessed and utilized to ensure proper processing, but it also enables better auditability and employee accountability.
2. Train Relevant Persons - Provide training on the BA Policy/Regulation to those persons who are most likely to be involved in requesting, processing, approving, and reporting on BAs. This helps ensure that the BA Policy is understood and consistently applied. Through questions/comments offered by participants in the training, it may also identify problem areas, weaknesses, and otherwise foster ideas for improving the policy and process.
3. Formalize a Process Around the Year-End Use of Unspent Funds - Documenting and formalizing this process (which could be made a component of the BA Policy/Regulation as per Recommendation #1 above) would help ensure that a full inventory of year-end Department and school needs is compiled and that those needs are appropriately considered, prioritized, reported, and addressed.
4. Include Sources of Unspent Funds in Board Reporting - By knowing what accounts/areas of the Budget have excess funds at year end, the Board may be better informed about the use of budgeted funds and thereby be better enabled to exercise its oversight obligation(s).

²⁴ The School Board may wish to consider creating a position reporting to the Superintendent responsible for oversight of not only finance, but all of the operational units of the division.

²⁵ This report does not appear to include the source of the unspent funds.

5. Audit/Test – Though the BA process, particularly if formalized in policy or regulation, may be designed adequately to ensure that BAs are appropriately made, approved, processed, and reported, testing/audits should be conducted to ensure adherence with the process/policy. To ensure greater independence of such audits, it would be preferable that they be conducted by an Internal Auditor (a position that does not currently exist) or by external accountants/consultants.