

Fulton County Schools Audit Findings

For the past eight years, Fulton County Schools received a Certificate of Excellence in financial reporting from the Government Finance Officers Association and the Association of School Business Officials International. Mauldin and Jenkins, the district's auditor, has issued an unmodified 'clean' opinion on the school board's financial statements for the fiscal year ended June 30, 2016. However, the district received findings related to internal controls. The link to the CAFR FY16 is provided below:

<http://www.fultonschools.org/en/divisions/finserv/accountserv/Documents/2016%20Comprehensive%20Annual%20Financial%20Report.pdf>

The information below was taken from pages 131-134 (beginning on page 161 of the PDF file) of the Comprehensive Annual Financial Report Fiscal Year 2016.

2016-001 Capital Assets Reporting and Reconciliation

Criteria: Internal controls should be in place to ensure the amounts reported by the School System for its annual capital asset activity should be complete and properly classified.

Condition and Context: For the fiscal year ended June 30, 2016, the School System's capital asset activity and summary provided for the financial statements was not complete and did not properly classify activity into the depreciable vs. nondepreciable categories.

Cause: Internal controls were not sufficient to detect material misstatements in the reporting of the School System's capital assets.

Effects or possible effects: Adjusting journal entries were required in the SPLOST III Capital Projects Fund and the SPLOST IV Capital Projects Fund in the approximate amounts of \$125,000 and \$513,000, respectively, to accrue retainage payable for the School System's ongoing construction projects. Furthermore, in the statement of net position, reclassifications totaling approximately \$220 million were required to properly move completed projects from the nondepreciable category to the appropriate depreciable category for proper reporting in the financial statements.

Recommendation: We recommend the School System review its capital asset activity on a regular basis (at least quarterly) to ensure projects are being properly tracked and reported. Furthermore, at year-end, we recommend the School System review all projects in progress to ensure that all amounts for work performed through year-end have been properly accrued as liabilities in accordance with generally accepted accounting principles.

Auditee's Response: For the fiscal year ended 2016, the capital asset module within the SAP system used for the reporting and tracking of capital assets was not functioning correctly resulting in the need to manually calculate and maintain the District's capital assets. In addition, there has not been a notification process in place between the Operations Division and the Accounting Department to identify and communicate projects which are substantially complete and in service.

Management accepts the recommendation made for item 2016-001 and has taken corrective action to address.

2016-002 Revenues and Related Balance Sheet Accounts

Criteria: Internal controls should be in place to ensure the amounts reported by the School System as revenues and the related balance sheet accounts are complete and properly valued in accordance with generally accepted accounting principles (GAAP).

Condition and Context: For the fiscal year ended June 30, 2016, the School System improperly reported assets that had been received in advance of spending them on a grant program as “deferred revenues.”

Cause: Internal controls were not sufficient to detect a material misstatement in the reporting of the School System’s revenues and related balance sheet accounts.

Effects or possible effects: An adjusting journal entry in the amount of approximately \$688,000 was required in the Other Local Grants Fund to properly report these assets as revenues of the current period.

Recommendation: We recommend the School System review its revenues and related balance sheet accounts to ensure amounts are reported in accordance with GAAP.

Auditee’s Response: Accounting standards require us to record revenue and restrict fund balance in grant funds instead of recording deferred revenue.

Management accepts the recommendation made for items 2016-002 and has taken corrective action to address.

2016-003 Timely Completion of Accurate Bank Account Reconciliations

Criteria: Complete reconciliations of all of the School System’s bank accounts should be performed on a monthly basis in accordance with a sound internal control environment. These reconciliations should be complete and any unadjusted differences noted in the process should be reconciled and recorded in the general ledger as applicable.

Condition and Context: For the fiscal year ended June 30, 2016, the School System was carrying several items at the bottom of the reconciliations for the General Fund Operating Account and Pension Fund Operating Account as “Withdrawals/debits on statement not posted to G/L.” Based on our discussions with School System personnel, it was determined that these items were wire or ACH payments that had posted to the School System’s bank accounts but had not been recorded in the general ledger as there were issues with properly recording these items.

Cause: The School System was not performing complete bank reconciliations for two (2) of its main operating accounts.

Effects or possible effects: Adjusting journal entries were required in the General Fund and Pension Trust Fund in the approximate amounts of \$1,047,000 and \$275,000, respectively, to record these items that had cleared the bank accounts but had not been posted in the general ledger.

Recommendation: We recommend the School System perform complete bank reconciliations of all accounts on a monthly basis. For any unadjusted differences or reconciling items, we recommend the School System investigate these items immediately and post any necessary adjustments in the general ledger.

Auditee's Response: Measures have been put in place to ensure complete timely reconciliation and the prompt clearing of reconciling items.

Management accepts the recommendation made for item 2016-003.

2016-004 Allowable Costs / Activities Allowed or Unallowed

Program: U.S. Department of Education (CFDA No. 84.027, 84.173)
CFDA Program Title: Title VI, Part B IDEA – Special Education Cluster

Criteria: Title 2, Subtitle A, Chapter II, Part 200, Subpart E of the Uniform Guidance states, "Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must (i) be supported by a system of internal controls which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; (ii) be incorporated into the official records of the non-Federal entity; (iii) reasonable reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities; (iv) encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy; (v) comply with the established accounting policies and practices of the non-Federal entity; and (vii) support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity."

Condition and Context: To comply with the above requirements, the School System utilizes periodic certifications and/or time and effort logs to document the amount of employee salaries and wages that are allowable to be charged to its Federal awards. For the fiscal year ended June 30, 2016, our testing of these amounts that were charged to the Special Education Cluster indicated that there was a breakdown in internal controls for a specific type of employee.

Cause: Internal controls were not sufficient to ensure that the amounts charged to the Special Education Cluster by substitute teachers were documented as required by the Uniform Guidance.

Effects or possible effects: The breakdown in internal controls did not allow the School System to properly identify substitute teachers whose salaries and wages had been charged to the Special Education Cluster in order to ensure the proper documentation was maintained for those employees to support the charges to the grant.

Questioned Costs: Known questioned costs of \$45,770.

Recommendation: We recommend the School System review its internal controls for charging costs to its Special Education Cluster grants and implement procedures to ensure that all salaries and wages charged to the grant are supported by proper documentation as required by the Uniform Guidance.

Auditee's Response: Management accepts the recommendation made for item 2016-004.