



MEMORANDUM

DATE: September 10, 2019

TO: Audit Committee of the School Board of the City of Virginia Beach

FROM: Terrie L. Pyeatt, CPA *TP*
Director, Office of Internal Audit

SUBJECT: **FY19 School Activity Funds Audit – Exceptions Noted**

The school activity accounts of the Virginia Beach City Public Schools (VBCPS) were audited for the period from July 1, 2018 to June 30, 2019. The primary purpose of the audit was to determine if cash balances were properly stated as of June 30, 2019, but an important secondary purpose was to determine the level of compliance with policies and procedures. The school activity accounts were examined as of year-end at the eighty-five schools in the division. This report details the items the Office of Internal Audit (IA) noted at the schools that were in conflict with VBCPS policies and procedures and/or best practices but do not have a material effect on the financial statements.

IA tested cash receipts and cash disbursements on a sample basis for fifty-two schools. IA performed analytical procedures on all schools. The results of the audit were provided to each individual school detailing the items noted during the audit. IA identified areas of improvement to eight high schools, seven middle schools, and fifteen elementary schools. IA did not identify areas of improvement to the remaining schools.

Audit results are based on School Board policies and regulations, accounting procedures, the Business Manual for Schools, and proper internal controls. Each principal received a copy of his or her school's individual audit results with an opportunity to respond. A summary of all audit results has been included in an appendix to this report.

All or some of the following items were examined during the audit:

Cash Receipts

- Controls and safeguards over cash receipts;
- Timeliness of deposits;
- Verification that receipts were deposited in the same form collected;
- Collections by staff and the timely transmittal of these receipts to the bookkeeper; and
- A sample of receipts for accuracy and compliance with policies, regulations, and procedures.

Cash Disbursements

- Canceled checks for proper signatures;
- Procurement for compliance with policies, regulations, and procedures; and
- A sample of expenditures for proper supporting documentation and compliance with policies, regulations, and procedures.

Other Areas

- Fund transfers for proper use;
- Deficit accounts and proposals to eliminate the deficit balances for reasonableness;
- Other accounts as to the purpose, source, and use of funds; and
- Fluctuation analysis of accounts.

The following discrepancies were noted during the audit and were communicated directly to the schools after each school visit.

Exception No. 1: Cash Receipts

Several schools had a variety of discrepancies related to cash receipts. These discrepancies included:

- Deposits not being made on a daily basis; and
- Cash collection discrepancies.

Exception No. 2: Cash Disbursements

Several schools had a variety of discrepancies related to cash disbursements. These discrepancies included:

- Missing prior approval;
- Inadequate supporting documentation; and
- Late payment of invoices.

Exception No. 3: Accounting Procedures

Several schools had a variety of discrepancies related to other accounting procedures. Some of these discrepancies included:

- Lack of proper account monitoring;
- Inappropriate fund transfers; and
- Bank service charges.

Exception No. 4: Accounting Software

The Adult Learning Center has weaknesses in its accounting software system. This is a repeat finding from the 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010, 2009, and 2008 audits. A portion of the accounting/registration software will not be supported by Department of Technology in January 2020.

- According to a school staff member, critical components such as course catalog production and external reporting will not be able to be completed using the software after January 2020. Staff does not have a plan of how they will proceed with these processes beyond that date.
- The system does not automatically sequence checks. While the actual checks themselves are pre-numbered, the bookkeeper must manually enter the check number in the system.
- The bookkeeper is unable to issue a system-generated receipt to staff members. When staff collects funds, the bookkeeper must issue a handwritten receipt from a receipt book to the staff member.
- The system is not “closed” on a monthly or yearly basis. This allows for an incorrect date to be entered without a warning. However, the system will not allow a date to be entered that is outside 90 days of the current date.
- The bookkeeper is unable to generate invoices or purchase orders from the software. The bookkeeper uses a Microsoft Word document for invoices and purchase orders and keeps a Post-It note on her computer to keep track of the last invoice/purchase order number used. This requires the bookkeeper to manually track open invoices and open purchase orders.

The *Business Manual for Schools*, Section 3.1(I), Internal Controls Overview, Records, states, “Procedures shall be implemented to ensure that records, regardless of medium, be secure from unauthorized use, alteration or destruction...” It also provides that, “Internal controls will provide reasonable, but not absolute, assurance that the objectives will be accomplished.” The school has been looking for software that accommodates their online student registration and accounting needs. Gaps in the system allow for manual manipulation, which can result in irregularities being made in the system. We recommend management continue to search for a resolution to this issue prior to January 2020.

The following practices were noted at multiple schools across the division. We are making recommendations to strengthen the financial processes at the school-level as noted below:

Other Item Noted No. 1: Purchase Orders

IA noted multiple schools that are not properly utilizing purchase orders as intended. In many instances, the bookkeepers are creating and liquidating purchase orders in School Funds Online (SFO) on the same day they process a check for payment for transactions that should have spanned several days or more. The proper use of a purchase order encumbers the funds at the time the school commits to purchase goods and/or services which allows the bookkeeper to monitor the open purchase orders. This assists the school in preventing late payments and overspending of funds. We recommend that the Office of Business Services (OBS) review the purpose for entering and utilizing purchase orders with all bookkeepers.

Management's Response:

The Chief Financial Officer (CFO) concurs. OBS currently trains the bookkeepers on this process, but OBS will reiterate the purpose to the bookkeepers at the next mandatory bookkeeper's meeting.

Other Item Noted No. 2: Analyzing Accounts

IA identified several schools that stated they do not analyze their SFO accounts regularly. Examples of analyzing accounts include comparing prior year activities to current year activities. Analyzing accounts is a key monitoring activity to ensure that funds are properly recorded in the financial system. While the monitoring of SFO accounts is currently not a requirement for the schools to perform, we recommend that OBS consider including this as a required component of financial administration at the school level.

Management's Response:

The CFO concurs. OBS currently trains the bookkeepers in account analysis, but OBS will emphasize its importance during FY20 bookkeeper training.

cc: Ms. Crystal M. Pate, Director, Office of Business Services
Mr. Farrell E. Hanzaker, Chief Financial Officer

Mrs. Shirann C. Lewis, Senior Executive Director of Elementary Schools
Mrs. Cheryl R. Woodhouse, Senior Executive Director of Middle Schools
Mr. Daniel F. Keever, Senior Executive Director of High Schools
Dr. Donald E. Robertson, Jr., Chief Schools Officer

Attachment: Appendix

**SCHOOL ACTIVITY FUNDS AUDIT
AUDIT RESULTS BY SCHOOL
FISCAL YEAR ENDED JUNE 30, 2019**

IA identified the following areas that could be improved at the indicated schools:

Other Accounting Procedures	Missing Prior Approval	Incomplete Documentation	Late Payment	Cash Collection Discrepancies	Late Deposit	Inappropriate Transfer
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Schools with No Cash Receipt/Cash Disbursement Sample Testwork:

Middle Schools:

Bayside						2
Old Donation						1

Elementary Schools:

Brookwood	1					
Corporate Landing						3
Kempsville Meadows	1					
Windsor Oaks						1

Schools with Cash Receipt/Cash Disbursement Sample Testwork:

High Schools:

Adult Learning Center	1	1				
Bayside	2	1				
First Colonial				1		
Floyd E. Kellam		1				
Green Run		2				
Kempsville			1			1
Landstown	1	1				
Princess Anne		1				

Middle Schools:

Bayside 6th Grade Campus					1	1
Brandon		2				
Landstown	1	1				
Larkspur		1	1			
Lynnhaven		1		1		

Elementary Schools:

Christopher Farms					7	
Holland						4
Linkhorn Park						7
Lynnhaven	1	3	1		1	1
New Castle					2	3
Newtown			1			
Pembroke Meadows						1
Seatack						1
Thalia		1				
White Oaks		9		2		
Woodstock		1				

X = No. of instances found where improvements could be made

**SCHOOL ACTIVITY FUNDS AUDIT
AUDIT RESULTS BY SCHOOL
FISCAL YEAR ENDED JUNE 30, 2019**

IA did not provide any suggestions for improvement for the following schools:

Schools with No Cash Receipt/Cash Disbursement Sample Testwork:

Middle Schools:

Great Neck
Kempsville
Plaza
Salem

Elementary Schools:

Alanton
Bettie F. Williams
Diamond Springs
Glenwood
Green Run
Hermitage
Indian Lakes
John B. Dey
Kempsville
King's Grant
Landstown
Malibu

Elementary Schools (continued):

North Landing
Parkway
Pembroke
Providence
Rosemont
Rosemont Forest
Salem
Shelton Park
Strawbridge
Tallwood
Trantwood

Schools with Cash Receipt/Cash Disbursement Sample Testwork:

High Schools:

Advanced Technology Center
Frank W. Cox
Ocean Lakes
Renaissance Academy
Salem
Tallwood
Virginia Beach Technical & Career Education Center

Middle Schools:

Corporate Landing
Independence
Princess Anne
Virginia Beach

Elementary Schools:

Arrowhead
Bayside
Birdneck
Centerville
College Park
Creeds
Fairfield
Kingston
Luxford
Ocean Lakes
Point O'View
Princess Anne
Red Mill
Thoroughgood
Three Oaks
W. T. Cooke
Windsor Woods