



**MEMORANDUM**

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

**FROM:** Ms. Karen W. Woodson, CIA, CFE <sup>KW</sup>  
School Board Internal Auditor, Department of Internal Audit

**SUBJECT:** FY23 School Activity Funds Audit – Exceptions Noted

**DATE:** September 5, 2023

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The school activity accounts of the Virginia Beach City Public Schools (VBCPS) were audited for the period from July 1, 2022 to June 30, 2023. The primary purpose of the audit was to determine if cash balances were properly stated as of June 30, 2023, 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-six schools in the division. This report details the items the Department 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 a sample of cash receipts and cash disbursements and performed analytical procedures at 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 at eleven high schools, nine middle schools, and twenty 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 their 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 of the following items were examined during the audit:

Cash Receipts

- Controls and safeguards over cash receipts;
- Timeliness of deposits;
- 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 and procurement card purchases for proper supporting documentation and compliance with policies, regulations, and procedures.

### Other Areas

- Bank statements reviewed for unusual transactions;
- 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
- Incorrect account coding.

### **Exception No. 2: Cash Disbursements**

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

- Incorrect refund process;
- Incomplete supporting documentation;
- Late payment of invoices; and
- Incorrect account coding.

### **Exception No. 3: Accounting Procedures**

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

- Payments to School Board employees not properly approved;
- Inadequate account monitoring;
- Payment over \$10K not submitted for review;
- Inappropriate fund transfers; and
- Split payment to avoid procurement card purchase limit.

### **Finding No. 1: Related Party Transactions**

IA identified five schools that made payments to related parties for goods or services before possible conflicts of interest were resolved. Upon further review, IA found that four additional schools made payments to these same businesses. IA met with the Department of Legal Services, who reviewed the payments and determined the transactions were not violations of law as they met exemptions under the law; however, the school administration should review the transactions for compliance with the *Business Manual for Schools*. The *Business Manual for Schools*, Section 10.29, Business Entities Owned by or Hiring School Board Employees (Including Immediate Family Members) and Retirees, states, “A payment for goods and/or services provided by a business entity owned by or hiring a School Board employee/retiree or a School Board employee’s immediate family member cannot be made by the school,” unless certain conditions are met and documentation has been submitted to the Director of Business Services for review and approval. Schools were not aware of the vendor relation to VBCPS, and/or the review requirement for related party transactions. Review of these types of purchases will ensure that VBCPS follows applicable laws and regulations.

#### ***Recommendation:***

IA recommends that the Office of Business Services (OBS) develop and provide training to all schools regarding related party payments and the review that is required.

#### ***Management’s Response:***

The CFO concurs. OBS will develop and provide training to all schools regarding related party payments and the review required to avoid possible conflicts of interest by December 31, 2023.

### **Finding No. 2: Incomplete Documentation**

IA identified fourteen schools that did not have a receipt/invoice and/or itemized receipts/invoices included in their supporting documentation for vendor and procurement card payments. In some instances, the schools were able to provide the documentation to support the transactions, but only after IA questioned them. In other instances, schools were not able to provide the required supporting documentation. The *Business Manual for Schools*, Section 10.1, School Activity Account Disbursements, states, “All school activity account disbursements must be made by pre-numbered checks or Procurement Card and must be supported by ... Itemized Receipts/Invoices”. These discrepancies were caused because schools do not have a clear understanding of what is required to support vendor or procurement card purchases. Purchases that lack detailed receipts/invoices are not able to support that the amount paid is correct or is appropriate.

#### ***Recommendation:***

IA recommends that OBS reiterate to principals and bookkeepers that itemized receipts/invoices are required to support all purchases being made.

#### ***Management’s Response:***

The CFO concurs. OBS will reiterate to bookkeepers and principals that having itemized receipts/invoices is required to support all purchases by December 31, 2023.

cc: Mr. Daniel G. Hopkins, Director, Office of Business Services  
Ms. Crystal M. Pate, Chief Financial Officer

Dr. Melanie J. Hamblin, Senior Executive Director of Elementary Schools  
Dr. James J. Smith, Senior Executive Director of Middle Schools  
Dr. Walter C. Brower, Jr., Senior Executive Director of High Schools  
Mr. Matthew D. Delaney, Chief Schools Officer

Attachment: Appendix

**SCHOOL ACTIVITY FUNDS AUDIT  
AUDIT RESULTS BY SCHOOL  
FISCAL YEAR ENDED JUNE 30, 2023**

IA did not identify areas of improvement at the following schools:

**High Schools:**

Advanced Technology Center  
Green Run Collegiate  
Kempsville  
Landstown  
Technical & Career Education Center

**Middle Schools:**

Bayside 6th Grade Campus  
Corporate Landing  
Kempsville  
Landstown  
Old Donation  
Plaza

**Elementary Schools:**

Alanton  
Arrowhead  
Birdneck  
Brookwood  
Centerville  
Christopher Farms  
Creeds  
Diamond Springs  
Green Run  
Holland  
John B. Dey  
King's Grant  
Landstown  
Linkhorn Park  
Malibu  
New Castle  
North Landing  
Ocean Lakes  
Parkway  
Pembroke  
Pembroke Meadows  
Point O'View  
Princess Anne  
Rosemont  
Rosemont Forest  
Salem  
Shelton Park  
Strawbridge  
Tallwood  
Thalia  
Three Oaks  
Trantwood  
W.T. Cooke  
White Oaks  
Windsor Woods

**SCHOOL ACTIVITY FUNDS AUDIT  
AUDIT RESULTS BY SCHOOL  
FISCAL YEAR ENDED JUNE 30, 2023**

IA identified areas of improvement at the following schools:

	Accounting Procedures	Inadequate Account Monitoring	Incorrect Account Coding	Incomplete Documentation	Related Party Transactions	Late Payment	Late Deposit	Inappropriate Transfer	Incorrect Process	Wrong Amount Paid	Unable to Determine if Wrong Amount Paid
										Refunds	
<b>High Schools:</b>											
Adult Learning Center	1										
Bayside				3		1					
First Colonial						2	2				
Floyd E. Kellam	1							1			
Frank W. Cox		1	3	7		2					
Green Run	1		2	6		1					
Ocean Lakes	3	1					1				
Princess Anne			1	3					X	-	1 of 19
Renaissance Academy	1			2		1	2	2			
Salem	1	1		7		9					
Tallwood	1										
<b>Middle Schools:</b>											
Bayside					X						
Brandon	1		2								
Great Neck									X	0 of 1	-
Independence								1			
Larkspur					X						
Lynnhaven				5							
Princess Anne				2		1					
Salem						1	1				
Virginia Beach				1				2	X	0 of 1	-
<b>Elementary Schools:</b>											
Bayside							2				
Bettie F. Williams	2		1						X	-	1 of 1
College Park	1			1	X						
Corporate Landing	1										
Fairfield				1							
Glenwood								1	X	0 of 3	-
Hermitage							1				
Indian Lakes	1										
Kempsville						1			X	-	1 of 1
Kempsville Meadows								1			
Kingston							2		X	0 of 1	-
Luxford	2										
Lynnhaven					X	1					
Newtown			1								
Providence					X						
Red Mill	1			1							
Seatack	1										
Thoroughgood								2			
Windsor Oaks			1	2			1				
Woodstock				1		1	1				

# (ex. 1, 2, 3, etc.) = No. of exceptions found

X = Inadequate process identified