NORFOLK PUBLIC SCHOOLS

Facilities Management Department
In-House Vending Machine Fund

April 19, 2016

John H. Sanderlin, Jr.
City Auditor

Bradford W. Smith
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Auditor-in-Charge

Report No. 16-3R

April 19, 2016

Dr. Melinda Boone, Superintendent
Dr. Michael Thornton, Chief Financial Officer
Norfolk Public Schools
800 E. City Hall Avenue
Norfolk, Virginia 23510

Subject: Audit of the Facilities Management Department In-House Vending Machine Fund (Report No. 16-3R)

The attached report contains the results of our audit of the account activity/transactions of the vending machine account maintained by the Norfolk Public Schools Facilities Management Department to ascertain the nature of associated deposits and expenditures. We appreciate the cooperation and assistance of Norfolk Public Schools and the Facilities Management department extended to us during the audit.

Respectfully submitted,

John H. Sanderlin, Jr

John H. Sanderlin, Jr., CPA, CIA, CGFM, CFE, CGMA
City Auditor

Table of Contents

Page No

Executive Summary

We were requested by the then Acting Superintendent of Schools on September 29, 2015 to perform an audit of the account activity/transactions of the vending machine account maintained by the Norfolk Public Schools (NPS) Facilities Management Department to ascertain the nature of associated deposits and expenditures. Accordingly, we conducted our audit to determine the effectiveness and adequacy of controls over the department's in-house vending machine fund and determine the nature of received monies and expenditures. The vending machine fund in the Department of Facilities Management has been in existence for more than twenty years. The purpose of the fund is for general morale and welfare activities for employees such as cookouts and Christmas parties and the purchase of coffee for the staff. Funds are maintained in an established NPS bank account for which monies, until recently, had been deposited coming from three major sources (commissions from Coca Cola and H&L Tom's and the sale of scrap metal), as well as monies received from sponsors. Received commissions are from two vending machines at Facilities Management that sell sodas and snacks and the scrap metal proceeds come from the entire school district when renovations are performed on a school or when metal items are otherwise discarded. Prior to the beginning of our audit, Facilities Management employees would pick up scrap metal from the schools and bring items back to their main building for a select scrap metal company to pick up. The scrap metal company would retrieve the scrap metal and subsequently prepare a scale ticket and provide to Facilities Management along with a check for the sale of the scrap metal, which is based on the weight of the scrap metal. The proceeds of scrap metal going into the Facilities Management vending machine fund discontinued in September 2015 and are currently being sent to the NPS Finance Department. For the three-year period of our audit, beginning July 2012 and ending June 2015 (fiscal years 2013 through 2015), $21,792 was received and deposited while $30,106 was expended from the vending machine fund.

Overall, we found unsatisfactory controls over $27,619 for the period of our audit. Our conclusion does not reflect an assessment of the overall operations of Facilities Management for which we did not audit. Accordingly, we do not make a conclusion on effectiveness or efficiency of the operation in achieving its mission and goals. Also the Facilities Management vending machine fund's inflows (cash receipts) and outflows (expenditures) are immaterial in comparison to the NPS annual operating budget, which was in excess of $300 million for the three year period of our review. Therefore, our conclusion has no material or significant impact on the financial position of NPS.

We highlight the following observations:

- *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management* provides guidance on how the commissions from Coca Cola and H&L Tom's vending machines can be used for various departmental purchases. However, the school district did not have a policy to specifically govern vending machine funds in terms of morale and welfare and how the proceeds from the sale of scrap metal should be accounted for or used. As a result, monies received from the sale of scrap metal in the amount of $15,745 was commingled with the Facilities Management vending machine fund instead of being used for general purposes or the direct mission of the district. The sale of scrap represented 72%, the majority of the monies in the Facilities Management vending machine fund. The current Facilities Management director made the decision to deposit the scrap metal proceeds into the established bank account for the vending machine fund and the scrap metal proceeds have been deposited into this account for over 20 years.

- The Facilities Management Director was able to exercise his own judgment and discretion as to how to spend the monies received for the in-house vending machine funds because there was a lack of oversight from School Administration specifically for this fund. As a result, 35% ($10,643) of the expenditures represented monies spent on restaurants and tips for the top management and the administrative staff of Facilities Management while 28% ($8,281) of the expenditures accounted for parties and events for the general staff.

- There were $27,619 or 92% of the total expenditures reviewed in restaurant charges and tips and other expenditures of which we consider unjustifiable and not consistent with the district's policy governing how public funds are to be used or not benefiting the general moral and welfare of all employees of Facilities Management. Therefore, these expenditures could be perceived as unnecessary, wasteful, or to some degree the mismanagement of resources that would have been best used otherwise in supporting the mission of NPS. Specifically, purchases in this category included:

    a. Gift cards
    b. Angel Tree gifts, United Way donations and other gifts
    c. Flowers for funerals of love ones
    d. Food for cookouts and parties
    e. Food and tips at local restaurants
    f. Parking expenditures
    g. Memberships to a warehouse club

We further noted the following internal control weaknesses and other observations related to the vending machine fund:

- There were no receipts or supporting documentation for 18% or $5,361 of the purchases reviewed.
- An audit of the Facilities Management vending machine fund had not been performed.
- An unauthorized petty cash fund was established.
- Vendor sponsorships were obtained without authorization from school administration.

Based on the above observations, we offer the following comments concerning all future activities of the Facilities Management vending machine fund that NPS should consider implementing to improve the internal control system:

- Ensure the vending machine fund activities adhere to the *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management*.
- Ensure United Way donations are properly handled and not comingled with the vending machine fund.
- If appropriate and authorized, establish an employee morale and welfare account with guidelines as to its purpose and use.

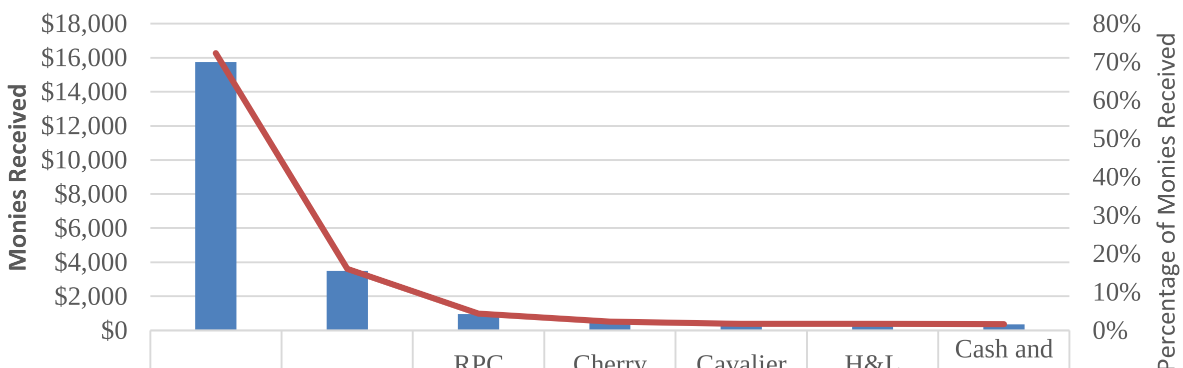
- Regularly perform reconciliations of the vending machine fund and ensure an annual or periodic audits are completed.
- Evaluate the need for a petty cash fund and if appropriate, properly establish it and if not, terminate the existing petty cash fund.
- Ensure sponsorships (donations) for the vending machine account are received by the Superintendent or the School Board and the support is for the benefit of the entire school district or a defined or approved purpose.

We discussed our results, conclusions, and comments with the Superintendent and the Chief Financial Officer of NPS on March 29, 2016 and the Director of Facilities Management on February 17, 2016. Deputy City Auditor Bradford Smith conducted the audit under the direction of City Auditor John Sanderlin, Jr. We appreciate the cooperation and assistance of NPS and the Facilities Management department extended to us during this audit.

Background

The Facilities Management vending machine fund consists of vending machine commissions received from Coca Cola and H&L Tom's as well as monies from sponsors, and, until September 2015, the sale of scrap metal to Gutterman Iron & Metal Corp. (Gutterman). Facilities Management used Gutterman as the vendor to take the scrap metal from the department's main facility and then provide the proceeds from the sales back to the department. The *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management* provides guidance on how the commissions from Coca Cola and H&L Tom's vending machines can be used for various departmental purchases. However, the school district does not have a policy that governed how the proceeds from scrap metal monies should be accounted for or used. As the below chart shows, proceeds from scrap metal accounted for 72% of the monies received in the vending machine fund.

Monies Received by Facilities Management from Vendors and Other Entities Fiscal Years 2013-2015 (July 2012 to June 2015)



	Gutterman	Coca Cola	RPC Industries	Cherry Carpet	Cavalier Inc.	H&L Tom's	Cash and Bank Debit *
.	$15,745	$3,498	$955	$500	$369	$368	$357
.	72%	16%	4%	2%	2%	2%	2%

*Includes cash in the amount of $347 and a $10 bank debit

The Facilities Management vending machine fund has been in existence for more than twenty years. Although not officially stated, the purpose of this fund is for cookouts, Christmas parties and to purchase coffee for the staff of the Facilities Management Department. Funds are maintained in a separate bank account and monies deposited into this account are from Coca Cola and H&L Tom's commissions, and, up until September 2015, the sale of scrap metal to Gutterman Iron & Metal Corp. (Gutterman). Commissions generated are from two vending machines located at Facilities Management that sell sodas and snacks. On the other hand, the proceeds from the sale of the scrap metal came from the entire school district when renovations were performed on a school or when metal was otherwise discarded. In such cases, Facilities Management employees picked up scrap metal from the schools and brought items back to the department's main location for Gutterman to pick up. Gutterman would periodically retrieve the scrap metal and prepare a scale ticket, and subsequently provide the scale ticket along with a check for the sale of the scrap metal to Facilities Management. The current director, who has been in the position for approximately twenty years, made the decision to retrieve the scrap metal and to deposit the proceeds from the sale of into the established vending machine bank account. This decision was based on the premise that if Facility Management did not retrieve the scrap metal it would have been thrown away as trash or removed by other individual parties to recycle and benefit from the proceeds.

The disbursements from the fund include the following:

- Staff meeting breakfast
- Staff meeting luncheons
- Annual Christmas party
- End of school year cookout
- Fish Fries
- Coffee, cream, sugar, etc.
- Plaques for retirees
- Flowers for funerals of employees' relatives

There are approximately 90 funded positions within Facilities Management and these employees are the targeted recipients of the disbursements from the Facilities Management vending machine fund. The funded positions include a director, administrative staff and tradesman (electricians, carpenters, plumbers, painters, etc.). In addition, there are 254 custodians within the school district; however, they do not receive any of the benefits from the vending machine fund unless there is a joint year-end cookout that included trade workers and custodians. Regarding the day to day management of custodians, NPS contracts with a management company which also provides training, equipment and supplies.

Objective, Scope and Methodology

Our objective was to determine the effectiveness and adequacy of controls over the Facilities Management department's in-house vending machine fund and to ascertain the nature of received monies and expenditures. We reviewed 471 transactions (100% of the expenditures totaling $30,106) for a three-year fiscal period beginning July 2012 and ending June 2015 as detailed below:

	Number of Transactions	Amounts
Fiscal Year 13 –	187	$ 12,930
Fiscal Year 14 –	152	9,506
Fiscal Year 15 –	132	7,670
	471	$ 30,106

In addition, we reviewed the monies deposited into the bank account maintained by the Facilities Management department. For the three year fiscal period of our review, deposits totaled $21,792.

The *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management*, was used as criteria to determine the appropriateness of the vending machine fund transactions. We reviewed and tested various records and data to address our audit objective, including:

- Facilities Management vending machine bank account statements
- Facilities Management vending machine bank account check registers
- Metal scrap scale tickets and sales reports
- Invoices and receipts
- Benchmarking with surrounding cities concerning scrap metal
- Other support documentation as applicable

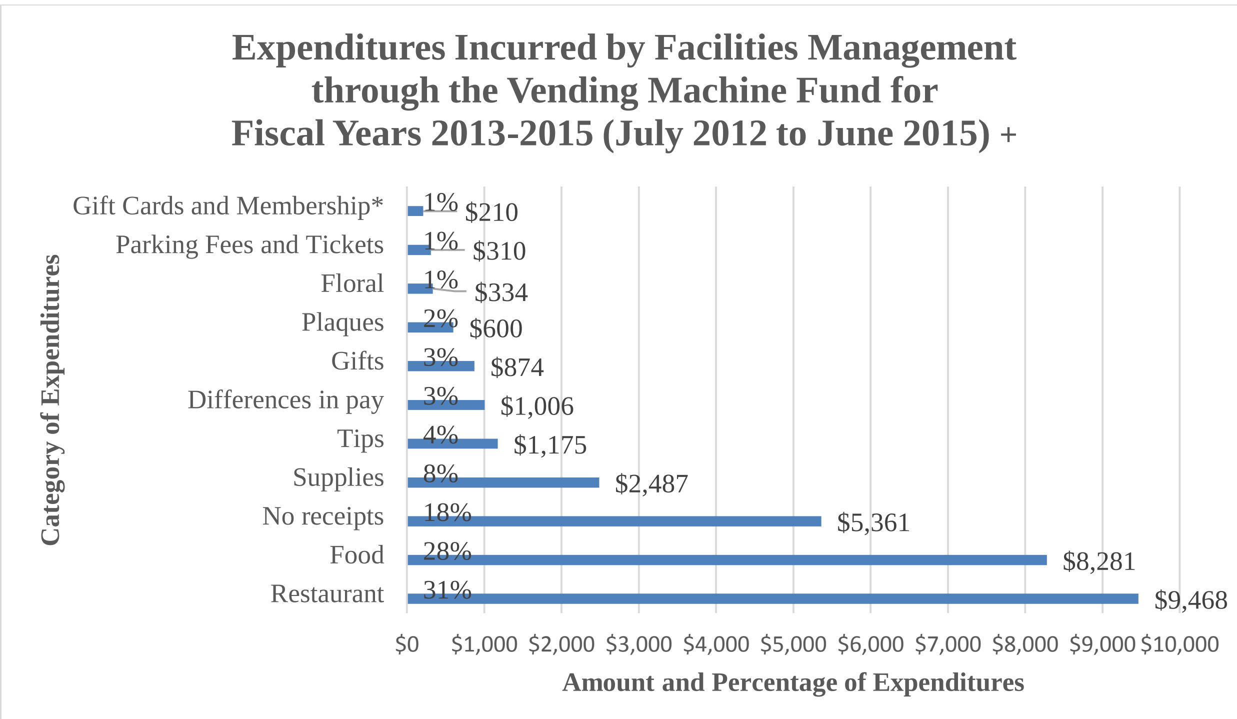
We also made inquiries and interviewed Facilities Management leadership and staff to obtain additional clarification on applicable transactions and sent a confirmation letter to Gutterman in support of scrap metal sales. Based on bank account statements, we prepared spreadsheet-schedules of expenditures for each year and tested for four applicable attributes. These attributes included whether the purchase was:

- properly supported with an original receipt or invoice
- in support of general morale and welfare, inclusive of all employees
- spent from sources generated from traditional sources of funds consistent with other practices in the district
- consistent with NPS policies and procedures the *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management*

Likewise in support of our objective, we performed various reconciliations and accounting procedures for each of the three fiscal years covered by our audit to provide assurance that funds used from the Facilities Management vending machine fund were properly accounted for. Therefore, using bank account statements as the primary record to determine monies received and how funds were expended, we reconciled the vending machine fund from the beginning balance as of July 2012 to the ending balance as of June 2015 as shown below.

Beginning Bank Balance July 2012	**$8,538**
Monies Received	+21,792
Expenditures	-30,106
Ending Bank Balance June 2015	**$224**

Lastly, we grouped transactions or expenditures of the vending machine fund into broad categories, shown below.



+ Based on documentation provided to us (receipts, bank statements, etc.)
*Includes gift cards in the amount of $120 and warehouse club memberships for $90

We conducted this performance 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.

Conclusion

Although not supported by established polices, Norfolk Public Schools have vending machine funds throughout the district to support the general morale and welfare for employees. Commissions received from Coca Cola and H&L Tom's vending machines have been the major sources of funding. Unlike other vending machine funds in the district, management of the

Department of Facilities Management adopted a policy to include monies received from the sale of scrap metal and from sponsors as part of its established vending machine fund. We were not able to determine whether this management's decision was approved by School Administration or the School Board. Upon learning that the proceeds from the sales of scrap metal were being deposited in the department's established bank account, School Administration instructed the department to cease the practice. Our audit reveals these four key points:

- There were no policies or guidelines established for morale and welfare type accounts and accordingly we found the expenditures from the vending machine fund to be in noncompliance of the one regulation governing the expenditure of district funds, the *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management*.

- Internal controls surrounding the account were poor with disregard to basic internal control principles and sound business practices in regard to cash management. As an example of the apparent lack of internal control over the vending machine fund, expenditures in the amount of $5,361 (18% of total expenditures) were purchased but receipts or support documentation was not maintained. Because there were no receipts, we could not validate whether the purchases were in accordance with the mission of NPS. Further, based on the check register descriptions, the transactions did not appear to be in compliance with the *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management.*

- The majority of expenditures were inappropriate since they were paid for using monies from the sale of scrap metal that should have been, most likely, processed as miscellaneous revenue and used for operational purposes. While the amounts may not be significant in the overall financial picture of NPS, these funds could have been used for needed supplies or directly for the students by purchasing text books, computers, etc.

- Despite the absence of a morale and welfare policy and noncompliance with *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management,* the use of funds in support of morale and welfare was tilted towards and benefited more management and the administrative staff instead of benefitting the general employees at large. In particular, management and the administrative staff of Facilities Management took advantage of the account to regularly purchase lunch and we were not able to establish a business reason to justify the numerous meals. During the period of our audit, management and the administrative staff spent $10,643 in restaurant meals and tips, 35% of all expenditures. Based on the organizational chart, there are 23 management and administrative staff positions, thereby the average spent for each employee to eat was $462. On the other hand, during the period of our audit, the department hosted cookouts and parties and purchased other food items for the staff at large totaling $8,281, 28% of the expenditures. Having 90 funded positions in the department, the average spent per employee was $92 for food and food events.

Detailed Audit Results

The *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management* establishes the guidelines for which Norfolk Public Schools is to follow for appropriate fiscal planning and management. The regulation calls for all public funds received, regardless of source, to be used in support of the primary educational mission of Norfolk Public Schools. The regulation further indicates the source of the funds does not waive the requirement to properly manage and account for funds entrusted to Norfolk Public Schools regardless of the funding source. The regulation specifies that in this case funding source include but are not limited to appropriated state and local revenue in the operating budget, federal funds including Title1, grant funds from all sources, student activity funds, and contributions from community and private sources. Based on these guidelines, the incidences below occurred over the three fiscal year period of our audit that were inconsistent in directly or indirectly supporting the primary educational mission of Norfolk Public Schools or did not fully support the morale and welfare of employees at large for Facilities Management.

No Receipts or Supporting Documentation

We noted 19 transactions for a total amount of $5,361 without receipts or supporting documentation. Without adequate documentation we could not determine the purpose of the purchases and based on the check register descriptions we found the expenditures did not meet the reasonable test in accordance with the *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management* [*DA-R. Management of Funds Regulation (Appropriate Use of Funds) section B*]. This provision dictates that the best test to be used when determining whether an expense is appropriate is the "public scrutiny test", which is simple and merely asks whether the tax paying public would view the expenditure as necessary to support public education. We found the expenditures in question did not meet this test because of the lack of documentation to justify the basis of their incurrences and therefore unreasonable, for example, cell phone reimbursements and lunch meetings.

Gift Cards Were Purchased

There were six transactions for a total amount of $120 worth of gift cards that were purchased. Tracking the ultimate purchases made with these gift cards after the cards were disseminated would have been difficult, if not impossible. The *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management* [*DJAZ-R Purchasing Authority Regulation, Specific Purchasing Authority A2*], allows school principals, senior directors, and directors, and those designated persons with Budget authority to approve requisitions to make purchases up to $2,500 per transaction in accordance with procedures set forth in the NPS Procurement Manual with the exceptions of which will be centrally procured and/or approved that includes credit cards/gift cards. Since these expenditures did not go through the established procedures, we consider them as unauthorized, in particular, because the proceeds from the sale of scrap metal could have possibly been used, proceeds that should have been used for public purposes since they were generated from school assets.

Gifts and Donations

We noted 10 transactions for a total of $874 in which Angel Tree gifts, donations to the United Way and other gifts were purchased and/or given. The method used by Facilities Management to provide donations to the United Way did not follow the district's standard process and appeared unusual in nature. The typical way donations are received from employees and processed is for the United Way department coordinator to collect monies from employees who contribute using a standard form and then turn over the collected amounts to the overall coordinator for the organization. However, Facilities Management's practice was to receive monies from employees and then write a check made out directly to the United Way from the vending machine bank account. There was no evidence that the monies provided by the employees were deposited into the Facilities Management vending machine bank account; therefore, we could not account for the monies. *Section C of the Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management* [*DA-R. – Management of Funds Regulation (Appropriate Use of Funds)*] prohibits buying gifts from school funds, specifically banning the use of school funds for gifts to individuals. This restriction includes gifts purchased for staff birthdays, or other personal occasions, except if paid from a staff hospitality account(s) or another authorized school activity fund. Because the vending machine fund is not considered a staff hospitality account or a school activity fund, we consider United Way donations as well as the Angel Tree gifts and other gift purchases inappropriate and unauthorized, particularly, since the proceeds from the sale of scrap metals could have possibly been used, proceeds that should have been used for public purposes since they were generated from assets paid for from public or other funds appropriated.

Flower Purchases

We determined $334 (six transactions) was used to purchase flowers for funerals. These flower purchases were for relatives of staff members of the department. Based on the *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management* [*DA-R. – Management of Funds Regulation (Appropriate Use of Funds), section C4*], the purchase of flowers is restricted to the few occasions where a public expression of sympathy or congratulations has been determined by the school board or superintendent to be in the best interests of the district. Facilities Management did not provide us with documentation from the school board or the superintendent giving them authorization to purchase flowers and therefore we also consider the expenditures as unauthorized, in particular, since the proceeds from the sale of scrap metals could have possibly been used, funds that should have been used for public purposes since they were generated from assets paid for from public or other funds appropriated.

Various Food Purchases

We found 56 transactions totaling $8,281 in which food was purchased for various events such as Christmas luncheons and cookouts. As previously noted, the purchase of food was a high percentage of the Facilities Management vending machine fund monies spent. According to the *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management* [*DA-R. – Management of Funds Regulation (Appropriate Use of Funds), section C 1e*] receptions for individual employees should never be paid from public funds to include retirement dinners, staff meals, welcome aboard receptions and similar gatherings where food and/or refreshments may be served. It further indicates that voluntary collections can be taken from those attending such gatherings or paid by the grant or school activity fund, e.g., hospitality funds, if specifically authorized. In discussion with staff on a random basis, they stated they did not provide monies to attend the events. Although we found the expenditures in question inconsistent with established regulations, the expenditures would reasonably be justified as employee morale and welfare if such practices were approved by School Administration or through School Board action.

Restaurant Purchases

There were 148 transactions totaling $9,468 involving the purchase of food at various restaurants in the cities of Norfolk, Virginia Beach, Chesapeake, and Portsmouth, the least amount being a $3 lunch and the highest amount being a $328 luncheon for the administration staff. As a part of these restaurant charges, we noted 99 tips were given for a total of $1,175. The majority of these expenditures occurred during lunch time and according to the *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management [DA-R. – Management of Funds Regulation (Appropriate Use of Funds), section C*], food and refreshments for routine staff meetings, including "working" lunches, are considered a personal expense and any exceptions to this must be pre-approved by the Superintendent. We were not provided with documentation to support the superintendent approved the purchase of these meals. We also consider these expenditures to be in essence a subsidy for the employees involved because we were not able to establish any clear business purpose or necessity for the meals. Further, we conclude expenditures as inappropriate since the use of the proceeds of the sale of scrap could have been possibly used.

Parking Expenditures

We found six instances totaling $62 in which parking fees were paid and three instances where a total of $159 in penalties and interest were assessed for parking tickets. The parking tickets were incurred while the director was on official business, however, the penalties and interest were the result of not paying the tickets timely. In accordance with the *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management* [*DA-R. – Management of Funds Regulation (Appropriate Use of Funds), section B*], all public funds must be used to support the primary educational mission of Norfolk Public Schools. We concluded that expenditures in question were not directly or indirectly related to the mission of NPS and in addition we did not find the expenditures to reasonably be morale and welfare related.

Membership Fees

There were two instances in which a $45 Sam's Club membership fee was paid. This membership was for the purpose of shopping at the wholesaler, Sam's Club, and is not considered a professional membership. Per the *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management* [*DA-R. – Management of Funds Regulation (Appropriate Use of Funds), section C2a and C2b*]. Norfolk Public Schools will consider paying for an individual professional membership if the membership is required in order to perform the duties of a contract position, or if such membership is required in order for Norfolk Public Schools to obtain reimbursement for services delivered to students. In the absence of established guidelines or a special exception approved by School Administration or through policy of the School Board, we consider the procuring of a wholesale membership to have been inappropriate and unauthorized, in particular, since most likely the proceeds from the sale of scrap metal were used, proceeds that should have been used for public purposes since they were generated from assets paid for from public or other funds appropriated.

Other Observations

Audits Were Not Performed

An audit of the vending machine fund held by Facilities Management was not performed internally by the department, another department or group within NPS, or an independent agency for the three fiscal year period of our audit. In accordance with the *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management* [*DA-R. –D1 Financial Accounting and Reporting, Audits*], all financial records of the division are to be audited following the close of each fiscal year. NPS should have been aware of the Facilities Management's in-house vending machine fund so that it could be properly audited to ensure funds were being expended in accordance with NPS regulations and in support of the mission of NPS.

Unauthorized Petty Cash Fund

An unauthorized Petty Cash Fund (a small amount of discretionary funds in the form of cash used for expenditures instead of writing a check) was established over ten years ago and has been maintained by writing reimbursement checks to employees for amounts greater than the amounts of receipts for the expenditures purchased. There were 50 instances where the check amount was greater than the supporting receipts. In these instances two methods were employed to create and maintain a petty cash fund. Under the first method, the employees used their own money to purchase items and provided receipts to the Administrative Secretary who would then reimburse for an amount greater than the receipts total, keeping the excess amount on hand as petty cash. The second method entailed advancing monies to employees by writing checks to them for amounts greater than the eventual amounts of items purchased. As with the first method, the amount greater than the receipt was maintained on hand as a replenishment of the petty cash fund. For the three fiscal years audited, $1,005 was the aggregate amount used for petty cash purchases and by the end of our audit there were no monies in the petty cash fund. We further observed vouchers were not prepared when monies were used from the petty cash fund. Also, there was no accounting of the amount of funds maintained at any given time and a reconciliation of the fund was not performed. According to the *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management* [*DJB - Petty Cash Funds*], the school board may establish, by resolution, petty cash funds for the payment of properly itemized bills for materials, services, or supplies furnished to the school division under conditions calling for immediate payment to the vendor upon delivery. Facilities Management administrative staff stated the funds were used to have cash on hand to purchase items for department activities. However, we did not find a formal authorization for the establishment of this account and we were not able to link the fund to the direct mission of the department. Because of the potential for fraud, waste and abuse, oversight of a petty cash fund is an important internal control mechanism to ensure monies are properly spent and accounted for.

Vendor Sponsorships Were Obtained

We noted three copies of checks from vendors that were considered to be sponsors. The current director stated the vendors asked if they could help with cookouts and/or Christmas parties. Because sponsorships were provided by the vendors with the approval from management, there could be an appearance of a conflict of interest and it could be perceived that the vendors are providing these sponsorships to receive special consideration when they bid on contracts or renewal of contracts. Since the sponsorships that were provided did not help the mission of NPS and there were not any policies or guidelines establishing under what circumstances, if any, such practice are suitable, they should not have been accepted and, therefore, inappropriate and unauthorized.

Recommendations:

We recommend the following be implemented by the Norfolk Public School Administration:

1. Ensure the vending machine account activities adhere to the *Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management.*

2. Ensure United Way donations are properly handled and not comingled with the vending machine fund.

3. If appropriate and authorized, establish an employee morale and welfare account with guidelines as to its purpose and use.

4. Regularly perform reconciliations of the vending machine fund and ensure an annual or periodic audits are completed.

5. Evaluate the need for a petty cash fund and if appropriate, properly establish it and if not, terminate the existing petty cash fund.

6. Ensure sponsorships for the vending machine account are received by the Superintendent or the School Board and the support is for the benefit of the entire school district or a defined or approved purpose.

Management Responses:

As indicated in the attached Appendix, management has responded favorable to our recommendations and has taken corrective action.

Norfolk Public Schools
The cornerstone of a proudly diverse community

April 1, 2016

Mr. John H. Sanderlin, Jr.
City Auditor - Norfolk, Virginia
810 Union Street, Suite 806
Norfolk, Virginia 23510

Subject: Management Responses to Audit of the Facilities Management Department In-House Vending Machine Fund

Let me begin by expressing our appreciation to you and Mr. Brad Smith, Deputy City Auditor-Auditor-in-Charge, for your willingness to perform this special audit request for Norfolk Public Schools. I would also like to thank you for the thorough and professional manner in which the audit was performed. Per your request, please find management's responses to the recommendations resulting from audit.

Recommendation Number 1:

Ensure the vending machine account activities adhere to the Norfolk School Board, Virginia – School Board Policies and Regulations, Section D – Fiscal Management.

Management Response:

Management concurs with the finding and recommendation. Management will ensure that vending machine account activities undergo an internal audit on an annual basis. Management will also require that the vending machine account operations be subject to monthly financial reporting; and that such reports be reviewed and signed off on by the senior director of facilities management and submitted to the Chief Operations Officer for review.
Effective Date: July 1, 2016

Recommendation Number 2:

Ensure United Way donations are properly handled and not comingled with the vending machine fund.

Management Response:

Management concurs with the finding and recommendation. Management will issue a memorandum to the director of facilities management regarding adherence to the prescribed procedures for the handling of United Way donations.
Effective Date: April 15, 2016

Recommendation Number 3:

If appropriate and authorized, establish an employee morale and welfare account with guidelines as to its purpose and use.

Management Response:

Management concurs with the finding and recommendation. The division's business systems auditor will work with the senior director of facilities management to establish an employee morale and welfare account within the activity fund module in the division's financial management system. Doing so, will allow the division to more effectively account for receipt and disbursement activities, while maintaining one checking account.
Effective Date: July 1, 2016

Recommendation Number 4:

Regularly perform reconciliations of the vending machine fund and ensure an annual or periodic audits are completed.

Management Response:

Management concurs with the finding and recommendation. Management will implement quarterly reconciliation procedures. In addition, an annual audit of vending machine activities and related accounts will be performed.

Effective Date: July 1, 2016

Recommendation Number 5:

Evaluate the need for a petty cash fund and if appropriate, properly establish it and if not, terminate the existing petty cash fund.

Melinda J. Boone, Ed.D., Superintendent of Schools
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Management Response:

Management concurs with the finding and recommendation. The use of a petty cash fund will be discontinued.
Effective Date: April 1, 2016

Recommendation Number 6:

Ensure sponsorships for the vending machine account are received by the Superintendent or the School Board and the support is for the benefit of the entire school district or a defined or approved purpose.

Management Response:

Management concurs with finding and recommendation. Management will ensure that sponsorships are in compliance with School Board Policy DZA – *Commercial, Promotional, and Corporate Sponsorships.*
Effective Date: April 1, 2016

Again, we wish to thank you for your prompt response to our request for audit services. The findings and recommendations will be of tremendous value to the school division and the department of facilities management in our efforts to improve operations.

Sincerely,

Melinda J. Boone

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