

**Virginia Beach  
City Public  
Schools**

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**Office of Internal  
Audit**

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**Terrie L. Pyeatt, CPA  
Director  
Internal Audit**

**Annual Report**

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For the Fiscal Year Ended  
June 30, 2019

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## **Introduction to the Office of Internal Audit**

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### **Description**

The Office of Internal Audit provides financial and performance audit services to the School Board. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve operations. It provides a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The Office of Internal Audit has four full-time staff:

Terrie L. Pyeatt  
CPA  
Director of Internal Audit

Karen W. Woodson  
CIA  
Internal Auditor

Kasey R. Sawyer  
Internal Auditor

Amy M. Babines  
Administrative Office Associate

### **Objectives and Responsibilities**

The overall objective of the Office of Internal Audit is to assist all members of the Virginia Beach City Public Schools' (VBCPS) administration and the School Board in the effective discharge of their responsibilities by providing them with objective analyses, appraisals, recommendations, and pertinent audit comments concerning activities reviewed. These activities may include the following, not all-inclusive:

- Reviewing and appraising the soundness, adequacy, and application of accounting, financial, and other operating controls, and promoting an effective system of internal controls at a reasonable cost;
- Ascertaining the extent of compliance by VBCPS and its employees with state and federal laws and regulations, Virginia Board of Education regulations, School Board policies and regulations, and established procedures;
- Detecting fraud within the scope of each audit;
- Ascertaining the reliability of financial data;
- Recommending operating improvements; and
- Determining whether an office or function is achieving its mission, goals, and objectives in an effective manner.

### **Standards of Practice**

The Office of Internal Audit follows the *Government Auditing Standards* promulgated by the Comptroller General of the United States, Government Accountability Office.

## Reporting Responsibilities

The Office of Internal Audit, reports directly to the Audit Committee, and through the Audit Committee, to the full School Board. As of July 1, 2019, the Audit Committee consisted of four full members and one ex-officio member:

Daniel D. Edwards  
School Board Member

Audit Committee Chairman

Kimberly A. Melnyk  
Vice Chair of the School Board

Audit Committee Member

Carolyn T. Rye  
School Board Member

Audit Committee Member

Larry W. Davenport  
Community Member

Audit Committee Member

Beverly M. Anderson  
Chair of the School Board

Ex-Officio Audit Committee Member

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## Annual Audit Administration

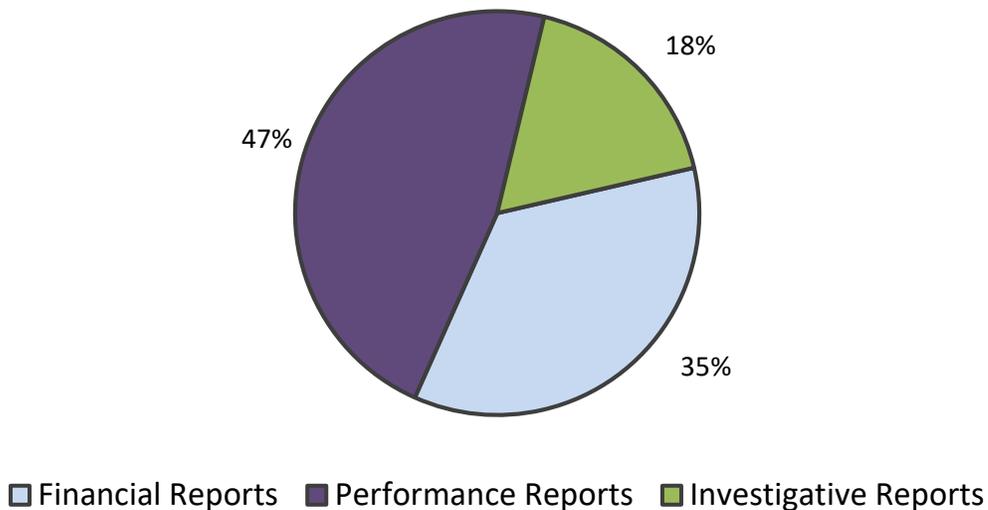
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### Results of Prior Year Audit Work Plan

The work performed by the Office of Internal Audit is guided by the Audit Work Plan, which is approved by the Audit Committee.

### Summary of Reports Issued During FY19



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## Financial Reports Completed

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The following six financial reports were completed during the fiscal year ended June 30, 2019:

- **School Activity Funds Audit for Fiscal Year Ended June 30, 2018**  
An annual financial audit of the school activity funds is mandated by School Board Policy 3-46, "Audits/Audit Committee/Internal Audit Charter." The Office of Internal Audit completed the School Activity Funds Audit for eighty-five schools. We offered suggestions for improvements to forty-two schools. Our overall opinion was that the Statement of Cash Receipts and Disbursements was presented fairly, in all material respects, using the cash basis of accounting. We also issued a separate report detailing the items noted at the schools that were in conflict with policies and procedures and/or best practices but did not have a material effect on the financial statement.

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## **Financial Reports Completed, Continued**

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- **Change in Bookkeeper School Activity Funds Audits**  
The Office of Internal Audit completed a Change in Bookkeeper School Activity Funds Audits at one middle school. Our opinion was that the Statement of Cash Receipts and Disbursements was presented fairly, in all material respects, using the cash basis of accounting for the school.
  
- **Change in Principal School Activity Funds Audits**  
The Office of Internal Audit completed a Change in Principal School Activity Funds Audits at one middle school. Our opinion was that the Statement of Cash Receipts and Disbursements was presented fairly, in all material respects, using the cash basis of accounting for the school.
  
- **Follow-Up School Activity Funds Audits**  
Follow-Up School Activity Funds Audits were completed at two elementary schools and one middle school. Our opinion was that the Statements of Cash Receipts and Disbursements were presented fairly, in all material respects, using the cash basis of accounting for each of the audits. We also issued separate reports detailing the items noted at each of these schools that were in conflict with policies and procedures and/or best practices but did not have a material effect on the financial statements.

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## **Performance Reports Completed**

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The following eight performance reports were completed during the fiscal year ended June 30, 2019:

- **Transportation Ridership Audit**  
The Office of Internal Audit completed an audit on the transportation function. The objectives of the audit were a) to determine if the transportation routing software is determining bus stops and developing bus runs and bus routes that effectively use student data and VBCPS parameters; b) to determine if the actual ridership is below or near the maximum VBCPS limits for each bus; and c) to provide analysis on actual ridership data. Our opinion was that the Office of Transportation Services and Fleet Management Services is not using the routing software to determine bus stops and develop bus runs and bus routes using student data and VBCPS parameters; and b) actual ridership per the bus driver counts are far below the maximum VBCPS limits for each bus. We also provided an analysis and comparison of the actual ridership data (unaudited). We provided recommendations to strengthen compliance with policies, procedures, and laws as well as to offer process improvements in the transportation function.

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## Performance Reports Completed, Continued

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- **Construction in Progress Expenditures Audit**

The Office of Internal Audit completed an audit on the construction in progress expenditures within the Capital Improvement Program. The objectives of the audit were to determine if a) funds spent in the later stage of a project were within the scope of the project as it was appropriated; and b) project expenditures were properly procured. Our opinion was that funds spent in the later stage of a project were substantially within the scope of the project as it was appropriated and the selected project expenditures were properly procured. We provided recommendations to further strengthen compliance with policies and procedures, as well as to strengthen internal controls and offer process improvements.

- **Food Services Cafeterias Audit**

The Office of Internal Audit completed an audit on the cafeteria meal sales for the period of September 2018 through April 2019. The objectives of the audit were to determine the schools' compliance with financial policies and procedures related to daily cafeteria meal sales; to determine if sales were accurately recorded; to determine if bank deposits were timely and accurate; and to determine if change funds were correct and properly safeguarded. Testwork was performed at four elementary schools, one middle school, and two high schools. Our opinion based on the results of the audit, was that cafeteria meal sales were accurately recorded, bank deposits were timely and accurate, change funds were correct and properly safeguarded, and the selected schools substantially followed policies and procedures related to meal sales. We provided recommendations to further strengthen compliance with policies and procedures, and to strengthen internal controls.

- **Athletics Ticket Sales and Inventory Audit**

The Office of Internal Audit completed an audit on the accuracy and adequacy of documentation of athletic cash receipts and disbursements for the period of July 1, 2017 through May 31, 2018. The objectives of the audit were to determine the accuracy and adequacy of documentation of athletic ticket inventory, gate receipts, and disbursements for support payments; and to determine the selected schools' compliance with policies and procedures. This audit included examination of documentation for school athletic events at two high schools and three middle schools. Our opinion was that the documentation for athletic ticket inventory, gate receipts, and disbursements for support payments were accurate and executed in accordance with policies and procedures. We provided recommendations to further strengthen compliance with policies and procedures and to strengthen internal controls.

- **Expenditure Analysis – Office of Custodial Services**

The Office of Internal Audit completed a nonaudit service related to the expenditures of the Office of Custodial Services (OCS). The primary objective of this nonaudit service was to review and analyze OCS expenditures to possibly identify future cost savings and to ensure that the expenditures reviewed were properly processed and appear to be reasonably aligned with the office's function. We found several exceptions during our testwork. Because this project was not an audit, we did not express an overall opinion on the work performed but we did meet with management to discuss the results of our work. This nonaudit service is performed each year on a judgmentally selected office.

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## Performance Reports Completed, Continued

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- **Healthcare Claims Audit**

The Office of Internal Audit, in conjunction with the Virginia Beach City Auditor's Office, received an external audit report issued by a consultant, Healthcare Horizons. The consultant audited all healthcare claims processed by the City and Schools' health insurance provider, Optima, for paid dates of calendar year 2017. The consultant's opinion, based on their experience, was that the audit results continue to represent above average performance by Optima in the administration of healthcare claims for the plan.

- **Annual Cash Disbursements Review**

The Office of Internal Audit completed a nonaudit service on cash disbursements with an effective date from October 2017 through September 2018. The objective of this project was to analyze fifty payments to ensure they were properly processed. We found two exceptions during our testwork. Because this project was not an audit, we did not express an overall opinion on the work performed but we did meet with management to discuss the results of our work.

- **Continuous Auditing Project**

*Athletic Events – Gate Observations*

The Office of Internal Audit completed a nonaudit service related to observing gate ticket sales at athletic events during the school year. IA observed ticket sales at five athletic events and found that tickets were being sold to attendees at each of the events and the appropriate people were conducting the ticket sales in all but one instance. Because this project was not an audit, we did not express an overall opinion on the work performed but we did meet with management to discuss the results of our work.

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## Investigative Reports Completed

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Three confidential investigative reports were issued during the fiscal year ended June 30, 2019. These investigations involved allegations concerning:

- Personal use of a VBCPS vehicle;
- Cash collection irregularities; and
- Procurement irregularities and employment contract violations.

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## **Teamwork**

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In accordance with government auditing standards, auditors may participate on committees or task forces in a purely advisory capacity to advise management on issues related to the knowledge and skills of the auditors without impairing their independence. However, auditors should not make management decisions or perform management functions. Auditors can provide routine advice to management to assist in activities such as establishing internal controls or implementing audit recommendations and can answer technical questions and/or provide training. The decision to follow the auditors' advice remains with management.

The Office of Internal Audit provided other services during the fiscal year ended June 30, 2019 as listed in the following table:

<b>Description</b>
<ul style="list-style-type: none"><li>• Created a public webpage for the Office of Internal Audit to increase transparency for the community. This webpage includes links to the Office of Internal Audit's issued reports;</li><li>• Issued a summary schedule of school activity funds audited cash balances as of June 30, 2018 to the external auditors. This schedule was included in VBCPS's Comprehensive Annual Financial Report;</li><li>• Conducted an off-site training for all bookkeepers on the internal audit process for the School Activity Funds;</li><li>• Manned the fraud, waste, and abuse hotline;</li><li>• Worked with department leaders and Human Resources on potential fraudulent matters that were reported to the Office of Internal Audit but did not result in an investigative report;</li><li>• Met with department leaders to discuss internal controls in their respective offices and offered suggestions for improvement; and</li><li>• Met with VBCPS's external auditors to discuss the internal control environment at VBCPS.</li></ul>

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## Risk Assessment

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### Purpose of Risk Assessment

The level of risk associated with Virginia Beach City Public Schools varies across the auditable units. Auditable units are VBCPS departments, offices, and schools. In general, risk assessment is a three-step process including:

- Risk Identification – Determination of the risks
- Risk Measurement – Determination of the size of the risks
- Risk Prioritization – Determination of which risks are most important

In order for the Office of Internal Audit to effectively create its Audit Work Plan, a structured risk assessment methodology was created that allows Internal Audit to examine the level of risk of each auditable unit.

The Office of Internal Audit established nine factors to identify areas that are at high risk for audits, in addition to audits that are mandated. Internal Audit also interviewed multiple employees, identified the key objectives of their function/office, the things that could occur which would prevent their function/office from meeting its objectives, and the outcome to VBCPS if the objectives are not met. Finally, Internal Audit evaluated this data and assigned an impact and likelihood assessment on each auditable unit. The areas/auditable units that ranked high in this assessment had a more likely chance of getting selected for the audit work plan. Internal Audit selects those audits that can be completed by available staff during the year. The auditable units with the highest risk assessment will be selected for audit on a more frequent basis while the auditable units with the lower risk assessments will be audited less frequently.

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### Risk Factors

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**Impact factors:**

- Magnitude of revenue or expenses
- Impact of adverse publicity
- Loss/harm to people
- Failure to meet goals

**Likelihood factors:**

- Complexity of operations
  - Strength of internal controls
  - Known deficiencies or audit findings
  - Changes in systems, management or procedures
  - Level of regulation/compliance activity
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## FY20 Audit Work Plan

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The following summary represents the areas selected to be included in our Audit Work Plan for FY20. A general description of each audit/engagement follows the summary chart.

<b>Audit Number</b>	<b>Audit Name</b>	<b>Page</b>
2001	FY20 School Activity Funds	10
2002	Athletic Ticket Sales and Inventory	10
2003	Annual Cash Disbursements	10
2004	Food Services Cafeterias	11
2005	Expenditure Analysis - First Colonial High School	11
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## FY20 Audit Work Plan, Continued

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**Title:** 2001/2050-Series: School Activity Funds  
**Department(s)/School(s):** All schools/Department of School Leadership  
**Type:** Financial Audit

**Description:**

The Office of Internal Audit will complete a School Activity Funds Audit as of the year ending June 30, 2020 for each school and for those schools that have a midyear change in principal or bookkeeper in accordance with School Board Policy 3-46, "Audits" which states: "Internal Accounts of the individual schools shall be audited each year...and whenever there is a change in principal or bookkeeper."

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**Title:** 2002: Athletic Ticket Sales and Inventory  
**Department(s)/School(s):** Department of School Leadership  
**Type:** Performance Audit

**Description:**

The Office of Internal Audit will complete an Athletic Ticket Sales and Inventory Audit of a sample of the middle and high schools that participate in athletic events. The audit will determine the accuracy and adequacy of documentation of athletic ticket inventory, gate receipts, and disbursements for support payments and will determine the selected schools' compliance with policies and procedures.

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**Title:** 2003: Annual Cash Disbursements  
**Department(s)/School(s):** Department of Budget and Finance  
**Type:** Performance Audit

**Description:**

The Office of Internal Audit will complete an Annual Cash Disbursements Audit for fifty cash disbursements processed by the Office of Business Services. The audit will determine if each disbursement was processed correctly at the office or school making the purchase as well as at the central administration level. This audit will not include procurement card transactions.

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## FY20 Audit Work Plan, Continued

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**Title:** 2004: Food Services Cafeterias  
**Department(s)/School(s):** Department of School Division Services  
**Type:** Performance Audit

**Description:**

The Office of Internal Audit will complete a Food Services Cafeteria Audit of several VBCPS cafeterias. The audit will include an examination of compliance with policies and procedures related to daily cafeteria meal sales.

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**Project:** 2005: Expenditure Analysis – First Colonial High School  
**Department(s)/School(s):** First Colonial High School/Department of School Leadership  
**Type:** Nonaudit Service

**Description:**

The Office of Internal Audit will conduct a nonaudit service in which we will examine all expenditures of a selected school. We will analyze the expenditures charged in one school location code and summarize based on type of expenditures. We will attempt to identify areas where VBCPS may experience future cost savings. In addition, we will determine if each transaction was processed correctly at the selected school and central administration offices. This nonaudit service is performed each year on a school chosen on a rotating basis.

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**Title:** 2006: Expenditure Analysis – Office of the Superintendent  
**Department(s)/School(s):** Office of the Superintendent  
**Type:** Nonaudit Service

**Description:**

The Office of Internal Audit will conduct a nonaudit service in which we will examine all expenditures of a selected budget code. We will analyze the expenditures charged in one budget code and summarize based on type of expenditures. We will attempt to identify areas where VBCPS may experience future cost savings. In addition, we will determine if each transaction was processed correctly at the selected office and other central administration offices. This nonaudit service is performed each year on an office chosen on a rotating basis.

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## FY20 Audit Work Plan, Continued

**Title:** 2007: Fuel Cards  
**Department(s)/School(s):** Department of School Division Services  
**Type:** Performance Audit

**Description:**

The Office of Internal Audit will complete a Fuel Cards Audit. The audit will determine if employees used fuel cards for authorized business purposes, if payments were processed and paid correctly, and if employees were compliant with established fuel card procedures.

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**Title:** 2008: Accountability of Chrome Books  
**Department(s)/School(s):** Department of Technology  
**Type:** Performance Audit

**Description:**

The Office of Internal Audit will complete an Accountability of Chrome Books Audit. The audit will determine if employees are following the procedures and requirements as it relates to purchasing, tracking, and disposing of Chrome Books for VBCPS.

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**Title:** 2009: Procurement Cards  
**Department(s)/School(s):** All schools/all departments  
**Type:** Performance Audit

**Description:**

The Office of Internal Audit will complete a Procurement Cards Audit. The audit will determine if employees are using procurement cards in accordance with the established procedures. We will also conduct data mining procedures to identify unusual transactions.

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**Title:** 2010: Construction Project – Thoroughgood Elementary School  
**Department(s)/School(s):** Department of School Division Services  
**Type:** Performance Audit/Nonaudit Services

**Description:**

The Office of Facilities Services, within the Department of School Division Services, is responsible for the procurement of all architectural and engineering services for school construction projects, including the negotiation/preparation of all contracts, as well as inspecting all projects through completion/occupancy. They are also responsible for approving and/or negotiating all change orders on the construction projects. The Office of Internal Audit will examine the procurement process for the construction of the new Thoroughgood Elementary School to ensure that procurement requirements were followed. In addition, Internal Audit will follow this project through to its completion and will periodically report on change orders.

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## FY20 Audit Work Plan, Continued

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**Title:** 2011: Healthcare Claims  
**Department(s)/School(s):** Department of Budget and Finance  
**Type:** Performance Audit

**Description:**

The Office of Internal Audit, in conjunction with the Virginia Beach City Auditor's Office, coordinates an audit conducted by an external consultant. The consultant will audit all healthcare claims processed by the City and Schools' health insurance provider for the calendar year 2019.

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**Title:** 2012: Grants  
**Department(s)/School(s):** Various  
**Type:** Performance Audit

**Description:**

VBCPS receives a significant amount of federal, state, and local funding in the form of grants. The Office of Internal Audit will conduct a compliance audit on one grant. The selection of the grant will be based on the dollar amount received, the type and complexity of grant requirements, and the frequency of external audits.

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**Title:** 2070: Continuous Auditing  
**Department(s)/School(s):** Various  
**Type:** Nonaudit Services

**Description:**

The Office of Internal Audit will perform continuous auditing on a variety of areas. These areas may include payroll, accounts payable, purchasing, safety related items, etc. Examples of items that may be checked include, but are not limited to, the following:

- Ghost employees;
- Random alcohol and drug tests for CDL drivers;
- Amazon Prime spending; and
- Security walkthroughs at individual schools.

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## FY20 Audit Work Plan, Continued

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**Title:** 2090: Special Requests/Investigations  
**Department(s)/School(s):** Various  
**Type:** Nonaudit Services

**Description:**

Upon notification or discovery of suspected fraud, the Office of Internal Audit will oversee and/or coordinate actions taken in investigating the suspected fraud in accordance with the Internal Audit Charter. Investigations consist of performing extended procedures necessary to determine whether fraud has occurred. It includes gathering sufficient evidence about the specific details of a discovered fraud. These investigations are sometimes a team effort by internal auditors, compliance specialists, police officers, and legal counsel.

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