

**Virginia Beach
City Public
Schools**

**Office of Internal
Audit**

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

Annual Report

For the Fiscal Year Ended
June 30, 2020

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Introduction to the Office of Internal Audit

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. In accordance with these standards, the Office of Internal Audit makes performance reports and financial reports available to the general public by posting them to the vbschools.com website at: https://www.vbschools.com/about_us/our_leadership/school_board/internal_audit/reports.

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, 2020, 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

Jessica L. Owens
School Board Member

Audit Committee Member

Larry W. Davenport
Community Member

Audit Committee Member

Carolyn T. Rye
Chair of the School Board

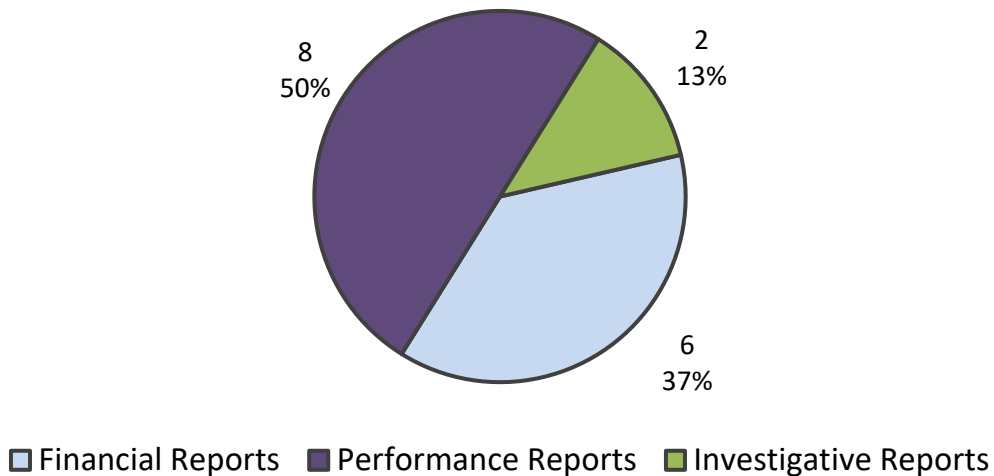
Ex-Officio Audit Committee Member

Annual Audit Administration

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 FY20 16 Reports



Financial Reports Completed

The following six financial reports were completed during the fiscal year ended June 30, 2020:

- **School Activity Funds Audit for Fiscal Year Ended June 30, 2019**
An annual financial audit of the school activity funds is mandated by School Board Policy 3-46, "Audits." The Office of Internal Audit completed the School Activity Funds Audit for eighty-five schools. We offered suggestions for improvements to thirty 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.

Financial Reports Completed, Continued

- **Change in Bookkeeper School Activity Funds Audits**
The Office of Internal Audit completed Change in Bookkeeper School Activity Funds Audits at two elementary schools. 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 the schools. We also issued a separate report detailing the items noted at one 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 statement.

- **Change in Principal School Activity Funds Audits**
The Office of Internal Audit completed Change in Principal School Activity Funds Audits at one middle school and at the Adult Learning Center. 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 the schools. 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.

- **Follow-Up School Activity Funds Audits**
The Office of Internal Audit completed a Follow-Up School Activity Funds Audit at one elementary 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. We also issued a separate report detailing the items noted at this school that were in conflict with policies and procedures and/or best practices but did not have a material effect on the financial statement.

Performance Reports Completed

The following eight performance reports were completed during the fiscal year ended June 30, 2020:

- **Consolidated Benefits Audit**
The Office of Internal Audit completed an audit on the rates of the health and dental benefits for VBCPS and the City of Virginia Beach. This function is managed by the Office of Consolidated Benefits. The objective of the audit was to determine if employees' payroll withholdings for health and dental benefits match the coverage provided by the vendors. Our opinion was that the substantially all employees' withholdings for health and dental benefits match the coverage provided by the vendor. We provided recommendations to strengthen internal controls and offer process improvements.

Performance Reports Completed, Continued

- **Contracts-Post-Award Process Audit**

The Office of Internal Audit completed an audit on the oversight of non-construction contracts. The objective of the audit was to determine if VBCPS met and monitored the significant terms and requirements of selected contracts. Our opinion was that VBCPS was compliant with the significant terms and requirements for fifty-eight of the contracts audited and partially compliant for the remaining four contracts. We provided recommendations to further strengthen compliance with policies, procedures, and contract terms, as well as to strengthen internal controls and offer process improvements.

- **Grants Audit – FY19 Algebra Readiness Initiative**

The Office of Internal Audit completed an audit on the FY19 Algebra Readiness Initiative grant. The objectives of the audit were to determine if VBCPS's was compliant with the grant requirements including 1) allowable costs, 2) period of availability, 3) matching, 4) reporting, and 5) three program requirements. The three program requirements included a) providing 2.5 hours of additional instruction per week to the served students, b) student/tutor ratio no greater than 10 to 1; and c) pre- and post-assessments for all served students. Our opinion was that a) VBCPS complied with the requirements related to allowable costs, period of availability, and matching; b) VBCPS complied with the reporting requirement but some of the information on the filed report was incomplete; c) VBCPS was substantially compliant with meeting the required 10 to 1 student/tutor ratio; and d) VBCPS was not fully compliant with the requirements to provide minimum of 2.5 additional hours per week for each student served nor were they fully compliant in administering pre- and post-assessments to each student served.

- **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, 2018 through May 10, 2019. 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 three high schools and six middle schools. Our opinion was that the documentation for athletic ticket inventory, gate receipts, and disbursements for support payments were substantially 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.

Performance Reports Completed, Continued

- **Expenditure Analysis – Kempsville Middle School**

The Office of Internal Audit completed a nonaudit service related to the non-salary/benefit expenditures of Kempsville Middle School (KMS) recorded in the Allocation Fund, location code 0069, for fiscal year 2019. The primary objective of this nonaudit service was to review and analyze KMS expenditures to ensure that the expenditures were properly processed. 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 school.
- **Expenditure Analysis – Department of Technology**

The Office of Internal Audit completed a nonaudit service related to the non-salary/benefit related expenditures of the Department of Technology (DOT), specifically those recorded in the Technology and Technology Maintenance budget unit codes, 64900 and 68400, for fiscal year 2019. The primary objective of this nonaudit service was to review and analyze DOT expenditures to ensure that the expenditures were properly processed. 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.
- **Expenditure Analysis – Office of the Superintendent**

The Office of Internal Audit completed a nonaudit service related to the expenditures of the Office of the Superintendent, budget unit codes 54200 and 64200, for the period March 1, 2019 – February 29, 2020. The primary objective of this nonaudit service was to review and analyze the Office of the Superintendent’s expenditures to ensure that the expenditures were properly processed. 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.
- **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 Consulting Group, Inc. The consultant audited all healthcare claims processed by the City and Schools’ health insurance provider, Optima, for paid dates during calendar year 2018. 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.

Investigative Reports Completed

Two investigative reports were issued during the fiscal year ended June 30, 2020. These investigations involved allegations concerning:

- Improper use of time in a central office; and
- Misappropriation of funds at an elementary school.

Teamwork

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, 2020 as listed in the following table:

Description
<ul style="list-style-type: none">• Issued a summary schedule of school activity funds audited cash balances as of June 30, 2019 to the external auditors. This schedule was included in VBCPS's Comprehensive Annual Financial Report;• Manned the fraud, waste, and abuse hotline;• Updated the Office of Internal Audit Procedures Manual to ensure our practices follow the revised <i>Government Auditing Standards</i> which assist in producing valuable audit reports;• Met with department leaders to discuss internal controls in their respective offices and offered suggestions for improvement;• Participated as a Team Leader for an Association of Local Government Auditors peer review; and• Met with VBCPS's external auditors to discuss the internal control environment at VBCPS.

Risk Assessment

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 higher risk assessments will be selected for audit on a more frequent basis while the auditable units with lower risk assessments will be audited less frequently.

Risk Factors

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
-

FY21 Audit Work Plan

The following summary represents the areas selected to be included in our Audit Work Plan for FY21. A general description of each audit/engagement follows the summary chart.

Audit Number	Audit Name	Page
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FY21 Audit Work Plan, Continued

Title: 2101/2150-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, 2021 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."

Title: 2102: Annual Cash Disbursements
Department(s)/School(s): All schools/All departments/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.

Project: 2103: 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 also 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.

FY21 Audit Work Plan, Continued

Title: 2104: Expenditure Analysis – Department of Human Resources
Department(s)/School(s): Department of Human Resources
Type: Nonaudit Service

Description:

The Office of Internal Audit will conduct a nonaudit service in which we will examine all expenditures of a selected cost center. We will analyze the expenditures charged in one cost center and summarize based on type of expenditures. We will also 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/department chosen on a rotating basis.

Title: 2105: Procurement Cards
Department(s)/School(s): All schools/All departments/Department of Budget and Finance
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.

Title: 2106: Grants – Coronavirus Aid, Relief, and Economic Security Act
Department(s)/School(s): All schools/All departments/Department of Budget and Finance
Type: Performance Audit

Description:

The Office of Internal Audit will conduct a compliance audit on funds spent under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). In FY21, VBCPS was awarded a substantial amount of CARES Act funding with tight spending deadlines. We will examine the expenditures charged to this grant to ensure they are allowable under the grant requirements.

Title: 2107: 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.

FY21 Audit Work Plan, Continued

Title: 2108: Accountability of Chromebooks
Department(s)/School(s): Department of Technology
Type: Performance Audit

Description:

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

Title: 2109: Virginia Unemployment Claims
Department(s)/School(s): Department of Human Resources
Type: Investigation

Description:

The Office of Internal Audit will collaborate with the Department of Human Resources to investigate the unemployment claims that were made during Covid-19 by VBCPS employees. Unemployment claims increased from less than \$20K per quarter to \$1M per quarter. We will determine if each of the individual claims are valid.

Title: 2110: 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 report on change orders.

Title: 2111: 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 calendar year 2020.

FY21 Audit Work Plan, Continued

Title: 2170: 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; and
- Amazon Prime spending.

Title: 2190: 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.
