

**Virginia Beach
City Public
Schools
Office of Internal
Audit**

Annual Report

For the Eighteen-Month Period Ended
December 31, 2021

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

Introduction	1
Annual Audit Administration	3
Risk Assessment	8
Calendar Year 2022 Audit Work Plan	9

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
CIA
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 December 2021, the Audit Committee consisted of four full members and one ex-officio member:

Kimberly A. Melnyk
Vice Chair of the School Board

Audit Committee Chairman

Jennifer S. Franklin
School Board Member

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

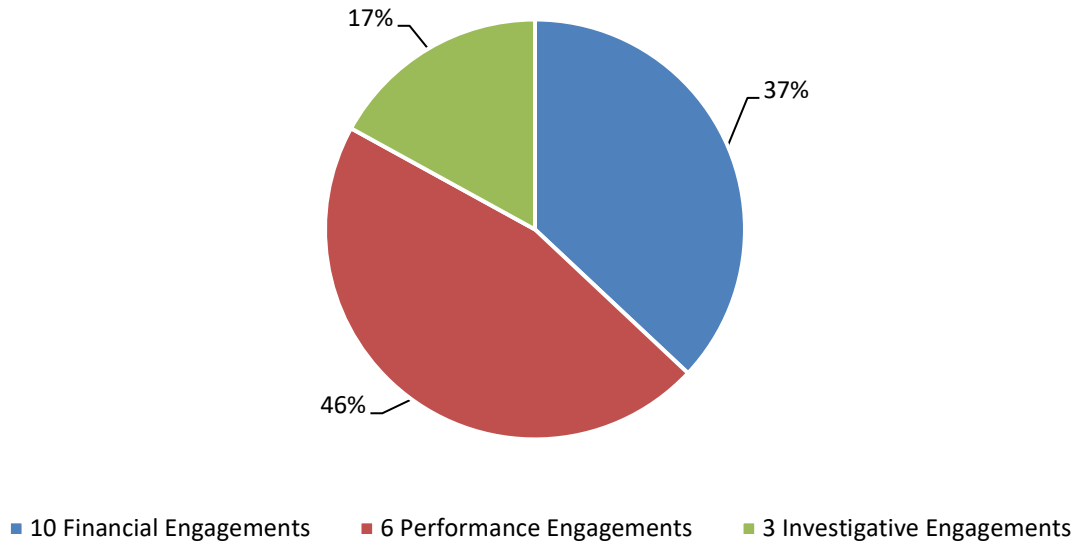
Ex-Officio Audit Committee Member

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. The following chart provides a summary of the number of engagements completed during the period as well as the percent of hours spent on each engagement type.

Percent of Hours Spent by Engagement Type



Financial Engagements Completed

The following ten financial engagements were completed during the eighteen-month period ended December 31, 2021:

- **School Activity Funds Audit for Fiscal Year Ended June 30, 2020**
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-six schools. We offered suggestions for improvements to thirty-one 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 conflicted with policies and procedures and/or best practices but did not have a material effect on the financial statement.

Financial Engagements, Continued

- **School Activity Funds Audit for Fiscal Year Ended June 30, 2021**

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-six schools. We offered suggestions for improvements to forty-three 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 conflicted with policies and procedures and/or best practices but did not have a material effect on the financial statement.

- **Change in Bookkeeper School Activity Funds Audits**

The Office of Internal Audit completed Change in Bookkeeper School Activity Funds Audits at one elementary school, one middle school, and one high 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 the schools. We also issued a separate report detailing the items noted at one of these schools that conflicted 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 one high 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 the schools. We also issued a separate report detailing the items noted at one of these schools that conflicted with policies and procedures and/or best practices but did not have a material effect on the financial statements.

- **Change in Principal/Change in Bookkeeper School Activity Funds Audits**

The Office of Internal Audit completed a Change in Principal/Change in Bookkeeper School Activity Funds Audit at 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 the schools.

- **Follow-Up School Activity Funds Audits**

The Office of Internal Audit completed a Follow-Up School Activity Funds Audit at one elementary school and one high 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 separate reports detailing the items noted at these schools that conflicted with policies and procedures and/or best practices but did not have a material effect on the financial statement.

Performance Engagements Completed

The following six performance engagements were completed during the eighteen-month period ended December 31, 2021:

- **Contracts – Post-Award Process Audit – Part II**

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 ten of the contracts audited and partially compliant for the remaining three 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.

- **Fuel Cards Audit**

The Office of Internal Audit completed an audit on the usage of fuel cards. This function is managed by the Office of Transportation and Fleet Management Services. The objectives of the audit were to determine if a) payments to the vendor match the invoices and were properly approved by the signature authority, b) if employees followed established fuel card procedures including key process related to: Fuel Card Agreements and monthly fuel card reconciliation/review process, and c) if employees used fuel cards for authorized business purposes. Our opinion was that the payments to PAPCO, Inc. matched the invoices and were properly approved by the signature authority; however, some employees were generally not following established fuel card procedures. Also, in our opinion, some employees were using the fuel cards to purchase fuel that was not consistent with the assigned vehicles. Internal Audit found that the review process of the fuel card program was insufficient, making it difficult, if not impossible, to determine if the unauthorized purchases were accidental or intentional. We provided recommendations to strengthen compliance with policies and procedures, as well as to strengthen internal controls and offer process improvements in administering the fuel card program.

- **Accountability of Chromebooks Audit**

The Office of Internal Audit conducted an audit on the Department of Technology’s (DOT) distribution and inventory controls of Chromebooks. The objectives of this audit were to determine if a) Chromebooks were properly procured, b) payments agreed to the negotiated prices specified in the contracts, c) Chromebooks were properly disposed, and d) DOT is properly managing and overseeing the Chromebooks in the 1:1 Program. Our opinion was that Chromebooks were properly procured, payments agreed to the negotiated prices specified in the contracts, and Chromebooks were properly disposed. While DOT has processes in place to manage Chromebooks in the 1:1 Program, the overall management and oversight of the 1:1 Program should be strengthened. We provided recommendations to strengthen compliance with policies and procedures, as well as to strengthen internal controls and offer process improvements.

Performance Reports Completed, Continued

- **Cash Disbursements Audit**

The Office of Internal Audit conducted an audit on 50 cash disbursements made during the period of September 2020 through August 2021. The objective of this project was to determine if cash disbursements were properly processed. Our opinion was that the 50 disbursements were properly processed except a) one transaction was coded to the wrong general ledger account, b) one invoice was not paid timely, and c) one invoice amount did not match the corresponding contract. We provided recommendations to further strengthen compliance with policies, procedures, and contractual agreements, as well as to strengthen internal controls and offer process improvements.

- **Healthcare Claims Audit – Two reports**

The Office of Internal Audit, in conjunction with the Virginia Beach City Auditor's Office, received two external audit reports 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 2019 and calendar 2020. The consultant's opinion for both reports, 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 Engagements Completed

Two investigative reports were issued during the eighteen-month period ended December 31, 2021. These investigations involved:

- Embezzlement at an elementary school; and
- Creating false financial documents at an elementary school.

Internal Audit also assisted the Department of Human Resources (HR) in investigating the unemployment claims that were made by current VBCPS employees during COVID-19. Internal Audit did not issue the findings to the Audit Committee in a formal report, but the information was used by HR to communicate with the Virginia Employment Commission to resolve the high number of unemployment claims.

Teamwork and Professionalism

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 eighteen-month period ended December 31, 2021 as listed in the following table:

Description
<ul style="list-style-type: none">• Issued two summary schedules of school activity funds audited cash balances as of June 30, 2020 and June 30, 2021 to the external auditors. These schedules were used in VBCPS's Annual Comprehensive Financial Reports;• Manned the fraud, waste, and abuse hotline;• Co-instructed two online peer review training courses for the Association of Local Government Auditors;• Participated as a Team Leader for an Association of Local Government Auditors peer review;• Served on outside organizations' boards and committees to assist in furthering the internal audit profession; 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 VBCPS 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

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 eight 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
-

Calendar Year 2022 Audit Work Plan

The following summary represents the areas selected to be included in our Audit Work Plan for calendar year 2022. A general description of each audit/engagement follows the summary chart.

Audit Number	Audit Name	Page
2201	FY22 School Activity Funds	10
2202	Annual Cash Disbursements	10
2203	Expenditure Analysis - Glenwood Elementary School	10
2204	Expenditure Analysis - Office of Food Services	11
2205	Ghost Employees	11
2206	Grants - Coronavirus Aid, Relief, and Economic Security Act	11
2207	School Cash Online	11
2208	Bus Maintenance	12
2209	Amazon Business Prime	12
2210	Construction Project - Thoroughgood Elementary School	12
2211	Healthcare Claims	12
2250	Interim School Activity Funds	10
2270	Continuous Auditing	13
2290	Investigations	13

Calendar Year 2022 Audit Work Plan, Continued

Title: 2201/2250-Series: School Activity Funds
Department(s)/School(s): All schools/Department of School Leadership
Type: Financial Audit

Description:

The Office of Internal Audit will conduct a School Activity Funds Audit as of the year ending June 30, 2022 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: 2202: 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 conduct 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: 2203: Expenditure Analysis – Glenwood Elementary School
Department(s)/School(s): Glenwood Elementary 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 recorded in Oracle Cloud for 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.

Calendar Year 2022 Audit Work Plan, Continued

Title: 2204: Expenditure Analysis – Office of Food Services
Department(s)/School(s): Department of School Division Services
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 and/or location code. 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: 2205: Ghost Employees
Department(s)/School(s): Department of Budget and Finance/Department of Human Resources
Type: Performance Audit

Description:

The Office of Internal Audit will conduct a Ghost Employees Audit. The audit will determine if there are names on VBCPS's payroll to whom paychecks are issued, but who are not actual employees and do not perform any work. This audit will include data mining.

Title: 2206: 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). We will examine the expenditures charged to this grant to ensure they are allowable under the grant requirements and if they fall within the timeframe to be spent.

Title: 2207: School Cash Online
Department(s)/School(s): Department of Budget and Finance
Type: Performance Audit

Description:

The Office of Internal Audit will conduct a School Cash Online Audit. The audit will determine if the funds collected through School Cash Online are properly deposited in the schools' banks and properly reported in the financial system. School Cash Online is a new software that the schools use to accept online payments.

Calendar Year 2022 Audit Work Plan, Continued

Title: 2208: Bus Maintenance
Department(s)/School(s): Department of School Division Services
Type: Performance Audit

Description:

The Office of Internal Audit will conduct a Bus Maintenance Audit. The audit will determine if the Office of Transportation and Fleet Management Services is maintaining the buses in accordance with established guidelines and requirements.

Title: 2209: Amazon Business Prime
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 Amazon Business Prime Audit. The audit will determine if employees are using the Amazon Business Prime accounts in accordance with established procedures.

Title: 2210: 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: 2211: 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 2021.

Calendar Year 2022 Audit Work Plan, Continued

Title: 2270: 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:

- Security walk-throughs; and
- Random alcohol and drug tests for CDL drivers.

Title: 2290: 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 collaborative effort by internal auditors, compliance specialists, and legal counsel.
