

**Virginia Beach
City Public
Schools**

**Department of
Internal Audit**

**Karen Woodson, CIA
School Board
Internal Auditor**

Annual Report

For the Twelve-Month Period Ended
December 31, 2022

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Introduction to the Department of Internal Audit

Description

The Department 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 Department of Internal Audit has four full-time staff:

Karen W. Woodson
CIA
School Board Internal Auditor

Kasey R. Sawyer
CIA
Internal Auditor

Vacant
Internal Auditor

Amy M. Babines
Executive Office Associate I

Objectives and Responsibilities

The overall objective of the Department 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 Department 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 Department of Internal Audit makes performance reports and financial reports available to the general public by posting them to the vbschools.com website at: [Reports - Virginia Beach School Board \(vbschools.com\)](http://vbschools.com)

Reporting Responsibilities

The Department of Internal Audit reports directly to the Audit Committee, and through the Audit Committee, to the full School Board. As of December 31, 2022, the Audit Committee consisted of four full members and one ex-officio member:

Kimberly A. Melnyk
Vice Chair of the School Board

Audit Committee Chair

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

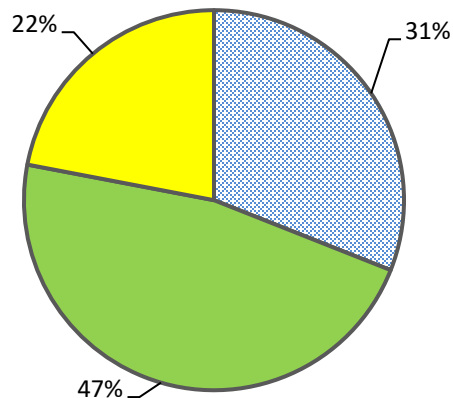
Ex-Officio Audit Committee Member

Annual Audit Administration

Results of Prior Year Audit Work Plan

The work performed by the Department 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



■ 6 Financial Engagements ■ 5 Performance Engagements ■ 4 Investigative Engagements

Financial Engagements Completed

The following six financial engagements were completed during the twelve-month period ended December 31, 2022:

- **School Activity Funds Audit for Fiscal Year Ended June 30, 2022**

An annual financial audit of the school activity funds is mandated by School Board Policy 3-46, "Audits." The Department of Internal Audit completed the School Activity Funds Audit for eighty-six schools. We offered suggestions for improvements to thirty-six 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

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

The Department of Internal Audit completed Change in Bookkeeper School Activity Funds Audits at three 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 the schools. We also issued a separate report detailing the items noted at two of these schools that conflicted with policies and procedures and/or best practices but did not have a material effect on the financial statement.

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

The Department 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.

Performance Engagements Completed

The following five performance engagements were completed during the twelve-month period ended December 31, 2022:

- **Expenditure Analysis – First Colonial High School**

The Department of Internal Audit completed a nonaudit service related to the expenditures of First Colonial High School. The objective of this project was to ensure expenditures were properly processed. We found a few exceptions during our testwork. Because this project was not an audit, we did not express an opinion on the work performed. This nonaudit service is performed each year on a judgmentally selected school.

- **Continuous Auditing Project**

- ***Security Walk-Throughs in School Buildings***

The Department of Internal Audit completed a nonaudit service on certain security protocols at the school level. The results were shared with management, but due to the nature of the project, it was presented to the Audit Committee in closed session. Because this project was not an audit, we did not express an opinion on the work performed.

- **School Cash Online Audit**

The Department of Internal Audit performed a School Cash Online Audit. The audit was conducted primarily to review the School Cash Online (SCO) process, not the individual transactions that occurred within the system. The objective of this audit was to determine a) if SCO is charging the purchasers appropriate amounts, including transaction fees, b) if SCO is depositing credit card collections into the correct VBCPS bank accounts, and if SCO prohibits the bookkeeper from changing the payment method for refunds, and c) if SCO activity is uploaded automatically and correctly into School Funds Online. Our opinion was that SCO system processes and procedures are working as designed.

Performance Reports Completed, Continued

- **Procurement Card Audit**

The Department of Internal Audit performed a Procurement Card Audit to review the procurement card process during the period of January 2021 – December 2021. The objective of this project was to determine if a) 65 purchasing limits in Works match what was approved by the Budget Manager and also determine if the Cardholder Agreement was approved by the Budget Manager and the purchasing limit was approved by Purchasing, if applicable, b) if Site Administrators at 15 schools and nine departments/offices are using generic p-cards to make purchases and if any Site Administrator has been issued a p-card, c) if all cardholders, as of June 1, 2022, are current employees, d) if system control for cardholders exceeding their single purchase and billing cycle spending limit is working as designed, e) if the system control is working to restrict purchases from vendors with certain MCC codes, f) if non-school activity fund p-card purchases made at 15 schools and nine departments/office during the October 2021 monthly billing cycle were approved by the Signature Authority with receipts/invoices to support the purchases and are reasonable for the location making the purchase, g) if all purchases of \$10,000 or more were approved by the Signature Authority with receipts/invoices to support the purchase from a current contract approved by Purchasing, which match the terms of the contract and determine if the purchase is reasonable for the location making the purchase, and h) identify and investigate any unusual p-card purchases made during the calendar year 2021 p-card billing cycle. Our opinion was all or substantially all the processes, or our system of controls are working as designed. 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**

The Department 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 2021. The consultant's opinion for this report, based on their experience, was that the audit results continue to represent an above-average performance by Optima in the administration of healthcare claims for the plan.

Investigative Engagements Completed

Four confidential investigative reports were issued during the twelve-month period ended December 31, 2022. These investigations involved:

- Misappropriation of assets at an office;
- Missing funds at a high school; and
- Financial irregularities at an elementary school and a high school.

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 evaluating internal controls or implementing audit recommendations and can answer technical questions and/or provide training.

The Department of Internal Audit provided other services during the twelve-month period ended December 31, 2022, as listed in the following table:

Description
<ul style="list-style-type: none">• Issued one summary schedule of school activity funds audited cash balances as of June 30, 2022. This schedule was used in VBCPS’s Annual Comprehensive Financial Report;• Monitored the fraud, waste, and abuse hotline;• Hosted continuing professional education training for the Virginia Local Government Auditors Association;• Participated as a Team Member for two Association of Local Government Auditors peer reviews;• Served on outside organizations’ boards and committees to assist in furthering the internal audit profession;• Met with VBCPS’s external auditors to discuss the internal control environment at VBCPS;• Provided School Activity Funds fraud awareness training to principals; and• Conducted an off-site training for all bookkeepers on the internal audit process for School Activity Funds.

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 Department 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 Department 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 selection 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 2023 Audit Work Plan

The following summary represents the areas selected to be included in our Audit Work Plan for calendar year 2023. A general description of each audit/engagement follows the summary chart.

Audit Number	Audit Name	Page
2301	FY23 School Activity Funds	9
2302	Annual Cash Disbursements	9
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2304	Expenditure Analysis - Office of Food Services	10
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2306	Ventilation Improvement Projects Grant	10
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Calendar Year 2023 Audit Work Plan, Continued

Title: 2301/2350-Series: School Activity Funds
Department(s)/School(s): All schools/Department of School Leadership
Type: Financial Audit

Description:

The Department of Internal Audit will conduct a School Activity Funds Audit as of the year ending June 30, 2023, 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: 2302: Annual Cash Disbursements
Department(s)/School(s): All schools/All departments/Department of Budget and Finance
Type: Performance Audit

Description:

The Department 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.

Title: 2303: Expenditure Analysis – Glenwood Elementary School
Department(s)/School(s): Glenwood Elementary School/Department of School Leadership
Type: Nonaudit Service

Description:

The Department of Internal Audit will conduct a nonaudit service in which all expenditures recorded in Oracle Cloud for the selected school will be examined. Internal Audit will analyze the expenditures charged in one school location code and provide a summarization based on the type of expenditures. Internal Audit 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 2023 Audit Work Plan, Continued

Title: 2304: Expenditure Analysis – Office of Food Services
Department(s)/School(s): Department of School Division Services
Type: Nonaudit Service

Description:

The Department of Internal Audit will conduct a nonaudit service in which all expenditures of a selected cost center and/or location code will be examined. Internal Audit will analyze the expenditures charged in one cost center and provide a summarization based on the type of expenditures. Internal Audit 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: 2305: Ghost Employees
Department(s)/School(s): Department of Budget and Finance
Type: Performance Audit

Description:

The Department 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.

Title: 2306: Ventilation Improvement Projects Grant
Department(s)/School(s): Department of Budget and Finance/Department of School Division Services
Type: Performance Audit

Description:

The Department of Internal Audit will conduct a compliance audit on the Ventilation Improvement Projects Grant which was awarded by the Virginia Department of Education from the American Rescue Plan Act of 2021, Coronavirus State and Local Fiscal Recovery Funds. Internal Audit will examine the expenditures charged to this grant to ensure they are allowable under the grant requirements and will determine if the spending guidelines and local match are met. Internal Audit will also examine the procurement for this project to ensure that all requirements were followed.

Calendar Year 2023 Audit Work Plan, Continued

Title: 2307: Athletic Ticket Sales Process
Department(s)/School(s): Department of School Leadership
Type: Performance Audit

Description:

The Office of Student Leadership, within the Department of School Leadership is responsible for athletic ticket sales for the division. The Department of Internal Audit will conduct an audit on the Athletic Ticket Sales Process for middle and high school athletics. The audit will include an examination of internal controls, compliance with policies and procedures, safeguards over ticket sales, and observations at school events as applicable.

Title: 2308: Firearm Inventory
Department(s)/School(s): Department of School Division Services
Type: Performance Audit

Description:

The Office of Security and Emergency Management, within the Department of School Division Services, is responsible for School Security Assistants that are issued a divisional firearm. The Department of Internal Audit will perform an audit of the inventory process of the divisional firearms purchased by VBCPS.

Title: 2311: Healthcare Claims
Department(s)/School(s): Department of Budget and Finance
Type: Performance Audit

Description:

The Department 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 2022.

Title: 2370: Continuous Auditing
Department(s)/School(s): Various
Type: Nonaudit Services

Description:

The Department of Internal Audit will perform continuous auditing on a variety of areas. These areas may include payroll, accounts payable, purchasing, safety-related items, etc.

Calendar Year 2023 Audit Work Plan, Continued

Title: 2390: Investigations
Department(s)/School(s): Various
Type: Nonaudit Services

Description:

Upon notification or discovery of suspected fraud, the Department 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.
