

**Virginia Beach
City Public
Schools**

Annual Report

For the Calendar Year Ended
December 31, 2024

**Department of
Internal Audit**

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Approved 1/28/25

Introduction to the Department of Internal Audit

Description

The Department of Internal Audit (IA) 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. IA has four full-time staff members:

Karen W. Woodson
CIA, CFE
School Board Internal Auditor

Kasey R. MacFarlane
CIA, CFE
Internal Auditor

Sarah H. Branch
Internal Auditor

Lisa K. Martin
Executive Office Associate I

Objectives and Responsibilities

The overall objective of IA 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 the transactions of an office or function align within its mission, goals and objectives.

Standards of Practice

IA follows the *Government Auditing Standards* promulgated by the Comptroller General of the United States, Government Accountability Office. In accordance with these standards, IA 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

IA reports directly to the School Board through the Audit Committee. As of December 31, 2024, the Audit Committee consisted of four full members and one ex-officio member:

Jennifer S. Franklin
School Board Member

Audit Committee Chair

David Culpepper
School Board Member

Audit Committee Member

Carolyn D. Weems
School Board Member

Audit Committee Member

Larry W. Davenport
Community Member

Audit Committee Member

Kimberly A. Melnyk
School Board Chair

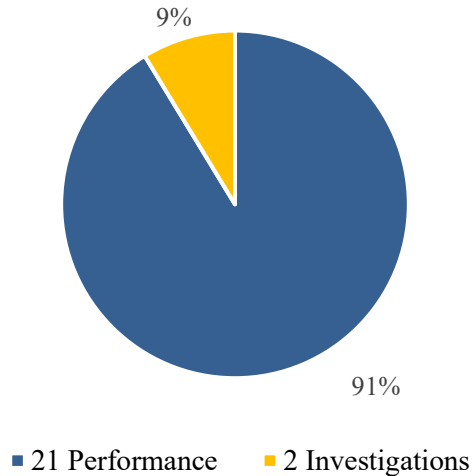
Ex-Officio Audit Committee Member

Annual Audit Administration

Results of Prior Year Audit Work Plan

The work performed by IA 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 by type during the 12-month period ended December 31, 2024.

Completed Engagements by Type



Performance Engagements Completed

The following 21 performance engagements were completed during the 12-month period ended December 31, 2024. IA provided recommendations to further strengthen compliance with policies and procedures, as well as to strengthen internal controls and offer process improvements in each of the engagements as follows:

- **Annual Cash Disbursements Audit**

IA completed an Annual Cash Disbursements Audit on 40 non-payroll invoices greater than \$500 but less than \$20,000 and 10 payroll journal entries that contained 56 individual employee travel reimbursements between September 1, 2023, and August 31, 2024. The objective of this audit was to determine if invoices and travel reimbursements were processed according to division requirements. The conclusion was that all transactions were properly processed, with the following exceptions: Two invoices were not paid timely; one local travel/professional development reimbursement request was not approved by the signature authority; and four local travel/professional development reimbursement requests were not submitted within 10 business days of conclusion of the trip/local travel.

- **Cafeteria Inventory Audit**

IA completed a Cafeteria Inventory Audit. The audit period was July 1, 2023, through June 30, 2024, with observations performed between October 2, 2024, and October 16, 2024. IA

Performance Engagements Completed, continued

judgmentally selected eight schools representing different geographic areas, school levels and sizes. This audit was conducted primarily to review the cafeteria inventory process. IA concluded that all vendor orders were correctly recorded on the day of delivery and all managers performed inventory counts in the months required, with the supervisors reconciling the counts and completing at least one Supervisor Kitchen Audit Form. All exterior entrances to the cafeterias were locked, and the inventory inside could be secured. IA noted that not all inventory was withdrawn daily, and there were variances in inventory counts at each of the eight schools compared to the inventory system.

- **School Activity Funds Audit for Fiscal Year Ended June 30, 2024**

IA completed an audit of the school activity funds which is mandated by School Board Policy 3-46, "Audits." IA completed the School Activity Funds Audit for 86 schools. IA concluded that the balances on the Statement of Cash Receipts and Disbursements was fairly stated, and the division was compliant with the applicable policies and procedures, except for certain procedures at select schools. Internal controls were adequate and functioning as intended. The report detailed 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, including suggestions for improvement at 13 high schools, eight middle schools and 20 elementary schools. The report did not identify areas of improvement for the remaining schools.

- **Healthcare Horizons Audit**

IA, 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 2023. 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.

- **Expenditure Analysis – Virginia Beach Middle School**

IA completed a non-audit service related to the expenditures of Virginia Beach Middle School. The objective of this project was to ensure that expenditures were processed according to division requirements. IA noted that expenditures were processed according to division requirements with a few exceptions. Because this project was not an audit, IA did not express an opinion on the work performed but did meet with management to discuss the results of the work. This non-audit service is performed each year on a school that is judgmentally selected.

- **Continuous Auditing – Pre-trip Bus Inspection**

IA completed a Continuous Auditing – Pre-trip Bus Inspection non-audit service. IA conducted on-site observations of bus drivers to ensure they were completing the pre-trip bus inspection per Virginia State Code 8VAC20-70-380, which requires drivers to inspect the bus before loading passengers. Observations were conducted over a four-day period between May 28, 2024, and June 7, 2024, for 18 bus drivers. IA noted that some drivers completed the required pre-trip inspection while others completed a portion of the inspection or none at all. Because

Performance Engagements Completed, continued

this project was not an audit, IA did not express an opinion on the work performed but did meet with management to discuss the results of the work.

- **Firearm Inventory Audit**

IA completed a Firearm Inventory Audit primarily to review the firearm inventory and School Security Officer II hiring process. The results were shared with management, but due to the sensitive nature of the audit, the report was issued confidentially.

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

IA completed Change in Bookkeeper School Activity Funds Audits at two elementary schools. IA concluded that the balances on the Statement of Cash Receipts and Disbursements were fairly stated; the schools were compliant with the applicable policies and procedures; and the internal controls were adequate and functioning as intended.

- **Change in Principal School Activity Funds Audit**

IA completed Change in Principal School Activity Funds Audits at five elementary schools and two middle schools. IA concluded that the balances on the Statement of Cash Receipts and Disbursements were fairly stated; two schools were compliant with the applicable policies and procedures; five schools had exceptions on certain procedures; and the internal controls for all schools were adequate and functioning as intended. Each report detailed 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, including suggestions for improvement.

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

IA completed a Follow-Up School Activity Funds Audit at one high school. IA concluded that the balances on the Statement of Cash Receipts and Disbursements were fairly stated; the school was compliant with the applicable policies and procedures, except for certain procedures; and the internal controls were adequate and functioning as intended. The report detailed the items noted that conflicted with policies and procedures and/or best practices but did not have a material effect on the financial statement, including suggestions for improvement.

- **Change Order Project – Thoroughgood Elementary School**

IA completed the Change Order Project for the replacement of Thoroughgood Elementary School. This non-audit engagement covered change orders one through 10, with 10 being the final change order for this construction project. IA examined certain items/documents for each change order during the analysis. IA noted approvals that were signature stamped and calculation errors on certain change orders. Because this project was not an audit, IA did not express an opinion on the work performed but did meet with management to discuss the results of the work.

Performance Engagements Completed, continued

- **Ghost Employees Audit**

IA completed a Ghost Employees Audit, which was conducted primarily to determine if payments were made to actual employees who perform work. All employees paid in a non-pay status were evaluated, and the results were representative of the total population of employees paid in a non-pay status. IA concluded that names on the VBCPS payroll to whom paychecks were issued are actual employees who perform work.

- **Athletic Ticket Sales Process Audit**

IA completed an Athletic Ticket Sales Process Audit. IA conducted this audit primarily to review the athletic ticket sales process through GoFan. IA concluded that VBCPS received and correctly coded funds for the athletic events reviewed. In addition, all athletic ticket prices reviewed were consistent with VBCPS's athletic ticket prices. IA did not observe any payments being accepted for tickets outside the GoFan system. Of the gate employees observed, substantially all verified the ticket or the entrance eligibility of each guest. Substantially all GoFan users were current employees; however, there were seven that had access that was not appropriate for their position. The Student Activity Coordinators observed did not have access to change the payment information in the system, and the dollar value and quantity of refunds issued during the audit period appeared reasonable.

- **Annual Cash Disbursements Audit**

IA completed an Annual Cash Disbursements Audit on 50 non-payroll invoices greater than \$500 but less than \$20,000 between October 1, 2022, and August 31, 2023. The objective of this audit was to determine if invoices were processed according to division requirements. The conclusion was that the 50 transactions were properly processed, except one payment over \$10,000 was not submitted for review and one invoice showed inconsistencies in the receipting process.

Investigative Engagements Completed

Two confidential investigative reports were issued during the 12-month period ended December 31, 2024. These included the investigation of the following:

- Improper receipting procedures at a high school
- An investigation at an elementary 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.

Teamwork and Professionalism, continued

IA provided other services during the 12-month period ended December 31, 2024, as listed in the following table:

Description
• Issued one summary schedule of school activity funds audited cash balances as of June 30, 2024. This schedule was used in preparation of VBCPS's Annual Comprehensive Financial Report; • Monitored the fraud, waste and abuse hotline; • Served on outside organizations' boards and committees to assist in furthering the internal audit profession; • Met with VBCPS's external auditors to discuss VBCPS's internal control environment; • Conducted an off-site training for all bookkeepers on the internal audit process for the School Activity Funds Audit; and • Provided aspiring principals an overview of the Internal Audit function, including common mistakes and fraud awareness training.

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

IA established eight factors to identify areas that are at high risk for audits, in addition to audits that are mandated. IA also interviewed multiple employees, identified the key objectives of their function/office, the things that could occur that would prevent their function/office from meeting its objectives, and the effect on VBCPS if the objectives are not met. Finally, IA 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. IA 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 2025 Audit Work Plan

The following summary represents the areas selected to be included in the Audit Work Plan for calendar year 2025. A general description of each audit/engagement follows the summary chart.

Audit Number	Audit Name	Page
2501	FY25 School Activity Funds Audit	10
2502	Annual Cash Disbursements Audit	10
2503	Expenditure Analysis – John B. Dey Elementary School	10
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2505	Utility Expense Audit	11
2506	Procurement of Sole Source Contracts Audit	11
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2570	Continuous Auditing	12
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Calendar Year 2025 Audit Work Plan, Continued

Title: 2501/2550-Series: School Activity Funds Audit
Department(s)/School(s): Department of School Leadership/ All schools
Type: Performance Audit

Description:

IA will conduct a School Activity Funds Audit as of the fiscal year ending June 30, 2025, 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: 2502: Annual Cash Disbursements Audit
Department(s)/School(s): Department of Budget and Finance /All schools/All departments
Type: Performance Audit

Description:

IA will conduct an Annual Cash Disbursements Audit for 100 cash disbursements processed by the Office of Business Services. The sample selection will focus on transactions between \$500 and \$100,000 and will include a portion of travel-related reimbursements. The audit will determine if each disbursement paid at the central administration level was processed by the school or office according to division requirements.

Title: 2503: Expenditure Analysis – John B. Dey Elementary School
Department(s)/School(s): Department of School Leadership
Type: Non-audit Service

Description:

IA will conduct a non-audit service in which all non-salary/benefit expenditures of a selected cost center and/or location code will be examined. IA will analyze the expenditures charged in one cost center and provide a summarization based on the type of expenditures. IA will also determine if each transaction was processed according to division requirements for the selected office. This non-audit service is performed each year on a school chosen on a rotating basis.

Calendar Year 2025 Audit Work Plan, Continued

Title: 2504: Expenditure Analysis – Office of Distribution Services
Department(s)/School(s): Department of School Division Services
Type: Non-audit Service

Description:

IA will conduct a non-audit service in which all non-salary/benefit expenditures of a selected cost center and/or location code will be examined. IA will analyze the expenditures charged in one cost center and provide a summarization based on the type of expenditures. IA will also determine if each transaction was processed according to division requirements for the selected office. This non-audit service is performed each year on an office/department chosen on a rotating basis.

Title: 2505: Utility Expense Audit
Department(s)/School(s): Department of School Division Services
Type: Performance Audit

Description:

IA, in conjunction with Maintenance Services in the Office of Facilities Services, will coordinate an audit conducted by an external consultant. The consultant will audit the division's power, solar, gas, water and sewer charges to identify vendor processing errors and will analyze the usage/rate structure to identify future cost savings.

Title: 2506: Procurement of Sole Source Contracts Audit
Department(s)/School(s): Department of Budget and Finance
Type: Performance Audit

Description:

IA will conduct an audit of sole source contracts to determine compliance with VBCPS and state procurement requirements.

Title: 2507: Capitalized Assets Audit
Department(s)/School(s): Department of Budget and Finance
Type: Performance Audit

Description:

IA will conduct an audit of the division's capitalized assets. Capitalized assets are defined by School Board as assets with an initial, individual costs of \$5,000 including land, buildings, improvements, machinery, equipment and vehicles. IA will evaluate the process to record and monitor capitalized assets to determine if the assets are accurately reflected.

Calendar Year 2025 Audit Work Plan, Continued

Title: 2511: Healthcare Claims Audit
Department(s)/School(s): Office of Consolidated Benefits/Department of Budget and Finance
Type: Performance Audit

Description:

IA, in conjunction with the Virginia Beach City Auditor's Office, will coordinate 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 2024.

Title: 2570: Continuous Auditing
Department(s)/School(s): Various
Type: Non-audit Services

Description:

IA will perform continuous auditing on a variety of areas. These areas may include transportation, payroll, accounts payable, procurement, safety-related items, etc.

Title: 2590: Investigations
Department(s)/School(s): Various
Type: Non-audit Services

Description:

Upon notification or discovery of suspected fraud, IA 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.
