



Annual Report

For the Calendar Year Ended
December 31, 2025

**Department of
Internal Audit**

Introduction	1
Annual Audit Administration	3
Risk Assessment	8
Calendar Year 2026 Audit Work Plan	9

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
Senior Internal Auditor

Sarah H. Branch
CIA
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 reports available to the general public by posting them to the vbschools.com website at: [Reports - Virginia Beach School Board \(vbschools.com\)](#)

Reporting Responsibilities

IA reports directly to the School Board through the Audit Committee. As of December 31, 2025, the Audit Committee consisted of four full members and one ex-officio member:

David Culpepper
School Board Member

Audit Committee Chair

Matt Cummings
School Board Member

Audit Committee Member

Carolyn D. Weems
School Board Member

Audit Committee Member

Larry W. Davenport
Community Member

Audit Committee Member

Kathleen Brown
School Board Chair

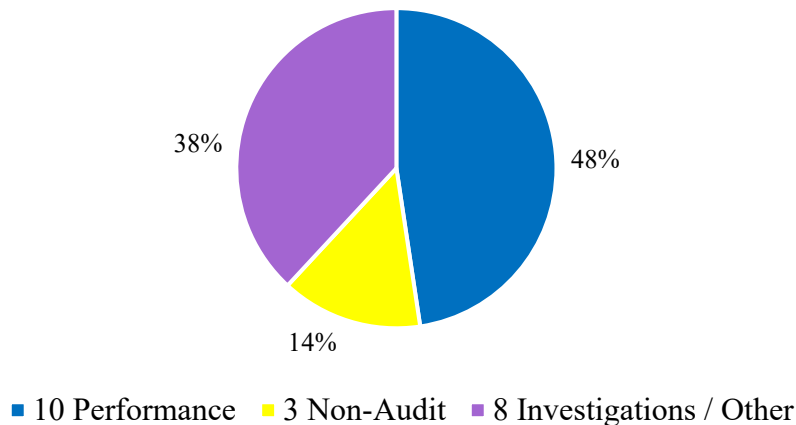
Ex-Officio Audit Committee Member

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 during the period of December 10, 2024, through December 31, 2025.

Completed Engagements by Type



Performance Engagements Completed

IA completed the following 10 performance engagements and 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:

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

IA completed a Follow-Up School Activity Funds (SAF) Audit at one high school and one elementary school. IA concluded that the balances on the Statement of Cash Receipts and Disbursements were fairly stated for both schools; the elementary school was compliant with the applicable policies and procedures, while the high school had two exceptions; and the internal controls were adequate and functioning as intended, although the high school fundraiser oversight controls were addressed in a separate investigation.

- **Remote Work Agreement Audit**

IA completed a Remote Work Agreement Audit for all VBCPS employees who work remotely, as reported by supervisors, chiefs, and principals to assess compliance with School Board Regulation 4-31.2. IA included statistics of the number of employees, their classification, and their remote work frequency. IA concluded that 113 employees from four departments/offices were not following procedures for Remote Work Agreements, as outlined in the regulation.

Performance Engagements Completed, continued

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

IA completed a Change in Principal SAF Audit at one elementary 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; and the internal controls were adequate and functioning as intended.

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

IA completed Change in Bookkeeper SAF Audits at one high school and one elementary school. IA concluded that the balances on the Statement of Cash Receipts and Disbursements were fairly stated; both schools were compliant with the applicable policies and all except certain procedures that did not have a material effect on the financial statement; and the internal controls for both schools were adequate and functioning as intended.

- **Capitalized Assets Audit**

IA completed a Capitalized Assets Audit. The audit was conducted primarily to review the capitalized assets process. The audit period was the 2024 – 2025 school year through June 13, 2025. IA concluded that VBCPS has procedures in place to record and reconcile capitalized assets annually; however, the Office of Business Services should utilize the information provided by the external barcoding contractor to improve the usage and tracking of capital assets. In addition, procedures related to disposals should be updated to ensure that the asset records are up to date.

- **School Activity Funds Audit for Fiscal Year Ended June 30, 2025**

IA completed an audit of the school activity funds which, is mandated by School Board Policy 3-46. IA completed the SAF 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 nine high schools, 10 middle schools, 20 elementary schools and two specialty schools. The report did not identify areas of improvement for the remaining schools.

- **Procurement of Sole Source Contracts/Purchases Audit**

IA completed a Procurement of Sole Source Contracts/Purchases Audit to review purchases and contracts with an approved sole source. The audit period was September 1, 2023, through April 30, 2025. IA concluded that all sole source procurements included the required information to support the need for a sole source; however, improvement is needed to ensure a quote or requisition is maintained to support the sole source award and awards over \$50,000 are publicly posted. IA determined that substantially all payments were made after the sole sources were approved or division procurements requirements were met.

Performance Engagements Completed, continued

- **Cash Disbursements Audit**

IA completed a Cash Disbursements Audit to review 90 non-payroll transactions and 10 journal entries containing employee travel reimbursements. The transactions reviewed occurred between September 2024 through August 2025. IA concluded that all non-payroll transactions examined appeared reasonable, were correctly coded, were approved by the signature authority and matched the invoice; however, two of the 90 were not paid promptly. All travel reimbursements were processed in accordance with division requirements.

Non-Audit Engagements Completed

IA completed the following three non-audit service engagements. Because these projects were not audits, IA did not express an opinion on the work performed but did meet with management to discuss the results of the work. The non-audit engagements are as follows:

- **Expenditure Analysis – Offices**

IA completed a non-audit service for the Office of Student Leadership including non-salary/benefits related expenditures totaling approximately \$536,570 for the period of October 1, 2023, through September 30, 2024. IA also completed a non-audit service for the Office of Distribution Services including non-salary/benefits related expenditures totaling approximately \$299,563 for the period of January 1, 2024, through December 31, 2024. The objective of these projects was to ensure that expenditures were processed according to division requirements. In addition, IA presented a summary of each office's expenditures by category. IA noted that the expenditures were processed according to division requirements for both offices with a few exceptions. These non-audit services are performed each year on offices that are judgmentally selected.

- **Expenditure Analysis – School**

IA completed a non-audit service for John B. Dey Elementary School including non-salary/benefits related expenditures totaling approximately \$51,700 for the period of September 1, 2024, through August 31, 2025. The objective of this project was to ensure that expenditures paid from allocation funds were processed according to division requirements. In addition, IA presented a summary of expenditures by category. IA noted that expenditures were processed according to division requirements. This non-audit service is performed each year on a school that is judgmentally selected.

Investigations / Other Engagements Completed

IA completed the following eight other engagements, including investigative reports and an audit that was performed by an external consultant on a contingency basis. Investigations are performed because fraud was detected by IA, suspected or reported by an office/department, or originated from the fraud hotline. IA met with management to discuss the results of the work. The other engagements are as follows:

Investigative / Other Engagements Completed, continued

- **Healthcare Claims 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, Sentara Health Plans (Sentara), for paid dates during Calendar Year 2024. The consultant's opinion for this report, based on their experience, was that the audit results continue to represent the above-average performance by Sentara in the administration of healthcare claims for the plan. The consultant identified certain claims, and Sentara agreed that they were processed incorrectly and will be recovered from Sentara.

- **Investigative Engagements**

Seven investigative reports, five that were confidential, were completed, as follows:

- Investigation of a waste allegation,
- One investigation at an elementary school;
- An investigation at a specialty center;
- An investigation at an office/high school; and
- Investigations at three high schools.

Work in Progress

There are two engagements from a previous work plan and one investigation that are in progress. The HVAC Improvement Grant Audit will be completed following the December 31, 2026, grant spending deadline. Work on the Utility Audit is substantially complete. IA is awaiting the final report from the external consultant.

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.

IA provided other services, listed below:

- Issued one summary schedule of SAFs audited cash balances as of June 30, 2025. This schedule was used in preparation of VBCPS' 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' external auditors to discuss VBCPS' internal control environment;

Teamwork and Professionalism, continued

- Conducted off site training for all bookkeepers on the internal audit process for the SAF Audit;
- Provided new principals' training on internal controls for SAF;
- Provided training to all elementary school principals, including an overview of common mistakes with SAF, prevention techniques, and why they are important;
- Participated in a collaborative discussion at the Beach District Workshop roundtable; and
- Performed two external peer reviews and completed the VBCPS' peer review.

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 interviewed and surveyed employees to identify the key objectives of their function/office. IA evaluated changes in personnel, systems, new or expanded state and/or federal requirements, occurrences that would prevent their function/office from meeting objectives, and the effect on VBCPS. IA evaluated this data and assigned an impact and likelihood assessment on each auditable unit.

The 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, considering timing and prior engagements completed in that auditable unit. 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. The required SAF Audits and the administration of the Fraud Hotline are not included in the auditable units, however risks within these areas are considered.

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 2026 Audit Work Plan

The following summary represents the areas selected to be included in the Audit Work Plan for Calendar Year 2026. A general description of each engagement follows the summary chart listed below:

Engagement Number	Engagement Name	Page
2601	Fiscal Year 2026 School Activity Funds Audit	10
2603	Expenditure Analysis – Ocean Lakes High School	10
2604	Expenditure Analysis – Office of Student Support Services: Psychological Services and Social Workers	10
2605	Fundraisers Audit	11
2606	Contracts Audit	11
2607	Software Utilization Audit	11
2608	Construction Project – Princess Anne High School	12
2611	Healthcare Claims Audit	12
2650	Interim School Activity Funds Audits	12
2670	Continuous Auditing	13
2690	Investigations	13

Calendar Year 2026 Audit Work Plan, Continued

Title: 2601 Fiscal Year 2026 School Activity Funds Audit (SAF)
Department(s)/School(s): Department of School Leadership/All schools
Type: Performance Audit

Description:

IA will conduct a SAF Audit as of the fiscal year ending June 30, 2026, for each school, in accordance with School Board Policy 3-46 which states, “Internal accounts of the individual schools shall be audited each year.”

Title: 2603: Expenditure Analysis – Ocean Lakes High 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 allocation of expenditures for Ocean Lakes High School’s location code 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 that is chosen on a rotating basis.

Title: 2604: Expenditure Analysis – Office of Student Support Services:
Psychological Services and Social Workers
Department(s)/School(s): Department of Teaching and Learning
Type: Non-Audit Service

Description:

IA will conduct a non-audit service in which all non-salary/benefit expenditures of a selected cost center(s) and/or location code will be examined. IA will analyze the expenditures charged in the cost centers for Psychological Services and Social Workers 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.

Calendar Year 2026 Audit Work Plan, Continued

Title: 2605: Fundraisers Audit
Department(s)/School(s): Department of School Leadership/All schools
Type: Performance Audit

Description:

Fundraisers are events or activities that raise money for the school, student clubs and organizations, athletic teams, and extracurricular programs which provide resources beyond what is covered by the operating budget. IA will complete an audit of school-level fundraisers, including three types of fundraisers: standard, online, and crowdfunding. The primary objectives of this audit will be to gain an understanding of the policies and procedures that govern fundraisers, including benchmarking policies and procedures with other divisions and to determine whether existing policies/procedures are being followed.

Title: 2606: Contracts Audit
Department(s)/School(s): Department of Budget and Finance
Type: Performance Audit

Description:

The Office of Procurement Services, within the Department of Budget and Finance (Budget) is the central procurement office for VBCPS. The Office of Business Services, also within Budget, processes contractual payments to vendors once they are approved. IA will review the division's contract policies and procedures and evaluate compliance in vendor selection and contract administration on a sample basis. IA will determine if all deliverables have been provided/received and determine if invoices agree to the terms of the contract.

Title: 2607: Software Utilization Audit
Department(s)/School(s): All Schools/Departments
Type: Performance Audit

Description:

IA will conduct a division-wide software utilization audit by working with the Department of Technology and the Office of Instructional Technology, which is within the Department of Teaching and Learning. IA will determine if there is software with limited usage and/or redundancy to identify opportunities for future cost savings. IA will calculate the division's spending on software and determine if software purchases follow applicable policies and procedures.

Calendar Year 2026 Audit Work Plan, Continued

Title: 2608: Construction Project – Princess Anne High School
Department(s)/School(s): Department of School Division Services
Type: Performance Audit/Non-audit Services

Description:

The Office of Facilities Services, within the Department School Division Services, is responsible for the procurement of all architectural and engineering services for school construction projects. This includes the negotiation and preparation of all contracts, as well as inspecting all projects through completion/occupancy. In addition, they are responsible for approving payments and managing change orders during the life cycle of the project.

IA will examine the procurement process for the Princess Anne High School Replacement Project to ensure that procurement requirements are followed. IA will follow this project through to its completion by examining the key internal controls for processing payments and approving change orders. This will be a multi-year project ending when the project is completed. A summary of work completed, results, and recommendations will be presented in periodic reports to the Audit Committee.

Title: 2611: Healthcare Claims Audit
Department(s)/School(s): Department of Budget and Finance
Type: Other Engagement

Description:

The Office of Consolidated Benefits, within the Department of Budget and Finance, oversees the health insurance program for VBCPS and the City of Virginia Beach. IA, in conjunction with the Virginia Beach City Auditor’s Office, will coordinate an audit to be conducted by an external consultant. The consultant will audit all healthcare claims processed by the City and Schools’ health insurance provider for calendar year 2025.

Title: 2650: Interim School Activity Funds Audits
Department(s)/School(s): Department of School Leadership/Various schools
Type: Performance Audit

Description:

IA will conduct a SAF Audit for those schools that have an approved follow-up or mid-year change in principal or bookkeeper, in accordance with School Board Policy 3-46 which states, “Internal accounts of the individual schools shall be audited...whenever there is a change in principal or bookkeeper.”

Calendar Year 2026 Audit Work Plan, Continued

Title: 2670: 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: 2690: Investigations
Department(s)/School(s): Various
Type: Other Engagement

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.
