When the state adopted the law requiring localities to have a fraud, waste and abuse hotline, they amended the Freedom of Information Act (FOIA) exclusion for state fraud, waste and abuse investigative records to include records of local audit investigations. However, a similar exclusion relating to the Governmental Data Collection and Dissemination Practice Act (GDCDPA) was overlooked, resulting in a loophole that jeopardized the integrity and confidentiality of local investigations. The City Auditor, on behalf of Virginia Beach and other Virginia localities, coordinated efforts to close this loophole during the 2012 General Assembly.

The City Auditor, in conjunction with the City Manager’s Office and the City Attorney’s Office, drafted legislation to exclude sensitive information from release under GDCDPA and testified before the House and Senate subcommittees as to the importance of maintaining the integrity of local investigations and protecting the identities of confidential informants. Thanks to these efforts and those of bill sponsor, Virginia Beach Delegate Ron Villanueva, the General Assembly amended section § 2.2-3802(12) of the Code of Virginia to include an exclusion for both state and local auditor records that concern fraud, waste and abuse.

Delegate Ron Villanueva and Lyndon Remias, City Auditor, 2012 General Assembly
Message from the City Auditor

Fiscal year 2012 was a period of continued productivity for the Office of the City Auditor. We thank the Audit Committee, City Council and City Management for their strong support of our Office’s function. In FY12, we released eleven audit reports / memos. A summary of each report is included in this annual report. In addition, City departments agreed and committed to implementation of 100% of our FY12 audit recommendations.

During the year I also had the pleasure of working with Delegate Ron Villanueva on the passage of a bill to strengthen our ability to conduct confidential fraud, waste and abuse investigations (see cover story).

We look forward to continuing to work with City Council and City Management to find ways to strengthen public accountability, improve the efficiency of City operations, reduce costs, increase revenues and provide information to facilitate decision-making.

Sincerely,
Lyndon S. Pereyas
City Auditor

Capitalizing on Contingency Auditors: A Win, Win Relationship!

Squeezed by heavy workloads and lean resources, the Office of the City Auditor is always looking for ways to ease the crunch without sacrificing quality. Our resources and value can be extended through the use of contingency auditors (CAs). As highly experienced professionals with specialized skills and knowledge, CAs can be deployed only for specialized audits in fields such as medical claims, telecommunications, advertising, common area maintenance, property taxes, utilities, and accounts payable. Payment to the CA is based on an objective measure, such as funds recovered, not the CA’s effort.

To maximize our resources, the Office of the City Auditor utilizes contingency auditors to broaden our range of audit coverage. In FY12, Healthcare Horizons reviewed the City and School healthcare claims. We engaged BC Compliance to perform a review of the City’s lease agreements. Additionally, Troy & Banks will review utilities and telecommunications billings. These firms work on a contingency basis at no additional cost to the City. The table on the left summarizes the impact of these efforts.

<table>
<thead>
<tr>
<th>Audit</th>
<th>Description</th>
<th>Savings type</th>
<th>Identified Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>AP Recovery Audit</td>
<td>Recovery audit of expenditures</td>
<td>Actual</td>
<td>$91,538</td>
</tr>
<tr>
<td>Optima Healthcare</td>
<td>Recovery audit of healthcare claims</td>
<td>Actual</td>
<td>$69,702</td>
</tr>
<tr>
<td>Utilities &amp; Telecommunications</td>
<td>Recovery audit utilities &amp; telecommunications</td>
<td>Actual</td>
<td>$17,708</td>
</tr>
<tr>
<td>Property &amp; Management Leases</td>
<td>Review of lease property</td>
<td>Actual</td>
<td>$14,000</td>
</tr>
</tbody>
</table>

Total Savings to date $192,948
Attestation Engagements

In an attestation engagement, auditors perform an examination, review, or agreed-upon procedures on a subject matter, or an assertion that is the responsibility of another party. The following attestation engagements were performed during FY12:

Citywide Procurement Card Expenses

Determined whether internal controls are in place and operating as intended to ensure procurement (ProCard) expenditures are proper. This audit was requested by City Council.

Police Property and Evidence Unit Cash Handling

Reviewed the cash handling processes in the Police Property and Evidence Unit to ensure cash seized and/or found was appropriately recorded and inventoried.

Western Bayside Area Grant

Conducted an examination of Enoch Baptist Church’s financial expenditures related to the Western Bayside Area Grant for summer camp programs for the area’s children.

Striving for Excellence Report

Assisted the committee responsible for gathering, complying and editing the departmental submissions for the widely-distributed Striving for Excellence Report by reviewing the submissions for fiscal reasonableness.

Information Technology Controls Review

Observed procedures and reviewed results of tests of the City’s primary financial system (InSITE) performed by the City’s external auditors, Cherry, Bekaeart and Holland as part of the annual financial audit of the City.

Performance Audits

These audits are intended to assess the quality of performance efficiencies and effectiveness by City agencies in carrying out their assigned responsibilities. The following performance audits were performed during FY12:

Issuance of Manual Checks

Reviewed the process and related controls whereby vendor (non-payroll) checks are physically picked up as opposed to the normal mailing procedure.

Parks & Recreation Center Operations

Reviewed the adequacy of controls over the collection, processing and recording of revenues collected at the City’s recreation centers.

Library Revenue Collection Procedures

Reviewed the adequacy of controls over the collection, processing and recording of revenues collected at the City’s libraries.

Fleet Management Parts Inventory

Reviewed Fleet Management purchase orders to ensure all purchases were for authorized work orders and/or inventory. Determined if controls are in place for proper safeguarding of automotive parts inventory.

Access all completed audits on our web page:
www.vbgov.com/cityauditor
FY 12 OTHER PROJECTS

**Freedom of Information Act Copying Cost**

Determined the appropriate fee to charge citizens for copying costs related to Virginia Freedom of Information Act (FOIA) request. Requested by the City Attorney's Office.

**Farmers’ Market Operating Procedures**

Reviewed the operating procedures at the Farmers’ Market for the collecting, depositing and accounting of revenue. We also reviewed leases and media contracts to determine if the Farmers’ Market was operating in compliance with City policies and procedures. This review was conducted as part of a Fraud, Waste and Abuse investigation.

**Lifeguard RFP Analysis**

Determined the reasonableness and adequacy of support for the cost estimates submitted by the Department of Emergency Medical Services related to RFP for Annual Lifeguard Services. This analysis was requested by City Council.

**Request For Proposal (RFP) : External Audit Contract Procurement**

The Office of the City Auditor wrote the RFP for the external audit of the City and The City of Virginia Beach Public Schools. The joint RFP solicited proposals for one CPA firm to be selected to audit both the City & School system under separate contracts and via separate audit teams. The City Auditor’s Office wrote the resulting contract, which served as a template for the Schools contract and assembled an RFP committee of both City & School personnel to review the sealed proposals. The firm of Cherry, Bekaert & Holland was awarded the contract.

**Oceanfront Parking Meter Revenue Collection Process**

Requested by City Management to perform a review of the process for collecting and depositing coins collected from oceanfront parking meters.

**Office Happenings**

Gretchen Hudome, Deputy City Auditor, reaches 25 years with the City of Virginia Beach.

*Congratulations and thank you for all of your hard work and dedication!*

Lyndon Remias, City Auditor, leads the Chief Audit Executive / Internal Audit Director Roundtable held at Town Center, Virginia Beach. Event sponsored by Institute of Internal Auditors Tidewater Chapter.

2011 United Way Day of Caring participation by Lyndon Remias, City Auditor, Gretchen Hudome, Deputy City Auditor, and Tim Bell, Senior Auditor, at various locations in the City of Virginia Beach.
Professional Development

Audit Intern
Jeffrey Pagaduan
Old Dominion University

“My internship with the Office of the City Auditor was a wonderful opportunity to further develop myself as an auditing and overall business professional. The amount of knowledge and experience I gained from this opportunity serves as an investment that will continue to grow and benefit my career outlook. I can only hope that my next opportunity in life groups me with coworkers as diligent and dynamic as these individuals. Thank you for the experience!”

Jody Clark, Executive Assistant earns Administrative Professional Certificate & Certificate of Excellence at the PSDT Conference.

In May, the Office of the City Auditor held its annual Strategic Planning Meeting to plan for FY13 and to review recent changes to the Government Auditing Standards and their effect on departmental operations.

In May, the Office of the City Auditor hosted the VLGAA Spring Conference held at the Virginia Beach Oceanfront. The topic was “Catch the Wave to Audit Excellence”.

In June, the Office of the City Auditor coordinated a Citywide/School employee training entitled Governmental Accounting & Auditing Update at the Virginia Beach Higher Education Center. More than 60 accounting, financial and administrative members attended the training and received eight hours of continuing professional education. The training was presented by Cherry, Bekaert & Holland at no cost to the City.

Office of the City Auditor Budget Snapshot

- Our total budget: $601,766
- 96% is for our six full-time employees
- Per Capita: We have one auditor for every 86,715 citizens of Virginia Beach
- One of the lowest staffing levels compared to other localities

The professional audit staff of the Office of the City Auditor has extensive knowledge of audit methods and techniques.

Certifications and degrees held by Office of the City Auditor

<table>
<thead>
<tr>
<th>Certification/Degree</th>
<th># Held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certified Public Accountant (CPA)</td>
<td>2</td>
</tr>
<tr>
<td>Certified Internal Auditor (CIA)</td>
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</tr>
<tr>
<td>Certified Fraud Examiner (CFE)</td>
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</tr>
<tr>
<td>Certified Internal Controls Auditor (CICA)</td>
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<tr>
<td>Masters Counseling of Psychology</td>
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<tr>
<td>Bachelor of Science - Business Administration</td>
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<tr>
<td>Bachelor of Science - Accounting</td>
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</tr>
<tr>
<td>Bachelor of Arts - Business Administration</td>
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</tr>
<tr>
<td>Bachelor of Arts - History</td>
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</tr>
</tbody>
</table>

To stay abreast of best business practices within the auditing profession, our auditors are active members of the following organizations:

- Association of Certified Fraud Examiners (ACFE)
- Association of Local Government Auditors (ALGA)
- Institute of Internal Auditors (IIA)
- Virginia ACL Users Group
- Virginia Local Government Auditors Association (VLGAA)
- Virginia Society of Certified Public Accountants (VSCPA)
- Tidewater Chapter of Virginia Society of Certified Public Accountants (VSCPA-TC)
- Association of Government Accountants (AGA)
Preventing, Detecting and Reporting Fraud

The Office of the City Auditor established and runs the City of Virginia Beach’s Fraud, Waste & Abuse Hotline as part of its ongoing fraud detection and prevention effort.

The Hotline is intended for City employees, vendors, and the public to report suspected fraud, misuse of City resources by vendors, contractors, or City employees, and violations of City policy.

The Hotline is monitored for calls and is available 24 hours a day, seven days a week. Callers can leave anonymous information or identify themselves.

During FY12, we saw an increase in the number of Hotline incidents compared to the prior fiscal year. We processed allegations involving theft, misuse of city resources, intentional and unintentional waste and abuse of employee’s position. Out of the 28 investigations, 17 have been completed and 10 were substantiated as involving fraud, waste or abuse.