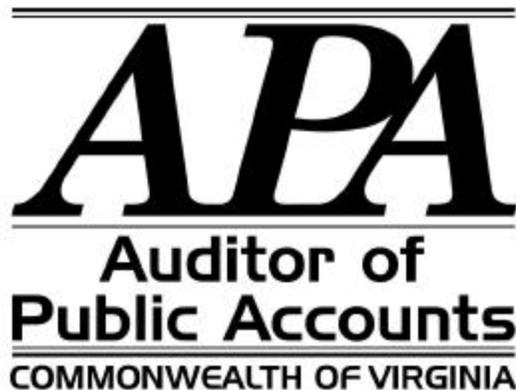


**DEPARTMENT OF EDUCATION
INCLUDING DIRECT AID FOR PUBLIC
EDUCATION, THE VIRGINIA SCHOOLS,
AND FOUNDATION FOR THE DEAF AND BLIND**

RICHMOND, VIRGINIA

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit included the Department of Education, Direct Aid to Public Education, the Virginia Schools for the Deaf and Blind, and the Virginia Schools for the Deaf and Blind Foundation. Our audit for the year ended June 30, 2000, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System for the Department of Education, Direct Aid to Public Education, and the Virginia Schools for the Deaf and Blind;
- proper recording and reporting of transactions, in all material respects, in the accounting records for the Virginia Schools for the Deaf and Blind Foundation;
- no matters involving internal control and its operation that we consider material weaknesses; and
- no instances of noncompliance that are required to be reported.

The Department of Education is the designated fiscal agent for the Comprehensive Services Act and we will issue a separate report on this activity.

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October 18, 2000

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Education including Direct Aid for Public Education, the Virginia Schools for the Deaf and Blind, and the Virginia Schools for the Deaf and Blind Foundation** for the year ended June 30, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Department's accounting records, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances: expenditures, revenues and grant management.

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Department's accounting records. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 28, 2000.

AUDITOR OF PUBLIC ACCOUNTS

WJK:aom
aom:31

THE DEPARTMENT'S FUNCTIONAL AREAS

The Department of Education divides its operations up into four functional areas:

- Central Office
- Direct Aid to Public Education
- Comprehensive Services Act for At-Risk Youth and Families
- Virginia Schools for the Deaf & Blind in Hampton and Staunton and the VSDB Foundation

The Department's Central Office provides general supervision of the public school system, provides training and technical assistance, and monitors local compliance with laws and regulations for all 132 school divisions. The Department also acts as a pass-through agency for State and Federal funds and determines the distribution of state money to local school divisions through direct aid to local school divisions.

During fiscal year 2000 the Department transferred over \$4 billion in state and federal funds to local school divisions. State dollars make up the majority of these funds, which support the Standards of Quality.

As the assigned fiscal agent for the Comprehensive Services Act for At Risk Youth and Families (CSA), Central Office personnel process all payments to localities for services performed assisting at-risk youths. This includes the approval of all applications and reimbursement requests from local CSA agents (There will be a separate report for CSA).

The Department also maintains operating control over the two Schools for the Deaf and Blind as well as the Deaf and Blind Foundation, Incorporated. These schools provide comprehensive instructional programs and services to children with serious auditory and visual impairments and multi-disabilities that local school divisions cannot serve and the Foundation promotes the growth, progress, and general welfare of the schools.

THE DEPARTMENT'S FINANCIAL AND OPERATIONAL HIGHLIGHTS

The Department receives primarily General Fund appropriations. The Department also receives federal grants and collects fees for licensing teachers. Over 98 percent of the Department's funds goes as transfers to local school divisions for direct aid to public education. Approximately 47 percent of the remaining funding pays payroll and benefits and another 43 percent goes toward contractual services which includes travel expenses. The Department's largest contractual services vendor is Harcourt Brace receiving approximately \$12 million during fiscal year 2000 for testing materials and services. The remaining funds pay for supplies, equipment, and property improvements for the central office and the Virginia Schools for Deaf and Blind. The following table summarizes the Department's total appropriations and expenditures in fiscal year 2000.

	Appropriations and Revenue	Expenses	% of Total Expenses
Direct Aid to Public Education	\$4,083,363,133	\$4,065,103,647	98.3%
Central Office Operations	58,525,030	56,274,338	1.3
Virginia Schools for the Deaf and Blind	17,759,635	15,171,595	0.4
Total	\$4,159,647,798	\$4,136,549,578	100.00%

SOURCE: Commonwealth Accounting and Reporting System Trial Balance (Report: 402 B1) for the year ended June 30, 2000

	Direct Aid to Public Education	Central Office	Schools for Deaf and Blind
General Fund Expenses	\$3,667,420,901	\$37,553,170	\$14,221,240
Non-General Fund Expenses	2,763,816	1,610,149	607,695
Federal Fund Expenses	394,918,930	17,111,019	342,660
Total	\$4,065,103,647	\$56,274,338	\$15,171,595

SOURCE: Commonwealth Accounting and Reporting System Trial Balance (Report: 402 B1) for the year ended June 30, 2000

	Percent of Direct Aid to Public Education	Amount of Direct Aid to Public Education (in millions)
SOQ	59%	\$2,415
Special State Revenue Sharing	21%	856
Categorical Aid	8%	337
Public School Employee Benefits	6%	251
Other	6%	206
Total	100%	\$4,065

SOURCE: Commonwealth Accounting and Reporting System Summary of Expenditure Transactions by Fund and Subprogram for the year ended June 30, 2000

THE DEPARTMENT IN GENERAL

The Department consists of eight separate divisions: Accountability, Assessment and Reporting, Finance, Governor's Best Practices, Instruction, Policy and Public Affairs, Teacher Education and Professional Licensure, and Technology. Approximately 320 employees work in these eight divisions whose purpose it is to monitor, review, provide technical assistance, and calculate state aid for local school divisions. The Central Office staff provides administrative support that is directly related to providing aid to localities.

For the 1998-2000 biennium, Direct Aid to Public Education made up approximately 34 percent of the Commonwealth's general fund operating budget. For fiscal year 2000, Standards of Quality (SOQ) funding made up approximately 59 percent of all aid sent to local school divisions with another 21 percent from Special State Revenue Sharing.

Special State Revenue Sharing consists of a portion of net revenue from the state sales and use tax and lottery profits. Sales and use tax disbursements go to each school division using census data of school-age children within the school division. The school divisions receive Lottery profits allocations based on the number of students reported for each school division in the spring times the per pupil amount determined by the General Assembly.

The Department calculates most state entitlement payments based on the average daily membership for each school division and the total appropriation. At the beginning of the fiscal year, the Department calculates 24 equal installment payments to each school division. After each school division reports its actual

average daily membership as of March 31, the Department adjusts the remaining installment payments to reflect each school division's actual average daily membership.

DIRECT AID TO PUBLIC EDUCATION

The Standards of Quality set minimum standards for the programs and services each local school board should provide. The Department allocates funds to each locality based on information gathered from local school divisions, following the provisions of the Appropriation Act and federal grant agreements. In addition to providing funds to localities, the Department also transfers federal assistance to other state agencies that administer educational programs.

The following table shows expenditures in direct aid to public education over the last five years. In 1999, total direct aid expenditures increased by over \$300 million (11percent). Most of this increase occurred because the General Assembly designated lottery proceeds for state aid for public education. In fiscal year 2000, the General Assembly has appropriated \$310 million from lottery proceeds for public education. The local school divisions must use 50 percent of these funds for school construction and renovation, infrastructure, technology, modernization, or debt service payments. The local school divisions may use the remaining 50 percent for any education purpose.

Fiscal Year	1996	1997	1998	1999	2000
Direct Aid to Localities Expenditures *	\$3,081,603	\$3,259,616	\$3,405,147	\$3,874,590	\$4,065,104
Total Students	1,069,907	1,085,716	1,100,002	1,110,846	1,121,780
Per Pupil Expenditure **	\$2,880	\$3,002	\$3,096	\$3,488	\$3,624
Total Teachers	78,462	80,879	82,666	84,283	85,817

* Dollars in thousands

** Per Pupil Expenditure is the Direct Aid to Localities Expenditures divided by total students

CENTRAL OFFICE

The central office supervises the public school systems and monitors their compliance with laws and regulations. The central office staff process and monitor the disbursement of state and federal funds to local school divisions, as well as perform on-site reviews to ensure local school divisions comply with state and federal regulations. The central office also issues teacher licenses and maintains the Virginia Public Education Network, an online resource that allows schools to receive and exchange information with the Department and other educational entities. Central office is broken into the following eight divisions:

- **Accountability:** comprised of three separate units: Accreditation, Federal Monitoring, and Special Programs.
 - Accreditation: monitors Veterans education programs, assists home schools, supervises and monitors educational program performance for state operated programs such as: state mental health facilities, state medical hospitals, detention centers, and state health clinics and perform on-site reviews to ensure compliance with interdepartmental regulations related to the residential and day schools.

- Federal Monitoring: coordinates monitoring procedures with the Instruction Division personnel and follows up on monitoring performance for the Title I, Title VI, Vocational Education, Special Education, and Adult Education federal programs.
- Special Programs: respond to complaints received from the public related to only Special Education issues from parents, teachers, friends, etc.
- **Assessment and Reporting**: implements the Standards of Learning Tests, develops, produces, and disseminates the School Performance Report Cards, and contributes to the Standards for Accrediting Schools.
- **Finance**: comprised of 6 separate units: Accounting and Finance, Budget, Facilities, Materials Management, School Nutrition, and Transportation.
 - Accounting and Finance: has responsibility for payments, fund handling, and reporting following state and federal regulations.
 - Budget: develops the biennial budgets for Central Office Operations and Direct Aid to Public Education. Once this data is developed, the budget office disseminates the information to school divisions and central office personnel involved with executing the budget during the biennium. Budget also insures funding is allocated to school divisions as proposed in the budget, and monitors expenditures against appropriations for both the Central Office and Direct Aid budgets.
 - Facilities: provides technical and practical advice on the planning, construction, and maintenance of safe and efficient public schools in the Commonwealth in response to requests by local school divisions, architects, educational facility planners, and the public.
 - Materials Management: administers contracts, purchasing, agency warehouse, mail services, printing, record management, and fixed asset accounting.
 - School Nutrition: administers the federally funded National School Lunch, School Breakfast, Special Milk and the After School Snack Programs for all public schools and public Residential Child Care Institutions and ensures compliance with all federal and state regulations governing these programs. School Nutrition also provides technical assistance and training to all local school division in developing effective nutrition programs that maintain nutrition integrity and financial accountability and manages federal and state funds.
 - Transportation: provides technical assistance to school divisions to enable them to provide safe and efficient transportation for the students enrolled in public schools.
- **Governor's Best Practice Centers**: eight centers support and serve as a resource to school divisions for the administration of the Standards of Learning tests and ensure schools are meeting the Standards of Accreditation.
- **Instruction**: comprised of five separate units: Compensatory Programs, Elementary/Middle Education, Secondary Education, Special Education and Student Services, and Career, Technical, and Adult Education.

- Compensatory Programs: administers and monitors federal grants by providing technical assistance, approving reimbursements, reviewing self assessments, participating in on-site visits, and reviewing local applications.
- Elementary/Middle Education: provides state support for overall operations for all elementary and middle schools throughout the state.
- Secondary Education: provides state support for overall operations for all secondary schools throughout the state. Secondary personnel also distribute scholarships.
- Special Education and Student Services: responsible for administering state and federal Special Education programs and services. This unit is also responsible for collecting data from the localities, receiving federal grant monies from the federal government, reviewing and approving locality reimbursement requests, and budgeting allocations.
- Career, Technical, and Adult Education: responsible for coordinating and monitoring educational services provided to adults who have not completed high school or are deficient in one or more of the basic skill areas of Math, English, and Science. The unit also administers and monitors federal and state vocational grants by providing technical assistance, approving reimbursement requests, and performing on-site monitoring.
- **Policy and Public Affairs**: conducts analyses and studies of educational issues for the Department of Education, the Superintendent of Public Instruction, the Board of Education, and the Secretary's Office, including legislative summaries of proposed bills, position papers, briefing documents, research papers, and oral presentations. The Policy Unit provides technical support to the local school divisions and the general public through responses to questions concerning guidelines, regulations, laws, and other state policies affecting public schools.
- **Teacher Education and Professional Licensure**: issues licenses for over 88,000 instructional school personnel and coordinates the approval of teacher education programs in Virginia's 37 institutions of higher education that prepare teachers, administrators, and other school personnel.
- **Technology**: comprised of three separate units: Instructional Media and Training, Management Information Systems, and Teleproduction Services
 - Instructional Media and Training: provides leadership in the planning, coordinating, directing, and supporting of state educational technology initiatives and programs.
 - Management Information Systems: responsible for the day-to-day operation of the Department of Education's computer systems and networks, including hardware, system software, application software and commercial software packages.
 - Teleproduction Service: provides live statewide and national broadcast of staff development programs, courses, DOE Hour, informational programs and interviews. This department also maintains a video lending library, and maintains the Virginia Satellite Educational Network which provides courses, particularly advanced placement courses, to schools where there are too few students to justify hiring a teacher, or a qualified teacher is unavailable.

This report reflects the Department's central office structure as of June 30, 2000. During early fiscal year 2001 the Department combined two divisions (Accountability and Governor's Best Practice Centers), created a new division (Instruction Support Services), and moved, combined, or divided some of the units listed above.

STANDARDS OF ACCREDITATION

The Board of Education recently proposed the revision of the Standards of Accreditation, regulations that raise the achievement standards for students, increase the high school graduation requirements, increase instructional time, and establish a school report card for parents and the community. The revisions go into effect for the 2000-2001 school year.

STANDARDS OF LEARNING

During fiscal year 2000, the Board of Education accepted changes to the Standards of Learning, standards for what students should learn in certain subjects. The Board accepted changes to the Fine Arts Standard and added a Chemistry II Standard.

GOVERNOR SCHOOLS

By the end of fiscal year 2000, Virginia had 39 Governor Schools, a state and local supported program that provides academic year and summer courses for students whose instructors acknowledge them as gifted. The schools consist of 6 Summer Residential Governor Schools, 20 Summer Regional Governor Schools, and 13 Academic Year Governor Schools. Summer Residential Governor Schools enrolled approximately 650 students and had 100 teachers/mentors/staff. Summer Regional Governor Schools enrolled approximately 1,400 students and had 270 teachers, and Academic Year Governor Schools had enrolled approximately 4,000 students and 270 teachers. The Department also supports the Governor's Foreign Language Academies, which offer French, Spanish, German, Japanese, Latin, and Russian language programs. These academies employ 25 teachers who teach approximately 290 students.

CHARTER SCHOOLS

Charter Schools are public, nonsectarian, nonreligious, or non-home-based alternative schools located within a public school division. Charter schools are similar to public schools, but usually smaller and more specialized and are open to anyone in the local school division. Each Charter School has a management committee comprised of the principal, teachers, parents, and community members. The committee makes most of the decisions, but the School Board has ultimate authority over the school. Charter Schools must adhere to the Standards of Quality by administering SOL tests, which inevitably determine the school's accreditation status.

Virginia law requires local school boards vote to accept charter school proposals. Virginia currently has one charter school operating at Victory Academy in Gloucester County and Blue Ridge Technical Academy in Roanoke City opened in fall 2000, however, enrollment will not begin until early 2001. Fifteen school divisions throughout Virginia have voted in favor of accepting charter school proposals, however, four school divisions voted against charter schools for their areas.

Charter schools receive state and federal funding but also may receive gifts, donations, or grants of any kind and spend such funds in accordance with the conditions prescribed by the donor and the conditions agreed to between the local school board and the charter school. During fiscal year 2000, the Virginia Department of Education received a three-year grant from the federal Public Charter Schools Program.

VIRGINIA SCHOOLS AND FOUNDATION FOR THE DEAF AND BLIND

Virginia Schools for Deaf and Blind in Staunton and Hampton each have an advisory commission that monitors operations and submits recommendations to the Board of Education. These two schools educate deaf, blind, and multi-disabled children between the ages of 2 and 22. The schools provide academic and vocational education, as well as other services such as therapy, health services, and guidance counseling. The student's permanent home determines which school the child attends with the exception of multi-disabled students. These students attend the Hampton school, which has the facilities for multi-disabled students. Most students live on campus during the week and receive transportation home on the weekends.

Most of the schools' funding comes from General Fund Appropriations. The schools also receive funds from local school divisions, federal grants, and interest from the foundation. The majority of the schools' expenses are payroll, campus maintenance, and capital projects.

The Virginia Schools for the Deaf and Blind Foundation, Incorporated, raises funds for the schools and aids in existing and future enterprises involving the Schools. The Assistant Superintendent of Finance oversees the actions of the Foundation's investor and reports financial activities to the Board of Education, the governing board for the Foundation. The Board meets approximately once a year exclusively for the Foundation to approve budgets, review financial reports, and set investment policies if needed. Annually, the schools receive interest funds from the Foundation based on a plan submitted to the Foundation's board. The Foundation operates on a calendar year. From January 1, 1999 to December 31, 1999, the Foundation paid \$70,447 to the Staunton school and \$16,713 to the Hampton school. The market value of the Foundation's investments as of December 31, 1999, was \$2,910,221.

DEPARTMENT OF EDUCATION

BOARD MEMBERS

As of June 30, 2000

Kirk Schroder, President

Susan T. Noble, Vice President

J. Brandon Bell

Audrey Davidson

Jennifer C. Byler

Susan Genovese

Mark C. Christie

Ruby Rogers

John W. Russell