

**DEPARTMENT OF EDUCATION  
INCLUDING  
DIRECT AID TO PUBLIC EDUCATION  
AND  
VIRGINIA SCHOOLS FOR DEAF AND BLIND**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2008**

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***APA***

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**Auditor of  
Public Accounts**  

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**COMMONWEALTH OF VIRGINIA**

## **AUDIT SUMMARY**

Our audit included the Department of Education, Direct Aid to Public Education, the Virginia School for the Deaf and Blind in Staunton, the Virginia School for the Deaf, Blind, and Multi-Disabled in Hampton, and the Virginia Schools for the Deaf and Blind Foundation. Our audit for the year ended June 30, 2008, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- certain matters involving internal control and its operation that require management's attention and corrective action; and
- no instances of noncompliance with applicable laws and regulations or other matters that required reporting.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1
DEPARTMENT OVERVIEW	1
FINANCIAL INFORMATION:	2-6
Direct Aid to Public Education	2-4
Central Office Operations	4
Virginia Schools for the Deaf and Blind	5-6
AUDIT OBJECTIVES	7
AUDIT SCOPE AND METHODOLOGY	7-8
CONCLUSIONS	8
EXIT CONFERENCE AND REPORT DISTRIBUTION	8
AGENCY RESPONSE	9
DEPARTMENT OF EDUCATION OFFICIALS	10

## AUDIT FINDINGS AND RECOMMENDATIONS

### Department of Education

#### Update and Revise Access and Password Policies and Processes

The Department of Education (Education) needs to ensure that its systems authentication policy and process protects against unauthorized access to critical and sensitive assets, requires passwords of sufficient length and ensure appropriate change frequency. Additionally, the Information Security Officer should periodically ensure that the approval process for system access has adequate documentation; that users only have the current access requested; and that user access corresponds to their position responsibilities.

We recommend that management review and appropriately document its access and passwords policies and processes to ensure they provide the appropriate level of control. Management should have the Security Officer establish a review of all access to determine that only requested and employed individuals have access and it corresponds to their current job responsibilities.

### DEPARTMENT OVERVIEW

The Department of Education has four functional areas, described in more detail below:

- Direct Aid to Public Education
- Central Office Operations
- Virginia Schools for the Deaf and Blind
- Comprehensive Services Act for At-Risk Youth and Families

Education provides funding to localities for elementary and secondary public education through the Direct Aid to Public Education program. During fiscal 2008, Education transferred almost \$6.7 billion in state and federal funds to local school divisions. State dollars make up approximately 79.1 percent of these funds, which support the Standards of Quality and other state programs.

Education's Central Office assists the public school systems by providing training, technical assistance, and monitoring the compliance with laws and regulations of 132 operational school divisions. Education helps teachers and other staff improve their skills by assisting school divisions, colleges, and universities in developing programs; and licenses and certifies school personnel. Education also serves as the pass-through agency for state and federal funds, and determines the allocation of state money to local school divisions through direct aid to local school divisions.

During fiscal 2008, Education also maintained programmatic supervision operational control over the two schools for the deaf and blind. The schools provide comprehensive instructional programs and services to children with serious auditory and visual impairments, and multi-disabilities that local school divisions cannot serve. The State Board of Education is the governing body of the Virginia Schools for the Deaf and Blind Foundation (Foundation). The Foundation promotes the growth, progress, and welfare of the Schools for the Deaf and Blind. The two Schools maintained their own financial operations.

Education is the designated fiscal agent for the Comprehensive Services Act for At-Risk Youth and Families (CSA). Central Office staff process pool fund payments to localities for services performed assisting at-risk youth. We issue a separate report for CSA.

FINANCIAL INFORMATION

Education primarily receives General Fund appropriations, which represent the allocated share of state sales tax and other state tax revenues. Education also receives federal grants and collects fees for teacher licensure. The Schools for the Deaf and Blind receive funds from local school divisions, federal grants, and income from the Foundation.

The following table summarizes budget and actual operating activity for fiscal 2008 by Education's functional areas, and we provide more detailed financial information for each area in this report.

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Direct Aid to Public Education	\$6,749,145,588	\$6,782,700,483	\$6,655,258,314
Central Office Operations	121,882,358	126,498,062	102,651,310
Virginia School for the Deaf and Blind in Staunton	8,133,683	9,693,879	9,510,126
Virginia School for the Deaf, Blind and Multi-Disabled in Hampton	<u>7,134,398</u>	<u>7,639,298</u>	<u>7,122,866</u>
Total	<u>\$6,886,296,027</u>	<u>\$6,926,531,722</u>	<u>\$6,774,542,616</u>

Direct Aid for Public Education

Education acts as a pass-through agency for state and federal funds and determines the allocation of funds to local school divisions. Nearly \$6.7 billion in state and federal funding goes to local school divisions primarily for public education and local school functions. The following table summarizes these expenses by fund. General funds make up roughly 79 percent of this funding.

Budget and Expense Analysis for 2008 by Fund – Direct Aid to Public Education

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General	\$5,832,042,771	\$5,269,010,738	\$5,261,394,868
Special	795,000	795,000	724,820
Commonwealth transportation	2,173,000	2,173,000	2,173,000
Trust and agency (including Lottery Proceeds)	180,042,717	676,694,571	612,813,329
Federal	<u>734,092,100</u>	<u>834,027,174</u>	<u>778,152,297</u>
Total	<u>\$6,749,145,588</u>	<u>\$6,782,700,483</u>	<u>\$6,655,258,314</u>

The difference in adjusted budget and actual expenses for the General Funds partially arises in changes in average daily membership (ADM) between the original budget and the revised estimates. The ADM is the average daily number of students enrolled in for a locality; each locality has their own ADM. Education's Budget Office produces an ADM estimate for each locality, which the Department of Planning and Budget uses to develop the Governor's budget bill and is subject to revision during the legislature's consideration of the budget. This estimate drives the direct aid payments, and each March all 132 localities submit actual ADM figures, which can be higher or lower than the estimate produced by the Budget Office. During fiscal 2008 the original estimate was off by less than two-tenths of one percent when compared to actual ADM figures. Although, the difference in ADM is small, the projected effect over the entire population can have a significant effect fiscal impact.

The most significant portion of the decrease in General Funds for fiscal 2008 occurred as the result of changing the reporting of Lottery Proceeds from the General Fund to the Trust and Agency Funds for Lottery Proceeds. During the 2008 session, the General Assembly determined that a strict interpretation of the Virginia Constitution required the deposit and direct disbursement of the Lottery funds into a Trust and Agency Fund. Historically, the Lottery Department transferred the Lottery Proceeds Funds to the General Fund for Direct Aid Standards of Quality payments rather than direct payments to the locality from the Lottery Proceeds Fund for this purpose. During the course of the year, Education transferred approximately \$487 million from the General Fund into Trust and Agency funds for the Lottery Proceeds and made payments directly to the localities.

Finally, the increase between the original and final budget in federal funds represents executive actions to provide additional federal revenue appropriations to support greater than expected expenses in special education and Title I grants by local school divisions.

The majority of the expenses under State Education Assistance Programs are transfer payments to localities for several different programs, of which the Standards of Quality funding makes up approximately 81 percent. Funding for this program also includes roughly 19 percent from special state revenue sharing, which consists of a portion of net revenue from the state sales and use tax and lottery profits. The following table shows Direct Aid transfer payments by program.

Direct Aid to Public Education Expenses by Program

	<u>Expenses</u>	<u>Percent</u>
State Education Assistance Programs	\$5,874,408,517	88.3%
Federal Education Assistance Programs	778,152,297	11.7%
Financial Assistance for Cultural and Artistic Affairs	<u>2,697,500</u>	<u>-</u>
Total	<u>\$6,655,258,314</u>	<u>100.0%</u>

The Standards of Quality set minimum standards for programs and services each local school board must provide. Education allocates funds to each locality based on demographic and census information gathered from local school divisions, following the provisions outlined in the Appropriation Act and federal grant agreements. Sales and use tax disbursements go to each school division using census data of school-age children within the school divisions. The school divisions receive direct lottery profit allocations based on the number of students reported for each school division in the spring multiplied by the per pupil amount determined by the General Assembly.

Education calculates most state payments using the ADM for each school division and the total departmental appropriation. Local divisions receive these payments twice per month throughout the fiscal year. At the beginning of the fiscal year, the Department makes a preliminary calculation of 24 equal installment payments for each school division. After each school division reports its actual ADM as of March 31, Education adjusts the remaining installment payments to reflect each school division's actual ADM. The following table shows expenses in direct aid over the last five fiscal years. In 2008, total direct aid increased roughly \$111 million over 2007 levels due primarily to increased ADM, additional Lottery Proceeds funds, and additional funding to support salary and benefit increases for teachers.

Costs per Pupil for Fiscal Years 2005-2008 (All Funds)

	<u>Fiscal Year</u> <u>2005</u>	<u>Fiscal Year</u> <u>2006</u>	<u>Fiscal Year</u> <u>2007</u>	<u>Fiscal Year</u> <u>2008</u>
Direct aid to localities expenses*	\$5,468,157	\$5,835,526	\$6,543,836	\$6,655,258
Total students**	1,175,734	1,184,078	1,189,904	1,191,856
Per pupil expenses***	\$ 4,651	\$ 4,928	\$ 5,499	\$ 5,584
Total teachers****	95,762	97,861	99,231	100,438

\*Dollars in thousands

\*\*Final March 31, adjusted average daily membership (ADM)

\*\*\*Direct Aid to localities expenses divided by total students

\*\*\*\* Reported from the Instructional Personnel Report for corresponding school years

Central Office Operations

2008 Budget and Expense Analysis – Central Office

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General funds	\$ 60,143,233	\$ 60,184,787	\$ 58,266,562
Special funds	5,696,598	6,003,198	3,380,918
Commonwealth transportation fund	226,983	226,983	226,972
Trust and agency funds	279,663	279,663	18,980
Federal funds	<u>55,535,881</u>	<u>59,803,431</u>	<u>40,757,878</u>
Total	<u>\$121,882,358</u>	<u>\$126,498,062</u>	<u>\$102,651,310</u>

Most of the increase in the Adjusted Budget is due to additional federal grant funds to support the Central Office operations during fiscal 2008. Education received \$1.7 million in additional federal funding to support data systems to facilitate Education’s data analysis and management requirements as required by the federal No Child Left Behind Act. Education also received \$2.5 million in additional federal funds to support unanticipated Special Education expenses during the course of fiscal 2008.

As the table below shows, Central Office’s largest category of expense is contractual services. In fiscal 2006, Education began using Pearson Educational Measurement to administer, grade, and evaluate Standards of Learning tests and other tests associated with the implementation of the federal No Child Left Behind Act. Pearson is the largest contractual vendor used by Education, and was paid roughly \$38.9 million in fiscal 2008 for these services.

Central Office Operations Fiscal 2008 Expense Analysis

Contractual services	\$ 60,856,754
Personal services	29,809,561
Transfer payments	9,526,850
Continuous charges	1,643,478
Supplies and materials	728,894
Equipment	<u>85,773</u>
Total	<u>\$102,651,310</u>

Virginia Schools for the Deaf and Blind

The Virginia School for the Deaf and Blind in Staunton (Staunton) and the Virginia School for the Deaf, Blind, and Multi-Disabled in Hampton (Hampton) provided comprehensive instructional programs and services to children with serious auditory and visual impairments and multiple disabilities, where local school divisions cannot provide these services. At the direction of the General Assembly, the Virginia Board of Education is consolidating the schools into one facility at the Staunton school site. The General Assembly appropriated General Funds of \$2.058 million to facilitate the consolidation efforts, which supported these efforts and the future use of the Hampton campus.

Fiscal 2009 is a transition year with the objective of completing the consolidation efforts by year end. Appropriations were available to the staff of the Hampton campus to inventory and prepare the grounds for sale by the Department of General Services, by June 30, 2009. Other funding will support the transition of students back to their home school division.

As part of the consolidation efforts, the Hampton staff either transferred the children to the Staunton campus, or enrolled the children in their home school divisions. With funding provided by the General Assembly, the Staunton campus will undergo significant construction and renovations to its campus facilities over the next several years.

Budget and Expense Analysis for Fiscal 2008  
Virginia School for the Deaf and Blind at Staunton

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General funds	\$7,130,769	\$8,587,865	\$8,512,782
Special funds	449,102	450,565	349,602
Federal funds	<u>553,812</u>	<u>653,812</u>	<u>647,742</u>
Total	<u>\$8,133,683</u>	<u>\$9,692,242</u>	<u>\$9,510,126</u>

Budget and Expense Analysis for Fiscal 2008  
Virginia School for the Deaf, Blind, and Multi-Disabled at Hampton

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General funds	\$6,636,957	\$7,141,857	\$6,946,984
Special funds	286,351	286,351	-
Federal funds	<u>211,090</u>	<u>211,090</u>	<u>175,882</u>
Total	<u>\$7,134,398</u>	<u>\$7,639,298</u>	<u>\$7,122,866</u>

Personal service costs account for the majority of expenses at both schools. The table below shows fiscal 2008 operating expenses for the Schools for the Deaf and Blind broken down by type of expense.

Fiscal 2008 Operating Expenses by Type  
Virginia Schools for the Deaf and Blind

	<u>Staunton</u>	<u>Hampton</u>	<u>Total</u>	<u>Percentage</u>
Personal services	\$7,610,087	\$5,281,633	\$12,891,720	77.5%
Contractual services	987,752	915,772	1,903,524	11.5%
Supplies and materials	439,011	465,356	904,367	5.5%
Continuous charges	222,769	400,333	623,102	3.8%
Equipment	228,270	35,622	263,892	1.6%
Other	<u>22,237</u>	<u>24,150</u>	<u>46,387</u>	<u>.1%</u>
Total	<u>\$9,510,126</u>	<u>\$7,122,866</u>	<u>\$16,632,992</u>	<u>100.0%</u>

As of May 31, 2008, the School in Staunton served 122 students including 102 residential students at an average per-pupil cost of \$72, 046. As of May 31, 2008, the School in Hampton served 41 students including 16 residential students at an average per-pupil cost of \$173,728.

Virginia Schools for the Deaf and Blind  
Cost per Pupil for Fiscal Years 2007 and 2008

	<u>Staunton</u>		<u>Hampton</u>	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Operating Expenses	\$8,599,583	\$9,510,126	\$6,719,950	\$7,122,866
Total Students	116*	132*	41*	41*
Per Pupil Expenses	\$ 74,134	\$ 72,046	\$ 163,901	\$ 173,728

\*As of May 31, 2008.

The Foundation supports and aids the Schools for the Deaf and the Blind in the existing and future enterprises involving the Schools. The Foundation administers gifts, grants, bequests, and devices consistent with their terms and for the benefit of the Schools for the Deaf and Blind. The State Board of Education approves the Foundation's budget and acts as its governing board. The Assistant Superintendent for Finance serves as the Secretary/Treasurer of the Foundation, oversees the actions of the Foundation investor, and reports financial activities to the Board of Education.

Annually, the Schools receive income from the Foundation's investments, which they must spend in accordance with a plan submitted to the Foundation's board. At December 31, 2007, the market value of the Foundation's investment portfolio was \$3,484,774, having earned \$391,300 during calendar year 2007. The Board approved calendar year 2007 disbursements to the School in Staunton of \$58,009 and to the School in Hampton of \$22,007.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

November 6, 2008

The Honorable Timothy M. Kaine  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of the Department of Education, including Direct Aid to Public Education, the Virginia School for the Deaf and Blind in Staunton, the Virginia School for the Deaf, Blind, and Multi-Disabled in Hampton, and the Virginia Schools for the Deaf and Blind Foundation (the Department), for the year ended June 30, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal controls, test compliance with applicable laws and regulations and review corrective actions of audit findings from prior year reports.

## Audit Scope and Methodology

The Department of Education'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.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Federal grant revenues and expenditures  
Contractual services expenditures  
Payroll expenditures  
Financial assistance and incentives payments  
Appropriations  
Network security  
Performance measures

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. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Department's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

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

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

### Exit Conference and Report Distribution

We discussed this report with management on November 17, 2008. Management's response has been included at the end of this report.

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

AUDITOR OF PUBLIC ACCOUNTS

DEM/clj



# COMMONWEALTH of VIRGINIA

## DEPARTMENT OF EDUCATION

P.O. BOX 2120

RICHMOND, VA 23218-2120

November 18, 2008

TO: Walter Kucharski, Auditor of Public Accounts  
Duane Miller, Auditor

FROM: Kent Dickey, Assistant Superintendent for Finance *K.D.*  
Marie Williams, Director of Accounting *M.W.*

SUBJECT: Response to Audit of the Virginia Department of Education, the Virginia School for the Deaf, Blind & Multi-Disabled at Hampton, the Virginia School for the Deaf and Blind at Staunton, and the Virginia Schools for the Deaf and the Blind Foundation

### Department of Education

#### **Document Access and Password Policies and Processes**

The Virginia Department of Education concurs with the finding that agency password policies and processes should be documented.

#### Background

The Virginia Department of Education's systems authentication policy and process protects against unauthorized access to critical and sensitive assets, requires passwords of sufficient length and ensures appropriate change frequency. Additionally, only requested and employed individuals have access and it corresponds to their current job responsibilities.

#### Action Taken

In August 2008, the Department of Education's Administrative Manual was updated to include the systems authentication and access policy and document that the Information Security Officer periodically reviews all access documentation.

DEPARTMENT OF EDUCATION

Patricia I. Wright  
State Superintendent of Public Instruction

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