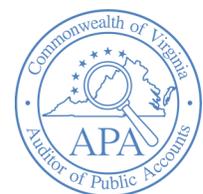




# VIRGINIA SCHOOL FOR THE DEAF AND BLIND

## REPORT ON AUDIT FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2015

Auditor of Public Accounts  
Martha S. Mavredes, CPA  
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## AUDIT SUMMARY

Our audit of the Virginia School for the Deaf and the Blind (the School) for the period July 1, 2012, through June 30, 2015, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Cardinal;
- certain matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

-TABLE OF CONTENTS-

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-4
SCHOOL HIGHLIGHTS	5-6
INDEPENDENT AUDITOR'S REPORT	7-9
SCHOOL RESPONSE	10-11
SCHOOL OFFICIALS	12

## AUDIT FINDINGS AND RECOMMENDATIONS

### **Document Firewall Policies and Procedures and Continue to Develop and Implement an Information Security Program – Repeat**

The Virginia School for the Deaf and the Blind (the School) received an exception from the Commonwealth's Information Technology (IT) Infrastructure Partnership in 2012 and assumed operational and management responsibility of its instructional and student networks. The School continues to operate its firewall that protects its instructional and student networks without documented policies and procedures to manage the configuration settings and operational procedures. Also, the School continues to operate without IT risk management and contingency plans and without an information security program.

The School is working to address this issue and recently procured IT services with a third-party vendor to assist in developing an information security program. The School finalized a Statement of Work in January 2016 to conduct a business impact analysis, data classification and system sensitivity analysis, and risk assessments on the School's IT systems. The work is set for completion in May 2016 and the final documents will serve as the foundation to document and complete the School's information security program. However, the School currently has no timetable, resources, or plan to complete the remainder of its information security program, which will likely require assistance from third-party resources.

The School should develop a plan and, if necessary, set aside funding to procure additional third-party IT services to complete its information security program and document its current configuration settings and management policies and procedures for its firewall. The School should ensure all configuration settings align with best practices such as the Center for Internet Security and ensure management policies and procedures align with requirements in the Commonwealth's Information Security Standard, SEC 501-09. Additionally, the School needs to periodically perform and document vulnerability assessments and penetration tests against the firewall to ensure its configuration settings will protect the School's network against emerging threats.

### **Improve Construction Contract Accounting – Repeat**

As previously reported in the fiscal year 2011 audit report, the School does not have adequate controls over the accounting for Construction in Progress. The Commonwealth Accounting Policies and Procedures (CAPP) Manual provides guidance on how to track Construction in Progress that will ensure that agencies capture all possible project expenses and related detail and can readily transition assets to the Fixed Asset Accounting and Control System (FAACS) when the project is complete. While the School has implemented this process for all new construction projects, the School did not re-evaluate the campus-wide consolidation project upon conclusion of our last audit to ensure that they recorded the proper costs for new assets and the proper disposal dates for disposed assets.

During fiscal year 2015, the School completed the construction and renovation involved in the approximately \$73 million consolidation project which started in fiscal year 2010. During this time, the School incurred expenses of \$12 million associated with the project. The construction project consisted of demolition, renovation, and new construction to support the consolidation of the School's programs. The project included construction of a new Maintenance Facility, Education Building, Deaf Dormitory, and Blind Dormitory; renovation of Stuart Building, Peery and Swanson elementary schools; creation of a new bus loop and a playground; and demolition of a Maintenance Building and the Harrison Building.

Proper accounting for the construction expenses through the life of the project and capitalization of the completed assets is essential to proper financial reporting. We identified this issue in the prior audit, but the School did not make any effort to implement corrective actions to change its process as it related to ongoing projects.

- The School does not have an adequate process to track construction expenses that enables them to support the amounts ultimately recorded as assets in FAACS. The School ultimately understated the buildings recorded in FAACS for the audit period by approximately \$3.6 million due to not capitalizing the planning costs associated with the School consolidation project, not counting invoices, or double counting invoices when moving amounts from Construction in Progress to Buildings. The assets incorrectly recorded in FAACS are as follows:
  - Kiser Hall was overstated by \$5,540,093
  - Swanson was overstated by \$588,926
  - Perry was overstated by \$1,320
  - Demo/Sitework was understated by \$4,738,516
  - Education Building was understated by \$643,666
  - Darden Lot was understated by \$25,798
  - Multiple buildings were understated approximately \$4.3 million related to planning costs, which need to be allocated across the buildings associated with the consolidation project.
- The School did not properly remove three demolished assets associated with the construction project from FAACS. The School did not remove Darden Hall, demolished in fiscal year 2012, until fiscal year 2015 and then did not record the proper disposal date. In addition, the School recorded an incorrect disposal date for two assets associated with renovations. The School disposed of both assets in fiscal year 2014; however, one asset was removed from the building in fiscal year 2011 and the other was removed in fiscal year 2013. Since acquisition and disposal dates drive the calculation of depreciation, it is important for the School to record these properly.

The School should continue to use the CAPP Manual guidance to develop its Construction in Progress Schedules. They should maintain sufficient internal documentation to support changes made to Construction in Progress balances and for assets moved from Construction in Progress to other asset categories in FAACS. They should thoroughly review schedules when moving assets to ensure that they are properly valued. In addition, the School should record the disposal of assets in FAACS timely and with the correct disposal date.

### **Properly Record School Revenues - Repeat**

The School continues to improperly record school revenues. Instead of recording receipts as revenues for the school, the School used sub-object codes XX99, which are intra-agency expenditure recoveries within the Commonwealth Accounting and Reporting System (CARS), to account for approximately \$657,351 in revenues for fiscal year 2014 and approximately \$42,041 in revenues for the first quarter of fiscal year 2015. The School used accounts 50XX990, which are intra-agency expenditure recoveries within Cardinal, to account for approximately \$241,388 in revenues for the remaining three quarters of fiscal year 2015. The School did not correct any of the revenues received within fiscal year 2014 even though this issue was noted in the prior audit report issued in September 2013. While the School did perform a correcting entry for revenues received in fiscal year 2015, the entry totaled \$24,021, which is only a portion of the amounts above. The revenues included in these accounts are associated with employees purchasing meal tickets for the cafeteria, employees and students purchasing items from the Student Center, rent charged for use of buildings on campus, earnings from student fundraisers, Foundation donations or reimbursements, one-on-one items within student individualized education plans, and Scholastic Books.

Although the Department of Planning and Budget (Planning and Budget) does not require agencies to request permission to use the XX99 sub-object codes, agencies are still responsible for correctly using these codes. The School should not use recovery codes to record payments for goods or services provided to public or private individuals or entities nor should they use these codes to record financial donations, specifically from its Foundation. Using these codes inappropriately understates actual expenses and revenues and circumvents the budget process, making it appear as if the School is under budget when in fact actual expenses may exceed the budget.

The School should review all revenues currently included in the 50XX990 accounts, listed above, and determine how they should properly account for them. They should properly record payments for goods or services and donations as revenue and not as intra-agency expenditure recoveries. They should also review Planning and Budget's and Department of Accounts' (Accounts) policies and ensure that they are adhering to them when recording intra-agency expenditure recoveries. In addition, the School should consult Planning and Budget and Accounts to determine the proper way to account for funds when new funding sources occur.

### **Obtain Adequate Reimbursement from Foundation for Services Provided**

The School currently has three employees that perform duties for the Virginia School for the Deaf and the Blind Foundation (the Foundation) without adequate reimbursement to the School.

The School does not have documented policies and procedures for reimbursement of the salaries associated with state employees performing Foundation duties. In addition, there is no documentation to support the calculation of the current amount reimbursed to the Foundation annually.

The School's Superintendent, Superintendent's Administrative Assistant, and Director of Operations are receiving 100 percent of their pay from the School when they are periodically performing Foundation duties during business hours. The Foundation currently reimburses the School \$10,000 annually for these three employees plus supplies and materials used by the Foundation. The \$10,000 is supposed to cover five percent of the annual salary for the Superintendent, Superintendent's Administrative Assistant, and Director of Operations. However, the reimbursement does not include benefits paid to these employees. These employees do not track the hours spent on School duties versus the hours spent on Foundation duties. Therefore, there is no way of knowing how much the State has paid employees for working on Foundation items and whether the \$10,000 is adequate reimbursement. Improper reimbursement of employee time is considered misuse of state funds since the employees were not spending 100 percent of their time performing state duties, but they were being paid by the state.

The School and the Foundation should work together to develop and document detailed policies and procedures for reimbursement of salaries associated with state employees performing Foundation duties. These procedures should include a process for tracking hours spent on School duties versus hours spent on Foundation duties. In addition, the School should review the amount the Foundation will reimburse them to determine necessary changes. The amount should account for actual hours spent on Foundation duties as well as each employee's benefits.

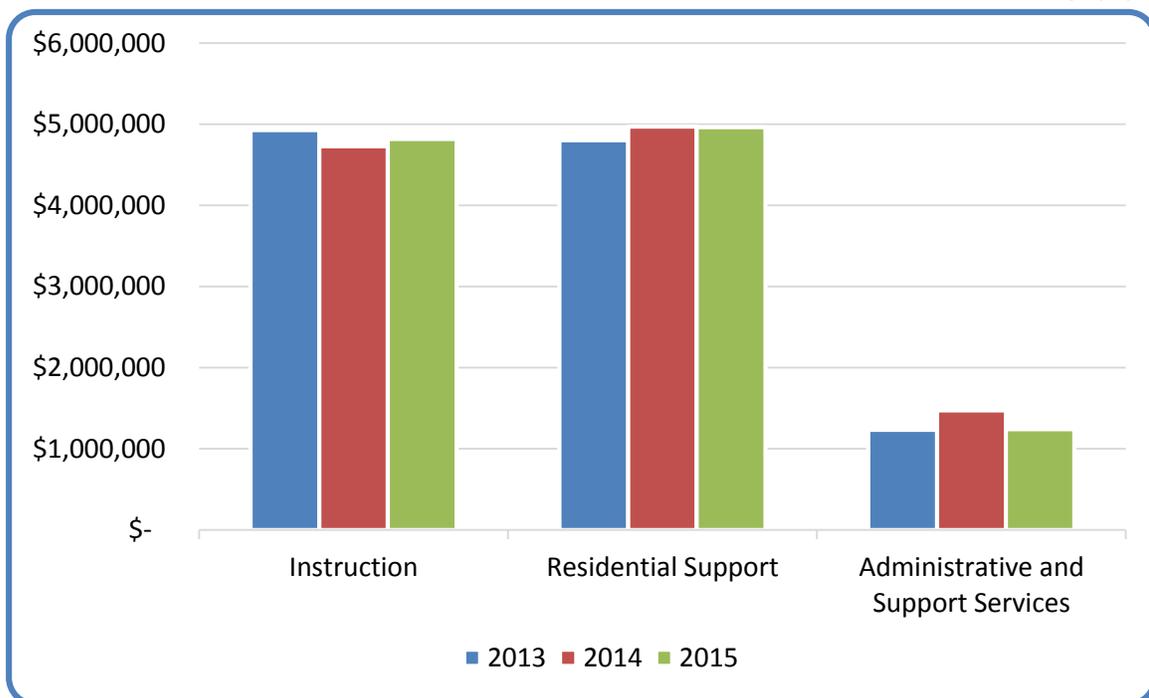
## SCHOOL HIGHLIGHTS

The School provides comprehensive instructional programs and residential services to children with sensory impairments and multiple disabilities from preschool through grade twelve. Local school systems refer students to the School. For deaf students, the School offers American Sign Language and provides deaf role models and opportunities for students to participate in extra-curricular activities. For blind students, the School offers Braille, specialized technology, and orientation and mobility instruction to meet the individual needs of the student. In addition, the School provides parent and infant services through a “Small Steps” program. Small Steps provides information, education, and support services to families with children in the birth to age three range who are deaf, hard-of-hearing, blind, low vision, or deaf and blind.

The School’s operating expenses fall into three programs: instruction, residential support, and administrative and support services. Instruction expenses primarily include salaries for teachers and teacher assistants. Residential support expenses primarily include salaries for residential dorm supervisors and staff. Administrative and support services expenses include salaries for administrative staff and service contract payments. The table below shows fiscal years 2013 through 2015 operating expenses for the School by program.

**Operating Expenses**

Chart 1



Source: Commonwealth Accounting and Reporting System

## **Information Technology Structure**

In recognition of special education's unique technology requirements, the Virginia Information Technologies Agency (VITA) granted the School an exception from its standard managed information technology service implementation. This exception pertains to information technology used by students and faculty in the classroom environment, but does not pertain to information technology infrastructure services that support the School's administrative staff and offices. VITA provides information technology services that support administrative functions. This limited exception does not declare that all of the School is "out-of-scope" to VITA. The School remains in-scope for project management, planning and budgeting, security, and technology procurements. This exception is contingent upon the School's ongoing adherence to information technology policies, standards, and guidelines. This exception required the School to establish a separate network and infrastructure to support the students and faculty.

## **Virginia School for the Deaf and the Blind Foundation**

The Virginia School for the Deaf and the Blind Foundation (Foundation) is an IRS Code Section 501(c)(3) corporation that promotes the growth, progress, and welfare of the School. The Foundation administers gifts, grants, bequests, and devices consistent with its terms and for the benefit of the School. The Foundation has five to 15 Directors on its Board. The School's Board of Visitors appoints the Superintendent and the Director of Operations of the School to the Foundation's Board plus a sufficient number of additional Directors so that the Board of Visitors has appointed a majority of the Foundation Board. The Foundation's Board of Directors elects the remaining Directors at its annual meeting.

Annually, the School receives income from the Foundation's investments, which they must spend in accordance with a plan submitted to the Foundation's board. The School uses income from the Foundation to supplement the general funds for operations.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

April 29, 2016

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable Robert D. Orrock, Sr.  
Vice-Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Virginia School for the Deaf and the Blind (the School)** for the period July 1, 2012, through June 30, 2015. 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 in the Commonwealth Accounting and Reporting System and Cardinal, review the adequacy of the School's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements and review corrective actions of audit findings from prior year reports. The School transitioned to using Cardinal, the Commonwealth's new accounting and financial reporting system, on October 1, 2014.

## **Audit Scope and Methodology**

The School'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, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and 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.

- myVRS Navigator
- Reconciliations
- Operational expenses
- Contractual services expenses
- Payroll expenses
- Small purchase charge card
- Capital outlay
- Capital assets
- Information system security

We performed audit tests to determine whether the School'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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the School's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### **Conclusions**

We found that the School properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and Cardinal. The School 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 and Cardinal.

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

The School 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 May 12, 2016. Management's response to the findings identified in our audit is included in the section titled "School Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

DBC/alh



COMMONWEALTH of VIRGINIA

**Virginia School for the Deaf and the Blind**

P.O. Box 2069, Staunton, VA 24402  
(540)332-9000 Fax (540)332-9042

May 23, 2016

Ms. Martha Mavredes  
Auditor of Public Accounts  
PO Box 1295  
Richmond, Virginia 23218

Dear Ms. Mavredes,

The audit for the fiscal years of 2013, 2014, and 2015 that was recently completed was very thorough and identified some areas for correction. Please be assured that the Virginia School for the Deaf and the Blind (VSDB) is committed to establishing and maintaining accounting procedures that result in effective operations and adherence to the state's accounting procedures. The input from the audit is valuable and will be utilized to correct the deficits noted currently and to ensure compliance in the future.

VSDB is in the process of trying to strengthen its IT security. VSDB has hired Computer Aid, Inc (VITA contract) to begin the process of completing an IT Security Audit per SEC 501. This works includes completing a Business Impact Analysis. Historically, VSDB's budget constraints have made it difficult to complete the necessary steps needed to bring it into full compliance. However, with a change in leadership and a new perspective on the budget, VSDB will continue to focus on its IT security in order to achieve compliance.

In addition, VSDB will be working with the Fixed Asset Division to correct the errors made in the FAACS system. The errors occurred on the four-year, \$73M Consolidation project. Every effort was made to maintain compliance during the project. However, the complexity, size, and length of the project created challenges to the accounting process. The appropriate procedures have been noted and will be utilized in the future to ensure that VSDB maintains a high level of compliance with any construction project.

In regards to properly recording revenues, please note that VSDB was in contact with the Department of Accounts and the Department of Planning and Budget (DPB) and received guidance in FY15 regarding this matter. VSDB completed a correcting entry for the areas listed in the previous audit (lunch tickets, student center, and student fundraising). Additional clarification provided recently from the DBP will ensure compliance in the future.

The final point in the audit related to the reimbursement relationship between VSDB and the VSDB Foundation. VSDB and the VSDB Foundation have operated under an agreement that the Foundation would pay VSDB \$10,000 per year for duties that three staff members performed directly related to

The Virginia School for the Deaf and the Blind does not discriminate on the basis of race, sex, color, national origin, religion, sexual orientation, age, political affiliation, veteran status, or against otherwise qualified persons with disabilities in its programs and activities.

Foundation business and for miscellaneous items (postage, paper, storage, etc). The amount was a combination of 5% of the salary of the three staff members involved as well as the miscellaneous costs of supplies. VSDB will work with the Foundation immediately to establish and to implement a system for tracking staff time related to Foundation work and expenditures in order to ensure compliance with state policies and procedures.

VSDB strives to meet the needs of our students while adhering to the Commonwealth's policies. We appreciate the time and effort the APA has put forth to assist us.

Thank you

A handwritten signature in cursive script that reads "Pat Trice".

Pat Trice  
Superintendent

## SCHOOL OFFICIALS

### VIRGINIA SCHOOL FOR THE DEAF AND THE BLIND

Patricia Fahed Trice  
Superintendent

### BOARD OF VISITORS

As of June 30, 2015

Senator Emmett Hanger  
Chairman

Delegate Dickie Bell  
Vice Chairman

Virgil Cook  
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Mike Asip  
Ann Latham-Anderson  
Senator Barbara Favola  
Alice Frick

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