

AUDIT SUMMARY

Our audit of the Department of Education, including the Virginia Schools and Foundation for the Deaf and the Blind, for the year ended June 30, 1998, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving the internal control structure and its operation that we consider material weaknesses; and
- no instances of noncompliance that are required to be reported.

- T A B L E O F C O N T E N T S -

AUDIT SUMMARY

INDEPENDENT AUDITOR'S REPORT

AGENCY INFORMATION

November 24, 1998

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

The Honorable Richard J. Holland
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 the Virginia Schools and Foundation for the Deaf and the Blind** (Department), for the year ended June 30, 1998. We conducted our audit according to the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

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

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, including Aid to Localities and Comprehensive Services Act
Revenues
Grants Management

We obtained an understanding of the relevant policies and procedures for these internal accounting controls. 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 policies and procedures 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.

Management has responsibility for establishing and maintaining an internal control structure and complying with applicable laws and regulations. The objectives of an internal control structure are to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed in accordance with management's authorization, properly recorded, and comply with applicable laws and regulations.

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

We noted no matters involving the internal control structure and its operation that we considered to be material weaknesses. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control structure elements 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 found no instances of noncompliance that we are required to report 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.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCY INFORMATION

The State Board of Education and the Superintendent of Public Instruction establish the standards of quality, subject to the General Assembly's review, and exercise general supervision of the public school systems. The Department monitors local compliance with educational and legislative mandates and provides professional assistance to 133 school divisions. These school divisions include approximately 1,800 individual schools and serve approximately one million students.

The Department also has control over the two Virginia Schools for the Deaf and Blind (Schools). The Schools provide comprehensive instructional programs and services to children and youths with serious auditory and visual impairments and to the multi-handicapped that local school divisions cannot serve. The State Board also oversees the Virginia Schools for the Deaf and Blind Foundation, Inc., which promotes the Schools' growth, progress, and general welfare.

In September 1997, the Board adopted revised standards of accreditation. These standards raise the achievement standards for students, increase the high school graduation requirements, and establish a school report card for parents and the community. The standards set passing scores for tests administered semi-annually to students in grades 3, 5, 8 and high school. To maintain accreditation, each individual school will be required to meet a 70 percent student pass-rate by the 2006/2007 school year. The Department contracted with Harcourt Brace Educational Measurement Co. in October 1996 to develop, administer, score, and report each test through fiscal year 2002.

The Department opened three Best Practice Centers in September 1998 to help school divisions meet the standards of learning. The centers, located in Marion, Farmville, and Harrisonburg, assist all local educational agencies; however, the centers do give priority to the host school division, small school divisions, and divisions requiring assistance to meet state standards. Each Best Practice Center has a director, a specialist for curriculum/instruction, a specialist for assessment/accreditation, a specialist for instructional technology, and a support secretary.

Financial Overview

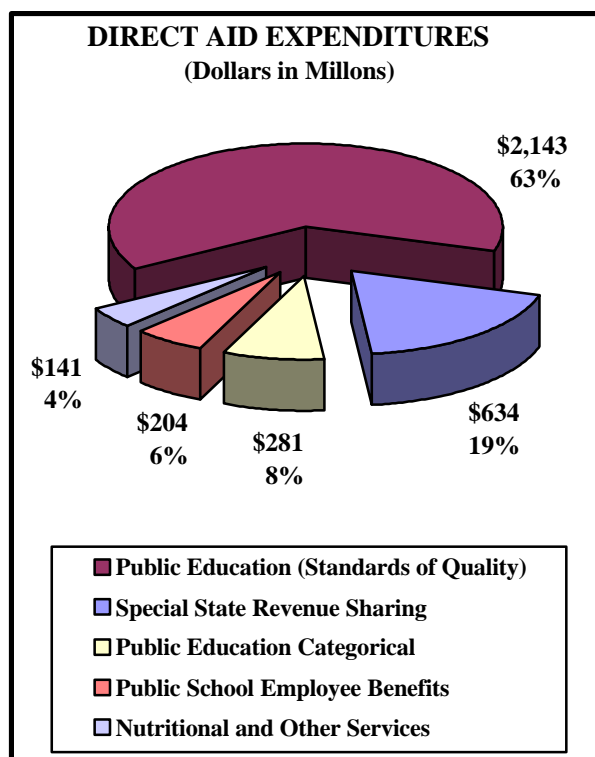
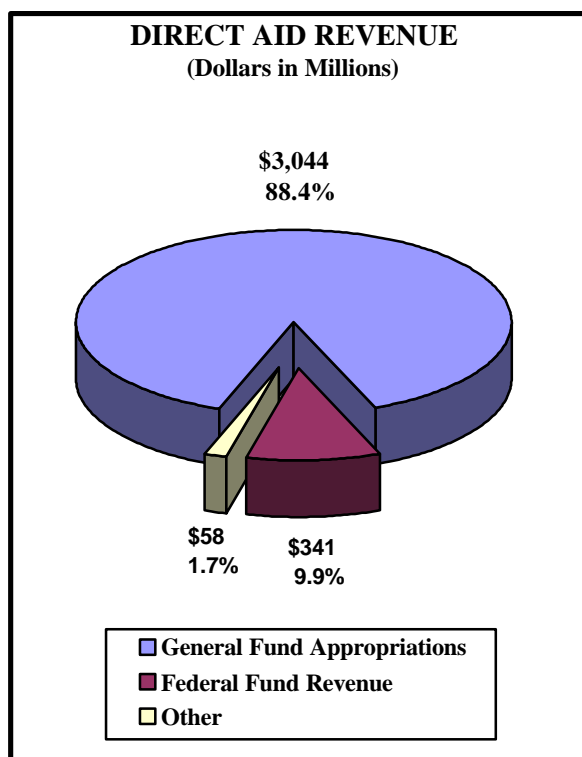
The Department classifies its operations into three functional areas: direct aid to public education, central office operations, and Schools. Additionally, the Department is the designated fiscal agent for the Comprehensive Services Act. The table below shows the actual expenses for the year ended June 30, 1998, for each functional area.

	<u>Expenses</u>	<u>Percent of Total</u>
Direct aid to public education	\$3,405,146,744	95.4%
Comprehensive services for at-risk-youths	108,802,201	3.0%
Central office operations	41,980,776	1.2%
Schools for the deaf and blind	<u>13,051,564</u>	<u>0.4%</u>
Total	<u>\$3,568,981,285</u>	<u>100.00%</u>

The Department's revenue totaled \$3.6 billion for the year. The revenue sources were 88 percent General Fund appropriations, 10 percent federal funds, and 2 percent other revenues. The proportion of state, federal, and other revenues has remained relatively constant over the years.

Direct Aid to Public Education

The Constitution of Virginia requires the General Assembly to provide a system of free public elementary and secondary schools for all school age children, and to establish and continually maintain a high quality educational program. Accordingly, the Department provides direct aid to counties, cities, and towns for public education. The Department distributes funds to localities 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.



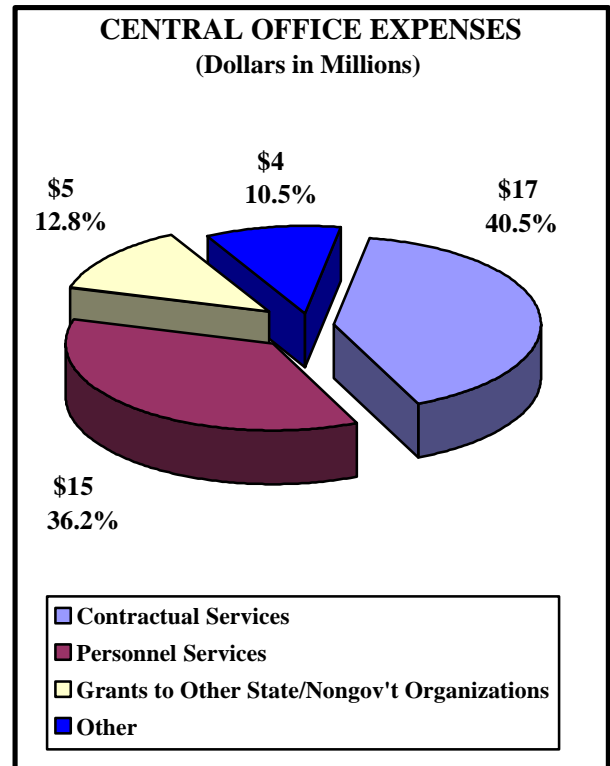
Comprehensive Services Act

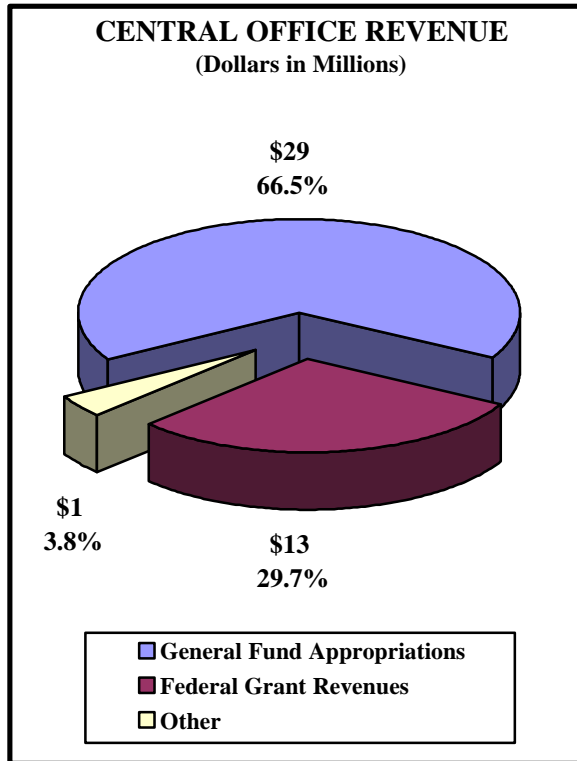
The Department is the fiscal agent for the Comprehensive Services Act (CSA). This Act requires a collaborative effort among state and local agencies to provide both community-based and family-focused programs for children to prevent institutionalization. The Office of Comprehensive Services administers and the State Executive Council (SEC) governs the operations of the Act.

CSA consolidates funding from several different agencies into a State Pool Fund. The State Pool Fund reimburses the localities for costs of providing private special education day care, foster care, and foster care prevention for eligible children and their families. The Department processes the reimbursements to the localities. In fiscal year 1998, CSA received general fund appropriations and federal grant revenues of \$106,045,704 and \$9,419,998 and disbursed \$99,382,203 and \$9,419,998, respectively.

Central Office Operations

The Department employs approximately 286 people to administer and support public school education. The Department establishes standards and guidelines for public school programs and monitors local school divisions' compliance with those standards. The Department monitors the local school divisions' financial and programmatic compliance through the Annual School Report, on-site monitoring, and self-reported data from the local school divisions. The Department does educational research and develops student performance evaluation criteria, administers the school bus safety program, and assists school divisions with school construction plans.





Personnel services represents salary and fringe benefit costs for the Department's employees. Computer and telephone services, standardized test scoring costs, travel expenses, and training represent the majority of contractual services. The Department also makes grants to other organizations, school boards, and non-profit organizations for various educational and training programs. Other expenses include supplies, equipment, and miscellaneous costs.

Virginia Schools and Foundation for the Deaf and Blind

The Virginia Schools for the Deaf and Blind at Hampton and Staunton provide preschool through grade twelve educational programs for children who are deaf, blind, or have other handicaps. The Schools also offer many additional services including various types of therapy, social worker services, guidance counseling, psychological services, and health services.

For fiscal 1998, general fund appropriations and other revenues totaled \$7,320,953 for Hampton and \$7,558,875, for Staunton. Hampton and Staunton spent \$6,452,331 and \$6,599,233, respectively, for the same period. Payroll and benefits represent 68 percent of expenses at Hampton and 76 percent at Staunton. The Schools' employees include teachers, house-parents, health professionals, and administrative personnel.

The Virginia Schools for the Deaf and Blind Foundation, Inc. operates on a calendar year, therefore, the following financial data is for the period January 1, 1997 to December 31, 1997. The Foundation's revenues and expenses for 1997 totaled \$68,702 and \$106,180, respectively. The cost and market values of the Foundation's investments at December 31, 1997 totaled \$2,020,342 and \$2,402,827, respectively. The investment portfolio includes common stocks and fixed income securities.