



DEPARTMENT OF EDUCATION
INCLUDING
DIRECT AID TO PUBLIC EDUCATION

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2015

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Department of Education and Direct Aid to Public Education for the fiscal year ended June 30, 2015, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Education's Oracle Financial System;
- 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.

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AUDIT FINDINGS AND RECOMMENDATIONS

Ensure Employees Complete Statement of Economic Interest Training - NEW

The Department of Education (Education) is not ensuring its employees complete the required Statement of Economic Interest training every two years. Additionally, Education is not tracking those employees that do complete the training.

In fiscal year 2015, Education paid \$46 million to contractors. Education's largest contract is with its Standards of Learning testing contractor, which received \$34 million in state and federal funds related to the Standards of Learning testing. Statement of Economic Interest training is a critical control for ensuring that state employees can recognize when a conflict of interest is created between their personal economic interest and those of the Commonwealth. Additionally, the training teaches employees the measures they are responsible for taking to remedy a conflict, should one exist or appear to exist.

The Code of Virginia Sections 2.2-3128 through 3131, require orientation training about the Conflict of Interest Act to be completed by those employees that complete a Conflict of Interest form. They must complete the training within two months of hire/appointment and at least once during each consecutive period of two calendar years. Additionally, Education must keep a record of attendance for five years. The records must include each attendee's name and job title and the dates of their attendance. To test Education's application of this Statement of Economic Interest control and compliance with the Code of Virginia, we requested records of attendance from Education.

Education could be susceptible to conflicts of interest that would impair or appear to impair the objectivity of certain programmatic or fiscal decisions made by employees in positions designated as a "position of trust." The lack of training may prevent Education from holding its employees accountable for knowing how to recognize a conflict of interest and how to disclose it.

Education did not have an active process in place to ensure employees completed the required Statement of Economic Interest training; therefore, Education's employees in a position of trust did not complete the training. To help remedy the situation, Education's Human Resource Department recently assumed responsibility of cuing and tracking individual's conflict of interest trainings.

Education should have all employees in a position of trust complete the required Statement of Economic Interest training and maintain a record of such attendance for five years as required by the Code of Virginia.

Retain Documentation of myVRS Navigator to PMIS Reconciliations - NEW

Education's Human Resources Department employees do not retain supporting documentation of their monthly Personnel Management Information System (PMIS) to myVRS

Navigator reconciliation that they perform prior to submitting their Contribution Snapshot to the Virginia Retirement System (Retirement System).

The *myVRS* Navigator system is used to calculate total pension liabilities for the Commonwealth. Individual agencies, employers, are responsible for updating the records within *myVRS* Navigator related to their employees. Education's reconciliation between an employee's census data in PMIS and the data in *myVRS* Navigator is a critical control for ensuring the integrity of these records for its nearly 300 employees. Additionally, the Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 50410 requires agencies to retain documentation of their reconciliations for five years or until audited by the Auditor of Public Accounts. To determine if management implemented this critical control, we compared the practices of Education to the guidance provided by the Department of Accounts (Accounts) and the Retirement System.

By not documenting reconciliations, management is not able to provide evidence that their Human Resources Department verified that the census data for their employees is correct in the *myVRS* Navigator system. The Human Resources Department currently has a procedure in place for reconciling data between PMIS and *myVRS* Navigator on a monthly basis; however, they do not maintain documentation of this review process or any resulting adjustments.

Education's Human Resources Department should retain sufficient documentation to demonstrate they performed the required reconciliation and made the proper changes in the systems as needed.

Continue to Improve Information Security Policies and Procedures - REPEAT

Education continues to not properly manage certain aspects of its Information Security Program. An agency's Information Security Program is essential for establishing security baselines, best practices, and requirements for ensuring the protection of, and mitigate risks to, the agency's information systems and data.

While Education has made progress since the last audit by addressing one of the identified weaknesses regarding IT Systems/Data Backup and Restoration, three weaknesses remain. Education needs to improve and mature its information security program to align it with the Commonwealth's Information Security Standard, SEC501-09 (Security Standard). Education has an action plan to correct these weaknesses by December 31, 2015. However, until the weaknesses are corrected, the corresponding risks associated with these controls still exist.

We examined Education's improvement of information systems security controls in the areas of IT Systems/Data Backup and Restoration, IT Change Control, and IT Systems and Data Security and compared its practices to the Commonwealth's Information Security Standard and found the following specific issues.

IT Change Control

- Education does not use proper change controls to guide the testing and implementation of internal database updates and patches. Specifically, Education should ensure that all required updates for the database are tracked through the SRTS change control tool or an alternative tool that meets the requirements in the Security Standard, including proper implementation, version control, and testing. The Security Standard, Section CM – 3.d, requires that an agency retain and review a record of each configuration controlled change to a system.

IT Systems and Data Security

- Education does not have an adequate IT Systems Hardening Policy. While Education has documented that the IT Partnership provides infrastructure-level hardening, the Partnership does not provide systems and data hardening at the software/application level. The Security Standard, Section CM-6, requires that an agency document mandatory configuration requirements (baseline configurations) consistent with System Hardening Standards. Baseline configuration documentation must be sufficient to enable full restoration of systems at the database and application level to support business functions during continuity and disaster recovery exercises.
- Education does not scan all sensitive systems for vulnerabilities. Specifically, Education scans one critical application, but not two other critical applications. While these two applications are not public facing, they do include sensitive data that requires additional security controls. The Security Standard, Section RA-5-COV, requires that an agency scan each sensitive system for vulnerabilities at least once every ninety days.

Delaying the implementation of these controls can result in Education being unable to adequately address key aspects of the agency Information Security Program for consistent management of IT Change Control and IT systems hardening procedures. These procedures are essential for ensuring that IT systems are adequately protected from potential continuity and data hardening risks and vulnerabilities.

Education has hired an additional security resource since the last audit in an effort to mitigate these weaknesses. However, Education has not implemented these controls as a result of a lack of an Information Security Officer (ISO) that is dedicated to managing the security program free from competing priorities from other non-security related responsibilities. Education's executive leadership should dedicate the necessary resources to ensure that Education's Information Systems Security program is consistent with the requirements of the Security Standard and support a dedicated ISO to manage the Program.

Continue to Improve IT Risk Management - REPEAT

Education continues to not properly manage certain aspects of its IT Risk Management documentation. Education's IT systems are used for tracking teacher licensing statewide and making \$7.2 billion in annual payments to 135 local school systems. An agency's IT Risk Management documentation is the foundation for ensuring the proper protection of an agency's systems because it helps management identify risks, vulnerabilities, and corresponding remediation techniques.

While Education has made progress since the last audit to address its weaknesses, continued development is required to improve and mature the information security program to align it with the Security Standard. Education has a documented response plan to have these weaknesses resolved by December 31, 2015. However, until the weaknesses are sufficiently resolved the risks associated with the weakness still exist. To determine if Education's information security program identifies the risks and the remediation needed to protect its IT systems from vulnerabilities, we reviewed its controls in the areas of IT Data and Systems Sensitivity Classifications and IT Risk Assessments and found the following.

IT Data and Systems Sensitivity Classification

- Education has not properly classified IT Systems and Data Sensitivity. While Education has provided a framework for how to classify the sensitivity of systems, Education has not completed the actual classification. The Security Standard, Section 4.2.3, requires an agency to identify the sensitivity-level of a system or data on the basis of low, medium, or high.
- Education has not properly determined the potential impact of risks identified in its risk management documentation. Education has not documented specific impacts, such as monetary, political, and reputational damages. The Security Standard, Section 4.2.3, requires that an agency determine potential damages as a result of a compromise of sensitive data.
- Education has not defined specific regulatory requirements for applicable data, such as Health Insurance Portability and Accountability Act and Family Educational Rights and Privacy Act requirements. While Education does train employees on what data regulatory requirements are and has the ability to produce sanitized documents, Education has not identified these requirements according to each sensitive system. The Security Standard, Section 2.2.8.2, requires that a data owner define protection requirements for data based on regulatory requirements for its respective system.
- Education has not properly identified roles and responsibilities over IT systems. Education has documented a prime contact and application lead for applications, but has not clearly defined what roles these fulfill or other required roles. The Security Standard, Section 2, describes critical roles and responsibilities within an

agency with respect to IT systems. Specifically, the roles of System Owner, Data Owner, Data Custodian, and System Administrator must be defined for each sensitive IT system.

IT Risk Assessments

- Education has not completed an IT Risk Assessment for the Oracle Financials system or the Teacher Licensure system. The Security Standard, Section 6.2, requires that an agency conduct and document an IT risk assessment of all sensitive IT systems as needed but not less than once every three years.

Continuing to not implement these requirements can increase the likelihood of Education being unable to adequately address risks, vulnerabilities, and remediation techniques for sensitive IT systems. Additionally, not consistently identifying information across IT Risk Management documents can result in inconsistent management of IT resources, based on sensitivity and risk.

Education has hired an additional security resource since the last audit in an effort to mitigate these and other weaknesses. However, Education has not implemented these controls as a result of a lack of an ISO that is dedicated to managing the security program free from competing priorities from other non-security related responsibilities. Education's executive leadership should dedicate and prioritize the necessary resources to ensure that Education's IT Risk Management documentation is consistent for the entire agency and IT Risk Assessments are developed to address all sensitive IT systems and dedicate enough ISO time to manage the IT Risk Management Program.

Improve Information Security Awareness Training Program - NEW

Education does not have a sufficient process in place to monitor and enforce employee compliance with the annual security awareness training requirement. As a result, 42 of the 292 employees, 14 percent, did not complete the training during calendar year 2014. Security awareness training educates employees on the security requirements necessary to ensure the protection of Education's critical IT resources.

The Security Standard, Section AT-4, requires that Education document and monitor individual information system security training activities, including both basic security awareness training and specific information system security training. To confirm that Education tracks security awareness training for all employees, we reviewed Education's current process for ensuring security training compliance and requested evidence of attendance for selected employees.

Without a documented monitoring process, Education did not identify users whom did not complete the training. Active IT system users without training increases the risk of the user not being able to appropriately identify, prevent, and respond to security threats such as phishing and social engineering, which may result in the compromise of sensitive and mission critical systems and data.

Lacking a defined process to ensure security training compliance, in addition to turnover in the position of the Information Security Officer, caused Education to have issues with its monitoring and enforcement of security awareness training completion.

Education should establish a documented and approved process for monitoring and enforcing compliance for all employees, including identifying the employees who did not complete the annual training, notifying the employees of an additional time frame to comply, and establishing resulting consequences for any employees that do not complete the annual training. Subsequently, Education should incorporate the new controls into its existing information security awareness training program in order to ensure that all users receive the necessary training.

DEPARTMENT OVERVIEW

The Department of Education (Education) has two functional areas, described in more detail below:

- Direct Aid to Public Education
- Central Office Operations

Education provides funding to localities for elementary and secondary public education through the Direct Aid to Public Education program. During fiscal year 2015, Education transferred over \$7.2 billion in state and federal funds to local school divisions. State funds make up approximately 88 percent of these funds, which support the Standards of Quality and other state programs.

Education's Central Office assists the 135 local public school systems by providing training, technical assistance, and monitoring their compliance with laws and regulations. Education helps teachers and other staff improve their skills by assisting school divisions, colleges, and universities in developing educational programs, and provides certain licensing and certification to school personnel. Education also serves as the pass-through agency for state and federal funds and performs the allocation of state money to local school divisions.

FINANCIAL INFORMATION

Education primarily receives General Fund appropriations, which represent its share of state sales tax and other state tax revenues. Education also receives federal grants and collects fees for teacher licensure.

The following table summarizes budget and actual operating activity for fiscal year 2015 by Education's functional areas, and we provide more detailed financial information for each area later in this report.

Program Area	Original Budget	Final Budget	Expenses
Direct Aid to Public Education	\$7,030,833,519	\$7,212,558,201	\$7,202,713,390
Central Office Operations	93,640,639	94,774,750	78,982,969
Total	\$7,124,474,158	\$7,307,332,951	\$7,281,696,359

Source: Commonwealth Accounting and Reporting System

Direct Aid to Public Education

Education is the pass-through agency for state and federal funds and performs the allocation of funds to local school divisions. Essentially \$7.2 billion in state and federal funding went to local school divisions primarily for public education and local school functions. The following table summarizes these expenses by fund.

Fund	Original Budget	Adjusted Budget	Actual Expenses
General	\$5,498,605,141	\$5,402,329,568	\$5,393,797,879
Federal	870,905,000	871,405,000	871,180,335
Lottery Proceeds	525,000,000	560,553,750	559,930,624
Literary Fund	132,855,378	375,739,378	375,739,378
Commonwealth Transportation	2,173,000	855,027	855,027
Special	895,000	895,000	829,669
Federal Stimulus (ARRA)	-	380,478	380,478
Trust and Agency	400,000	400,000	-
Total	\$7,030,833,519	\$7,212,558,201	\$7,202,713,390

Source: Commonwealth Accounting and Reporting System

General Fund appropriations supports approximately 75 percent of the Direct Aid expenses.

The following table shows Direct Aid transfer payments by program:

Program	Expenses	Percent
State Education Assistance Programs	\$6,318,167,961	87.7%
Federal Education Assistance Programs	871,560,812	12.1%
Financial Assistance for Cultural and Artistic Affairs	12,984,616	0.2%
Total	\$7,202,713,389	100.0%

Source: Commonwealth Accounting and Reporting System

The majority of the expenses under the State Education Assistance Programs are transfer payments to localities for several different programs, of which the Standards of Quality funding makes up 85 percent. Funding for the Standards of Quality is comprised of roughly 24 percent from Education's net revenue from the state sales and use tax and the remaining portion is funded with other General Funds. Lottery profits from special state revenue sharing make up another nine percent of the State Education Assistance expenses. The Federal Education Assistance Program includes various federal programs.

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 Code of Virginia. 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 lottery profit allocations based on the funding formulas of the Direct Aid programs budgeted in the Lottery Service Area of the Appropriation Act.

Education calculates most state payments using the Average Daily Membership (ADM) for each school division and the total agency appropriation. Local divisions receive these payments

twice per month throughout the fiscal year. At the beginning of the fiscal year, Education 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 four fiscal years.

	2012	2013	2014	2015
Direct aid to localities expenses*	\$6,802,658	\$6,786,402	\$6,815,120	\$7,202,713
Total students**	1,214,688	1,222,554	1,229,235	1,236,408
Per pupil expenses***	\$5,600	\$5,551	\$5,544	\$5,826
Total teachers****	96,512	96,179	96,647	96,462

*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 and Licensure Report for corresponding school years

Source: Education

In fiscal year 2015, total Direct Aid expenses increased about \$388 million from fiscal year 2014 levels due to costs associated with public education being rebenchmarked in fiscal year 2015. Rebenchmarking occurs every two years to more accurately identify the costs associated with funding of Standards of Quality. The most significant increases to fund the Standards of Quality were the result of increased funding for Virginia Retirement System retirement and instructional salaries and positions.

Central Office Operations

Fund	Original Budget	Adjusted Budget	Actual Expenses
General	\$51,089,771	\$51,409,217	\$49,753,261
Federal	37,565,811	37,819,421	26,304,487
Special	3,162,785	3,162,785	1,405,220
Indirect Cost Recoveries	1,298,690	1,298,690	808,759
Federal Stimulus (ARRA)	-	561,055	475,785
Commonwealth Transportation	243,919	243,919	234,634
Trust and Agency	279,663	279,663	822
Total	\$93,640,639	\$94,774,750	\$78,982,968

Source: Commonwealth Accounting and Reporting System

Central Office's expenses were approximately \$15.8 million less than the adjusted budget. Federal expenses were less than budgeted due to the timing of requests for reimbursements from the localities. Localities have three years to spend their funding, so the timing of reimbursement requests can vary over the span of the program.

Most of Central Office Operation expenses are for contractual obligations associated with the Standards of Learning (SOL) testing contract. In fiscal year 2015, the SOL testing contractor received

\$33.9 million in combined state and federal funds. Education renewed the contract with its SOL testing contractor through June 30, 2017. Payroll and other personal services costs consist of roughly 33 percent of the total expenses for the Central Office Operation in fiscal year 2015.

Major Object	Amount
Contractual Services	\$46,231,748
Personal Services	25,945,960
Transfer Payments	4,061,652
Continuous Services	2,387,770
Equipment	199,455
Supplies and Materials	156,383
Total	\$78,982,968

Source: Commonwealth Accounting and Reporting System



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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December 15, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Department of Education including Direct Aid to Public Education** for the year ended 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 objective was to evaluate the accuracy of Education's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2015 and test compliance for the Statewide Single Audit. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System and in Education's accounting records, reviewed the adequacy of Education's internal control, tested for compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

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, 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.

Federal grants management for:

Title I Grants to Local Educational Agencies - CFDA 84.010

Improving Teacher Quality State Grants - CFDA 84.367

Child Nutrition Cluster - CFDA 10.553, 10.555, 10.556

Special Education Cluster (IDEA) - CFDA 84.027 and 84.173

Payroll expenses

Financial assistance and incentives payments

Appropriations

Accounts receivables

Accounts payables

Information system security

We performed audit tests to determine whether Education'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 Education's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Education properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and Education's Oracle Financial System. 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 or Education, as referenced.

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."

Education 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 January 5, 2015. Management's response to the findings identified in our audit is included in the section titled "Agency 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

GDS/clj



COMMONWEALTH of VIRGINIA

Steven R. Staples, Ed.D.
Superintendent of Public Instruction

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December 22, 2015

Ms. Martha Mavredes
Auditor of Public Accounts
Post Office Box 1295
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Dear Ms. Mavredes:

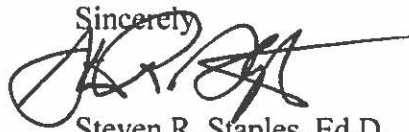
I appreciate the opportunity to respond to the findings of the audit completed by the Auditor of Public Accounts of the Department of Education (DOE), including Direct Aid to Public Education, for the year ended June 30, 2015. I am pleased that the audit found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the agency accounting system. The audit did identify matters involving internal control and instances of noncompliance with applicable laws and regulations in the areas of Statement of Economic Interest training completion, myVRS Navigator to PMIS reconciliations, and information security including Information Security Awareness training. The report contains several recommendations for improvement that will focus the work of agency management and staff who will implement them.

Regarding the findings on Statement of Economic Interest training completion, the agency's Human Resources office has assumed responsibility to ensure that all employees in a position of trust are completing the required Statement of Economic Interest training every two years, and will be retaining documentation of attendance for five years as required by the Code of Virginia.

Regarding the findings of the myVRS Navigator to PMIS reconciliations, the agency's Human Resources office has modified its reconciliation process to ensure compliance with State regulations, and will be retaining sufficient documentation of the review process and any resulting adjustments to demonstrate proper performance of reconciliations.

Regarding the findings on information security, staff continues to make progress on repeat findings and give priority to addressing the specific findings and recommendations outlined in the report, including the new finding concerning monitoring and enforcement of employee compliance with the annual Information Security Awareness training requirement. The agency previously hired a part-time information security specialist in February 2015; that position has been converted to a full-time position and will be assuming the permanent assignment of Information Security Officer (ISO) as a dedicated resource. With this assignment, the agency anticipates resolving the remaining weaknesses identified in the repeat findings by May 31, 2016. This position will be reviewing the report findings and recommendations as a priority assignment, and coordinating efforts with multiple agency offices to achieve timely compliance.

Thank you again for the opportunity to provide an agency response to the audit report. The Department of Education is committed to focusing available staff resources to address the very important findings and recommendations identified as needing attention.

Sincerely

Steven R. Staples, Ed.D.
Superintendent of Public Instruction

SRS/cll

DEPARTMENT OF EDUCATION

As of June 30, 2015

Steven R. Staples
State Superintendent of Public Instruction

BOARD OF EDUCATION MEMBERS

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