

AUDIT SUMMARY

Our audit included the Department of Education, Direct Aid to Public Education, the Virginia Schools for the Deaf and Blind, and the Virginia Schools for the Deaf and Blind Foundation. Our audit for the year ended June 30, 1999, found:

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

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

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October 6, 1999

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 Direct Aid for Public Education, the Virginia Schools for the Deaf and the Blind, and the Virginia Schools for the Deaf and Blind Foundation** (Department), for the year ended June 30, 1999. 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, test compliance with applicable laws and regulations, and evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System. We also evaluated the accuracy of recording financial transactions in the Foundation's accounting records.

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 direct aid to localities; revenues; and grant 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 internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide an opinion on internal control or on overall compliance with laws and regulations. Because of inherent limitations in any internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of the internal control 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 and the Foundation's accounting records. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the accounting records.

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

The results of our tests of compliance with applicable laws and regulations 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.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on December 7, 1999.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCY INFORMATION

The State Board of Education (Board) establishes 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 132 school divisions. These school divisions include approximately 1,800 individual schools and serve over one million students. The Department has a central office in Richmond and eight Best Practice Centers throughout the state. The Department is the designated fiscal agent for the Comprehensive Services Act and we will issue a separate report on this activity.

The Board also has control over the two Virginia Schools for the Deaf and Blind (VSDB). These schools provide comprehensive instructional programs and services to children with serious auditory and visual impairments and multi-handicaps that local school divisions cannot serve. The Board also oversees the Virginia Schools for the Deaf and Blind Foundation, Incorporated, which promotes the growth, progress, and general welfare of the schools.

The Department receives primarily General Fund appropriations. The Department also receives federal grants and collects fees for licensing teachers. The Department transfers over 98 percent of its revenues to local school divisions as direct aid to public education. The remaining funds support central office operations and the VSDB. The following table summarizes the Department's total appropriations and expenditures in fiscal year 1999.

	Appropriations	Expenditures	% of Total Expenditures
Direct Aid to Public Education	\$3,950,676,237	\$3,874,589,749	98.4%
Central Office Operations	58,986,889	47,425,911	1.2
Virginia Schools for the Deaf and Blind	17,271,051	13,849,458	0.4
Total	\$4,026,934,177	\$3,935,865,118	100.00%

As shown in the table, central office appropriations exceeded expenditures by over \$11 million. The Department overestimated federal grant revenue and did not spend all General Fund appropriations. Also, VDSB appropriations appear to exceed expenses by almost \$3.5 million. VDSB receives capital project appropriations that they will spend over several years. They also set aside appropriations as maintenance reserve.

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 transferred almost \$4 billion in state and federal funds to local school divisions in 1999. Most of these funds were state funds to support the Standards of Quality.

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

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

Fiscal Year	1995	1996	1997	1998	1999
Direct Aid to Localities Expenditures *	\$2,998,103	\$3,081,603	\$3,259,616	\$3,405,147	\$3,874,590
Total Students	1,051,555	1,069,907	1,085,716	1,100,002	1,110,846
Per Pupil Expenditure **	\$2,851	\$2,880	\$3,002	\$3,096	\$3,488
Total Teachers	77,372	78,462	80,879	82,666	Data not available

* Dollars in thousands

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

CENTRAL OFFICE

The central office supervises the public school systems and monitors their compliance with laws and regulations. The central office has approximately 270 staff who process and monitor the disbursement of state and federal funds to local school divisions, as well as perform on-site reviews to ensure local school divisions comply with state and federal regulations. The central office also issues teacher licenses and maintains the Virginia Public Education Network (VAPEN). VAPEN is an online resource that provides up-to-date information on the Department and allows the exchange of information between schools, the Department, and other educational entities.

The central office receives funding from General Fund appropriations and federal grants. The majority of central office expenditures are payroll and fringe benefits. Central office staff is working on several projects including implementation of the Standards of Accreditation and the Standards of Learning. We have discussed some of these projects in more detail below.

STANDARDS OF ACCREDITATION

The Board adopted revised Standards of Accreditation (SOA) in September 1997. These standards are regulations that raise the achievement standards for students, increase the high school graduation requirements, require a statewide testing program, and establish a school report card for parents and the community. The regulations stipulate that a public school that is accredited with warning for three consecutive years will be denied accreditation beginning in 2007.

STANDARDS OF LEARNING

The Department is implementing the Standards of Learning (SOL) to set achievement standards and provide a means for measuring each school's performance. The SOLs are standards for what students should learn in certain subjects and the standards of accreditation require tests to measure this knowledge. The Department contracted with Harcourt Brace Educational Measurement (HBEM) to administer the SOL tests to students in grades 3, 5, 8, and high school. To maintain accreditation, each individual school must meet certain pass-rates on the SOL tests by the 2006/2007 school year. In 1999, the Department renegotiated the contract with HBEM to allow faster reporting of SOL test results. The cost of this negotiation was \$3.3 million.

BEST PRACTICE CENTERS

Since September 1998, the Department has opened eight Best Practice Centers statewide. The Department has centers in Marion, Farmville, Harrisonburg, Chatham, Winchester, Newport News, Bowling Green, and Chesterfield. Each center provides direct assistance to local public schools by allowing a forum for the Department and teachers to discuss concerns, share successful instructional approaches, and receive specific, individualized help. The centers also assist schools with interpreting SOL testing information, aligning local school curriculum to conform to the new standards of learning and training schools in SOL test content areas. Each center has a four member staff including a director and several educational specialists. The Department does not currently plan to open any more Best Practice Centers.

GOVERNOR'S SCHOOLS

The Department, in cooperation with local school divisions, colleges, and universities, provides funding and technical assistance to the Governor's Schools. Governor's Schools, located across the state, provide advanced and accelerated academic year and summer courses for selected gifted students. The Department assists the schools with curriculum development and budgeting, when requested. The Governor's Schools receive General Fund appropriations and tuition paid by each child's locality. School divisions, colleges, foundations, and communities throughout the Commonwealth also make contributions.

There are three types of Governor's Schools: academic year schools, summer residential schools, and summer regional schools. There are 12 academic year schools with over 3,800 students and 280 teachers. The summer regional program has 20 schools with approximately 1,830 students and the summer residential program has six schools with 650 students. In November 1999, the Board of Education approved the creation of the Blue Ridge Virtual Regional Governor's School. The school will serve gifted high school students in seven localities beginning in August 2000. The creation of this school is contingent upon funding approval from the General Assembly.

CHARTER SCHOOLS

There are currently no Charter Schools in Virginia, but several localities have voted to allow Charter Schools in their school districts. A Charter School is a public school, but may be smaller and more specialized. Students enrolled in charter schools are included in the school division's average daily membership; therefore the school division will also receive funding for these students. The Department will provide technical assistance to local school boards that establish charter schools. Charter Schools can receive federal funds for start up-costs. In fiscal 1999, the Department budgeted \$2.5 million in federal funds for start-up costs, but did not receive these funds until fiscal 2000. The Department is unsure whether federal grants will continue to maintain Charter Schools or whether the state will appropriate additional funding.

Each Charter School will have a management committee comprised of the principal, teachers, parents, and community members. The committee will make most of the decisions, but the School Board has ultimate authority over the school. The goals and objectives of a charter school must meet or exceed the standards of learning.

VIRGINIA SCHOOLS AND FOUNDATION FOR THE DEAF AND BLIND

The General Assembly founded Virginia Schools for the Deaf and Blind in Staunton in 1839 and in Hampton in 1906. The schools have an advisory commission that monitors operations and submits recommendations to the Board of Education. These two schools educate deaf, blind, and multi-disabled children between the ages of 2 and 22. The schools provide academic and vocational education, as well as other services such as therapy, health services, and guidance counseling. The student's permanent home determines which school the child attends with the exception of multi-disabled students. These students attend the Hampton school, which has the facilities for multi-disabled students. Most students live on campus during the week and receive transportation home on the weekends. Together, the schools spend approximately \$300,000 each year for student transportation.

Most of the schools' funding comes from General Fund appropriations. The schools also receive funds from local school divisions, federal grants, and interest from the Foundation. The majority of the schools' expenses are payroll, campus maintenance, and capital projects. The following table shows expenses, as well as staff and student information by school for the last four years.

HAMPTON

STAUNTON

Fiscal Year	1996	1997	1998	1999		1996	1997	1998	1999
Expenditures*	\$6,876	\$6,325	\$6,452	\$6,855		\$6,466	\$5,904	\$6,599	\$6,995
Total Staff	158	130	130	133		144	144	144	146
Total Students	124	92	92	81		172	163	162	170
Per Student Expenditure	\$55,454	\$68,746	\$70,134	\$84,629		\$37,592	\$36,220	\$40,736	\$41,144

* Dollars are in thousands

Both campuses reached capacity in the 1960s and 1970s; however, enrollment has since decreased and both schools lease unused office space to other agencies. The Hampton school also experienced a 35 percent decrease in enrollment from 1996 to 1997. This decrease resulted when many children participating in the school's parent/infant outreach program entered the public school system. As shown above, the cost per student at Hampton is currently over \$40,000 more than Staunton. Some of the increased cost comes from serving different student populations with all multi-disabled children attending the Hampton school. The cost per student at Hampton has increased over the last several years as they have enrolled more multi-disabled students.

The Virginia Schools for the Deaf and Blind Foundation, Incorporated, raises funds for the schools and aids in existing and future enterprises involving the schools. The Assistant Superintendent of Finance oversees the actions of the Foundation's investor and reports financial activities to the Board of Education, the governing board for the Foundation. The Board meets approximately once a year exclusively for the Foundation to approve budgets, review financial reports, and set investment policies if needed. Annually, the schools receive interest funds from the Foundation based on a plan submitted to the Foundation's board. The Foundation operates on a calendar year. From January 1, 1998 to December 31, 1998, the Foundation paid \$25,372 to the Staunton school and \$65,663 to the Hampton school. The market value of the Foundation's investments as of December 31, 1998, was \$2,654,613.