



DEPARTMENT OF EDUCATION  
INCLUDING  
DIRECT AID TO PUBLIC EDUCATION

REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2016

Auditor of Public Accounts  
Martha S. Mavredes, CPA  
[www.apa.virginia.gov](http://www.apa.virginia.gov)  
(804) 225-3350



## AUDIT SUMMARY

Our audit of the Department of Education and Direct Aid to Public Education, collectively referred to as “Education” throughout this report, for the fiscal year ended June 30, 2016, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System, Cardinal, and Education’s financial system;
- five deficiencies which we consider to be material weaknesses in internal control;
- additional 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.

This report includes a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of financial information will not be prevented, or detected and corrected on a timely basis. As a result, these findings are considered material to Education and the Commonwealth’s Comprehensive Annual Financial Report (CAFR). The material findings relate to Education’s controls over fiscal operations and information technology, and are located in the report section titled “Audit Findings and Recommendations.”

## –TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-10
INDEPENDENT AUDITOR’S REPORT	11-14
AGENCY RESPONSE	15-17
AGENCY OFFICIALS	18

## AUDIT FINDINGS AND RECOMMENDATIONS

### Why the APA Audits Controls over Budgeting and Fiscal Processes and Financial Information submitted to the Department of Accounts (Accounts)

Education budgets and sends approximately \$7 billion in funding to 136 local educational agencies (LEAs). Additionally, Education's accounts payable and accounts receivable are material to the Commonwealth's financial statements. To ensure that Education's controls are working as designed, we perform analysis of budgetary and payment information. Additionally, to ensure its financial information is materially correct, we test selected financial information that Education submits to Accounts. This testing resulted in the following two findings.

#### **Strengthen Internal Controls over Budgeting and Fiscal Processes – NEW**

Severity: Material Weakness

The Department of Education's (Education) internal controls did not identify errors in budgeting and fiscal processes during fiscal year 2016. The following exceptions occurred during the fiscal year:

- Education processed an error in recurring payments to local educational agencies (LEAs) in February 2016, resulting in an incorrect allocation variance of \$76,152,885.
- Education coded \$283,126 in expenses as "payroll" expenses for Agency 197 – Education Direct Aid as a result of a reclassification journal entry that was incorrectly coded. As a pass-through entity, Agency 197 does not incur payroll expenses since the agency has no employees.
- Education, within 24 hours on June 20 and 21, 2016, made two additional requests for federal appropriations totaling \$37 million due to an increase in federal reimbursements it did not anticipate.

Topic 10305 of the Commonwealth Accounting Policies and Procedures Manual requires agencies to evaluate controls over the agency's significant fiscal processes to ensure the controls are properly designed, implemented, and operationally effective.

The exceptions noted above caused the following issues for Education, LEAs, and the Virginia Department of Planning and Budget (DPB):

- The LEAs that were overpaid were required to perform additional work to return the \$76 million in funding to Education, while the funding to the other LEAs was delayed.

- Education misreported \$283,126 in LEA direct aid payments as personal service expenses.
- DPB had to process two additional federal appropriations requests within a strict timeframe to meet the fiscal year-end deadline to allow Education to process payments to the LEAs prior to fiscal year-end.

According to management, the errors in LEA allocations and personal services expenses were due to a lack of oversight. Additionally, the increase in federal appropriations at fiscal year-end was due to a communication to the LEAs to ensure state reimbursements were submitted timely for Cardinal processing. As a result of the communication about state funding, LEAs submitted their fiscal year end federal reimbursements along with state reimbursements.

Education should do the following to ensure these issues do not occur in the future:

- The Budget Office and Fiscal Services should work together to perform adequate reviews of recurring direct aid payments prior to disbursing funds to the LEAs.
- Fiscal Services should improve its review process to ensure fiscal transactions are properly coded in the Oracle Financial System and Cardinal.
- The Budget Office and Fiscal Services should improve Education's appropriation monitoring process to ensure there is sufficient time for review and approval of requests.

Additionally, due to turnover in the Budget Office and Fiscal Services departments, Education should strengthen the training it provides to employees to ensure the controls over budgeting and fiscal transactions are properly designed, implemented, and operationally effective.

### **Improve Oversight and Review of Financial Reporting – NEW**

Severity: Material Weakness

Education does not provide adequate oversight and review of the financial information it reports to Accounts for inclusion in the Commonwealth's CAFR. Education's original and multiple subsequent reporting of financial information to Accounts contained omissions and errors. Finally, Education did not retain accurate support for some of the material amounts it reported to Accounts.

- Education submitted to Accounts five versions of Attachment 21 - Accounts Receivable (Accounts Receivable) for Education's direct aid. The following is a chronological listing of Education's five submissions of Accounts Receivable information to Accounts along with omission and/or errors they each contain.

- Education first submitted its Accounts Receivable information to Accounts on its due date, August 25, 2016. Each year Education submits Accounts Receivable information within the required deadline along with a statement stating that it will revise and resubmit its Accounts Receivable information when it completes Attachment 29 Accounts Payable (Accounts Payable). Accounts allows Education to make one resubmission because Education's Accounts Receivable are derived from its Accounts Payable at year-end.
- Education submitted its second version of Accounts Receivable on September 1, 2016, to include an additional \$305,000 in receivables; however, the second version did not include all receivables.
- Education submitted its third version of Accounts Receivable on October 7, 2016; however, Education did not follow Accounts' instructions and incorrectly included its estimated collections from September 2016 within the amount it reported as being collected on or prior to August 31, 2016. Additionally, for this submission Education did not include evidence that it was reviewed, as the Certification Tab was not signed or dated by a reviewer.
- Education submitted its fourth version of Accounts Receivable on October 21, 2016; however, the net revenue receivables as of June 30, 2016, to be received after August 31, 2016, only included its estimated collections for September 2016 and did not include estimated collections from subsequent months. Again, Education did not include evidence that it was reviewed, as the Certification Tab was not signed or dated by a reviewer.
- Education submitted its fifth and final version of Accounts Receivable on October 26, 2016. While we were able to deem this resubmission to be materially correct, for the third submission in a row Education did not include evidence that its Accounts Receivable information was reviewed, as the Certification Tab was not signed or dated by a reviewer. Additionally, Education did not complete the required questionnaire, which caused Accounts to make an extra communication to Education to obtain this information outside of the normal process instead of requiring Education to submit a sixth version.
- Education submitted to Accounts three versions of Attachment 29 - Accounts Payables (Accounts Payable) for Education's direct aid. The following is a chronological listing of Education's three submissions of Accounts Payable to Accounts along with omission and/or errors they each contain.
  - Education first submitted its Accounts Payable on October 4, 2016, which was prior to the submission deadline of October 11, 2016.

- Education submitted its second version of Accounts Payable on October 11, 2016, because Accounts requested that Education complete all fields within the template. Education updated the fields as requested to state that they were “Not Applicable.”
- Education submitted its third and final version of Accounts Payable information on October 26, 2016. While we were able to deem this resubmission to be materially correct through additional analytics, we could not rely upon Education’s schedules and data it used to support its account payable estimate. Education used inaccurate data and queries it did not understand to support its assumptions in estimating its payables as of year-end.
- Education submitted to Accounts two versions of Attachment 29 - Accounts Payables for the Office of Children’s Services (OCS-Accounts Payable). The following is a chronological listing of Education’s two submissions of OCS-Accounts Payable to Accounts along with the errors the first version contained.
  - Education first submitted OCS-Accounts Payable on October 4, 2016, prior to the submission deadline of October 11, 2016; however, it included manual errors within the calculations that did not support the new estimation process implemented for fiscal year 2016.
  - Education submitted its second and final OCS-Accounts Payable on October 20, 2016, and reported amounts following the process it agreed to follow for estimating payables for the Office of Children’s Services.

The Office of the Comptroller Directive No. 1-16 (Directive), titled Directive Compliance Guidelines for State Agencies, includes state agency reporting requirements that are necessary to compile the Commonwealth of Virginia’s CAFR. The Directive requires Education to prepare work papers that clearly support the preparation of attachments and provide an adequate crosswalk and audit trail from the work papers to each attachment. For accountability, the directive requires all preparers and reviewers to complete the Certification Tab. Each time a revision is submitted the Certification Tab is to be updated with new signatures and dates. The reviewer’s signature and date represents that the reviewer certifies that the attachment has been reviewed and is complete and accurate and that the reviewer has read and understood the instructions of the attachment.

Accounts uses the financial information submitted by Education to compile the CAFR for the Commonwealth. While we found the final submissions to be materially correct, lack of management review and adequate supporting documentation increases the risk of Education recording and reporting inaccurate financial information for the CAFR.

Education attributed most of its omission and errors submitted to Accounts to a lack of oversight and review caused by critical systems implementations during the fiscal year, such as the Oracle upgrade and Cardinal implementation that took precedence over the payables estimation

process. Education should ensure its financial reporting procedures provide sufficient direction for personnel regarding the support needed to prepare the submissions to Accounts, including the specific system from which to obtain the data; the query criteria to be defined; and adequate oversight and review to prevent or detect and correct errors or omissions.

#### **Why the APA Audits Federal Reporting Compliance Requirements for the Child Nutrition Cluster**

Education receives and disburses approximately \$330 million in Child Nutrition Cluster federal funds to LEAs. Education is required to provide the federal government with accurate and supported financial and performance reports about the Child Nutrition Cluster. The federal government uses these reports to monitor program costs and achievements. To confirm that Education prepared and retained support for these reports, we reviewed the reports and supporting documentation, which resulted in the following finding.

#### **Retain Evidence of and Support for Information Reported to the Federal Government - NEW**

Severity: Significant Deficiency

Education's Fiscal Services Department (Fiscal Services) does not have sufficient controls in place to ensure compliance with federal reporting requirements for the Child Nutrition Federal Program (CFDA 10.553, 10.555, and 10.556). Education does not know what it reported on the FNS 10 – Report of School Program Operations for October 2015. Additionally, Education's documentation for the FNS 777 – Financial Status Report for March 2016 contains amounts that Fiscal Services is unable to justify.

According to 7 CFR 225.8 "Each State agency shall maintain complete and accurate current accounting records of its Program operations which will adequately identify funds authorizations, obligations, unobligated balances, assets, liabilities, income, claims against sponsors and efforts to recover overpayments, and expenditures for administrative and operating costs. These records shall be retained for a period of three years after the date of the submission of the final Program Operations and Financial Status." In addition, management should review all reports for completeness and accuracy prior to submission to the federal government.

The United States Department of Agriculture's Food and Nutrition Services (USDA) uses the data captured by the FNS 777 report to monitor state agencies' program costs and cash draws. Incorrect reporting prevents USDA from monitoring Education and could lead to incorrect funding allocations from USDA. USDA uses the data captured in the FNS 10 to determine the amount of meals being served. Information that is not retained cannot be validated and may be inaccurate or incomplete, which could impact funding allocations.

According to management, due to significant understaffing and high turnover within Fiscal Services, Education did not retain a copy of the information it reported to USDA nor can it justify adjustments Fiscal Services made to another report Education submitted. For all required



information submitted to the federal government, Education should retain a copy of the information it reported and maintain a complete and accurate auditable trail to support its submissions. Additionally, Education should implement policies and procedures over the reporting process to ensure continued compliance during staff transitions.

#### **Why the APA Audits Federal Reimbursement Requests through the OMEGA System**

Education disburses approximately \$900 million of federal funds to LEAs. Education uses its OMEGA system to facilitate communications between it and LEAs. LEAs are required to submit federal reimbursement requests through OMEGA to obtain federal funds from Education. Education uses OMEGA to review and approve federal payments to LEAs. To confirm that Education properly processed federal reimbursement requests, we reviewed transactions in OMEGA to ensure they were approved by Education, which resulted in the following finding.

#### **Improve Access and Other Controls Related to Federal Reimbursements – NEW**

Severity: Significant Deficiency

Education granted access to an employee that violated the principle of least privileges and provided no separation of duties. The employee used their access to delete the approval history for the claim record. Additionally, Education did not have a control to detect when OMEGA is not updated with payment information from the accounting system or a record of request is deleted from OMEGA.

The Code of Federal Regulations (CFR) 200.303 states, “The non-Federal entity must establish and maintain effective internal controls over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.”

Education had to restore information related to the approval history and manually post the payment in OMEGA to show that Education paid the LEA and that the manager approved the payment. If Education had not taken these steps, there is the risk that Education could have approved the LEA’s second request for federal reimbursement.

Due to an OMEGA systems error, a claim did not update properly when the accounting system interfaced back to OMEGA to record the payment. Therefore, while the accounting system showed the disbursement of funds to the LEA, OMEGA never had a record of payment. LEAs use OMEGA to track their reimbursement requests. In this case, when the LEA saw no record of payment in OMEGA, the LEA cancelled their original request for reimbursement and started a second request. When OMEGA would not process the LEA’s second reimbursement request, Education’s OMEGA support specialist deleted from OMEGA the records associated with the first request. Additionally, Education’s process of reconciling its authorization system to its payment system is not designed to find instances when records are deleted from OMEGA.

Education should only grant access to OMEGA that adheres to the principle of least privileges and provides proper separation of duties. If deletion of records is required, Education should design a process that logs instances when this occurs, the reason for the deletion, and who approved it. Additionally, Education should develop a process for reconciling its reimbursement requests approvals in OMEGA to payments made by the Treasurer of Virginia on behalf of Education.

#### **Why the APA Audits Information Security at Education**

Education is responsible for managing state and federal appropriations for seven programs that support public instruction. Education's Information Technology (IT) systems and practices support the financial reporting and critical functions necessary for accomplishing these business objectives. To ensure that Education's IT general and application controls are effectively designed in accordance with the Commonwealth's Information Security Standard, SEC 501-09 (Security Standard), Commonwealth's IT Security Audit Standard, SEC 502-02 (IT Audit Standard), and industry best practices, we performed test work over the policies, procedures, and security controls supporting Education's IT environment. Our testing resulted in the following findings.

#### **Why the APA Combined Three Prior IT Findings into a Single Current Year Finding**

While Education hired a full-time dedicated Information Security Officer (ISO) after we issued several findings last year related to improving policies and procedures related to information security, Education's security posture has not improved. Given the lack of improvement in these areas, we believe that Education has an insufficient governance structure to appropriately manage data security, which is creating a material weakness for the Commonwealth. As a result, we combined the following prior year findings into the current year finding titled "Improve Information Security Program and IT Governance – NEW":

- Continue to Improve Information Security Policies and Procedures
- Continue to Improve IT Risk Management
- Improve Information Security Awareness Training Program

Additionally, the new combined finding references the current year finding titled "Improve Database Security – NEW" because it also contributes to Education creating a material weakness for the Commonwealth.

## **Improve Information Security Program and IT Governance – NEW**

Severity: Material Weakness

Education lacks a comprehensive information security program and has an insufficient governance structure to appropriately manage data security in its information technology (IT) environment.

Education is not maintaining appropriate oversight over its information security program, does not adequately secure mission critical databases (this issue is communicated below in the separate finding titled “Improve Database Security – NEW”), and has not adequately addressed weaknesses identified in the prior year’s audit. We identified and communicated some of these weaknesses to management in separate documents marked Freedom of Information Act Exempt (FOIAE) under Section 2.2-3705.2 of the Code of Virginia due to them containing descriptions of security mechanisms. Three areas below represent issues noted in last year’s audit and are still not complete, illustrating Education’s insufficient management of its information security program.

### *Continue to Improve Information Security Policies and Procedures – REPEAT*

Education continues not to adequately document and implement IT systems hardening policies, procedures, and controls in accordance with the Commonwealth’s Security Standard. Education is not following its existing database patching procedure and continues to not use an effective method to maintain changes, patches, and upgrades to its database environment.

Education should develop IT systems hardening policies and procedures to help ensure systems are configured with the most restrictive mode consistent with operational requirements. Education should also establish an effective change management process to ensure sensitive systems are protected from unauthorized disclosure and modification.

### *Continue to Improve IT Risk Management Process – REPEAT*

Education continues not to develop and maintain a comprehensive risk management process to support and protect its sensitive systems. The Security Standard requires agencies to use specific controls to reduce unnecessary risk to data confidentiality, integrity, and availability in protecting sensitive information.

Education should develop a risk management process that properly and consistently assesses its sensitive systems. Education should evaluate and assign the resources needed to develop and manage a sufficient risk management process to address the weaknesses communicated in the FOIA exempt recommendation and to ensure compliance with the Security Standard.

### *Improve Information Security Awareness Training Program – REPEAT*

Education continues not to have an adequate process for monitoring and enforcing employee compliance with the annual security awareness training requirement. Education requires that the ISO develop and maintain an information security awareness and training program; however, only Human Resources staff has access to the security awareness and training program records, which prohibits the ISO from maintaining oversight of the program.

The Security Standard requires that Education document and monitor individuals' information system security training. Education should develop a process to ensure that all users complete security awareness training to prepare users to identify and respond to security threats that could compromise sensitive systems and data, and to ensure compliance with internal policies and the Security Standard.

### *Ensure that Information Technology Security Audits are Performed – NEW*

Education is not performing timely IT security audits of its sensitive systems in accordance with the Commonwealth's IT Audit Standard. Education should allocate the necessary IT audit resources to ensure that IT security audits are performed on a consistent and timely basis for each sensitive system in accordance with the IT Audit Standard.

### **Improve Database Security – NEW**

Severity: Material Weakness

Education operates its database that stores its financial activity without implementing some minimum security controls required by the Commonwealth's Security Standard and industry best practices.

We communicated the deficiencies to management in a separate document marked Freedom of Information Act (FOIA) Exempt under Section 2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms. The Security Standard requires the implementation of certain controls that reduce unnecessary risk to data confidentiality, integrity, and availability in systems processing or storing sensitive information. By not meeting the minimum requirements in the Security Standard and aligning the database's settings and configurations with best practices, Education cannot ensure confidentiality, integrity, and availability of data within the database.

Education should dedicate the necessary resources to implement the controls discussed in the communication marked FOIA exempt and create a standard installation and configuration document for its sensitive database that, at a minimum, meets the requirements of the Security Standard and aligns with industry best practices.

## **Upgrade End-of-Life Technology – NEW**

Severity: Material Weakness

Education does not upgrade certain IT software that supports a mission critical and sensitive system within the IT environment on a timely basis before it is unsupported by the associated vendor. Also, Education does not currently have an approved security exception from the Commonwealth of Virginia's Chief Information Security Officer (CISO) for the associated end-of-life software. We identified and communicated the specific control weaknesses to management in a separate document marked Freedom of Information Act (FOIA) Exempt under Section 2.2-3705.2 of the Code of Virginia due to it containing specific descriptions of security mechanisms.

The Commonwealth's Security Standard, Section 8.17, sub-section SI-2-COV, requires that organizations prohibit the use of products designated as end-of-life/end-of-support by the vendor or publisher. The Security Standard, Section 1.5, further requires that if an agency determines that compliance with the provisions of the Security Standard or any related information security standards would adversely impact a business process of the agency, the agency head may request approval to deviate from a specific requirement by submitting an exception request to the Commonwealth of Virginia's CISO.

By using end-of-life/end-of-support technology, Education can no longer receive and apply security patches for known vulnerabilities, which increases the risk that a malicious attacker will exploit these vulnerabilities, leading to a data breach. Additionally, vendors do not offer operational and technical support for end-of-life/end-of-support technology, which affects data availability by increasing the difficulty of restoring system functionality if a technical failure occurs.

Education should prioritize the upgrade of the end-of-life/end-of-support technology discussed in the communication marked FOIA exempt in accordance with the Security Standard. Education should also implement mitigating controls and submit a security exception to the Commonwealth of Virginia's CISO for approval to continue operating the end-of-life technology as necessary. This will better ensure the confidentiality, integrity, and availability of sensitive Commonwealth data and achieve compliance with the Security Standard.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 15, 2016

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable Robert D. Orrock, Sr.  
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** (Education) for the year ended June 30, 2016. 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, 2016 and to 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, Cardinal, 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. Education transitioned to using Cardinal, the Commonwealth's new accounting and financial reporting system, on February 1, 2016.

## **Audit Scope and Methodology**

Education's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts and grant agreements. 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, and 10.556

Special Education Cluster (IDEA) - CFDA 84.027 and 84.173

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 performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A non-statistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

## **Conclusions**

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

Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; and therefore, material weaknesses and significant deficiencies may exist that were not identified. However, as described in the section titled "Audit Findings and Recommendations," we identified certain deficiencies in

internal control that we consider to be material weaknesses in internal control and other deficiencies that we consider to be significant deficiencies in internal control. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A **material weakness** is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial information or material non-compliance with provisions of major federal program(s) will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in internal controls over financial report in the section titled "Audit Findings and Recommendations," to collectively create a **material weakness**:

Strengthen Internal Controls over Budgeting and Fiscal Processes  
Improve Oversight and Review of Financial Reporting  
Improve Information Security Program and IT Governance  
Improve Database Security

A **significant deficiency** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies, other than those mentioned above, and described in the section titled "Audit Findings and Recommendations," to be significant deficiencies.

All findings in the section titled "Audit Findings and Recommendations" contain the results of our tests that disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

As the findings for Education have been identified as a material weakness or significant deficiency for the Commonwealth, they will be reported as such in the "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards," included in the Commonwealth of Virginia Single Audit Report for the year ended June 30, 2016.

Education has not taken adequate corrective action with respect to the previously reported findings titled:

- Continue to Improve Information Security Policies and Procedures
- Continue to Improve IT Risk Management Process
- Improve Information Security Awareness Training Program

Education has taken adequate corrective action with respect to audit findings titled "Ensure Employee Complete Statement of Economic Interest Training" and "Retain Documentation of myVRS Navigator to PMIS Reconciliations."



### **Exit Conference and Report Distribution**

We discussed this report with management on January 11, 2017. 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/alh



## COMMONWEALTH of VIRGINIA

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

DEPARTMENT OF EDUCATION  
P.O. BOX 2120  
Richmond, Virginia 23218-2120

Office: (804) 225-2023  
Fax: (804) 371-2099

January 12, 2017

Ms. Martha Mavredes  
Auditor of Public Accounts  
Post Office Box 1295  
Richmond, Virginia 23218-1295

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, 2016. I am pleased that the audit found that the Department properly recorded and reported all transactions, in all material respects, in the Commonwealth Accounting and Reporting System, Cardinal, and in the agency financial management system. The audit did identify matters involving internal controls and instances of noncompliance with applicable laws and regulations in the areas of Budgeting and Fiscal Processes, Financial Reporting, Supporting Documentation for Information Reported to the Federal Government, Access within OMEGA Related to Federal Reimbursements, Information Security Program and IT Governance, Database Security, and End-of-Life Technology. The report contains several recommendations for improvement that will focus the work of agency management and staff who will implement them.

Regarding the findings related to Strengthening Internal Controls over Budgeting and Fiscal Processes, the Office of Budget and the Office of Fiscal Services will be coordinating more closely federal appropriations monitoring particularly at fiscal year-end to ensure adequate time to review and approve reimbursement requests. The Office of Fiscal Services has improved its review of recurring Direct Aid payments prior to disbursing funds to LEAs, and its review of fiscal transactions to ensure proper coding in Oracle Financials and Cardinal. Due to staffing turnover, both offices are improving their respective documented procedures and cross-training efforts to ensure proper internal controls over budgeting and fiscal transactions during periods of transition.

Regarding the findings related to Improving Oversight and Review of Financial Reporting, the greater majority of errors reported were caused by critical implementations during the fiscal year such as the major upgrade of DOE's financial management system and subsequent Cardinal implementation. As a result, complex interfacing applications required modification to properly extract and analyze data for reporting; and fiscal processes changed significantly requiring documentation of new processes. The Office of Fiscal Services is updating and improving its documented procedures to reflect the significant changes, and is working with IT professionals to assist with the complexity of the programming codes embedded in the interfacing applications to ensure accurate and timely financial reporting, facilitating adequate time for thorough review of financial reports and schedules in advance of submission deadlines.

Regarding the findings related to Retaining Evidence of and Support for Information Reported to the Federal Government, the Office of Fiscal Services experienced significant staffing shortages and turnover during the fiscal year specifically in its general ledger work unit responsible for financial reporting. The Office has improved its financial reporting preparation, review, approval, and file retention processes to ensure all supporting documentation is retained for each reporting period. The procedural improvements have been documented to ensure continued compliance during staffing transitions.

Regarding the findings related to Improving Access and Other Controls Related to Federal Reimbursements, the Office of Fiscal Services experienced a system error within OMEGA when processing a reimbursement claim. After a series of collaborative efforts with IT staff, an employee within the Office of Fiscal Services inadvertently deleted the approval history of the reimbursement in a final effort to correct the claim. The permission to delete approval histories has been removed from OMEGA users' permissions within the Office of Fiscal Services. All modifications of OMEGA reimbursement claims must be requested through EIM (IT) tickets with documented justification and proper approvals, providing an audit trail of actions taken. The Office of Fiscal Services has implemented and documented a reconciliation process between OMEGA and OFS performed on a weekly basis to ensure that reimbursement claims approved for payment have properly updated as "paid" in OMEGA. OFS transactions are reconciled to Cardinal on a monthly basis as required.

Regarding the findings related to Improving Information Security Program and IT Governance, specifically the repeat finding from prior years concerning *Continuing to Improve Information Security Policies and Procedures*, DOE is developing an IT security policies and procedures manual which will include sensitive system IT security training and IT security audit cycles. DOE will track key milestones via an IT security calendar and has implemented quarterly security meetings with agency leadership to inform management of current status and obtain management feedback and approval of IT security efforts. DOE is updating its IT System Hardening policies and procedures to provide systems and data hardening at the software application level; documentation of baseline configurations will enable full restoration of systems at the database and application level. DOE is improving its change controls to track testing and implementation of database updates and patches. Regarding the repeat finding concerning *Continuing to Improve IT Risk Management Process*, DOE is looking to outsource this effort. Regarding the repeat finding concerning *Improving Information Security Awareness*

*Training Program*, with the recent launch of the new Virginia Learning Center (VLC), all required training is contained in the VLC, and monitoring of DOE employees' completion of IT security awareness training has been transitioned to IT security staff. DOE has opted in for the VITA Centralized Audit and ISO Services; state funding has been allocated for this effort. Until audits are scheduled, DOE will continue to complete and submit quarterly IT Security Audit Plans to Commonwealth Security; DOE's Agency Data Points show the agency in passing status.

Regarding the findings related to Improving Database Security and Upgrading End-of-Life Technology, DOE has been scheduled for servers upgrades with VITA for over a year, but has experienced delays due to VITA/NG being unable to meet timelines and/or provide the required environment to permit DOE to upgrade affected servers and ultimately rectify many related IT security deficiencies. DOE will address multiple concerns during the implementation and testing phases of the servers upgrade.

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,

A handwritten signature in blue ink, appearing to read 'S. Staples', with a long horizontal flourish extending to the right.

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

SRS/cil

## DEPARTMENT OF EDUCATION

As of June 30, 2016

Steven R. Staples  
State Superintendent of Public Instruction

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