



DEPARTMENT OF EDUCATION INCLUDING DIRECT AID TO PUBLIC EDUCATION

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2018

Auditor of Public Accounts
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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, 2018 found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth’s accounting and financial reporting system;
- one deficiency that we consider to be a material weakness 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.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Why the APA Audits Virginia Public School Authority (VPSA) Education Technology Grant Payments

Education authorizes disbursements of approximately \$58 million annually from the State Non-Arbitrage Program bank account related to the VPSA Education Technology grant. Because Education is the authorizing entity, it must have internal controls to ensure that disbursements are appropriately supported and allowable. To ensure that Education has designed and implemented proper controls, we performed interviews with management and staff and walkthroughs of the disbursement process that Education used in fiscal year 2018 to authorize, record, and reconcile VPSA disbursements.

Implement Separation of Duties over VPSA Education Technology Grant Payments

Type: Internal Control

Severity: Material Weakness

Repeat: No

Education is the authorizing agency for the VPSA Education Technology grant payments made from the State Non-Arbitrage Program account established by Treasury, herein referred to as “the bank.” When a locality requests reimbursement for funds related to this grant, the request must be received, reviewed, and approved by Education’s Office of Budgeting (Budget) to authorize the cash disbursement from the bank. To make this authorization, the Education Finance Analyst completes the first review of the request and then provides the request documents to her supervisor, the Budget Director, or the Deputy Superintendent of Budget, Finance, and Operations (Deputy Superintendent) for approval. Upon approval, the Budget Director or Deputy Superintendent will provide his authorizing signature on a certification page of the request and return all documents back to the Education Finance Analyst. The Education Finance Analyst then retains custody of this signature and provides the certification page, which has the authorized signature, and the reimbursement requested amount to the bank. No further review of amounts submitted to the bank by the Education Finance Analyst is completed. Additionally, Education has assigned the responsibility of reconciling between the amounts paid out of the bank and the reimbursement requests received from localities to the same Education Finance Analyst. This reconciliation is not reviewed by anyone at Education. Allowing the Education Finance Analyst to have all of the following creates a separation of duties violation:

- Control of the authorizing signature;
- Direct communication with the bank;
- Responsibility for recording transactions without any post reviews;
- Responsibility for performing the monthly reconciliations without any post reviews; and

- Responsibility for preparing and providing management with related financial reports.

Separation of duties between recording, authorizing, and reconciling must exist for financial transactions as part of any sound system of internal controls. Additionally, internal controls should provide for the safeguarding of assets. Per the Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 20905, “agency management is responsible for instituting internal control over the recording of financial transactions that is designed to provide reasonable assurance regarding the reliability of those records.”

The sale of VPSA bonds produces available grant funding for the localities of approximately \$58 million, annually. These proceeds are deposited into separate accounts for each bond sale at the bank, which remain open and available for disbursement for five years after creation. Designing and implementing procedures whereby the Education Finance Analyst retains custody of the authorizing signature creates an opportunity for the Education Finance Analyst to alter the payment amount that is submitted to the bank for cash disbursement. Additionally, because there is no review over the Education Finance Analyst’s submission to the bank or her reconciliation, Education increases the risk that fraud or errors will go undetected.

Education has not involved its Finance Office in the design and implementation of internal controls related to this program, which authorizes fund disbursements. Additionally, Education has assigned most of the daily activities for this program to one individual in Budget.

According to management, the risk of fraud is mitigated by the bank having control over the payee information. Auditors were unable to independently validate the existence or effectiveness of the controls at the bank. The risk of error occurring is only mitigated if the localities bring any inaccurate payments they received to the attention of Education or if the Education Finance Analyst finds an error within her reconciliation. However, some localities do not request all available funding, which creates an opportunity for there to be funds at the bank that a locality will not use.

Education should ensure that the responsibilities for obtaining authorization, submitting information for payment to the bank, and reconciling VPSA Education Technology grant payments are performed by different individuals to ensure separation of duties has been enforced. This would include ensuring that the monthly reconciliations between the payments from the bank and reimbursements requests from localities are performed and reviewed by an appropriate individual. Budget should consider using the expertise of the Finance Office in the handling of this program. Additionally, Education should obtain assurance that the bank has properly designed and implemented internal controls to prevent fraudulent or unauthorized payees from receiving VPSA Education Technology payments and that the internal controls are operationally effective. According to management, a new application for automating the process for VPSA reimbursement requests was placed in service during fiscal year 2019. While we have not yet tested the new application, management should ensure that the new system is protected with the appropriate general controls and has the application controls necessary to enforce separation of duties.

Why the APA Audits Fiscal Processes and Financial Information

Education receives approximately \$7.9 billion in funding to support public education in the Commonwealth. Education utilizes an internal accounting system to process its financial transactions, which interfaces with the Commonwealth's accounting and financial reporting system. To determine the extent of procedures needed to ensure Education's financial information is materially correct, we perform tests of details and controls over fiscal processes in both systems.

Continue to Improve Support and Review of Financial Recording

Type: Internal Control

Severity: Significant Deficiency

Repeat: Yes (first issued in fiscal year 2017)

Education did not have adequate support or justifications for adjusting journal entries recorded in Education's internal accounting system (internal system). We made Education aware of the deficiencies contained in the journal entry support during our prior audit. Upon this discovery, management worked to update the journal entry process to ensure proper documentation was maintained and approvals were obtained prior to posting within the internal system. While improvement has been made since this time, we noted the following deficiencies in the 12 journal entries we tested that Education recorded after we made Education aware of the deficiencies in November 2017:

- Four journal entries did not contain adequate justification for why the entry was only posted to the internal system.
- Four journal entries did not contain the Budget Director's approval as required by the form instructions that were used at the time of transaction.
- One journal entry's supporting documentation did not have an award code on the report.

Per the CAPP Manual Topic 20905, "agency management is responsible for instituting internal control over the recording of financial transactions that is designed to provide reasonable assurance regarding the reliability of those records. Reliability of financial records means that management can reasonably make several assertions as to the completeness and accuracy of the financial records." Additionally, per Education's corrective action plan based on prior year findings, internal system and Commonwealth accounting system journal entries must include justification on the Move Request Form for why the transaction is recorded in one system and not the other.

Lack of management review and adequate supporting documentation increases the risk of Education recording inaccurate information. Also, if proper supporting documentation and justifications are not maintained for these entries, management may not be able to determine if accounting records are complete and accurate.

While Education worked to improve and document the new policy criteria for journal entries by November 2017, continued refining of the process occurred throughout the fiscal year. In the sample of journals tested, we identified that Education has not consistently ensured that journal entries have the adequate justifications and support to meet the new policy criteria and adequately address the deficiencies noted in the prior year audit report.

While Education has made improvements in its internal controls to ensure that journal entries have proper support and adequate justifications, further improvement and refinement of the process is needed to ensure that the new policy for journal entries adequately addresses deficiencies noted in the current and prior years. Education should ensure that staff are properly using the new Move Request Form for journals entries and that management is reviewing for any inconsistencies. This will ensure that financial recording procedures provide sufficient direction for personnel regarding the support needed to submit entries into the internal system.

Why the APA Audits Payment of the Treasury Loan

At the end of fiscal year 2017, Education obtained a Treasury loan to cover Substance Abuse and Mental Health Services Administration grant payments. The loan request did not disclose that the federal government was questioning certain grant payments. During fiscal year 2018, Education paid off the loan in installments. We performed procedures to determine if Education used an allowable source of funding to pay off the loan. We discovered that a portion of the loan was not paid with federal funds, as anticipated, but with special revenue funds. Because this loan authorization specifically stated that the repayment source was federal funds, we reviewed Education's records for a corresponding receivable from the federal fund to the special revenue fund.

Ensure Consistent Recording of Receivables

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

During fiscal year 2018, Education paid off a Treasury loan that was used to cover Substance Abuse and Mental Health Services Administration (SAMHSA) grant payments that Education made to localities. The majority of the \$1.6 million Treasury loan was paid using federal funds that had been reimbursed to Education by the U.S. Department of Health and Human Services (HHS). However, approximately \$124,000 in special revenue was used to cover the remainder of the loan because HHS has yet to determine if the expenditures related to this amount are allowable. Because Education used special funds, which were not related to the grant, that fund must be reimbursed for the amount spent on the Treasury loan. Education improperly excluded this receivable due to the special fund for \$124,000 in Attachment 21 submission to Department of Accounts (Accounts).

The Comptroller's Directive establishes compliance guidelines and addresses financial reporting requirements for state agencies to provide information to Accounts for the preparation of the Comprehensive Annual Financial Report (CAFR) as required by the Code of Virginia. According to the CAPP Manual Topic 20505, "for financial reporting purposes, a receivable must be reported when the underlying economic event occurs that results in a claim for amounts being owned to the Commonwealth."

While management may be unaware of which entity will be paying the receivable or if the receivable will be uncollectable, Education still needs to record the receivable amount to ensure proper inclusion within the Commonwealth's CAFR and the asset is controlled. If Education does not consistently practice the same process for receivables, then some receivables will not go through the same controls that Education uses to record, track, and determine collectability.

Management was not treating the transfer of the SAMHSA questioned costs of \$124,000 as a loan from the special revenue fund to the federal fund because they are unclear on SAMHSA's next action with the amount. Education is unsure if they will get resolution from SAMHSA where they will be fully reimbursed for the \$124,000 or if Education will need to pursue refunds from the localities to whom they paid the money. Education has also made Accounts aware that, if HHS denies the expenses, it may not pursue a refund from localities and will absorb the cost.

Education must ensure that all known receivables, regardless of the source in which they are to be received from, are to be consistently recorded within the internal system to provide for proper reporting and control. Additionally, Education should report all receivables to Accounts as required.

Why the APA Audits Budgetary Processes and Systems

Education receives and disburses approximately \$6.0 billion in Standards of Quality (SOQ) funding to Local Education Agencies (LEAs) annually. Education establishes a process to ensure that allocations to LEAs are properly calculated and disbursed. We test to ensure that its process is operationally effective and that payments to LEAs appear reasonable.

Use Secure Local Division Data

Type: Internal Control

Severity: Significant Deficiency

Repeat: No

Budget annually obtains localities ADM figures to determine how much funding each locality should receive. These figures are obtained from the localities, verified for accuracy by multiple members of Budget, and imported into the Direct Aid Budget Spreadsheet (DABS) to be used in funding calculations. While both copies of the ADM figures contained the same amounts, in Fiscal Year 2018, Budget unknowingly linked to ADM figures directly from an employee's hard drive instead of using the verified amounts kept on the local shared drive.

Per management, linked or imported data within the DABS should only come from the local shared drive. This Education requirement is designed to comply with the Commonwealth's Information Security Standard, SEC 501 (Security Standard) and industry best practices, which require agencies to use specific controls to reduce unnecessary risk to data confidentiality, integrity, and availability in systems processing or storing sensitive information.

If Budget does not ensure the integrity of the ADM figures being used within DABS, funding distributions could be inaccurate. ADM figures are used in calculating several locality payments including basic aid, vocational education, gifted education, and special education, which represent \$3.7 billion in payments for fiscal year 2018. Allowing ADM numbers to come from a Budget staff's hard drive increases the risk of error and the risk that an individual will manipulate ADM numbers to reflect personal bias towards a school division by increasing or decreasing the ADM to drive a higher or lower payment

According to management, the Budget staff used the correct file with verified ADM figures, but had it copied to the staff's hard drive rather than using the secured file on the local drive. Not ensuring the shared and secured file was used was an oversight by Budget. Going forward, Budget should ensure that the DABS links to the verified ADM figures secured on the local drive.

Why the APA Audits Federal Reporting Compliance Requirements for Preschool Development Grants

Education receives and disburses approximately \$17.7 million in federal funds to localities for Preschool Development Grants. Education is required to provide the federal government with accurate and supported financial and performance reports about this program. 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 attempted to agree them to supporting documentation, which resulted in the following finding.

Establish and Implement Policies and Procedures over Federal Reporting

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Education did not report matching funds consistent with the instructions for the Annual Performance Report submitted to the U.S. Department of Education (ED) for Preschool Development Grants, CFDA 84.419. On page one of this report, Education reported state non-federal matching funds based on the state's fiscal year; however, the report's instructions require these amounts to be based on the budget period, which is a calendar year. Additionally, on page 65 of the same report, the instructions require Education to report total non-federal matching funds spent during current and prior fiscal years; however, Education used inconsistent reporting periods when accumulating information related to the state and the locality portion of matching.

Financial reports submitted to the federal government should be fairly presented in accordance with the governing requirements, which in this case would be ED's instructions for completing the Annual Performance Report for Preschool Development Grants. Not having documented policies and procedures can inhibit newer staff from understanding the reporting process and determining which reports must be used as support. Additionally, the risk of not detecting errors or inconsistencies between the information requested by and reported to the federal government increases.

According to the program office, no documented written policies or procedures for compiling the Annual Performance Report have been developed. Education relies on the form instructions to aid in completion of the report. Additionally, it is not common practice for Education to maintain supporting documentation used in compiling the Annual Performance Report. From the support that is maintained, we identified that it is not always vetted for accuracy prior to including it within the Annual Performance Report. Specifically, the program office obtains the state's portion of the match amount for each fiscal year from budget department emails, but does not reconcile amounts in those emails to the internal accounting system.

While we were able to reasonably conclude that the amounts reported within the Annual Performance Report were materially correct, Education must ensure that amounts within the report are consistent with the instructions and are properly supported. Education should also establish written policies and procedures over the Annual Performance Report so staff are aware of what financial reports are necessary, what documentation needs to be maintained, and which reporting periods are used for the different sections.

Why the APA Audits Federal Suspension and Debarment Compliance Requirements for Preschool Development Grants

Education receives and disburses approximately \$17.7 million in federal funds to school localities for Preschool Development Grants. Education is required to ensure that all subrecipients of federal awards are not suspended or debarred. To confirm that Education is complying with this requirement, we discussed suspension and debarment practices with the program office and reviewed grant award documentation.

Confirm that Subrecipients are not Suspended or Debarred

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Education does not currently have a mechanism in place to confirm that subrecipients of the Preschool Development Expansion Grant (CFDA 84.419) are not suspended or debarred.

According to 2 CFR §200.213, non-federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part

180. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in federal assistance programs or activities.

According to management, the only subrecipients of this grant are localities, which are local school divisions who receive numerous payments, both state and federal, from Education. Education has not previously considered that localities were “suspended or debarred” for federal grants as Education considers grants mutually exclusive and; therefore, believed all localities were eligible for Preschool Development Grants regardless of past performance on other grants.

If Education does not ensure that localities are not suspended or debarred, they will not be in full compliance with the federal requirements of the grant, which could affect eligibility in future years. While the risk associated with a locality being suspended or debarred is low due to the nature of the subrecipients being local governments, if any are suspended or debarred, they could receive payment from Education unjustly.

While the suspension and debarment risk is low for localities, Education still needs to implement a process to meet the related federal requirements. Education has the following three options from Appendix XI of 2 CFR Part 200 it should consider implementing to comply with the federal requirements:

- Check the Excluded Parties List Systems maintained by the U.S. General Services Administration for each entity;
- Collect a certification from each entity; or
- Add a clause or condition to the document governing the transactions with each entity stating that it is not suspended or debarred.

Why the APA Audits Information Security

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 Security Standard; Commonwealth’s IT Security Audit Standard, SEC 502 (IT Audit Standard); and industry best practices, we performed testwork over the policies, procedures, and security controls supporting Education’s IT environment.

Continue Improving Database Security

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: Yes (first issued in fiscal year 2016)

Education continues to improve security controls for its database that stores its financial activity in accordance with its information security manual and the Security Standard. Education has resolved five out of six control weaknesses identified in the fiscal year 2017 audit. We communicated the remaining control weaknesses to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under §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 the confidentiality, integrity, and availability of data within the database or the information it reports.

Education should continue dedicating the necessary resources to implement the controls discussed in the communication marked FOIAE in accordance with the Security Standard and best practices in a timely manner.

Improve Vulnerability Scanning Process

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

As of December 8, 2018, Education was not performing certain processes relating to vulnerability scanning within its IT environment. We identified one weakness and communicated it to management in a separate document marked FOIAE under §2.2-3705.2 of the Code of Virginia due to it containing descriptions of security mechanisms.

The Security Standard requires agencies to implement 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, Education cannot ensure the confidentiality, integrity, and availability of data within its systems.

Education should dedicate the necessary resources to implement the control discussed in the communication marked FOIA Exempt in accordance with the Security Standard and best practices in a timely manner.

Perform Information Technology Security Audits

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Education is not in compliance with the IT Audit Standard for its IT security audits. Education signed a Memorandum of Understanding for Virginia Information Technologies Agency's (VITA) IT security audit services to comply with the requirements. Education is expecting to be in full compliance by the first quarter of 2020.

The IT Audit Standard, Section 1.4, requires that Education assess IT systems that contain sensitive data, or reside in a system with a sensitivity of high on any of the criteria of confidentiality, integrity, or availability, at least once every three years.

By not fully complying with the IT security audit requirements, existing weaknesses will remain undetected and unmitigated, increasing the risk of a system and data compromise by malicious parties or system unavailability.

Education should continue working with VITA to comply with IT Audit Standard requirements as planned. Education should subsequently manage IT security audits to ensure compliance with the IT Audit Standard.

Improve the IT Security Awareness Training Process

Type: Internal Control and Compliance

Severity: Significant Deficiency

Repeat: No

Education does not adequately monitor and enforce employee compliance with the annual security awareness and training requirement. Specifically, Education does not have a process to reconcile employee lists from Active Directory (AD), the Department of Human Resources' time and leave system, and the Commonwealth's Virginia Learning Center system (VLC). The VLC provides security awareness training and if employees are not in this system, Education cannot ensure all employees with access to information systems are taking annual security awareness training. As a result, 46 out of 338, 13 percent, employees are not in VLC and do not have a record of completing security awareness training after hire or annually thereafter.

Security Standard, Section AT-2, requires Education provide basic security awareness training to information system users as part of initial new hire training, when required by information system changes, and annually or more often as necessary thereafter. Additionally, Section AT-4 requires Education document and monitor individuals' completion of security awareness training. Furthermore, Education's Security Manual, Section 8.2.2, requires all new system users to complete basic security awareness training within 90 days of hire.

Without a process to verify the employee lists in the AD, time and leave system, and VLC system reconcile, Education cannot monitor and verify that all users completed the required security awareness training. This ultimately increases the risk that a user will not identify and respond to security threats that could compromise sensitive systems and data. Education's lack of a sufficient process to reconcile the employee lists across the three systems caused Education to be out of compliance with the security awareness and training requirement.

Education should develop an effective process to reconcile employees in the AD, time and leave system, and VLC system to ensure all employees with access to Education's information systems complete IT security awareness training. Once Education develops the process to reconcile employees in the various systems, Education should continue improving its monitoring process to ensure all users complete IT security awareness training in accordance with its Security Manual and 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 14, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
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, 2018. 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, 2018 and test compliance for the Single Audit. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system and in attachments submitted to the Department of Accounts; 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, 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 Preschool Development Grants

Standards of Quality allocations and disbursements to localities

Appropriations

Contract procurement

Accounts receivable

Accounts payable

Authorizations of Virginia Public School Authority Education Technology grant payments

Information System Security to include:

- Systems and Data Security
- Security Awareness and Training
- Change and Control Management
- Security Audits
- Risk Assessments

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 system access, documents, records, journal entries, and contracts, and observation of Education's operations. We performed analytical procedures, including trend and appropriation analyses. We also tested details of transactions, along with reconciliations of financial, accounting, and management systems to achieve our objectives.

A nonstatistical 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's accounting and financial reporting system and in attachments submitted to the Department of Accounts for use in preparing the Comprehensive Annual Financial Report.

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 "Internal Control and Compliance 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 a debt covenant or federal agreement will not be prevented, or detected and corrected on a timely basis. We consider the finding titled "Implement Separation of Duties over VPSA Education Technology Grant Payments" in the section titled "Internal Control and Compliance Findings and Recommendations," to be a **material weakness** over financial reporting.

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 the material weakness mentioned above, described in the section titled "Internal Control and Compliance Findings and Recommendations," to be significant deficiencies.

Findings in the section titled "Internal Control and Compliance 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, 2018.

Education has not taken adequate corrective action with respect to the previously reported findings titled "Improve Support and Review of Financial Recording" and "Improve Database Security."

Apart from the findings noted above, Education has taken adequate corrective action, including implementing compensating controls, with respect to all other audit findings that were reported in the prior year and are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on January 11, 2019. 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

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Superintendent of Public Instruction

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January 11, 2019

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) and Direct Aid to Public Education, for the fiscal year ended June 30, 2018. I am pleased that the audit found that the Department properly recorded and reported all transactions, in all material respects, in the Commonwealth's financial reporting system. The audit did identify matters involving internal controls and instances of noncompliance with applicable laws and regulations. The report contains recommendations for improvement that will focus the work of agency management and staff who will implement them.

Regarding the findings related to Implementing Separation of Duties over VPSA Education Technology Note Payments, agency management recognizes the need to develop tighter internal controls for the VPSA Education Technology Notes Program. The Budget Office, in partnership with the Education Information Management Office, launched a more efficient and secured electronic submission application entitled the Virginia Public School Authority Reimbursement Process (VPSARP) on November 1, 2018, which permits school divisions and eligible regional programs to submit paperless reimbursement requests securely to VDOE, requiring proper authorizations. The Budget Office is developing a process for immediate implementation that ensures proper segregation of duties for the performance of initial review separate from the final review and authorization of payments, and a separate process for reconciliation and review of monthly transactions. Finally, formal policies and procedures are being developed for immediate implementation to document the improved internal controls processes.

Regarding the findings related to Continued Improvement of Support and Review of Financial Recording, management is committed to continually improving and refining the internal controls process to ensure proper supporting documentation and justification for all journal entries, and management review and approval of all journal entries prior to being entered and posted in the General Ledger. Management continues to monitor progress to ensure consistency in the application of the improved policies and practices.

Regarding the findings related to Ensuring Consistent Recording of Receivables, management is aware of the importance of recording all receivables. The nature of the amount cited resulting from questioned costs on a federal SAMHSA grant, and the prolonged resolution from the granting agency, caused ambiguity regarding the treatment of the amount in question. However, should unusual circumstances arise in the future, management will consult with the Department of Accounts to confirm the proper treatment for fiscal year end reporting.

Regarding the findings related to Secure Local Division Data, management recognizes the need to use data stored on its shared drive in the computation of state payments to school divisions. In this particular instance, staff inadvertently linked enrollment data from a locally-stored file instead of the official file located on the shared drive. Although the data was accurate and did not affect state payments to school divisions, the Budget Office has updated desk reference procedures to include guidance related to linking files that contain local division data.

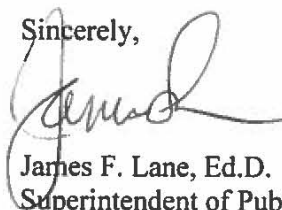
Regarding the findings related to Establishing and Implementing Policies and Procedures over Federal Reporting, management will create written policies and procedures for performance reporting in Annual Progress Reports, which will include a mechanism for verifying state match amounts for each fiscal year. In addition, management will use consistent reporting periods when accumulating information related to the state and local portion of matching and seek written confirmation of the reporting periods to be used from United States Departments issuing the federal grant awards.

Regarding the findings related to Confirm Sub-recipients are not Suspended or Debarred, management will be developing and implementing a mechanism to verify the suspension and debarred status of sub-grant recipients to ensure compliance with Appendix XI of 2 CFR 200.

Regarding the repeat finding related to Continue Improving Database Security, and new findings related to Improve Vulnerability Scanning Process, Perform Information Technology Security Audits, and Improve the IT Security Awareness Training Process; management is committed to resolving current and repeat findings in these areas. The agency has made significant progress since the 2016 audit in completing corrective actions on the repeat finding and is continuing to focus efforts for completion. Quarterly agency internal vulnerability scanning is underway. The ITGC portion of agency sensitive system security audits is complete and full completion is scheduled for completion by VITA by the end of CY19, Q2. DOE has improved the IT Security Awareness Training Process including reconciliation of employee lists from the agency, VITA and DHRM; the 2018 Security Awareness campaign yielded 100 percent compliance. Management continues to target internal and external resources to address remaining individual findings, a long-term, risk-based compliance action plan for the agency's information security program has been completed and the agency has hired a contract information security analyst to aid in future efforts and remediation.

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,



James F. Lane, Ed.D.
Superintendent of Public Instruction

JFL/cll

DEPARTMENT OF EDUCATION

As of June 30, 2018

AGENCY OFFICIAL

James F. Lane
State Superintendent of Public Instruction

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