



**DEPARTMENT OF EDUCATION
AND
DIRECT AID TO PUBLIC EDUCATION**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2013**

AUDIT SUMMARY

Our audit of the Department of Education and Direct Aid to Public Education for the year ended June 30, 2013, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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DEPARTMENT OVERVIEW

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

- Direct Aid to Public Education
- Central Office Operations
- Comprehensive Services Act for At-Risk Youth and Families

Education provides funding to localities for elementary and secondary public education through the Direct Aid to Public Education program. During fiscal year 2013, Education transferred over \$6.7 billion in state and federal funds to local school divisions. State funds make up approximately 85.4 percent of these funds, which support the Standards of Quality and other state programs.

Education's Central Office assists the 136 local public school systems by providing training, technical assistance, and monitoring their compliance with laws and regulations. Education helps teachers and other staff improve their skills by assisting school divisions, colleges, and universities in developing educational programs, and provides certain licensing and certification to school personnel. Education also serves as the pass-through agency for state and federal funds and determines the allocation of state money to local school divisions.

Education is the designated fiscal agent for the Comprehensive Services Act for At-Risk Youth and Families (CSA). Central Office staff process pool fund payments to localities for services performed assisting at-risk youth. We will include CSA in the 2013 Agencies of Secretary of Health and Human Resources audit report.

FINANCIAL INFORMATION

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

The following table summarizes budget and actual operating activity for fiscal year 2013 by Education's functional areas, and we provide more detailed financial information for each area in this report.

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Direct Aid to Public Education	\$6,666,517,052	\$6,850,537,222	\$6,786,402,969
Central Office Operations	<u>96,382,726</u>	<u>117,621,836</u>	<u>92,657,033</u>
Total	<u>\$6,762,899,778</u>	<u>\$6,968,159,058</u>	<u>\$6,879,060,002</u>

Source: Commonwealth Accounting and Reporting System

Direct Aid to Public Education

Education acts as a pass-through agency for state and federal funds and determines the allocation of funds to local school divisions. Over \$6.7 billion in state and federal funding went to local school divisions primarily for public education and local school functions. The following table summarizes these expenses by fund.

Analysis of Budget and Expenses for 2013

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General	\$5,240,570,524	\$5,174,050,749	\$5,159,400,458
Special	895,000	895,000	754,523
Commonwealth Transportation	2,173,000	2,173,000	2,173,000
Trust and Agency	400,000	400,000	-
Literary Fund	131,086,428	140,086,428	140,086,428
Lottery Proceeds	457,300,000	499,460,000	499,370,443
Federal	834,092,100	935,905,000	907,328,614
Federal Stimulus (ARRA)	<u>-</u>	<u>97,567,045</u>	<u>77,289,503</u>
 Total	 <u>\$6,666,517,052</u>	 <u>\$6,850,537,222</u>	 <u>\$6,786,402,969</u>

Source: Commonwealth Accounting and Reporting System

General Fund appropriations make up approximately 76 percent of the Direct Aid expenses. The General Fund original budget decreased \$66 million primarily because of increased Lottery and Literary Fund forecasts, which in turn reduced spending in the General Fund. The Federal fund original budget increased almost \$101 million because Education needed additional appropriations to cover the projected amount of reimbursement requests from school divisions for the remainder of the fiscal year.

The Lottery Proceeds original budget increased \$42 million due to an increase in the forecast of lottery profits. The Federal Stimulus (ARRA) fund original appropriation increased as a result of appropriating \$91 million for all remaining ARRA funds Education received under Title I, Education Technology State Grant, Statewide Data Systems, School Improvement Grant, and Education Jobs Fund.

While localities did not take advantage of all of the federal funding available (stimulus and non-stimulus) in fiscal year 2013, some of these funds are still available into fiscal year 2014. After December 2013, most federal stimulus funding will not be available, at which time, if General Fund revenues do not return, policy makers will need to decide if the Commonwealth should provide the same level of aid to localities or discontinue services in other areas.

The following table shows Direct Aid transfer payments by program:

Direct Aid to Public Education Expenses by Program

	<u>Expenses</u>	<u>Percent</u>
State Education Assistance Programs	\$5,792,561,382	85.4%
Federal Education Assistance Programs	984,618,117	14.5%
Financial Assistance for Cultural and Artistic Affairs	<u>9,223,470</u>	<u>0.01%</u>
Total	<u>\$6,786,402,969</u>	<u>100.0%</u>

Source: Commonwealth Accounting and Reporting System

The majority of the expenses under the State Education Assistance Programs are transfer payments to localities for several different programs, of which the Standards of Quality funding makes up 89 percent.

Funding for the Standards of Quality is comprised of roughly 23 percent from Education's net revenue from the state sales and use tax. The remaining portion is funded with both General and non-general fund appropriations, including proceeds from the Literary Fund. Lottery profits from special state revenue sharing make up another nine percent of the State Education Assistance expenses. The Federal Education Assistance Program includes various federal programs supported by stimulus and non-stimulus funds.

As noted above, localities did not take advantage of all federal funding available in fiscal year 2013, especially stimulus funds. All stimulus funding ends by fiscal year 2014. The following chart shows the amounts Education allocated and the amounts localities spent during fiscal year 2013. Localities must obligate and spend any remaining funds before the program ends.

Federal Stimulus Program Funds for 2013
(in millions)

<u>Federal Stimulus Program</u>	<u>Appropriated</u>	<u>Expenses</u>
Education Jobs Fund *	\$ 59.41	\$ 59.41
Title I - Grants to LEAs *	6.26	.07
School Improvement Grant ***	29.68	16.83
Education Technology State Grant *	1.04	.05
Statewide Data Systems **	1.18	0.93
Total Stimulus Funds	<u>\$ 97.57</u>	<u>\$ 77.29</u>

* Localities had until September 30, 2012, to obligate and December 31, 2012, to spend the remaining funds.

** Localities have until June 30, 2013, to obligate and September 30, 2013, to spend the remaining funds.

*** Localities have until September 30, 2013, to obligate and December 31, 2013, to spend the remaining funds.

Source: Commonwealth Accounting and Reporting System

The Standards of Quality set minimum standards for programs and services each local school board must provide. Education allocates funds to each locality based on demographic and census information gathered from local school divisions, following the provisions outlined in the Appropriation Act and Code of Virginia. Sales and use tax disbursements go to each school division using census data of school-age children within the school divisions. The school divisions receive lottery profit allocations based on the funding formulas of the Direct Aid programs appropriated in the Lottery Service Area of the Appropriation Act.

Education calculates most state payments using the Average Daily Membership (ADM) for each school division and the total agency appropriation. Local divisions receive these payments twice per month throughout the fiscal year. At the beginning of the fiscal year, Education makes a preliminary calculation of 24 equal installment payments for each school division. After each school division reports its actual ADM as of March 31, Education adjusts the remaining installment payments to reflect each school division's actual ADM. The following table shows expenses in Direct Aid over the last four fiscal years.

Costs per Pupil for Fiscal Years 2010-2013 (All Funds)

	<u>Fiscal Year 2010</u>	<u>Fiscal Year 2011</u>	<u>Fiscal Year 2012</u>	<u>Fiscal Year 2013</u>
Direct aid to localities expenses*	\$6,694,657	\$6,522,526	\$6,802,658	\$6,786,402
Total students**	1,203,823	1,208,902	1,214,688	1,222,554
Per pupil expenses***	\$ 5,561	\$ 5,395	\$ 5,600	\$ 5,551
Total teachers****	99,524	98,792	96,512	96,179

* Dollars in thousands

** Final March 31, adjusted average daily membership (ADM)

*** Direct Aid to localities expenses divided by total students

**** Reported from the Instructional Personnel Report for corresponding school years

In fiscal year 2013, total Direct Aid expenses decreased about \$16 million from fiscal year 2012 levels due to reduced federal fund expenditures.

Central Office Operations

Analysis of Budget and Expenses for 2013

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General	\$51,178,037	\$ 51,801,073	\$51,039,419
Special	5,210,369	3,164,000	1,533,274
Commonwealth Transportation	243,919	243,919	243,919
Trust and Agency	279,663	279,663	112,805
Indirect Cost Recoveries	1,298,690	1,298,690	984,211
Federal	38,172,048	48,902,221	36,845,554
Federal Stimulus (ARRA)	-	11,932,270	1,897,851
Total	<u>\$96,382,726</u>	<u>\$117,621,836</u>	<u>\$92,657,033</u>

Source: Commonwealth Accounting and Reporting System

Central Office's expenses were approximately \$25 million less than budgeted. Federal expenses were less than budgeted due to the timing of requests for reimbursements from the localities. Localities have three years to spend their funding, so the timing of reimbursement requests can vary over the span of the program. In addition, Education received a new, multi-year federal stimulus grant totaling \$17.5 million in fiscal year 2011 to cover costs related to the development and administration of a longitudinal data system expansion. Of this amount, Education has spent \$5.3 million and passed through \$7.4 million to other state agencies and higher education institutions over the past three fiscal years.

Most of Central Office operations expenses are for contractual obligations associated with the Standards of Learning (SOL) testing contract with NCS Pearson, Inc. In fiscal year 2013, NCS Pearson, Inc. received \$47.7 million in combined state and federal funds related to the SOL testing and other contracts. Education renewed the contract with NCS Pearson, Inc. through June 30, 2014. Payroll and other personal

services costs consist of roughly 27 percent of the total expenses for the Central Office operations in fiscal year 2013.

Central Office Operations Fiscal Year 2013 Expense Analysis

Contractual Services	\$ 60,998,780
Personal Services	25,295,561
Transfer Payments	4,123,663
Continuous Charges	1,756,493
Equipment	270,043
Supplies and Materials	<u>212,493</u>
Total	<u>\$ 92,657,033</u>

Source: Commonwealth Accounting and Reporting System



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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November 20, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
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, 2013. 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, 2013, and test compliance for the Statewide Single Audit. In support of this objective, we evaluated the accuracy of recording financial transactions in the Commonwealth Accounting and Reporting System and in Education's accounting records, reviewed the adequacy of Education's internal control, tested for compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Education's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Federal grant revenues and expenses
Contractual services expenses
Payroll expenses
Financial assistance and incentives payments
Appropriations
Information System Security

We performed audit tests to determine whether Education's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Education's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

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

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Education has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on December 11, 2013.

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

DBC/ clj

DEPARTMENT OF EDUCATION

Patricia I. Wright
State Superintendent of Public Instruction

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