

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

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2012**



## **AUDIT SUMMARY**

Our audit of the Department of Education and Direct Aid to Public Education for the year ended June 30, 2012, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and its operation that require management's attention and corrective action; and
- instances of noncompliance with applicable laws and regulations or other matters that required reporting.

– TABLE OF CONTENTS –

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1
DEPARTMENT OVERVIEW	2
FINANCIAL INFORMATION:	
Direct Aid to Public Education	2-5
Central Office Operations	5-6
INDEPENDENT AUDITOR’S REPORT	7-8
AGENCY RESPONSE	9
DEPARTMENT OF EDUCATION OFFICIALS	10

## AUDIT FINDINGS AND RECOMMENDATIONS

### Improve Information Security Awareness and Training

The Department of Education (Education) does not provide adequate information security awareness and training or ensure that all employees with access to sensitive information receive training at least annually.

The Commonwealth's information security standard requires agencies to train employees annually as to their responsibilities while interacting with sensitive data. While Education provides some general information security awareness and training, we found that the program is missing the following training requirements.

- Agency-specific IT security training requirements
- Role-based IT security training requirements
- Document users' acceptance of the agency security policies, including acceptable use, after receiving training

Additionally, Education only provided training to 253 of 304 employees during fiscal year 2012. It is essential that Education provide IT system managers, administrators, and users timely training and enforce this requirement by suspending employee account access for non-compliant employees.

We recommend that Education improve its information security awareness and training program by including agency-specific and role-based security training requirements. We also recommend that Education ensure compliance with the annual training requirement by suspending access for non-compliant employees.

### Improve Oracle Database Security

Education does not follow certain Commonwealth information security standards and best practices for its Oracle database that stores personally identifiable information and information protected under the Family Education Rights and Privacy Act (FERPA). The missing controls increases the overall database security posture in regards to data confidentiality, integrity, and availability.

While Education has improved some controls in the database during the last year, we identified two issues that require immediate attention. Since our recommendations include descriptions of security mechanisms, which are exempt from public disclosure by the Code of Virginia, management received a separate document containing a detailed description of our recommendation. Management concurred with our recommendations and is working on a corrective action plan.

## 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 2012, Education transferred over \$6.8 billion in state and federal funds to local school divisions. State funds make up approximately 80.6 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 2012 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 2012 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	\$ 6,355,056,968	\$6,949,712,133	\$6,802,658,091
Central Office Operations	<u>94,422,049</u>	<u>115,159,040</u>	<u>87,002,162</u>
Total	<u>\$ 6,449,479,017</u>	<u>\$7,064,871,173</u>	<u>\$6,889,660,253</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. Essentially \$6.8 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 2012

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General	\$4,951,806,340	\$4,888,481,556	\$4,881,409,821
Special	795,000	795,000	790,011
Commonwealth Transportation	2,173,000	2,173,000	2,173,000
Trust and Agency	-	229,100	170,309
Literary Fund	135,315,528	130,086,428	130,086,428
Lottery Proceeds	430,875,000	473,100,000	472,055,834
Federal	834,092,100	924,038,846	895,703,288
Federal Stimulus (ARRA)	<u>-</u>	<u>530,808,203</u>	<u>420,269,400</u>
 Total	 <u>\$6,355,056,968</u>	 <u>\$6,949,712,133</u>	 <u>\$6,802,658,091</u>

*Source: Commonwealth Accounting and Reporting System*

General Fund appropriations make up approximately 72 percent of the Direct Aid expenses. The General Fund original budget decreased \$63 million primarily as a result of removing State Fiscal Stabilization funds from Education's original budget as the program ended. The Federal fund original budget increased almost \$90 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 \$43 million due to an increase in the forecast of lottery profits. The Federal Stimulus (ARRA) fund original appropriation increased as a result of appropriating \$530 million for all remaining ARRA funds Education received under Title I, Individuals with Disabilities Education Act, School Improvement Grant, Education Technology State Grant, State Fiscal Stabilization Funds, and Statewide Data Systems.

While localities did not take advantage of all of the federal funding available (stimulus and non-stimulus) in fiscal year 2012, some of these funds are still available into fiscal year 2013. 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 some 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	\$5,479,537,487	80.5%
Federal Education Assistance Programs	1,315,972,688	19.3%
Financial Assistance for Cultural and Artistic Affairs	<u>7,147,916</u>	<u>0.2%</u>
Total	<u>\$6,802,658,091</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 24 percent from Education's net revenue from the state sales and use tax and the remaining portion funded with other General Funds. Lottery profits from special state revenue sharing make up another eight 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 2012, especially stimulus funds. All stimulus funding ends by fiscal year 2014. The following chart shows the amounts Education appropriated and the amounts localities spent during fiscal year 2012. Localities must obligate and spend any remaining funds before the program ends.

Federal Stimulus Program Funds  
(in millions)

<u>Federal Stimulus Program</u>	<u>Appropriated</u>	<u>Expenses</u>
Education Jobs Fund **	\$ 207.2	\$ 151.4
IDEA Cluster *	110.8	97.7
State Fiscal Stabilization Fund *	105.2	101.8
Title I - Grants to LEAs **	55.6	49.2
School Improvement Grant ****	45.1	15.4
Education Technology State Grant **	4.9	3.9
Statewide Data Systems ***	2.0	0.8
Total Stimulus Funds	<u>\$ 530.8</u>	<u>\$ 420.2</u>

\* Localities have until September 30, 2011 to obligate and December 31, 2011 to spend the remaining funds.  
 \*\* Localities have 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 2009-2012 (All Funds)

	<u>Fiscal Year 2009</u>	<u>Fiscal Year 2010</u>	<u>Fiscal Year 2011</u>	<u>Fiscal Year 2012</u>
Direct aid to localities expenses*	\$7,040,234	\$6,694,657	\$6,522,526	\$ 6,802,658
Total students**	1,195,326	1,203,823	1,208,902	1,214,702
Per pupil expenses***	\$ 5,890	\$ 5,561	\$ 5,395	\$ 5,600
Total teachers****	100,908	99,524	98,792	96,512

\* 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 2012, total Direct Aid expenses increased about \$280 million from fiscal year 2011 levels. This increase was primarily due to increases in Basic Aid payments to localities due to an increase in the number of students served and to help offset the reduction in State Fiscal Stabilization Funds.

Central Office Operations

Analysis of Budget and Expenses for 2012

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General	\$ 49,344,671	\$ 52,417,098	\$51,170,556
Special	5,193,165	5,361,515	1,786,740
Commonwealth Transportation	240,942	240,942	239,210
Trust and Agency	279,663	279,663	228,319
Indirect Cost Recoveries	1,287,254	1,287,254	552,719
Federal	38,076,354	41,524,936	30,888,635
Federal Stimulus (ARRA)	-	14,047,632	2,135,983
Total	<u>\$ 94,422,049</u>	<u>\$115,159,040</u>	<u>\$87,002,162</u>

Source: Commonwealth Accounting and Reporting System

Central Office's expenses were approximately \$28 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 \$15.1 million in fiscal year 2011 to cover costs related to the development and administration of a longitudinal data system expansion. However, Education only spent \$1.8 million of that grant during fiscal year 2011 and \$1.7 million during fiscal year 2012.

Most of Central Office Operation expenses are for contractual obligations associated with the Standards of Learning testing contract with NCS Pearson, Inc. In fiscal year 2012, NCS Pearson, Inc. received \$41.8 million in combined state and federal funds. Education renewed the contract with NCS



Pearson, Inc. through June 30, 2014. Payroll and other personal services costs comprise roughly 28 percent of the total expenses for the Central Office Operation in fiscal year 2012.

Central Office Operation Fiscal Year 2012 Expense Analysis

Contractual Services	\$ 54,020,049
Personal Services	24,728,430
Transfer Payments	6,127,836
Continuous Charges	1,536,087
Equipment	342,270
Supplies and Materials	<u>247,490</u>
Total	<u>\$ 87,002,162</u>

*Source: Commonwealth Accounting and Reporting System*



# Commonwealth of Virginia

## Auditor of Public Accounts

Martha S. Mavredes, CPA  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

January 8, 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, 2012. 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 the Education's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2012 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, and tested for compliance with applicable laws, regulations, contracts, and grant agreements.

### 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 and regulations.

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 systems 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 and regulations. 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 certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

### Exit Conference and Report Distribution

We discussed this report with management on January 23, 2013. 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

DBC/alh



# COMMONWEALTH of VIRGINIA

## DEPARTMENT OF EDUCATION

P.O. BOX 2120

RICHMOND, VA 23218-2120

January 29, 2013

The Auditor of Public Accounts  
P. O. Box 1295  
Richmond, Virginia 23218

Dear Madam:

The Department of Education agrees that its Information Security Awareness and Training program should be improved to provide additional information security awareness training to all employees. We also agree that Oracle database security should be improved. A Corrective Action Plan for these issues has been submitted.

Sincerely,

A handwritten signature in black ink, appearing to read "Kent C. Dickey".

Kent C. Dickey  
Deputy Superintendent for Finance and Operations

KCD:cle

DEPARTMENT OF EDUCATION

Patricia I. Wright  
State Superintendent of Public Instruction

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