

**DEPARTMENT OF EDUCATION  
INCLUDING  
DIRECT AID TO PUBLIC EDUCATION  
AND  
VIRGINIA SCHOOLS FOR DEAF AND BLIND**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2009**



## **AUDIT SUMMARY**

Our audit included the Department of Education, Direct Aid to Public Education, the Virginia School for the Deaf and Blind in Staunton, the Virginia School for the Deaf, Blind, and Multi-Disabled at Hampton, and the Virginia Schools for the Deaf and Blind Foundation. Our audit for the year ended June 30, 2009, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- a certain matter involving internal control and its operation that requires management's attention and corrective action; and
- no instances of noncompliance with applicable laws and regulations or other matters that required reporting.

## - TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDING AND RECOMMENDATION	1
DEPARTMENT OVERVIEW	1
FINANCIAL INFORMATION:	2-6
Direct Aid to Public Education	2-4
Central Office Operations	4
Virginia School for the Deaf and the Blind	5-6
AUDIT OBJECTIVES	7
AUDIT SCOPE AND METHODOLOGY	7-8
CONCLUSIONS	8
EXIT CONFERENCE AND REPORT DISTRIBUTION	8
AGENCY RESPONSE	9
DEPARTMENT OF EDUCATION OFFICIALS	10

## AUDIT FINDING AND RECOMMENDATION

### Ensure Proper Coding of Central Office Expenses

During fiscal 2009 and the first portion of fiscal 2010, the Department of Education (Education) improperly coded certain contractual payments as equipment purchases, specifically, computer software. The \$30 million in payments to NCS Pearson, Inc., for the testing requirements included as part of the Standards of Learning is where the error occurred. Due to the complexity of the NCS Pearson contract, staff did not identify this coding error until they performed an annual review in August of 2009. Though staff can correct fiscal 2010 payments, the 2009 payments will remain in error.

The coding error only impacts the transparency of Education's expenses during fiscal 2009. However, because of the size of the miscoding and length of time that it went undetected, we recommended and Education has implemented a management level review to allow for correction of coding errors prior to the end of each fiscal year.

## DEPARTMENT OVERVIEW

Education has four functional areas, described in more detail below:

- Direct Aid to Public Education
- Central Office Operations
- Virginia Schools for the Deaf and Blind
- 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 2009, Education transferred more than \$7 billion in state and federal funds to local school divisions. State funds make up approximately 79.2 percent of these funds, which support the Standards of Quality and other state programs.

Education's Central Office assists the 132 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.

During fiscal 2009, Education maintained programmatic supervision and operational control over the School for the Deaf and Blind in Staunton (School in Staunton), and oversaw the effort to fully close all functions at the School for the Deaf, Blind, and Multi-Disabled in Hampton, effective June 30, 2009. While the School in Staunton had maintained their own financial operations, effective July 1, 2009, Education no longer provides programmatic supervision and operational control for the School, as the school became an independent state entity with its own Board of Visitors. We discuss these changes further in the section entitled: Virginia School for the Deaf and the Blind.

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 issue a separate report for CSA and will include CSA in the 2009 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 Schools for the Deaf and Blind receive General Funds, funds from local school divisions, federal grants, and income from the Foundation.

The following table summarizes budget and actual operating activity for fiscal 2009 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	\$7,208,124,178	\$7,215,377,980	\$7,040,234,469
Central Office Operations	120,313,176	117,758,169	88,169,275
Virginia School for the Deaf and Blind in Staunton	12,367,112	13,323,374	11,718,578
Virginia School for the Deaf, Blind and Multi-Disabled in Hampton	<u>3,568,224</u>	<u>3,525,183</u>	<u>3,284,127</u>
Total	<u>\$7,344,372,690</u>	<u>\$7,349,984,706</u>	<u>\$7,143,406,449</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 \$7 billion in state and federal funding goes to local school divisions primarily for public education and local school functions. The table on the following page summarizes these expenses by fund. General funds contribute roughly 79 percent of this funding.

### Analysis of Budget and Expenses for 2009 and Budget for 2010 by Fund

#### Direct Aid to Public Education

	<u>Original Budget 2009</u>	<u>Adjusted Budget 2009</u>	<u>Actual Expenses 2009</u>	<u>Budget 2010</u>
General	\$5,723,806,043	\$5,586,627,881	\$5,574,763,640	\$5,301,559,060
Special	795,000	795,000	738,629	795,000
Commonwealth				
Transportation	2,173,000	2,173,000	2,173,000	2,173,000
Trust and Agency	15,129,100	360,100	360,100	129,100
Literary Fund	171,128,935	228,691,828	228,691,828	122,979,935
Lottery Proceeds	461,000,000	430,500,000	430,494,835	430,200,000
Federal	834,092,100	833,972,323	802,801,507	834,073,097
Federal Stimulus (ARRA)	<u>-</u>	<u>132,257,848</u>	<u>210,930</u>	<u>499,316,946</u>
Total	<u>\$7,208,124,178</u>	<u>\$7,215,377,980</u>	<u>\$7,040,234,469</u>	<u>\$7,191,226,138</u>

*Source: Commonwealth Accounting and Reporting System*

The \$132 million in federal stimulus funding and a \$57 million increase in funding available from the Literary Fund offset the General Fund budgetary decrease of \$137 million between original and adjusted. Collectively, Direct Aid to Public Education budget increased by 0.1 percent in a year that the state's General Fund revenues decreased by almost seven percent.

While localities did not take advantage of all the federal funding available (stimulus and non-stimulus) in fiscal 2009, these funds are available in future years. However, because of the impact state revenues have on Direct Aid to Public Education, even with nearly the half a billion in stimulus funding, the starting budget for fiscal 2010 is less than a quarter percent higher than actual expenses in fiscal 2009. After December 2011, 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 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 approximately 81 percent. Funding for this program also includes roughly 19 percent from special state revenue sharing, which consists of a portion of net revenue from the state sales and use tax and lottery profits. 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	\$6,230,655,892	88.2%
Federal Education Assistance Programs	803,012,437	11.7%
Financial Assistance for Cultural and Artistic Affairs	<u>6,566,140</u>	<u>0.1%</u>
Total	<u>\$7,040,234,469</u>	<u>100.0%</u>

*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 federal grant agreements. 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 direct lottery profit allocations based on the number of students reported for each school division in the spring multiplied by the per pupil amount determined by the General Assembly.

Education calculates most state payments using the Average Daily Membership (ADM) for each school division and the total departmental 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 five fiscal years. In 2009, total direct aid increased roughly \$385 million over 2008 levels due primarily to costs associated with the biennial re-benchmarking of the Standards of Quality as recommended by the Board of Education. There was only a minor increase in the final ADM for 2009.

Costs per Pupil for Fiscal Years 2006-2009 (All Funds)

	Fiscal Year <u>2006</u>	Fiscal Year <u>2007</u>	Fiscal Year <u>2008</u>	Fiscal Year <u>2009</u>
Direct aid to localities expenses*	\$5,835,526	\$6,543,836	\$6,655,258	\$7,040,234
Total students**	1,184,078	1,189,904	1,191,855	1,195,315
Per pupil expenses***	\$ 4,928	\$ 5,499	\$ 5,584	\$ 5,890
Total teachers****	97,861	99,231	100,438	100,908

\*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

Central Office Operations

2009 Budget and Expense Analysis – Central Office

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General fund	\$ 56,416,667	\$ 52,078,679	\$50,829,124
Special funds	5,830,419	6,030,419	2,927,014
Commonwealth transportation fund	240,942	240,942	216,170
Trust and agency funds	279,663	279,663	114,815
Federal funds	<u>57,545,485</u>	<u>59,128,466</u>	<u>34,082,152</u>
Total	<u>\$120,313,176</u>	<u>\$117,758,169</u>	<u>\$88,169,275</u>

Source: Commonwealth Accounting and Reporting System

Education restructured its pupil assessment services and executed required budget reductions as reflected by the General Fund decrease of \$4.3 million (7.6 percent) from original to adjusted budget. Most of Central Office's expenses are for contractual obligations associated with the Standards of Learning testing contract with NCS Pearson, Inc. For fiscal 2009, NCS Pearson, Inc. received about \$35.7 million for its services. Payroll and other personal services costs consist of roughly 33 percent of the total expenses for the Central Office in fiscal 2009.

To accurately reflect Education's expenses, the chart below contains a \$30 million adjustment to reclassify equipment expenses to contractual services. This adjustment is necessary as a result of miscoding to Education's expenses, as discussed further in the finding and recommendation entitled: Ensure Proper Coding of Central Office Expenses.

Central Office Operations Fiscal 2009 Expense Analysis

Contractual services	\$51,138,161
Personal services	28,736,234
Transfer payments	6,219,210
Continuous charges	1,557,325
Supplies and materials	342,367
Equipment	<u>175,978</u>
Total	<u>\$88,169,275</u>

Source: Commonwealth Accounting and Reporting System, with Adjustments

### Virginia School for the Deaf and the Blind

As mentioned earlier in this report, the School for the Deaf, Blind, and Multi-Disabled in Hampton (School in Hampton) is now closed, and operations were transferred to a consolidated central campus in Staunton. The remaining school, the Virginia School for the Deaf and Blind in Staunton, is still open but has been renamed the Virginia School for the Deaf and the Blind (VSDB). VSDB provides comprehensive instructional programs and services to children with serious auditory and visual impairments and multiple disabilities, where local school divisions cannot provide these services.

During the 2009 Session of the General Assembly, legislation established the Board of Visitors of the Virginia School for the Deaf and the Blind (Board), thereby transferring authority from the State Board of Education. The Board is now ultimately responsible for the investments, accounting, and other fiduciary duties, including financial reporting. The Board has programmatic and operational responsibilities for the School, and its membership is comprised of four members of the General Assembly and seven non-legislative citizens.

While the School in Hampton stopped services prior to the start of fiscal 2009, the School in Hampton still had expenses related to inventorying and preparing the grounds for surplus by the Department of General Services. Additionally, as part of the consolidation, the Staunton campus will undergo significant construction and renovations to its campus facilities over the next several years.

#### Analysis of Budget and Expenses for 2009 by Location Virginia School for the Deaf and Blind at Staunton

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General funds	\$11,024,926	\$11,872,688	\$10,919,624
Special funds	554,647	563,147	21,016
Federal funds	<u>787,539</u>	<u>887,539</u>	<u>777,938</u>
Total	<u>\$12,367,112</u>	<u>\$13,323,374</u>	<u>\$11,718,578</u>

#### Virginia School for the Deaf, Blind, and Multi-Disabled at Hampton

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General funds	<u>\$3,568,224</u>	<u>\$3,525,183</u>	<u>\$3,284,127</u>
Total	<u>\$3,568,224</u>	<u>\$3,525,183</u>	<u>\$3,284,127</u>

*Source: Commonwealth Accounting and Reporting System*

Personal service costs account for the majority of expenses at both locations. The table below shows fiscal 2009 operating expenses for the Virginia Schools for the Deaf and the Blind by expense type.



Analysis of Operating Expenses by Type for 2009  
Virginia Schools for the Deaf and Blind

	<u>Staunton</u>	<u>Hampton</u>	<u>Total</u>	<u>Percentage</u>
Personal services	\$ 9,486,377	\$2,584,185	\$12,070,562	80.4%
Contractual services	1,220,109	240,188	1,460,297	9.7%
Supplies and materials	535,835	101,818	637,653	4.3%
Continuous charges	326,968	223,694	550,662	3.7%
Equipment	122,745	-	122,745	0.8%
Other	<u>26,544</u>	<u>134,242</u>	<u>160,786</u>	<u>1.1%</u>
Total	<u>\$11,718,578</u>	<u>\$3,284,127</u>	<u>\$15,002,705</u>	<u>100.0%</u>

*Source: Commonwealth Accounting and Reporting System*

As of May 31, 2009, the School in Staunton serves 127 students including 99 residential students at an average per-pupil cost of \$92,272. Because the Hampton campus ceased operations effective July 1, 2008, there were no students served during fiscal 2009.

Virginia Schools for the Deaf and Blind  
Cost per Pupil for Fiscal Years 2008 and 2009

	<u>Staunton</u>		<u>Hampton</u>	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
Operating Expenses	\$9,510,126	\$11,718,578	\$7,122,866	\$ -
Total Students	132*	127**	41*	-
Per Pupil Expenses	\$ 72,046	\$ 92,272	\$ 173,728	\$ -

\*As of May 31, 2008.

\*\*As of May 31, 2009.

The State Board of Education is in the middle of transitioning its governing responsibilities for the Virginia Schools for the Deaf and Blind Foundation (Foundation) to the new Board of Visitors for VSDB. The Foundation promotes the growth, progress, and welfare of VSDB.

The Foundation administers gifts, grants, bequests, and devices consistent with their terms and for the benefit of VSDB. The State Board of Education approved the Foundation's budget and acted as its governing board. The Assistant Superintendent for Finance served as the Secretary/Treasurer of the Foundation, oversaw the actions of the Foundation investor, and reported financial activities to the Board of Education.

Annually, VSDB receives income from the Foundation's investments, which they must spend in accordance with a plan submitted to the Foundation's board. At December 31, 2008, the market value of the Foundation's investment portfolio was \$2,466,245, having lost \$944,304 during calendar year 2008. The Board approved calendar year 2008 disbursements to the School in Staunton of \$58,463.



# Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

November 17, 2009

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable M. Kirkland Cox  
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, the Virginia School for the Deaf and Blind in Staunton, the Virginia School for the Deaf, Blind, and Multi-Disabled in Hampton, and the Virginia Schools for the Deaf and Blind Foundation** (the Department), for the year ended June 30, 2009. 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 objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal controls, test compliance with applicable laws and regulations and review corrective actions of audit findings from prior year reports

## Audit Scope and Methodology

The Department of 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 materiality and control 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 expenditures  
Contractual services expenditures  
Payroll expenditures  
Financial assistance and incentives payments  
Appropriations  
Network security  
Performance measures

We performed audit tests to determine whether the Department'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 the Department's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

We found that the Department of Education properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department of 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 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 and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Department of Education has taken adequate corrective action with respect to the audit finding reported in the prior year that is not repeated in this letter.

### Exit Conference and Report Distribution

We discussed this report with management on December 1, 2009. Management's response has been included at the end of this report.

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

## DEPARTMENT OF EDUCATION

P.O. BOX 2120

RICHMOND, VA 23218-2120

December 4, 2009

TO: Walter Kucharski, Auditor of Public Accounts

FROM: Kent Dickey, Assistant Superintendent for Finance *KCD*  
Marie Williams, Director of Accounting *Marie Williams*

SUBJECT: Response to FY 2009 Audit of the Department of Education, Direct Aid to Public Education, the Virginia School for the Deaf and the Blind at Staunton, the Virginia School for the Deaf, Blind, and Multi-Disabled at Hampton, and the Virginia Schools for the Deaf and Blind Foundation

The Department of Education agrees that central office expenses should be properly coded. As noted in the report, the Department has implemented a corrective action plan to ensure that the correct detail object code is used for testing contractor and similar invoices.

KCD:cle

DEPARTMENT OF EDUCATION

Patricia I. Wright  
State Superintendent of Public Instruction

BOARD OF EDUCATION MEMBERS  
As of June 30, 2009

Mark E. Emblidge  
President

Ella P. Ward  
Vice President

Thomas M. Brewster  
Isis Castro  
David L. Johnson

K. Rob Krupicka  
Virginia L. McLaughlin  
Kevin L. Moore

Eleanor Saslaw