

**DEPARTMENT OF EDUCATION INCLUDING  
DIRECT AID TO PUBLIC EDUCATION,  
THE VIRGINIA SCHOOLS FOR THE DEAF AND BLIND,  
AND THE VIRGINIA SCHOOLS FOR  
THE DEAF AND BLIND FOUNDATION  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2002**



## **AUDIT SUMMARY**

Our audit included the Department of Education, Direct Aid to Public Education, the Virginia Schools for the Deaf and Blind, and the Virginia Schools for the Deaf and Blind Foundation. Our audit for the year ended June 30, 2002, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System for the Department of Education, Direct Aid to Public Education, the Virginia School for the Deaf and Blind in Staunton, and the Virginia School for the Deaf, Blind, and Multi-Disabled in Hampton;
- proper recording and reporting of transactions, in all material respects, in the accounting records for the Virginia Schools for the Deaf and Blind Foundation;
- no matters involving the internal control and its operation that we consider material weaknesses;
- no instances of noncompliance that are required to be reported; and
- proper resolution of the prior year finding.

The Department of Education is the designated fiscal agent for the Comprehensive Services Act and we will issue a separate report on this activity.

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VIRGINIA SCHOOLS AND FOUNDATION FOR THE DEAF AND BLIND

DEPARTMENT OF EDUCATION BOARD MEMBERS

November 22, 2002

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Kevin G. Miller  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

### INDEPENDENT AUDITOR'S REPORT

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** for the year ended June 30, 2002. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

#### Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Department's accounting records, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective action of the audit finding from our prior year report.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures  
Revenues  
Federal Grant Management

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. 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.

The Department'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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Department's accounting records. The Department 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 to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has taken adequate corrective action with respect to the audit finding reported in the prior year.

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.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on December 11, 2002.

AUDITOR OF PUBLIC ACCOUNTS

## **THE DEPARTMENT'S FUNCTIONAL AREAS**

The Department of Education (Department) has four functional areas:

- Central Office
- Direct Aid to Public Education
- Virginia School for the Deaf and Blind in Staunton; Virginia School for the Deaf, Blind, and Multi-Disabled in Hampton; and the Virginia Schools for the Deaf and Blind Foundation
- Comprehensive Services Act for At-Risk Youth and Families

The Department's Central Office supervises the public school systems, provides training and technical assistance, and monitors their compliance with laws and regulations for all 137 school divisions. The Department also acts as a pass-through agency for state and federal funds and determines the distribution of state money to local school divisions through direct aid to local school divisions.

During fiscal year 2002, the Department transferred over \$4.4 billion in state and federal funds to local school divisions. State dollars make up the majority of these funds, which support the Standards of Quality.

The Department maintains operating control over the two schools for the deaf and blind. The schools provide comprehensive instructional programs and services to children with serious auditory and visual impairments and multi-disabilities that local school divisions cannot serve. The State Board of Education is the governing body of the Virginia Schools for the Deaf and Blind Foundation. The Foundation promotes the growth, progress, and welfare of the Schools for the Deaf and Blind.

The Department is the assigned fiscal agent for the Comprehensive Services Act (CSA) for At-Risk Youth and Families. Central Office staff process pool fund payments to localities for services performed assisting at-risk youth. There is a separate report for CSA.

## **FINANCIAL OPERATIONS**

### **Overview**

The Department primarily receives General Fund appropriations. The Department also receives federal grants and collects fees for teacher licensure. The Schools for the Deaf and Blind receive funds from local school divisions, federal grants, and income from the Virginia Schools for the Deaf and Blind Foundation.

The Department acts as a pass-through agency for state and federal funds and determines the distribution of funds to local school divisions. Over \$4.4 billion in funding goes to local school divisions for primarily direct aid to public education and local school functions.

Standards of Quality (SOQ) funding makes up approximately 60 percent of all aid sent to local school divisions with another 21 percent from Special State Revenue Sharing. Special State Revenue Sharing consists of a portion of net revenue from the state sales and use tax and lottery profits. 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 number of students reported for each school division in the spring multiplied by the per pupil amount determined by the General Assembly.

The Department allocates funds to each locality based on information gathered from local school divisions, following the provisions outlined in the Appropriations Act and federal grant agreements. The following tables summarize the Department's total appropriation and expenses in fiscal year 2002.

	Appropriation and Revenue	Expenses	Percent of Total Expenses
Direct Aid to Public Education	\$5,135,625,751	\$4,457,357,138	98.2%
Central Office Operations	98,421,732	65,344,360	1.5%
Virginia Schools for the Deaf and Blind	22,012,871	15,266,072	0.3%
Total	\$5,256,060,354*	\$4,537,967,570*	100.0%

SOURCE: Commonwealth Accounting and Reporting System for the year ended June 30, 2002

\* Does not include capital project expenditures and revenue incurred by the Virginia Schools for the Deaf and Blind.

	Direct Aid to Public Education	Central Office Operations	VA Schools for the Deaf and Blind
General Fund Expenses	\$3,823,252,351	\$44,956,093	\$13,663,690
Non-General Fund Expenses	112,780,406	2,112,168	1,048,188
Federal Fund Expenses	521,324,381	18,276,099	554,194
Total	\$4,457,357,138	\$65,344,360	\$15,266,072*

SOURCE: Commonwealth Accounting and Reporting System for the year ended June 30, 2002

\* Does not include capital project expenditures and revenue incurred by the Virginia Schools for the Deaf and Blind.

	Direct Aid to Public Education (in millions)	Percent of Direct Aid to Public Education
Standards of Quality	\$2,690	60%
Special State Revenue Sharing	914	21%
Categorical Aid	465	10%
Public School Employee Benefits	220	5%
Other	168	4%
Total	\$4,457	100%

SOURCE: Commonwealth Accounting and Reporting System for the year ended June 30, 2002

As illustrated below, the majority of the Department's expenses are transfer payments, which are mostly comprised of aid to public education. The increase in contractual service expenses and the decrease in supplies and materials represent a change in the classification of Harcourt Brace expenses, which were previously classified as supplies and materials. Harcourt Brace administers, grades, and evaluates Standards of Learning tests and received approximately \$18,744,104 during fiscal year 2002.

Expenses by Object Code – FY 2001 and 2002

Object Code	FY 2001	FY 2002
Personal Services	\$23,108,780	\$23,042,953
Contractual Services	17,884,082	42,969,763
Supplies and Materials	19,070,883	549,168
Transfer Payments	4,370,696,218	4,452,158,597
Continuous Charges	409,435	2,587,624
Equipment	1,569,201	1,393,393
Total	\$4,432,738,599*	\$4,522,701,498*

SOURCE: Commonwealth Accounting and Reporting System for the Department of Education and Direct Aid to Localities

\* Does not include expenditures incurred by the Virginia Schools for the Deaf and Blind.

**Direct Aid To Public Education**

The Standards of Quality set minimum standards for programs and services each local school board should provide. The Department allocates funds to each locality based on information gathered from local school divisions, following the provisions of the Appropriations Act and federal grant agreements. In addition to providing funds to localities, the Department also transfers federal assistance to other state agencies that administer educational programs.

The Department calculates most state entitlement payments based on the average daily membership for each school division and the total departmental appropriation. At the beginning of the fiscal year, the Department calculates 24 equal installment payments to each school division. After each school division reports its actual average daily membership as of March 31, the Department adjusts the remaining installment payments to reflect each school division's actual average daily membership. The following table shows expenditures in direct aid to public education over the last five years. In 2002, total direct aid increased more than \$91 million due to an increase in student enrollment and per pupil costs.

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Direct Aid to Localities Expenditures *	\$3,405,147	\$3,874,590	\$4,065,104	\$4,366,265	\$4,457,357
Total Students	1,100,002	1,110,846	1,121,780	1,130,446	1,143,018
Per Pupil Expenditure **	\$3,096	\$3,488	\$3,624	\$3,862	\$3,900
Total Teachers	82,266	84,069	87,206	91,912	94,251***

\* Dollars in Thousands

\*\* Per Pupil Expenditure is the Direct Aid to Localities Expenditures divided by Total Students.

\*\*\*Preliminary Estimate

## **Budget Reductions**

In fiscal year 2002, Central Office had to reduce its General Fund appropriations by approximately \$3.7 million as a result of statewide budget reductions. In addition to these reductions, the Department also reverted \$809,963 at fiscal year-end. The Department anticipates additional budget reductions for fiscal year 2003 and 2004 of \$2,666,100 and \$3,799,378, respectively. These amounts will result in a cumulative reduction of 22 positions and 11 layoffs. Central Office is continuing to evaluate the impact of decreased funding and continues to consider options such as the elimination of positions and maintaining position vacancies.

## **DEPARTMENT HIGHLIGHTS**

### **Standards Of Accreditation**

The Board of Education adopted revisions to the Regulations Establishing Standards of Accrediting Public Schools in Virginia. The revisions became effective September 28, 2000 for the 2000-2001 school year. The regulations include provisions that raise academic achievement standards for students, increase the high school graduation requirements, increase instructional time, and establish a school report card for parents and the community. Student achievement on Standards of Learning tests will continue to provide the primary basis for evaluating schools.

### **Standards Of Learning**

The Board of Education establishes the Standards of Learning and adopted revisions during fiscal year 2001. The standards are minimum requirements for students in the following subjects: english, mathematics, science, history/social science, computer/technology, fine arts, foreign language, health, physical education, and driver education. The standards set targets and expectations for both teachers and students. The Board also approved a review schedule for all Standards of Learning in each subject area at least once every seven years.

### **Governor's Schools**

Virginia has 43 Governor's Schools, a state and local supported program that includes summer residential, summer regional, and academic-year programs serving more than 7,500 gifted students. The schools consist of seven summer residential Governor's Schools, 20 summer regional Governor's Schools, and 16 operational academic-year Governor's Schools. The summer residential schools provide gifted high school juniors and seniors educational experience in visual and performing arts, humanities, mathematics, science, technology, medicine, and life science. The summer regional Governor's Schools that serve gifted elementary and middle school students provide educational experience in arts, science, and humanities. The academic-year Governor's Schools provided subjects including arts, government and international studies, global economies and technology, mathematics, science, and technology.

### **Charter Schools**

Charter schools are public, nonsectarian, nonreligious, or non home-based alternative schools located within a public school division. A charter school may be a new public school or the conversion of all or part of an existing public school. Any person, group, or organization may submit an application to develop a charter school to the local school board in school divisions that have adopted resolutions to accept such applications. Charter schools may receive state and federal funding and are subject to the requirements of the Standards of Quality, including the Standards of Learning and the Standards of Accreditation.

Currently, there are eight charter schools in Virginia with an estimated enrollment of 654 students in grades 3 through 12 in six of the eight schools. The other two charter schools recently opened in September 2002 and serve 292 students in grades 9 through 12.

### **VIRGINIA SCHOOLS AND FOUNDATION FOR THE DEAF AND BLIND**

The Virginia School for the Deaf and Blind in Staunton (School in Staunton) and the Virginia School for the Deaf, Blind, and Multi-Disabled in Hampton (School in Hampton) provide educational services for students with sensory impairments from birth to age 22. The schools have an advisory commission that monitors operations and submits recommendations to the Board of Education. The schools provide academic and vocational education, as well as other services such as speech, therapy and health services, and guidance counseling. During fiscal year 2002, the School in Staunton served 152 students and the School in Hampton served 88 students.

The Schools for the Deaf and Blind expenses for fiscal year 2002 totaled \$15,266,072. Of this amount, \$11,020,377 (72 percent) was for personal service expenses, \$1,873,325 (12 percent) was for contractual service expenses, and the remaining \$2,372,370 (16 percent) was for supplies and materials, equipment, and continuous charges.

In fiscal year 2002, as a result of statewide budget reductions, the School in Staunton and the School in Hampton had to reduce their General Fund appropriations by \$62,285 and \$87,431, respectively. In addition to these reductions, the School in Staunton reverted \$9,315 and the School in Hampton reverted \$13,559 at fiscal year-end. The School in Staunton anticipates additional budget reductions for fiscal year 2003 and 2004 of \$242,949 and \$248,832, respectively. These amounts will result in a cumulative reduction of three positions and eight layoffs. The School in Hampton anticipates additional budget reductions for fiscal year 2003 and 2004 of \$400,438 and \$399,884, respectively. These amounts will result in a cumulative reduction of one position and 18 layoffs.

The Virginia Schools for the Deaf and Blind Foundation, Incorporated, supports and aids the schools in the existing and future enterprises involving the schools. The Foundation administers gifts, grants, bequests, and devises consistent with their terms and for the benefit of the Schools for the Deaf and Blind. The State Board of Education approves the Foundation's budget and acts as its governing board. The Assistant Superintendent of Finance serves as the Secretary/Treasurer of the Foundation, oversees the actions of the Foundation's investor, and reports financial activities to the Board of Education. Annually, the schools receive income from the Foundation's investments, which they must spend in accordance with a plan submitted to the Foundation's board. The Foundation operates on a calendar year. From January 1, 2001 to December 31, 2001, the Foundation paid \$77,115 to the School in Staunton and \$40,184 to the School in Hampton.

DEPARTMENT OF EDUCATION

BOARD MEMBERS

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