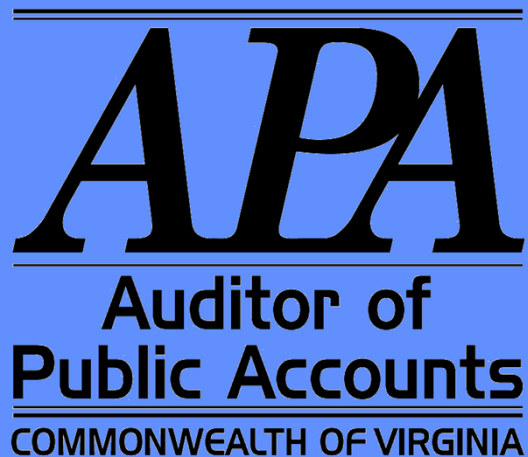


**VIRGINIA SCHOOL FOR THE DEAF AND BLIND  
AND  
THE VIRGINIA SCHOOL FOR THE DEAF AND BLIND  
FOUNDATION**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2010**



## **RISK ALERTS**

During the course of our audit, we encountered issues that are beyond the corrective action of management and require the action of either the School for the Deaf and Blind Board, another agency or outside party, or a change in the method by which the Commonwealth conducts its operations. The following issues represent such a risk to the Board and the Commonwealth.

### **Develop and Implement an Information Security Program**

Virginia School for the Deaf and Blind (the School) does not have most of the fundamental information necessary to comply with the requirements in the Commonwealth's Security Standard to develop and implement an information security program that provides assurance over data confidentiality, integrity, and availability. Inadequate IT security policies place the School and its IT systems and data at risk for loss of confidentiality, integrity, and availability.

As a small agency, the School has limited staff and expertise available to develop an adequate Information Technology Security Program. The School's management should consider contacting the Department of Accounts (Accounts) to determine if Accounts new program to assist small agencies with the development of their information security programs can accommodate the School.

### **Maintaining Internal Controls, Current Policies and Procedures, and Compliance Issues**

Like a number of agencies, the School has reduced administrative and support staff to meet many of the budget reductions over the past several years. These reductions have significantly reduced the School's ability to deal with the loss of key personnel and maintain adequate internal controls to meet best practices to safeguard Commonwealth assets. A review of administrative support indicates that the School has reached a point that loss of a key fiscal person or the retirement of an individual could temporarily compromise the internal control within the fiscal operations.

The School and the Board of Visitors will need to determine if the risk of continuing to operate as a solely independent agency without outsourcing administrative functions can occur and still comply with these additional external requirements. Further, several points within this report refer to the need to document policies and procedures, financial as well as those addressed in the other compliance matters.

The Board of Visitors and management need to weigh the risk associated with operating with limited staff without well documented and current policies and procedures. Further, this risk assessment should consider the consequences of non-compliance with both state and federal laws and regulations, which encompass both financial and data security issues.

## **AUDIT SUMMARY**

Our audit of the Virginia School for the Deaf and Blind and the Virginia School for the Deaf and Blind Foundation for the year ended June 30, 2010, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- certain matters involving internal control requiring Management's attention; and
- one instance of noncompliance or other matters required to be reported under Government Auditing Standards.

–TABLE OF CONTENTS–

	<u>Pages</u>
RISK ALERTS/AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-3
AGENCY HIGHLIGHTS	4-6
INDEPENDENT AUDITOR’S REPORT	7-8
AGENCY RESPONSE	9-10
AGENCY OFFICIALS	11

## AUDIT FINDINGS AND RECOMMENDATIONS

### **Risk Alerts**

During the course of our audit, we encountered issues that are beyond the corrective action of management and require the action of either the School for the Deaf and Blind Board, another agency or outside party, or a change in the method by which the Commonwealth conducts its operations. The following issues represent such a risk to the Board and the Commonwealth.

#### Develop and Implement an Information Security Program

Virginia School for the Deaf and Blind (the School) does not have most of the fundamental information necessary to comply with the requirements in the Commonwealth's Security Standard ITRM SEC 501-01 to develop and implement an information security program that provides assurance over data confidentiality, integrity, and availability. The School does not have the key components of an adequate IT Security Program relevant to Risk Assessment, Business Impact Analysis, Disaster Recovery Planning, Account Management, Data Protection, Asset Management, Logical Access, Threat Management, and Facilities Security.

As a small agency, the School has limited staff and expertise available to develop an adequate Information Technology Security Program. The Department of Accounts (Accounts) has established two staff positions to assist small agencies with the development of their information security programs. The School's management should consider collaborating with Accounts to determine the availability of these new staff resources to provide assistance with bringing their information security program into compliance with the Commonwealth's Security Standard.

Inadequate IT security policies place the School and its IT systems and data at risk for loss of confidentiality, integrity, and availability. We recommend that management identify and dedicate the resources necessary to support the development and implementation of an information security program that will provide a reasonable level of assurance that the School's IT systems are secure commensurate to the level of sensitivity of the data being stored within those systems.

#### Maintaining Internal Controls, Current Policies and Procedures, and Compliance Issues

Like a number of agencies, the School has reduced administrative and support staff to meet many of the budget reductions over the past several years. These reductions have significantly reduced the School's ability to deal with the loss of key personnel and maintain adequate internal controls to meet best practices to safeguard Commonwealth assets. A review of administrative support indicates that the School has reached a point that loss of a key fiscal person or the retirement of an individual could temporarily compromise the internal control within the fiscal operations.

As the previous point indicates, internal controls are not only a fiscal issue, but include information security and federal compliance matters over the protection of sensitive information. The School and the Board of Visitors will need to determine if the risk of continuing to operate as a solely independent agency without outsourcing administrative functions can occur and still comply with these additional external requirements.

Further, several points within this report refer to the need to document policies and procedures, both financial and with these other compliance matters. The lack of sound, current, and well documented policies and procedures contributed somewhat to the situation noted below.

As of January 1, 2010, the Payroll Service Bureau (Bureau), which is a division of the Department of Accounts, began processing payroll, leave accounting, and certain benefits data entry functions for the

School. The General Assembly created the Bureau to achieve economies of scale in payroll and leave processing and to alleviate agencies administrative burden while improving employee service levels. Participating agencies continue their management authority over payroll and leave accounting and benefits functions. The Bureau performs payroll and leave accounting services at the direction and approval of the agency's management. Agencies have the ability to view their payroll and leave accounting information but only the Bureau has the ability to perform system updates within the Commonwealth's Integrated Payroll/Personnel System. Because of the School's unique status within state government as a Kindergarten through 12<sup>th</sup> grade education provider and a lack of documented payroll procedures, the School experienced a difficult transition to the Payroll Service Bureau while the Bureau became accustomed to the intricacies of education related payroll and the School tried to figure out its responsibilities regarding the payroll process. However, both the Bureau and the School continue to work to refine the process.

The sound, current, and well-documented policies and procedures will also help the School to compensate for the potential loss of fiscal or supervisory personnel in the future. Too much of the School's current operations depend on the institutional knowledge of existing personnel, and with the reduction of staff there have been limited opportunities to transfer this knowledge.

Both the Board of Visitors and management need to weigh the risk associated with operating with limited staff without well-documented and current policies and procedures. Further, this risk assessment should consider the consequences of non-compliance with both state and federal laws and regulations, which encompass both financial as well as data security issues.

### **Internal Control and Compliance Issues**

#### **Improve Contract Management and Accounting**

The School received approximately \$71 million in appropriations for a major construction project to consolidate the Hampton school with the Staunton school. The Department of General Services has performed the procurement and project management of this major construction project. However, the accounting for Construction in Progress related to the project is the responsibility of the School. During our review, we found the following issues.

- The School did not obtain sufficient information for charges from the architect and engineer to evaluate what services they rendered. The School paid seven invoices that included travel expenses without support. In addition, they paid one invoice that included overcharges for shipping fees.
- The Superintendent did not approve two of the construction invoices reviewed. In addition, she approved one of the architect and engineer invoices after it was paid.
- The School does not have an adequate process to track construction expenses that enables them to support the amounts ultimately recorded as assets in Fixed Asset Accounting and Control System (FAACS). We were unable to reconcile the amounts recorded in FAACS with the expenses recorded in the Commonwealth Accounting and Reporting System (CARS). The Commonwealth's Accounting Policies and Procedure (CAPP) Manual provides guidance on how to track construction in progress that will ensure that agencies capture all possible project expenses and related detail and can smoothly transition assets to FAACS when the project is complete.

The School should use the CAPP Manual guidance to develop their Construction in Progress Schedule. They should maintain sufficient internal documentation to support changes made to Construction

in Progress balances and for assets moved from construction in progress to assets in FAACS. They should work with the General Services Project Manager to ensure they have adequate support for all invoices, and the Superintendent should approve all invoices prior to payment.

#### Improve CARS Reconciliation Process

The School's reconciliations do not have any indication that any supervisor reviewed and approved them, nor is there any indication that someone corrected any errors or other items found during the reconciliation. In addition, the School does not perform a monthly FAACS to CARS reconciliation as required by the Commonwealth's policies and procedures. However, the School submits a certification of the monthly fixed assets reconciliation to Accounts stating that the reconciliation is complete when in fact it is not.

The Commonwealth's policies and procedures require that agencies have detailed written procedures for meeting all CARS reconciliation requirements. These "desk procedures" must document the reconciliation process in an agency-standardized format, and the agency must have them available for inspection (with all supporting documentation) by outside parties, such as the auditors and Accounts. The lack of detailed written policies and procedures increases the risk of error in CARS and the modification of procedures to circumvent existing internal controls. Further, having procedures makes it easier to transition responsibilities when there is turnover and to hold employees accountable when they do not perform their functions.

The School should have supervisors document that they have reviewed and approved all reconciliations and that someone has completed resolving any items requiring adjustment or other disposition. The School should also develop, document, and implement policies and procedures for all their reconciliation processes. These policies and procedures should include the method for documenting the preparation and the review processes. The School should submit monthly certifications to Accounts only after all required reconciliations are complete.

Further while the School does not have many fixed assets entered into FAACS, given the current renovation and construction projects in progress on campus, the number of assets entered into FAACS will increase. Not performing the FAACS to CARS Reconciliation could potentially impact the accuracy of CARS.

#### Strengthen Internal Controls Over Capital Asset Useful Life Methodologies

The School does not have proper controls in place for assigning and re-evaluating useful lives of depreciable capital assets (buildings, equipment, and infrastructure). They have not developed and implemented an agency-specific useful life methodology. As a result, the School has a significant amount of fully depreciated assets. As of fiscal year 2010, they had approximately \$18.6 million in fully depreciated assets. In addition, as of fiscal year 2010 there is approximately \$2.5 million in assets that are 90% depreciated and \$3.8 million in assets that are 75% depreciated. The majority of these assets are buildings and infrastructure.

GASB Statement No. 34, implemented in 2002, requires accumulated depreciation and depreciation expense for the Comprehensive Annual Financial Report (CAFR). The second implementation guide for GASB Statement No. 34 states, "If the assets are significant, the estimated useful lives assigned to capital assets should be reconsidered. Assets still in use should not be reported as fully depreciated." Accordingly, all agencies must assign reasonable useful lives to depreciable capital assets based upon the agencies' own experience and plans for the assets. In addition, agencies should perform a periodic review of estimated useful lives to properly reflect the asset's remaining life.

The School should develop, document, and implement a methodology for assigning useful lives of depreciable capital assets as well as the re-evaluation of currently assigned useful lives.

## AGENCY HIGHLIGHTS

In 2009, the Virginia General Assembly (General Assembly) consolidated the Virginia School for the Deaf, Blind, and Multi-Disabled in Hampton with the Virginia School for the Deaf and Blind in Staunton and renamed the consolidated entity as the Virginia School for the Deaf and the Blind. The School provides comprehensive instructional programs and residential services to children with sensory impairments and multiple disabilities from preschool through grade twelve. Local school systems refer students to the School. For deaf students, the School offers American Sign Language and provides deaf role models and opportunities for students to participate in extra-curricular activities. For blind students, the School offers Braille, specialized technology, and orientation and mobility instruction to meet the individual needs of the student. In 2010, the School started providing parent and infant services.

In addition to the consolidation of the Schools, the General Assembly created the Virginia School for the Deaf and Blind Board of Visitors (Board of Visitors) at which time the responsibilities for the School transitioned from the State Board of Education to the Board of Visitors. The Board of Visitors has a total membership of 11 members that consists of four legislative members and seven non-legislative citizen members. The Board of Visitors establishes rules, policies, and regulations for the School as well as approving educational programs. They appoint and establish salary schedules for the superintendent, faculty, and other officers of the School. The Superintendent of Public Instruction has designated a Virginia Department of Education staff member to serve as consultant to the Board of Visitors on matters pertaining to instruction, federal and state special education requirements, and school accreditation.

The School receives general funds, federal grants, income from the Virginia School for the Deaf and Blind Foundation (Foundation), and capital outlay funds. General funds support 93 percent of the School's operating expenses. The School uses federal grants and income from the Foundation to supplement the general funds for operations. The General Assembly appropriates capital outlay funds at the beginning of a construction or renovation project. In 2010, the School received capital outlay bond funds to support the construction and renovation project to consolidate the two schools. However, because construction projects occur over several years, the expenses do not match up with the appropriation. The unexpended appropriation carries forward each year until the project is complete. The table below provides an analysis of the budget and expenses for fiscal year 2010.

### Analysis of Budget and Expenses for 2010 Virginia School for the Deaf and Blind

	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>
General funds	\$10,186,028	\$10,360,205	\$10,350,652
Special funds	730,563	730,563	68,456
Federal funds	887,340	887,340	711,253
Capital outlay funds	<u>-</u>	<u>73,156,365</u>	<u>15,500,486</u>
Total	<u>\$11,803,931</u>	<u>\$85,134,473</u>	<u>\$26,630,847</u>

*Source: Commonwealth Accounting and Reporting System*

Operating expenses at the School fall into three programs: instruction, residential support, and administrative and support services. Instruction expenses primarily include salaries for teachers and teacher assistants. Residential support expenses primarily include salaries for residential dorm supervisors and staff. Administrative and support services expenses include salaries for administrative staff and service contract payments. The table below shows fiscal year 2010 operating expenses for the School by program.

Analysis of Operating Expenses by Program for 2010  
Virginia School for the Deaf and Blind

	<u>Expenses</u>	<u>Percentage</u>
Instruction	\$ 5,050,530	45.4%
Residential Support	4,585,317	41.2%
Administrative and Support Services	<u>1,494,513</u>	<u>13.4%</u>
Total	<u>\$11,130,360</u>	<u>100.0%</u>

*Source: Commonwealth Accounting and Reporting System*

As of May 31, 2010, the School serves 125 students including 95 residential students at an average per-pupil cost of \$89,043.

Virginia School for the Deaf and Blind  
Cost per Pupil for Fiscal Years 2009 and 2010

	<u>2009</u>	<u>2010</u>
Operating Expenses	\$ 11,718,578	\$ 11,130,360
Total Students	127*	125**
Per Pupil Expenses	\$ 92,272	\$ 89,043

\*As of May 31, 2009

\*\*As of May 31, 2010

The decrease in operating costs per pupil is a direct result of budget reductions that the School faced during the fiscal year. The School achieved the majority of these reductions by reducing the size of the wage staff, which resulted in savings of \$474,977. In addition, the School reduced personal service costs by \$373,193. The School saved additional funds by reducing utilities and staff travel costs, freezing enrollment at the current level, increasing Medicaid reimbursements, consolidating bus routes, reducing food costs, and closing one campus dorm and the superintendent's residence.

As part of the consolidation, the Staunton campus is going through significant construction and renovations over the next several years. The General Assembly appropriated approximately \$73 million for this construction and renovation. During fiscal year 2010, the School had expenses of \$15.5 million associated with the project. The construction project is comprised of demolition, renovation, and new construction to support the consolidation of the School's programs. The project includes construction of a new Maintenance Facility, Education Building, Deaf Dormitory, and Blind Dormitory; renovation of Stuart Student Center, Peery and Swanson elementary schools, and the Chapel building; creation of a new bus loop, Hope Road, a main entrance, and a playground; and demolition of a Maintenance Building and the Harrison Building.

As of January 1, 2010, the Payroll Service Bureau (Bureau), which is a division of the Department of Accounts, began processing payroll, leave accounting, and certain benefits data entry functions for the School. The General Assembly created the Bureau to achieve economies of scale in payroll and leave processing and to alleviate agencies administrative burden while improving employee service levels. Participating agencies continue their management authority over payroll, leave accounting, and benefits functions. The Bureau performs payroll and leave accounting services at the direction and approval of the agency's management. Agencies have the ability to view their payroll and leave accounting information, but only the Bureau has the ability to perform system updates within the Commonwealth's Integrated Payroll/Personnel System. Because



of the School's unique status within state government as a Kindergarten through 12<sup>th</sup> grade education provider and a lack of documented payroll procedures, the School experienced a difficult transition to the Payroll Service Bureau while the Bureau became accustomed to the intricacies of education related payroll and the School tried to figure out its responsibilities regarding the payroll process. However, both the Bureau and the School continue to work to refine the process.

As of July 1, 2010, the State Board of Education has transitioned its governing responsibilities for the Virginia School for the Deaf and Blind Foundation (Foundation) to the Board of Visitors for the School. The Foundation promotes the growth, progress, and welfare of the School. The Foundation administers gifts, grants, bequests, and devices consistent with their terms and for the benefit of the School.

Annually, the School receives 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; therefore, the following financial data is for the period January 1, 2009 to December 31, 2009. At December 31, 2009, the market value of the Foundation's investment portfolio was \$2,908,508, having gained \$442,263 during calendar year 2009. The Board approved calendar year 2009 disbursements to the School of \$18,840.



# Commonwealth of Virginia

## Auditor of Public Accounts

Walter J. Kucharski  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

August 9, 2011

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable Charles J. Colgan  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Virginia School for the Deaf and Blind and the Virginia School for the Deaf and Blind Foundation (the School)** for the year ended June 30, 2010. 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 School'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 School'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.

- Contractual services expenses
- Continuous charges expenses
- Supplies and materials expenses
- Payroll expenses
- Small purchase charge card
- Capital outlay
- Capital assets
- Information security

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

### Conclusions

We found that the School properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The School 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 August 9, 2011. 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

## Virginia School for the Deaf and the Blind

Post Office Box 2069

Staunton, Virginia 24402-2069

(540) 332-9000 (Voice & TDD)

FAX: (540) 332-9042

August 12, 2011

Mr. Walter Kucharski  
Auditor of Public Accounts  
PO Box 1295  
Richmond VA 23218

Dear Mr. Kucharski:

The Virginia School for the Deaf and the Blind is writing to respond to the recent audit performed by your office. We feel that the audit was beneficial to our staff.

In response to the findings, VSDB has started the process of developing and implementing an Information Security Program. Karen Ashby from DOA came to campus of 7/21/11 and performed her initial review. We will continue to work with her to complete this task.

VSDB has a limited number of administrative staff to complete all the necessary duties. Most staff has multiple job duties. Desktop procedures will be worked on to help facilitate workload if someone is out of the office for an extended period of time or if we have an employee turnover.

VSDB was placed under the Payroll Services Bureau January 1, 2010. There were numerous problems, errors, and issues during the first year. VSDB was placed under PSB without our knowledge or agreement. Efforts have been made to work with PSB to refine procedures; however, we remain concerned about the cost since we have retained our payroll staff and we are paying PSB to do the same job. We have retained our staff due to the number of errors that we have and continue to experience with this service. It remains the wish of VSDB to be released from using this service.

VSDB is in the midst of a major construction project to Consolidate the Two Virginia Schools for the Deaf and the Blind. Spreadsheets are used to track all expenses. Staff has gone back and corrected the errors in the spreadsheet.

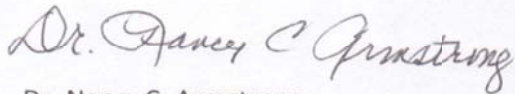
The CARS reconciliation process has been changed to reflect the auditor's suggestions. Previously, the CARS 401 report was being reconciled to the batches and the journal. However, the technician was not signing or initialing the paperwork. She is now doing this and the Director of Operations is also reviewing and signing. The FAACS to CARS reconciliation is now being performed on a monthly basis as well.



VSDB is an agency that uses its fixed assets well beyond their useful lives. We have undergone many budget cuts which have resulted in the agency not being able to afford new equipment and having to constantly repair older equipment. VSDB is an historic campus with many buildings of historic nature. For example, Main Hall was built in 1839. We are using vehicles that are 1984 year models. Efforts will be made to re-evaluate fixed assets in the future to reflect the useful life that the agency is having to keep them.

VSDB appreciates the time and effort put into this audit by your staff.

Sincerely,

A handwritten signature in cursive script that reads "Dr. Nancy C. Armstrong".

Dr. Nancy C. Armstrong  
Superintendent

Cc: Janice Rankin

VIRGINIA SCHOOL FOR THE DEAF AND BLIND

Nancy Armstrong  
Superintendent

BOARD OF VISITORS  
As of June 30, 2010

Senator Emmett Hanger  
Chairman

Delegate Dickie Bell  
Vice Chairman

Virgil Cook  
Secretary

Alice Frick  
Donna Gately  
Delegate Steve Landes

Jane McNeil  
John Pleasants  
H. Diane Sandidge

Ralph Shelman