

OFFICE OF THE STATE INSPECTOR GENERAL
Report to Superintendent Staples

PERFORMANCE REVIEW
DIRECT AID TO PUBLIC EDUCATION

January 2016



June W. Jennings, CPA
State Inspector General
Report No. 2015-PR-002



COMMONWEALTH OF VIRGINIA
Office of the State Inspector General

June W. Jennings
State Inspector General

P.O. Box 1151
Richmond, Virginia 23219

Telephone (804) 625-3255
Fax (804) 786-2341
www.osig.virginia.gov

January 27, 2016

Dr. Steven R. Staples
Superintendent of Public Instruction
Virginia Department of Education
101 N 14th St.
Richmond, VA 23219

Dear Dr. Staples:

Under § [2.2-309](#)[A](9) of the *Code of Virginia*, the Office of the State Inspector General (OSIG) is empowered to conduct performance reviews of state agencies to ensure that state funds are spent as intended and to evaluate the efficiency and effectiveness of programs in accomplishing their purposes. OSIG conducted, with the assistance of SC&H Group LLC., an outside professional services firm, a performance review of the Virginia Department of Education (VDOE). The review covered the period of July 1, 2013, through June 30, 2014.

OSIG's review focused on the operations and activities related to Direct Aid to Public Education (DAPE), which serves as a holding account for pass-through funds to local school divisions for public education that is administered by VDOE's Central Operations. The entire DAPE budget is applied directly to the Local Education Agencies (LEAs) without any overhead retained by VDOE. Therefore, the review focused on the activities relative to:

- Data Collections
- Legal and Regulatory Compliance
- Direct Aid to Public Education Resources
- State Grants

The VDOE-DAPE was selected for review based on a 2013 statewide risk assessment completed by Deloitte LLP. DAPE, defined as a separate agency within the State Budget, was ranked the fourth highest risk agency of all executive branch agencies. The planning phase of the review consisted of conducting interviews with selected members of executive and divisional management, assessing the

risks identified during those interviews, and creating a detailed review plan to accomplish the review objectives. The review plan was executed, and the results were discussed with the VDOE management on November 30, 2015.

Overall, OSIG staff found that the DAPE functions evaluated in the VDOE were operating effectively, but the functions are in need of increased resources to improve operational efficiency. By copy of this letter, OSIG is requesting that agency management provide a corrective action plan within two weeks to address this report's recommendations.

OSIG review staff appreciates the assistance provided by the VDOE Finance and Operations staff during this review.

Sincerely,

A handwritten signature in black ink, appearing to read "June W. Jennings". The signature is written in a cursive, flowing style.

June W. Jennings
State Inspector General

CC: Paul J. Reagan, Chief of Staff to Governor McAuliffe
Suzette P. Denslow, Deputy Chief of Staff to Governor McAuliffe
Anne Holton, Secretary of Education
Senator Stephen D. Newman, Chairman of the Education and Health Committee
Delegate R. Steven Landes, Chairman of the Education Committee

TABLE OF CONTENTS

Executive Summary.....	i
Purpose and Scope of the Review.....	1
Background.....	3
Introduction.....	3
State Education Assistance Appropriations.....	3
Data Collections.....	4
Student Record Collections.....	4
Financial Data Collections.....	5
Compliance with SOQ and Other Reporting Requirements.....	5
DAPE Budget.....	6
Re-benchmarking.....	6
Policy Changes and Technical Updates.....	6
SOQ Funding Calculation.....	6
Incentive, Categorical, and Lottery Funding Calculation.....	8
DAPE Budget Approval.....	8
DAPE Payments.....	8
SOQ Payments.....	8
State Grant Payments.....	9
Review Methodology.....	10
Review Results.....	13
Data Collections.....	13
Observation No. 1 — Improve the Verification and Accuracy of Data Collected.....	15
Observation No. 2 — Improve LEA Training.....	17
Observation No. 3 — Provide LEAs with Best Practices for Internal Procedures.....	18
Observation No. 4 — Improve Consistency at the LEAs through Standardization.....	19
Observation No. 5 — Automate Existing Manual Data Collections.....	20
Legal and Regulatory Compliance.....	21
Observation No. 6 — Implement a Proactive Compliance Monitoring Program.....	22
DAPE Resources.....	23
Observation No. 7 — Assess Staff Resources and Employee Retention in the Budget Office.....	25

Observation No. 8 — Provide Additional Staff Resources in EIM	27
Observation No. 9 — Implement Formal Training in the Budget Office	27
Observation No. 10 — Request Funding for Increased Automation of the SOQ Process.....	28
Observation No. 11 — Update Policies and Procedures at VDOE.....	29
Observation No. 12 — Improve Communications	29
State Grants.....	30
Observation No. 13 — Improve the Grant Management Process.....	31
Observation No. 14— Improve OMEGA Functionality.....	33
Fraud, Waste, and Abuse Controls	34
Exhibit I — 2012-2014 Biennium DAPE Funding.....	35
Exhibit II — SOQ Funding Process	36
Exhibit III — FY14 Incentive, Categorical, and Lottery Funded Programs.....	37

Executive Summary

Overall, the Office of the State Inspector General (OSIG) staff found that the evaluated functions within the Virginia Department of Education's (VDOE) Direct Aid to Public Education (DAPE) were operating effectively, but were in need of increased resources to improve operational efficiency.

OSIG staff reached this conclusion through the work of SC&H Group LLC, an outside professional services firm, that performed the review by:

- Interviewing the VDOE Executive Management Team and employees in select divisions to understand the processes, major risks, and potential inefficiencies related to DAPE.
- Consulting with the Department of Planning & Budget (DPB) and the Auditor of Public Accounts (APA) and identifying areas covered by APA in their financial audit to avoid duplication within the two reviews.
- Reviewing documentation received from VDOE regarding policies, procedures, presentations, forms, spreadsheets, manuals, instructions, and guidelines and developing process flowcharts of the key processes.
- Identifying the major financial, operational, and regulatory risks found within the DAPE data collection, budget development, and Local Education Agencies (LEA) payment calculation processes.
- Analyzing key processes and practices ranging from DAPE budget development to aid provided to the LEAs.
- Testing and analyzing various data collections which are inputs to the DAPE budget.
- Evaluating the effectiveness and efficiency of processing DAPE payments.
- Performing compliance reviews at a sample of LEAs.
- Conducting and analyzing the results of an online survey of LEA Superintendents and Finance Directors regarding the support, communication, and training that VDOE provides to LEAs related to DAPE funding.
- Evaluating whether preventive and detective controls were in place to identify symptoms of fraud, waste, and abuse.

OSIG staff, in conjunction with SC&H, identified the following issues within various areas that if addressed would improve operations:

- A highly complex calculation of DAPE that is reliant on manual controls and institutional expertise.
- Insufficient staff, time, and expertise within the Budget Office and the Education Information Management Office (EIM) to support the DAPE processes.
- High turnover in the Budget Office.
- The need for updated policies and procedures and formal training due to process complexity and employee turnover.

- Inadequate compliance monitoring of state funded programs at the LEAs, specifically related to data collections and state grant reimbursements.
- The need for improvement in communication and training provided by VDOE to the LEAs.
- Inconsistency of policies, procedures, and methodologies utilized by the LEAs that could lead to inaccurate data collections.

To improve current processes, OSIG recommendations include:

- Investing in automation to move away from the reliance on spreadsheets and procedural “workarounds.”
- Evaluating staffing in the Budget Office and EIM to ensure adequate staff is employed, trained, retained, and able to efficiently and effectively support DAPE processes.
- Updating policies and procedures to reflect current practices and to ensure that they are approved, accessible, detailed, and easy to understand.
- Developing a formal training program within the VDOE Budget Office that could aid in decreasing the learning curve associated with the complexity of budget operations.
- Implementing an independent compliance monitoring function to oversee state funded programs at the LEAs.
- Improving communication and increasing training opportunities provided by VDOE to the LEAs.
- Establishing recommendations and self-monitoring checklists for LEAs to improve reporting consistency.

Purpose and Scope of the Review

The Office of the State Inspector General (OSIG) conducted a performance review of the Virginia Department of Education (VDOE)-Direct Aid for Public Education (DAPE) pursuant to *Code of Virginia* § [2.2-309](#) whereby the State Inspector General shall have power and duty to:

Conduct performance reviews of state agencies to assess the efficiency, effectiveness, or economy of programs and to ascertain, among other things, that sums appropriated have been or are being expended for the purposes for which the appropriation was made and prepare a report for each performance review detailing any findings or recommendations for improving the efficiency, effectiveness, or economy of state agencies, including recommending changes in the law to the Governor and the General Assembly that are necessary to address such findings.

This review was not designed to be a comprehensive review of VDOE-DAPE. Instead, the review focused on certain risk areas identified through a statewide risk assessment of state agencies. The review to be performed was based on Deloitte LLP's risk assessment concerning VDOE-DAPE risks in these areas:

- Human Resources
- Accounts Payable and Expenditures
- Federal Grants
- State Grants

However, initial discussions held by SC&H with VDOE Management determined that there were no salaries or operating expenditures associated with DAPE. Instead, DAPE is a holding account for pass-through funding for Local Education Agencies (LEAs), which is administered by VDOE's-Central Operations. Of DAPE's \$6.8 billion budget in FY 2014;¹ \$5.9 billion was allocated to State Education Assistance Programs² and \$900 million was allocated to Federal Education Assistance Programs.³ Since the Federal Education Assistance Programs represent pass-through funding from the Federal Government that flows through VDOE and is ultimately distributed to Local Education Agencies (LEAs), this source of funding was excluded from the scope of this review. Therefore, the scope of this review focused on DAPE-State Education Assistance Programs. Consequently, the revised risk areas were determined to be:

- Data Collections
- Legal and Regulatory Compliance
- DAPE Resources
- State Grants

¹ Virginia General Assembly Legislative Information System. Virginia 2014 Appropriation Act. Item A197. URL: <http://leg1.state.va.us/cgi-bin/legp504.exe?142+bud+B1-A197>. Accessed September 2, 2015.

² Virginia General Assembly Legislative Information System. Virginia 2014 Appropriation Act. Item 139. URL: <http://leg1.state.va.us/cgi-bin/legp504.exe?142+bud+B1-139>. Accessed September 2, 2015.

³ Virginia General Assembly Legislative Information System. Virginia 2014 Appropriation Act. Item 140. URL: <http://leg1.state.va.us/cgi-bin/legp504.exe?142+bud+B1-140>. Accessed September 2, 2015.

Data Collections refer to the risk that the LEAs submit erroneous or fraudulent data to VDOE that is not prevented or detected, resulting in inappropriate allocations of DAPE funding.

Legal and Regulatory Compliance refers to the risk in the failure of processes, systems, and resources to support legal and regulatory requirements.

DAPE Resources refers to the risk that staffing, processes, and systems utilized to calculate and allocate the state funding will not efficiently and effectively meet agency goals.

State Grants refers to the risk that programs are not actively monitored resulting in inappropriate use of state funds. For the purpose of this review, state grants refer specifically to the state programs outside of the Standards of Quality (SOQ) funding. SOQ represents the minimum programs and services local school boards must provide with state and local funds as apportioned by the General Assembly.⁴ Therefore, State Grant programs represent additional funding beyond the SOQ for specific programs as approved by the General Assembly.

The review was conducted by SC&H from March 2015 through August 2015. In addition to the in-person interviews conducted at VDOE's headquarters and the analysis of key processes and supporting documentation, this review included on-site compliance reviews at four LEAs and an electronic survey distributed to the Superintendent and Finance Director at each of Virginia's 133 LEAs.

The review's objectives were to:

1. Ensure various data collections used to allocate DAPE funds are accurately submitted by the LEAs.
2. Ensure that minimum funded positions established by the Code of Virginia, Appropriation Act, and Board of Education (BOE) regulations were met by the LEAs for FY14.
3. Assess the overall efficiency and effectiveness of the VDOE in determining and executing state funding for DAPE and to ensure fraud risks are appropriately considered by the VDOE and the LEAs.
4. Ensure state grant reimbursement requests are submitted properly and in compliance with state regulations.

⁴ Code of Virginia §22.1-253.13:8 Compliance. URL <http://law.lis.virginia.gov/vacode/title22.1/chapter13.2/section22.1-253.13:8/>. Accessed September 2, 2015.

Background

Introduction

VDOE is the administrative agency for the commonwealth's public K-12 schools. VDOE provides the staff and other resources necessary to implement the constitutional and statutory requirements placed on the Board of Education. VDOE's goal, in cooperation with the Board of Education, local school boards, and other partners, is to create an excellent statewide system of public education that equips all students with the knowledge and skills to:

- 1) Excel in postsecondary education and careers; and,
- 2) Become capable, responsible, and self-reliant citizens.⁵

VDOE, headquartered in Richmond, is funded separately in the State Budget: 201 – Central Operations and 197 – Direct Aid to Public Education (DAPE). While Central Operations serves the daily operation of VDOE, currently employing 249 salaried, 11 contracted, and 42 wage employees,⁶ DAPE serves as a holding account for pass-through funds to local school divisions for public education. Central Operations employees oversee the funding provided to 133 LEAs, which staff 96,647 teachers providing education to 1,273,211 students.⁷

As noted in VDOE's most recent Executive Progress Plan, the agency faces a number of challenges in executing their strategic goals. The demographic of the aging state work force provides challenges in maintaining institutional knowledge and expertise within the agency. Additionally, the agency has limited staff and budget resources. However, expectations by stakeholders, federal mandates, and the need for technical assistance to school divisions, continue to increase.⁸

State Education Assistance Appropriations

The DAPE State Education Assistance Program funding provided to Virginia school divisions for the year ended June 30, 2014, totaled \$5.9 billion.⁹ VDOE's Central Operations is responsible for calculating the DAPE budget, which includes (SOQ, Incentive, Categorical, and Lottery Programs. Refer to Exhibit I for the breakdown of the 2012-2014 Biennium DAPE funding.

⁵ Virginia Department of Education. About VDOE: VDOE's vision, mission and code of ethics. VDOE website. URL: http://www.doe.virginia.gov/about/vdoe_mission.pdf. Accessed August 28, 2015.

⁶ Virginia Performs. Explore performance measures by agency. Department of Education, Central Office Operations. Agency Executive Progress Report. URL: https://solutions.virginia.gov/pbreports/rdPage.aspx?rdReport=vp_Agency&rdAgReset=True&Agency=201. Accessed August 28, 2015.

⁷ Virginia Performs. Explore performance measures by agency. Department of Education, Central Office Operations. Agency Executive Progress Report. URL: https://solutions.virginia.gov/pbreports/rdPage.aspx?rdReport=vp_Agency&rdAgReset=True&Agency=201. Accessed August 28, 2015.

⁸ Virginia Performs. Explore performance measures by agency. Department of Education, Central Office Operations. Agency Executive Progress Report. URL: https://solutions.virginia.gov/pbreports/rdPage.aspx?rdReport=vp_Agency&rdAgReset=True&Agency=201. August 28, 2015.

⁹ Virginia General Assembly Legislative Information System. Virginia 2014 Appropriation Act. Item 139. URL: <http://leg1.state.va.us/cgi-bin/legp504.exe?142+bud+B1-139>. Accessed September 2, 2015.

Data Collections

VDOE collects a variety of data on public education, including information on enrollment, demographics, student achievement, finances, and safety for the intended purpose of providing education data that is useful, timely, accurate, and comparable to allow informed key policy decisions to be made. Most data collections are related to specific requirements of state and federal law.¹⁰

School divisions report data to VDOE through secure web-based systems designed to increase accuracy, while lessening administrative burdens on educators at the local level. Each data collection comes with a signed certification from the Superintendent of the LEA. Per the Procedures for Data Collection and Reporting,¹¹ Sections 4.4 through 4.6, the Budget Office or EIM should:

- 4.4 - Consider the acceptable level of accuracy, the complexity of the data analysis.
- 4.5 - Perform edit and reasonability checks on the data.
- 4.6 - Reconcile any data inconsistencies with the respondent and rectify, if necessary, in the database and document the reasons.

Data is collected multiple times during each year and for various purposes including the Student Record Collections (SRC), Master Schedule Collections, Testing and Standards of Learning, Financial, Instruction, Special Education, Student and School Support, Instructional Personnel, Federal Programs, Educational Registry Application, SOQ Compliance and Certification, and Virginia Youth Survey. The most significant data collections related to DAPE calculations are the SRC, Financial Data Collections, and the SOQ Compliance portion of the Compliance with SOQ and Other Reporting Requirements.

STUDENT RECORD COLLECTIONS

The purpose of the SRC data collection is to ensure continuity and validity in all enrollment-based data collections.¹² To comply with state and federal information and reporting requirements, these collections occur four times per year:

- Fall Student Record Data Collection: School divisions submit information reflecting student records as of October 1. The reported information is used to revise average daily membership (ADM) estimates and to finalize the state budget submitted by the Governor. The Fall SRC submission should include student records from the first day of school through October 1. This data collection is primarily used to calculate Fall Membership as of September 30.

¹⁰ VDOE. Information Management. Data Collection. VDOE website. URL:

http://www.doe.virginia.gov/info_management/data_collection/index.shtml. Accessed on September 2, 2015.

¹¹ VDOE. Procedures for Data Collection and Report. URL:

http://www.doe.virginia.gov/info_management/data_collection/datacoll_instructions.pdf. Accessed on September 2, 2015.

¹² VDOE. Information Management. Data Collection. Student Record Collection. VDOE website. URL:

http://www.doe.virginia.gov/info_management/data_collection/student_record_collection/index.shtml. Accessed on September 2, 2015.

- Spring Student Record Data Collection: School divisions are required to submit data for March 31 average daily membership. A text file is submitted to VDOE in the required format, which VDOE utilizes to calculate and validate March 31 ADM.
- End of Year Student Record Data Collection: The End-of-Year submission should include student records up through the last day of school.
- Summer Student Record Data Collection: School divisions submit information reflecting summer school graduates and Career and Technical Education (CTE) finisher information. The Summer SRC should only include records for students that graduated during the summer session.

Enrollment data obtained during these data collections is utilized for funding calculations of multiple DAPE programs and drives adjustments in the SOQ payments throughout the year.

FINANCIAL DATA COLLECTIONS

The purpose of the Financial Data Collections is to collect information related to student enrollment, staffing, and associated costs to operate school divisions and to ensure appropriate allocation of state and federal funds. The Annual School Report-Financial Section (ASRFIN), a Financial Data Collection, provides financial data on Virginia's public education programs to the Superintendent of Public Instruction, the Governor of Virginia, the Virginia General Assembly, the U.S. Department of Education and U.S. Census, and the general public.¹³ This collection is utilized heavily during the budget development and re-benchmarking processes, as discussed below, to update the costs associated with salaries, fringe benefits, and other costs to operate a school district.

COMPLIANCE WITH SOQ AND OTHER REPORTING REQUIREMENTS

The purpose of the Compliance with SOQ and Other Reporting Requirements is to meet state statutory requirements, which include the level of local school board compliance with the SOQ.¹⁴ The SOQ Compliance portion of this data collection includes questions assuring school division compliance with requirements of the eight Standards of Quality in the Code of Virginia. Additionally, the SOQ Compliance portion includes required assurances based upon the language from the Appropriation Act. No data is required to evidence compliance; only the declaration and certification is submitted. LEAs are required to state which standards they were in compliance with and which standards they were not in compliance with. When a school district indicates non-compliance, they are required to input their corrective action plan. VDOE follows up with non-compliant LEAs. The explanations for non-compliance are included in the Board of Education's Annual Report presented to the Governor and the General Assembly.

¹³ Virginia Department of Education. The 2014-2015 Annual School Report Financial Section (ASRFIN) Instruction Manual. URL: http://www.doe.virginia.gov/administrators/superintendents_memos/2015/191-15b.pdf. Accessed on September 2, 2015.

¹⁴ Virginia Code §22.1-18 Report on education and standards of quality for school divisions; when submitted and effective. URL: <http://law.lis.virginia.gov/vacode/title22.1/chapter2/section22.1-18/>. Accessed on September 2, 2015.

DAPE Budget

The Budget Office develops and implements the DAPE biennial budget. During odd-numbered calendar years, the budget is re-benchmarked for the next biennium. In even-numbered calendar years, technical updates to the budget are performed.

RE-BENCHMARKING

Re-benchmarking is the technical process of updating the state cost of the DAPE budget for the next biennium by recognizing changes in costs that have occurred over the preceding biennium. All updates are technical in nature and they do not involve changes in policy or funding methodology, other than those already approved and directed by General Assembly action.¹⁵

The re-benchmarking process updates the cost of the SOQ and other DAPE programs by recalculating costs, step-by-step, utilizing the latest data available. The SOQ is calculated through the SOQ Model, a VDOE internal application that runs from an Oracle Financial System database. The SOQ database contains all of the pertinent input data from sources such as the ASRFIN and Student Record Collections. Using this information in conjunction with established pupil-teacher ratios and other variables, the SOQ Model calculates a per pupil cost for various SOQ accounts by LEA. The SOQ Model is dependent on various sources of external data. The data can be uploaded to the SOQ Model automatically through existing load programs linked to other databases on VDOE's network (e.g. ASRFIN) or data has to be entered manually.¹⁶ The re-benchmarking process involves approximately 25 separate updates to the data.¹⁷ It is also necessary to export data from the SOQ Model for purposes such as data validation and for use in the Direct Aid Budget Spreadsheets (DABS). DABS were created by the Budget Office to calculate the impact of policy changes on the DAPE budget recommended throughout the Governor's budget approval process and the General Assembly budget approval process.

POLICY CHANGES AND TECHNICAL UPDATES

VDOE also supports the Governor and the General Assembly in the development of new programs and policies impacting the Direct Aid Budget. Also, they make adjustments to the DAPE Budget annually for technical updates such as fluctuations in average daily membership and sales tax projections. This process follows a similar, but less rigorous process compared to re-benchmarking as the changes and scenarios are calculated by the Budget Office and communicated to the Governor or legislature for final approval in the General Assembly Budgets.

SOQ FUNDING CALCULATION

The SOQ costs represent the minimum required level of staff (i.e. instructional and support) and associated costs (i.e. non-personnel support items) needed to operate a school division based on the

¹⁵ Virginia Department of Education. Rebenchmarking of the Direct Aid to Public Education Budget for the 2014-2016 Biennium. URL: http://www.doe.virginia.gov/administrators/superintendents_memos/2013/327-13c.pdf. Accessed September 2, 2015.

¹⁶ Virginia Department of Education. Standards of Quality (SOQ) Funding Model Application User's Guide.

¹⁷ Virginia Department of Education. Rebenchmarking of the Direct Aid to Public Education Budget for the 2014-2016 Biennium. URL: http://www.doe.virginia.gov/administrators/superintendents_memos/2013/327-13c.pdf. Accessed September 2, 2015.

Joint Legislative Audit and Review Commission's (JLARC's) methodology.¹⁸ Localities may spend more than the required funding amounts and employ staff and offer additional programs beyond what is required through federal and local funding. The SOQ represents approximately 90%¹⁹ of DAPE State Education Assistance Programs for public education annually and is established by the Code of Virginia.²⁰ Funding for the SOQ includes all required programs and is based on instructional staffing ratios and recognized support costs. The SOQ required programs include:

- Basic Aid
- Sales Tax
- Vocational Education
- Gifted Education
- Prevention, Intervention, and Remediation
- Special Education
- Fringe Benefits for Instructional Positions (Retirement, Social Security, and Group Life)

The largest category of the SOQ is Basic Aid, which includes instructional costs based on the required number of instructional positions and the funded salaries. Basic Aid also includes support costs for expenses such as pupil transportation, operations and maintenance, technology, and administration, which are funded on a statewide prevailing cost basis.

The SOQ takes multiple data inputs collected throughout the year to calculate the allowable SOQ costs for each school district. Inputs into the SOQ funding formula include:

- Number of Students
- Staffing ratios for teachers and other funded positions
- Salaries of teachers and other funded positions
- Fringe benefit rates
- Standard and prevailing support costs
- Inflation factors
- Prevailing federal revenues related to support costs

The end result of this calculation is the funded SOQ amounts broken down by each LEA. See Exhibit II for a graphical depiction²¹ of the SOQ Funding Process.

¹⁸ JLARC. State Spending on the K-12 Standards of Quality: FY 2014. URL: <http://jlarc.virginia.gov/reports/Rpt467.pdf>. Accessed on September 2, 2015.

¹⁹ Virginia Department of Education. Rebenchmarking of the Direct Aid to Public Education Budget for the 2014-2016 Biennium. URL: http://www.doe.virginia.gov/administrators/superintendents_memos/2013/327-13c.pdf. Accessed September 2, 2015.

²⁰ Code of Virginia §22.1-253.13:1-8 Standards of Quality. URL: <http://law.lis.virginia.gov/vacode/title22.1/chapter13.2/>. Accessed September 2, 2015.

²¹ Virginia Department of Education. Rebenchmarking of the Direct Aid to Public Education Budget for the 2014-2016 Biennium. URL: http://www.doe.virginia.gov/administrators/superintendents_memos/2013/327-13c.pdf. Accessed September 2, 2015.

INCENTIVE, CATEGORICAL, AND LOTTERY FUNDING CALCULATION

The Incentive, Categorical, and Lottery funded programs provide additional education funding that goes beyond the levels required to meet the SOQ. Incentive programs are voluntary, but require schools to meet additional requirements, such as certifying that the schools will offer a specific program (e.g. Virginia Preschool Initiative). Categorical programs are provided based on state or federal statutes and typically target the needs of specific populations, such as Adult Education or Foster Care. Lottery programs serve a specific, unique purpose as stated in the Appropriation Act.

Each biennium, enrollment and cost data is also updated for the Incentive, Categorical, or Lottery programs. The end result of this calculation is an updated program amount that will be allocated to the LEAs based on an application process determined by VDOE or based on a formula driven process for eligible schools.

The summation of the updated SOQ costs and the updated Incentive, Categorical, and Lottery funded programs represent the new proposed DAPE State Education Assistance budget.

DAPE BUDGET APPROVAL

The proposed DAPE budget is communicated to the Department of Planning and Budget (DPB), which provides it to the Governor for inclusion in the budget. The Budget Office of VDOE is responsible for calculating various scenarios, from a variety of sources, during both the Governor's budget development process and the General Assembly Session. Once all changes and scenarios have been selected and approved, the Budget Office executes the scenarios through the SOQ Model and DABS incrementally and provides the final numbers. These final numbers become the DAPE budget included in the Appropriation Act.

The Appropriation Act numbers are entered into the Oracle Financial System by the Budget Office. As the program specific allocations are identified, these numbers will be uploaded into Oracle to allow jurisdictions to begin receiving their DAPE funding.

DAPE Payments

SOQ PAYMENTS

The LEAs receive 24 recurring SOQ payments a year. The initial SOQ payments are calculated utilizing historical March 31 ADM enrollment projections. The final SOQ payments are adjusted to the actual March 31 ADM data collection. Once the payments are calculated, the Budget Office routes the paper payment requests to Fiscal Services for processing through the Oracle Financial System. The execution of the payment is processed by Virginia's Treasury Department and deposited directly into each LEA's bank account.

STATE GRANT PAYMENTS

More than 40 state grant programs, excluding the SOQ, were funded in FY14. State grant payments, at high level, can be classified as formula or reimbursement based. See Exhibit III for a listing of all Incentive, Categorical, and Lottery funded state grant programs funded in FY14.²²

Each of the individual program guidelines or regulations determines:

- The application and allocation process for state grant funds. These allocations can be funded based on formulas or on a reimbursement basis. Not all formula-based state grants require applications; therefore, funding is received automatically if a school district meets the requirements, such as offering a program. Other formula-based and reimbursement-based state grants require the LEAs to submit an application to the appropriate VDOE Program Office. The Program Office will determine the LEA allocation of state grant funds based on each applicant's need, eligibility, and/or attainment of program requirements. VDOE will allow LEAs to correct and re-submit applications if they do not apply properly or accurately. Ultimately, the Program Office determines the allocation of funding after receiving and reviewing all final applications. The LEAs with approved applications will receive grant award notifications or letters from VDOE detailing the grant award amount and program details.
- The documentation that must be submitted to validate program expenditures. Reimbursement-based grant programs require LEAs to submit reimbursement requests that state how program funds were expended, but do not require LEAs to submit actual payroll journals, timesheets, or invoices. Reimbursement requests can be submitted through OMEGA (VDOE's grant management software), hard-copy mailed, or emailed to VDOE. Advance-funded grants require certification of the factors driving the formula's calculation and certification of compliance with specific program requirements.
- The frequency and timing of payments for state grant programs. Certain formula driven programs are paid evenly throughout the year while other formula driven programs may be paid once funding becomes available beginning in January. Other programs are paid only when reimbursement requests are submitted, approved, and processed.

²² Virginia General Assembly Legislative Information System. Virginia 2014 Appropriation Act. Item 139. URL: <http://leg1.state.va.us/cgi-bin/legp504.exe?142+bud+B1-139>. Accessed September 2, 2015.

Review Methodology

OSIG — through the SC&H review team — conducted this review by:

- Examining the detailed results of Deloitte LLP’s statewide risk assessment.
- Evaluating pertinent documentation found on VDOE’s website (<http://www.doe.virginia.gov>).
- Conducting interviews with the following management and staff to gain insight into risks and concerns associated with VDOE’s key processes to execute DAPE calculations and funding:
 - Superintendent of Public Instruction
 - Deputy Superintendent, Finance & Operations
 - Former Budget Director
 - Director of Education Information Management
 - Former Director of Fiscal Services
 - Education Applications Manager
 - Financial & OMEGA Systems Manager
 - Education Finance Analysts
 - Senior Budget Analyst
 - Federal Funding Specialist
 - Fiscal Monitoring Coordinator
 - Senior Accounting Analyst
 - Financial Services Specialist
 - OMEGA Specialist
 - Director of Business & Risk Management
- Consulting with the Audit Director from the APA regarding the APA’s assessment of DAPE, including a review of the test work performed on the SOQ Model, DABS Spreadsheets, SOQ Calculation, and monitoring of the Federal Programs.
- Consulting with the Associate Director of Education, Transportation, and Public Safety from the Department of Planning and Budget to obtain an understanding of the Department’s concerns of risks or inefficiencies identified in their interaction with VDOE.

As a result of the interviews, detailed process flowcharts were developed to document OSIG’s understanding of the key processes executed to calculate and distribute DAPE funding to the localities. The scope was refined to exclude key financial areas that were tested heavily by the APA, including the testing of:

- Access to the SOQ Model and DABS
- Changes to the SOQ Model and DABS for proper approval and supporting documentation
- Accuracy of data inputs into the SOQ Model and DABS

- Other financial reconciliations performed between the Oracle Financial System, Commonwealth Accounting and Reporting System (CARS), Locality Ledgers, DABS, and the Appropriation Act

The SC&H review team identified associated risks for each of the risk areas. In consultation with OSIG, SC&H established performance review objectives (see [Purpose and Scope of the Review](#)) and developed detailed review procedures to accomplish these objectives.

The performance review procedures included:

1. Selecting a sample of data collections to test for accuracy and adequacy of Superintendent Certifications.
2. Obtaining a detailed understanding of VDOE's processes for collecting data for the following four data collections:
 - Annual School Report Financial Section (ASRFIN)
 - Fall Student Record Collection (for the K-3 Class Size Reduction Program)
 - Spring Student Record Collection (for the March 31 ADM)
 - Virginia Preschool Initiative
3. Analyzing the variance analyses performed on a sample of data collections to determine if significant variances are appropriately investigated and resolved.
4. Evaluating the existence and adequacy of detailed policies and procedures for key business processes associated with VDOE's oversight of DAPE.
5. Evaluating VDOE's efficiency and effectiveness in processing SOQ and state grant payments.
6. Selecting a sample of LEAs to visit to ensure a reasonable cross-section is obtained including large student populations, small student populations, high composite index, low composite index, urban, and rural schools.
7. Conducting on-site compliance reviews at the following school districts:
 - Goochland County Public Schools
 - Prince George County Public Schools
 - Prince William County Public Schools
 - Sussex County Public Schools
8. Analyzing the results of those compliance reviews to determine prevailing issues or observations regarding key risk areas.
9. Surveying the Superintendents and Finance Directors at 133 LEAs to:
 - Assess VDOE's communication and guidance
 - Determine any gaps in training or instruction that could be improved
 - Evaluate the accuracy and clarity of SOQ and state grant calculations and distributions.
10. Analyzing responses from the surveys.

11. Obtaining a detailed understanding of how VDOE evaluates compliance with statutory requirements, such as staffing standards and minimum funded positions.
12. Validating, on a sample basis, the LEAs monitoring of and compliance with legal and regulatory guidelines.
13. Identifying risks associated with fraud, waste, and abuse and determining whether controls to identify such activities were present and functioning.
14. Obtaining a detailed understanding of the state grant administration process executed by VDOE.
15. Selecting a sample of state grant programs to test at the LEAs to ensure compliance with program guidelines and requirements. The following state grant programs were tested:
 - Individual Student Alternative Education Plan (ISAEF)
 - Project Graduation – Academic School Year
 - Project Graduation – Summer School
 - Virginia Public School Authority Educational Technology Notes
 - Virginia Public School Authority Security Equipment Grants
 - Virginia Public School Authority E-Learning Backpack Initiative

Review Results

Overall, the Office of the State Inspector General staff, through the SC&H review team, found that VDOE's DAPE functions were operating effectively but were in need of increased resources to improve operational efficiency.

After interviews were conducted with the VDOE Superintendent, the Deputy Superintendent, and various division directors, review objectives for each of the risk areas were determined and then detailed review procedures were prepared to accomplish these objectives. Work associated with each objective (except the objective for assessing fraud) was performed by following a four-step approach:

1. Interviews with VDOE's Operations employees responsible for executing various key DAPE processes were conducted from March 2015 through May 2015.
2. Detailed flowcharts were developed to analyze the efficiency of the current processes executed by VDOE.
3. On-site visits to a sample of four LEAs to perform a compliance review of the data integrity of information submitted to VDOE, to test compliance with state requirements, and to assess the training, communication, and support received from VDOE.
4. Electronic (web-based) surveys were sent to the Superintendents and Finance Directors at the LEAs. Responses were received from 158 individuals representing 121 of the 133 school districts, for a total response rate of 90 percent. Some LEAs responded as teams, some LEAs provided more than one survey response, with the remainder providing at least one survey response. A total of 10 county school districts and two city school districts did not reply.

Results of the compliance reviews, survey responses, and documentation received from VDOE were evaluated. It was noted throughout the course of this review that the lack of automation, consistency, and thoroughness was largely due to resource constraints within VDOE (See Observations No. 7 and 8 below). However, to improve the overall quality of the data collected, DAPE processes, and to improve detection of fraud and/or errors, VDOE may need additional resources, in terms of staffing and technology.

Data Collections

Because VDOE executes multiple data collections throughout the year to obtain data from the LEAs, a sample of the most significant data collections was determined through discussions with the VDOE Deputy Superintendent and the Budget Office Director.

As previously mentioned in the Background Section, the Student Record Collection captures data at four points throughout the year; each with a different purpose. For purposes of the DAPESOQ funding, the Spring Student Record Collection is the most important as the March 31 ADM is utilized to recalculate and adjust the final SOQ payments. For purposes of re-benchmarking and

updating LEA costs of operating school districts, the ASRFIN is the most important financial data collection.

Certain state grant programs are associated with a data collection. Based on discussions with the VDOE Budget Office Director, two additional data collections were also evaluated: Virginia Preschool Initiative and K-3 Primary Class Size Reduction. These were selected due to the materiality of their balances (\$67 million and \$104 million, respectively) to the non-SOQ programs and the increased focus and investment by the General Assembly.

One final data collection, the SOQ Compliance and Other Requirements, was evaluated. The purpose of this data collection is to satisfy legislative requirements. School districts are required to report compliance or non-compliance with the eight standards of the Code of Virginia (Standards of Quality for Public Schools in Virginia). No data is required to evidence compliance; only the declaration and certification is submitted. VDOE also follows up with non-compliant LEAs. The explanations for non-compliance are included in the Board of Education's Annual Report presented to the Governor and the General Assembly.

Budget Office Controls

Interviews with various Budget Office employees were conducted to ensure that the various data collections used to allocate DAPE funds are accurately submitted at the LEAs. The Budget Office has three controls in place to validate the data collected from the school districts: the Superintendent's Certifications, data edit checks, and variance analyses.

1. The Budget Office heavily relies on the school divisions to certify the accuracy of the data submitted, which VDOE utilizes for a multitude of purposes, such as federal and state reporting, re-benchmarking, and DAPE calculations. With each data collection, the Superintendent must certify that the data is accurate and submit this certification to VDOE. SC&H confirmed the Superintendents, or their designees, properly approved the Superintendent Certifications on the data collections tested.
2. Within the March 31 ADM and ASRFIN data collection processes, the Budget Office has built in data edit checks which compare the LEAs current year's submitted data to the previous year's submitted data and produces an error if the submitted data is out of a specified range. Again, the Budget Office relies on the LEA to review the errors and correct, if necessary. The Virginia Preschool Initiative and K-3 data collections do not have data checks within these processes as these are more simple data entries.
3. Additionally, the Budget Office validates the data collected through variance analyses. SC&H found that variance analyses are not performed on all of the data collections. Due to the significance of the March 31 ADM and ASRFIN data on the SOQ calculations, the variance analyses performed on these data collections were reviewed. The variance analyses conducted would be adequate to identify a significant fraud or error; however, the variance analysis process needs improvement to ensure consistent and thorough investigations of variances (see Observation 1 below).

LEA Processes

As part of the compliance reviews, SC&H reviewed the selected LEAs' supporting documentation for the four data collections to ensure the data submitted to VDOE was accurate. SC&H found that the LEAs did not consistently document and retain evidence of the data reported to VDOE. Therefore, it was difficult to substantiate the validity of the data submitted. Further, the Finance Directors at two of the four LEAs visited were not employed during our testing period. Due to the lack of proper documentation and consistency, these individuals struggled to provide evidence to support the data collections.

Based on discussions with the LEAs during the on-site compliance reviews, an area of concern relating to the accuracy of the data submitted to VDOE was LEA training. The training available to the LEAs is not required or adequate for the LEAs' needs. The results of the survey showed that 35 percent (55 of 158) of the respondents were dissatisfied with the training available or did not participate in any VDOE trainings. Further, through the survey, concerns were expressed that new Finance Directors and Superintendents needed additional training to ensure the integrity and consistency of the data submitted (see Observation 2 below).

The completion of the compliance reviews uncovered multiple inconsistencies in the data collection processes among the selected LEAs. To determine the accuracy of data collections, policy and procedural documents related to the four selected data collections (i.e. March 31 ADM, ASRFIN, Virginia Preschool Initiative, and K-3) were requested for review. The amount and adequacy of the policies and procedures varied from many and very detailed to no procedural documents at all (see Observation 3 below). Additional inconsistencies found through the compliance reviews were differences in the systems (Student Information Systems, Financial Systems, and Budget Control Systems) and the Charts of Accounts (see Observation 4 below).

The results of the compliance reviews also indicated that the technology utilized by the LEAs for the data collections needs improvements. The data collection processes are very manual, paper-based, and time consuming. For example, the LEAs are unable to upload data into the ASRFIN template; therefore, the financials must be manually typed, increasing the risk of error (see Observation 5 below).

OBSERVATION NO. 1 — IMPROVE THE VERIFICATION AND ACCURACY OF DATA COLLECTED

The Budget Office relies on the Superintendent of the school division to confirm the accuracy of the data submitted that is used for the Direct Aid funding process. As there are more than 50 total data collections that school divisions must submit to VDOE, the verification of the data requires a considerable amount of effort from the Superintendent in addition to the time required to perform his day-to-day duties. Further, the data collection content spreads over several topics (e.g. Financial, Special Education, and Transportation) and all Superintendents may not be knowledgeable in each area. As a result, inaccurate information may be submitted and utilized by VDOE.

The data edit checks²³ and variance analyses performed on the data collections will adequately identify a significant error in the submitted data; however, these are not performed on all data collections. Furthermore, the variances are not consistently identified, reviewed, or investigated. Consequently, incorrect data may not be brought to the attention of the LEA to validate and correct, ultimately affecting the accuracy of VDOE's reports and calculations driven by this data.

OBSERVATION NO. 1 RECOMMENDATION

VDOE should consider the following to improve the current control environment resulting in an increase in the accuracy and reliability of the data collected:

- Random audits:
 - Require the LEAs to properly document and retain supporting documentation for data collected.
 - Perform random audits on the data collected by selecting a sample of data collections from a sample of school divisions and comparing the data collection against the supporting documentation.
- Data edit checks:
 - Compare the data submitted with relevant data submitted through other data collections for reasonableness.
 - For the data collections without data edit checks, require the LEAs to submit system reports (e.g. class rosters, teacher lists, etc.) along with the data to improve the data integrity and allow for additional edit checks.
- Variance analysis:
 - Identify and document the data elements most critical to the DAPE calculations to include in the variance analysis process.
 - Define the variance thresholds, dollar value and/or percentage (e.g. \$10,000 and 10 percent), to investigate.
 - Require responses from LEAs for all variances that exceed the variance threshold.
 - Follow up with the LEAs to ensure communicated variances were corrected, as necessary.
 - Document the communication and resolution of each identified variance.

OBSERVATION NO. 1 MANAGEMENT'S RESPONSE

Agree with the issue/observation and recommendation as written. Implementation of this recommendation will require additional staffing and data system resources.

²³ Data edit checks are errors and warnings generated within various data collection processes to prevent common errors and identify potential issues with the data entered and/or submitted.

OBSERVATION NO. 2 – IMPROVE LEA TRAINING

VDOE provides training opportunities to the LEAs; however, these trainings are not required. The data collection processes are complex and can change year to year. Accuracy of the data is vital as the data submitted to VDOE is utilized for the DAPE calculations, Superintendent’s Annual Report, Federal Reporting, and reports to the General Assembly, the Governor, and the public. Inadequate and lack of training can result in inaccurate and inconsistent data submissions to VDOE, which can directly impact the various applications of the data.

The results of the survey indicated a positive response to the recent use of webinars for VDOE trainings. Also, respondents noted “refresher” training workshops would be very beneficial on all of the data collections to ensure continued understanding of the requirements. Additionally, respondents asked for more training opportunities for new employees. The survey respondents indicated the top five data collection topics on which they would like to receive more training include the ASRFIN at 65 percent (103 of 158), the Compliance with the SOQ and Other Miscellaneous Reporting Requirements at 53 percent (83 of 158), the Budgeted Required Local Effort and Required Local Match at 49 percent (78 of 158), Career & Technical Education at 27 percent (43 of 158), and the Student Record Collection at 25 percent (39 of 158).

OBSERVATION NO. 2 RECOMMENDATION

VDOE should implement the following training opportunities for the LEAs to increase the understanding of the various data collections and ultimately increase the accuracy and consistency of the data submitted.

- Provide additional training opportunities (e.g. webinars and annual “refresher” courses) related to the various data collections.
- Determine which data collections are the most challenging and essential to the DAPE processes and require the appropriate individuals at the LEAs to receive relevant training.
- Encourage, and if necessary, provide additional funding to localities to allow individuals to participate in the various associations such as the Virginia Association of School Superintendents (VASS), the Virginia Association of School Business Officials (VASBO), and the Virginia PowerSchool Users Group (VAPSUG) or training programs.
- Partner with the associations to implement a required training program and/or certification process for new Finance Directors and Superintendents, as these employees are responsible for ensuring the data is accurate.

OBSERVATION NO. 2 MANAGEMENT’S RESPONSE

Agree with the issue/observation and recommendation as written. Implementation of this recommendation will require additional staffing and funding to increase school division training opportunities related to data collections, to support local participation in state associations or training programs, and to develop required training programs

and/or a certification process for new finance directors and division superintendents. VDOE may need additional legal authority in order to require such training or certification by divisions.

OBSERVATION NO. 3 — PROVIDE LEAS WITH BEST PRACTICES FOR INTERNAL PROCEDURES

VDOE does not require the LEAs to have internal finance-related policies and procedures for key processes that may impact Direct Aid funding. The amount and detail of the policies and procedures found at the LEAs during the compliance reviews varied. The results of the compliance reviews indicated multiple areas of inconsistency and inadequacy in the internal procedures at the various LEAs visited. Instances were noted of inadequate segregation of duties, inappropriate user access, and lack of training and documented policies and procedures.

At three of the four LEAs visited, the Finance Directors mentioned their difficulty in attempting to complete the ASFRIN template without any or limited written policies and procedures. The ASRFIN template has built-in data checks that compare the data entered to data submitted in the prior year. Without any procedural documents explaining the source or calculations needed to input data, the data could be inconsistent from the prior year. One of the four Finance Directors visited was unable to determine the source of the data and/or methods utilized to prepare the collection report and therefore had to enter incorrect numbers to remove the data edit errors to allow submission of the data collection. As a result, inaccurate information was reported to VDOE.

OBSERVATION NO. 3 RECOMMENDATION

To improve the consistency and documentation at the LEAs, VDOE should consider creating best practices for the school divisions to follow regarding internal procedures. These practices should include the areas of documented policies and procedures, segregation of duties, record retention, training, system access, etc. Documented policies and procedures will provide a reference for the complex data collection processes, for training of new employees, and for preventing loss of knowledge due to employee turnover.

OBSERVATION NO. 3 MANAGEMENT'S RESPONSE

Agree with the issue/observation but with an alternative to the recommendation. VDOE assisting with or providing model local policies and procedures would require additional staffing resources. This may also necessitate additional legal authority for VDOE to require local use of such model policies and procedures. Several of the areas cited in the report that could be improved with best practice policies and procedures (e.g., segregation of duties) relate to general fiscal operations. As such, various state organizations in Virginia might be able to provide assistance and resources to address these areas, in lieu of or to supplement VDOE assistance.

OBSERVATION NO. 4 — IMPROVE CONSISTENCY AT THE LEAs THROUGH STANDARDIZATION

The LEAs use a variety of systems to capture and report student data, financial reporting information, and Full Time Equivalent (FTE) data. Consequently, there are inconsistencies in reporting and comparing data collected from the school districts. Conversations with the Budget Office indicated that a majority of the LEAs utilize PowerSchool Student Information System (SIS). Both the results of the compliance reviews and the surveys supported this statement. Two of the four selected LEAs for the compliance reviews used PowerSchool. One LEA utilized a customized version of PowerSchool called SMS, while the fourth LEA used Tyler SIS. The other SISs used by the LEAs include Synergy, Infinite Campus, eSchool, and Virtuoso. Student information can be coded and extracted differently between the various SISs. The lack of a standard SIS can result in inconsistencies in the student data submitted to VDOE, which can impact the allocation of DAPE funding to the LEAs.

The results of the survey indicated that the LEAs utilize a variety of Financial Systems including, but not limited to, RDA, Bright, Munis, Oracle Financials, and Sunguard. Within these various Financial Systems, SC&H noted during the compliance reviews that the LEAs' Charts of Accounts are inconsistent from one another. The Chart of Accounts needs to be mapped to the ASRFIN codes, which can be a complex and cumbersome process for the LEAs. Some LEAs follow a similar Chart of Accounts structure as the ASRFIN, while others do not. These differences could cause inconsistencies in the financials reported to VDOE.

Lastly, SC&H found the systems utilized by the LEAs to report FTEs to VDOE differ. Some LEAs use a Position Control System called BudGen to track and report the FTEs. Other LEAs utilize information stored in HR systems or manually calculate — internally via spreadsheets — to track and report FTEs. Further, OSIG received feedback from LEAs stating that they sometimes have to explain to their Superintendents that the FTE's reported do not reflect actual positions due to the complexity of the formula required by VDOE to calculate FTEs. As a result, discrepancies in the calculation of FTEs may vary from LEA to LEA.

SC&H research shows that several other states' Departments of Education utilize standard chart of accounts to ensure a high level of comparability. Additionally, OSIG research found a state that operates a statewide data collection system for primary and secondary education, in which data is downloaded by the Department of Education for a variety of uses. Another state implemented a statewide financial, student management, and human resources electronic data communications and reporting system that is based on the standard chart of accounts, a standard information system, and a standard personnel classification system. The Department of Education and the school districts are able to generate reports from this system.

OBSERVATION NO. 4 RECOMMENDATION

VDOE should consider adopting a standard Chart of Accounts, SIS, Position Control System, and/or Financial System to improve reporting capabilities, real-time access to data,

and increase data consistencies across the LEAs. VDOE should also seek feedback from LEAs regarding their difficulties with providing accurate data, such as problems mapping expenditures in the ASRFIN template or calculating FTE's for certain situations, so that issues can be addressed properly.

OBSERVATION NO. 4 MANAGEMENT'S RESPONSE

Agree with the issue/observation and recommendation as written. Mandating a standard Chart of Accounts, Student Information System (SIS), Position Control System, and financial system for use by school divisions may require state legal authority to mandate local use of such systems and will require additional resources to implement. Assisting divisions with data reporting issues, such as mapping expenditures and full-time equivalent positions to the Annual School Report chart of accounts, can be addressed through additional instructions, training focus, and targeted assistance to affected divisions.

OBSERVATION NO. 5 – AUTOMATE EXISTING MANUAL DATA COLLECTIONS

The data collection processes at the LEAs are very manual, paper-based, and time consuming, which produces process inefficiencies. For example, the LEAs are unable to upload/copy and paste information into the ASRFIN template. Therefore, financial information must be manually typed into the ASRFIN.

Additionally, through conversations with the Budget Office and the LEAs, a majority of the Superintendents' Certification forms are mailed hard-copy to VDOE, which causes a delay in the process. For example, the Budget Office does not adjust the final SOQ payments to the LEAs until all of the Superintendent Certifications for the Spring Financial Data Collection are received.

OBSERVATION NO. 5 RECOMMENDATION

VDOE should consider the following opportunities to automate the data collection process resulting in an increase in data accuracy and process efficiency.

- VDOE should distribute standard systems to all LEAs and interface VDOE systems with the LEAs' systems to automatically extract the required information, as mentioned in Observation No. 4 above.
- Implement an e-signature solution for all required Superintendents' Certifications.

OBSERVATION NO. 5 MANAGEMENT'S RESPONSE

Agree with the issue/observation but with an alternative to the recommendation. While VDOE has worked to streamline and automate local data collections through the Student Record Collection, applications in the Single Sign-on for Web Systems portal, and other approaches, full systems integration and interfacing between local and state data systems would require additional staffing and funding resources. An intermediate step to full integration/interfacing would be to assess the feasibility of developing

copy/paste and additional data upload capabilities at the local level into VDOE data collection applications.

To implement electronic signatures from division superintendents, agency and state government policies and procedures governing this area will need to be evaluated for adequacy and established or modified as needed. Legal guidance from the Office of the Attorney General may be needed. Putting in place an e-signature capability in VDOE data collection applications may require short-term staffing and systems development resources.

Legal and Regulatory Compliance

Based on discussions with the Budget Office and LEAs during site visits, OSIG found that there is no compliance monitoring function at VDOE that assesses each locality's compliance with various state, legal, and regulatory guidelines. While localities mentioned that compliance with Federal Programs was monitored heavily and consistently, the state compliance monitoring relied mostly on certifications. Therefore, we focused the compliance testing on the following:

- VDOE's monitoring of the LEAs' compliance with the SOQ staffing standards;
- LEAs' compliance with the SOQ staffing standards based on supporting documentation; and,
- LEAs' fulfillment of the SOQ minimum funded positions.

Compliance with state grant programs is discussed under "**State Grants**" below.

VDOE monitors compliance to the SOQ staffing standards through the SOQ and Other Requirements Compliance Reporting data collection, described above. VDOE relies on the Superintendent's Certification for the accurate reporting of compliance and non-compliance to the eight standards. OSIG confirmed that the Superintendent, or designee, properly reviewed and approved this certification for each of the LEAs selected for the compliance reviews.

As part of the compliance reviews, the following four staffing standards were selected to be tested at each LEA: Basic Aid Instructional Positions, Gifted Education Instructional Positions, Career and Technical Education Maximum Class Size, and Special Education Caseloads. Per the Appropriation Act, the school divisions are required to staff a minimum of 51 professional instructional and aid positions for Basic Aid and a minimum of 1.0 professional instruction position for Education of the Gifted for each 1,000 pupils in March 31 ADM each year.²⁴ The Virginia Board of Education's regulations establish maximum class sizes for CTE classes that use equipment identified for hazardous occupations or are specifically designed for disadvantaged students or students with

²⁴ Virginia General Assembly Legislative Information System. Virginia 2014 Appropriation Act. Item 139. URL: <http://leg1.state.va.us/cgi-bin/legp504.exe?142+bud+B1-139>. Accessed September 2, 2015.

disabilities.²⁵ Additionally, the Virginia Board of Education's regulations set the maximum instructional caseloads for Special Education teachers and speech-language pathologists, for which public schools receive state funds in accordance with the Virginia Appropriation Act.²⁶ Three of the four LEAs could not provide adequate documentation to evidence monitoring activities of the staffing standards compliance. Therefore, OSIG requested reports to be generated from the LEAs' various systems to determine whether the LEAs were in compliance. Based on the data provided from the LEAs' systems:

- Basic Aid: All four localities met the staffing standards.
- Gifted Education: Three localities met the staffing standards.
- Vocational (CTE): Two localities were compliant.
- Special Education: SC&H found the regulations for the maximum Special Education caseloads complex and cumbersome to calculate. Based on discussions with each locality's Special Education department, recalculations determined one locality was compliant.

The SOQ provides a minimum number of positions that the LEA is required to staff for multiple categories of personnel. On the VDOE website, the Budget Office provides a break-down of the FTEs for the SOQ minimum funded positions at each LEA. During the compliance reviews, OSIG found that most of the LEAs were unable to provide direct evidence of any monitoring activities of compliance with the minimum funded positions. As the evidence of this effort had never been previously requested from the LEAs, OSIG attempted to recalculate the FTEs based on conversations with key employees at the LEAs and reports provided by the LEAs. The calculated FTEs from the LEAs documentation were compared to the Budget Office's calculation of the SOQ minimum funded positions. Based on the calculated FTEs compared to the minimum funded positions:

- Basic Aid: Two localities were in compliance.
- Gifted Education: Two localities were in compliance.
- Vocational: All four localities were in compliance.
- Special Education: One locality was in compliance.

OBSERVATION NO. 6 — IMPLEMENT A PROACTIVE COMPLIANCE MONITORING PROGRAM

VDOE monitoring of the LEAs' compliance with state regulations is limited. VDOE relies on the Superintendent's Certification to determine whether or not the school district is in compliance with the SOQ requirements and does not perform any further validation of data submitted. If a locality reports non-compliance, VDOE will follow up with the LEA to obtain the explanation for non-compliance, which is reported in the Virginia Board of Education's Annual Report. However, there

²⁵ Virginia Administrative Code. Title 8 Education. Agency 20 State Board of Education. Chapter 120 Regulations Governing Career and Technical Education. 8VAC20-120-150 Maximum Class Size. URL: <http://law.lis.virginia.gov/admincode/title8/agency20/chapter120/section150/>. Accessed September 8, 2015.

²⁶ Virginia Administrative Code. Title 8 Education. Agency 20 State Board of Education. Chapter 81 Regulations Governing Special Education Programs for Children with Disabilities in Virginia. 8VAC20-81-340 Special Education Caseload Staffing Requirements. URL: <http://law.lis.virginia.gov/admincode/title8/agency20/chapter81/section340/>. Accessed on September 8, 2015.

does not appear to be consequences for non-compliance. Further, there does not appear to be an analysis of LEAs who are continually non-compliant. As a result, the localities could utilize SOQ funding for purposes other than what is required by the Appropriation Act.

At the locality level, the majority of the LEAs does not actively monitor or have established procedures to ensure compliance with the staffing standards based on the review procedures performed. Three of the four localities could not confirm or locate documentation to support evidence of compliance with the selected staffing standards.

OBSERVATION NO. 6 RECOMMENDATION

VDOE should implement a proactive compliance-monitoring program to ensure the school divisions are in compliance with state regulations. Examples of proactive monitoring include:

- A cyclical audit plan where school divisions are audited based on a needs based risk assessment;
- Random audits where school divisions are required to provide additional evidence of compliance with the regulation under review;
- Creating self-monitoring checklists that LEAs must complete to promote increased monitoring; or
- Requiring LEAs to submit supporting source documentation to evidence compliance with each relevant data collection.

LEAs should be required to submit source documentation evidencing their compliance or non-compliance with the staffing standards.

OBSERVATION NO. 6 MANAGEMENT'S RESPONSE

Agree with the issue/observation but with an alternative to the recommendation. Implementation of this recommendation may require additional legal authority for VDOE and would require significant additional staffing resources, particularly for audits of school divisions and to validate source documentation supporting compliance with requirements. VDOE's current SOQ compliance reporting system does require divisions to provide a narrative corrective action plan for reported areas of non-compliance. An alternative would be to provide targeted monitoring based on school division sampling or local risk factors to mitigate the amount of resources needed to implement this recommendation.

DAPE Resources

As DAPE is a holding account for the pass-through funding to LEAs, a large focus of this review was on the resources that were allocated to DAPE to determine VDOE's efficiency and effectiveness including an evaluation of the staffing and processes.

Staffing

In 2011, a study was performed by the Center for American Progress and the American Enterprise Institute for Public Policy Research to determine the State Education Agency (SEA) staffing levels.²⁷ It was noted that every attempt was made to ensure the accuracy and reliability of the data; however, this was not possible due to how each state tracks and collects data. Additionally, the study was focused on the number of agency employees actively engaged in K-12 school policy and administrative support; however, the SEA responsibilities varied from state to state. Based on this study, VDOE had the third highest ratio of students per agency staff at 4,645 students per one agency employee. The top two states were New York and California at 5,328 and 5,058 students per one agency employee, respectively.

Staffing in the Budget Office and Education Information Management (EIM), the technology unit, were both identified as risk areas due to their institutional knowledge and overall importance to the effective processing of DAPE. Further, due to the overall complexity of the process and calculations that exist within DAPE, the loss of critical personnel could be detrimental to the overall effectiveness.

Several survey questions were open-ended to allow respondents to provide feedback on the support and communication the LEAs receive from VDOE. Based on that feedback, the resounding theme was that VDOE's support is responsive, helpful, available, and appreciated. However, an area of concern was as deadlines approach for data collections or during budget development, the Budget Office can be less responsive when their response is needed the most. Others expressed concern about the turnover in the Budget Office and how that might impact the support they receive and the accuracy of VDOE's execution of DAPE processes (see Observation 7 below).

EIM is responsible for collecting, processing, and reporting education information that enables VDOE to meet reporting requirements of state and federal laws and regulations. A limited number of employees within EIM have the institutional knowledge of the complex needs of the Budget Office as it relates to DAPE, but feedback obtained from the Budget Office regarding the support they receive from EIM was positive overall. While the Budget Office and EIM recognize the need for significant process improvements by way of automation, the resources are not available on either end to implement these changes. Further, due to the complexity of DAPE, it appears that key individuals from both the Budget Office and EIM would need to allocate significant time to improve these processes that would entail being taken away from their day-to-day duties, which would further exacerbate staffing needs. It appears that the Budget Office develops workarounds for issues as EIM does not have the time or staff to assist in improving automation. It was noted in the VDOE's Central Operations Strategic Plan²⁸ that VDOE "struggles to respond to an increasing

²⁷ Brown, Cynthia G., Hess, Frederick M., Lautzenheiser, Daniel K., Owen, Isabel. *State Education Agencies as Agents of Change*. 2011. URL: <https://www.americanprogress.org/issues/education/report/2011/07/27/9901/state-education-agencies-as-agents-of-change/>. Accessed: September 14, 2015.

²⁸ Virginia Performs. Explore performance measures by agency. Department of Education, Central Office Operations. 2014-2016 Full Strategic Plan. URL: https://solutions.virginia.gov/pbreports/rdPage.aspx?rdReport=vp_Agency&rdAgReset=True&Agency=201. Accessed September 8, 2015.

demand for education data and a backlog of requests for system development” (see Observation 8 below).

Results of interviews with the Budget Office personnel indicated difficulties with training new staff due to the significant learning curve. Currently, new analysts are trained on the job by shadowing other analysts (see Observation 9 below).

Processes

VDOE processes concerning DAPE were determined to be effective, in that known errors are infrequent and immaterial. However, processes could use an increase in automation as there are multiple manual processes utilized to calculate DAPE. During discussions with the lead analyst, we noted that multiple re-benchmarking processes are calculated in Excel spreadsheets then imported into the SOQ Model, due to the SOQ Model’s inability to perform the calculations. Processes throughout the execution of DAPE were determined to exhibit an over-reliance on Excel to perform key calculations (see Observation 10 below).

SC&H confirmed the existence of policy and procedural documents for the numerous DAPE processes, such as re-benchmarking, data collections and reporting, and direct aid payment requests. However, these procedures can be improved to increase the overall efficiency and effectiveness of VDOE’s DAPE processes (see Observation 11 below).

Several of VDOE’s processes require the staff to communicate to school divisions, parents, legislative bodies, and other agencies on a daily basis. VDOE’s major forms of communication, as it relates to DAPE, includes:

- Direct official communication to the commonwealth’s school divisions through Superintendent Memos, Tuesday Telegrams, and other email notifications.
- Direct call-in support provided by the Budget Office, EIM, or Program offices.
- Phone calls and emails with the Department of Planning and Budget to discuss requested scenarios and final changes to the DAPE budget.
- VDOE’s website, the gateway to Virginia’s school system. The website includes, but is not limited to, information on data collections, teacher licensure, education resources, current legislation, and Standards of Learning (SOL) Testing.

Through conversations with the Budget Office and the survey results, the communication VDOE provides regarding DAPE can be enhanced (see Observation 12 below).

OBSERVATION NO. 7 — ASSESS STAFF RESOURCES AND EMPLOYEE RETENTION IN THE BUDGET OFFICE

During the course of this review, two key employees, the Budget Director and lead Education Finance Analyst (referred to as the lead analyst), resigned from the Budget Office. The Budget Office was without a director between May 1, 2015, and August 15, 2015. The former Budget Director was employed for less than two years. The lead analyst had the most tenure in the Budget

Office (8 years) and upon his departure left the Budget Office with no current Education Finance Analysts (those responsible for the DAPE budget development) who have been through an entire budget development process (at least a two-year process). Insufficient staffing and high employee turnover can increase the workloads of remaining employees and result in deteriorating work products. Further, the constant need to hire and train employees takes away from the agency achieving its goals and objectives.

The Budget Office operates in a fast-paced, high stress, demanding, and technical environment. For example, the scenarios requested by the various parties, in particular the Governor and General Assembly, need to be executed through the SOQ Model and/or DABS and the results need to be provided immediately, sometimes with a turnaround time of less than one business day, for budget decisions to be made. As a result of this work environment, the Budget Office experiences high employee turnover.

The Budget Office currently has seven analysts and one director; one of the smallest groups within the Finance and Operations Division of VDOE. These eight employees are not only responsible for development and implementation of the VDOE's Central Office and DAPE biennial budgets, but are also responsible for providing information and technical assistance to school divisions, the General Assembly, state agencies, and professional organizations. The Budget Office is also responsible for the SOQ funding model, Superintendent's Annual School Report, other state and federal financial reports, Virginia Public School Authority Educational Technology and School Security Grants and the Literary Fund school construction loan program. The Budget Office also calculates federal grant award allocations and provides ongoing budget monitoring.²⁹ Survey respondents expressed concern over the staffing levels at VDOE, especially in the Budget Office, due to the decrease in size and experience over the last decade.

OBSERVATION NO. 7 RECOMMENDATION

An evaluation of staff needs should be performed to ensure adequate staff is employed, trained, retained, and able to efficiently and effectively execute all of the Budget Office's responsibilities. In order for the Budget Office to make process improvements in addition to performing everyday duties, additional positions may need to be allocated.

Furthermore, VDOE needs to evaluate reasons for turnover and create a plan to improve employee retention.

OBSERVATION NO. 7 MANAGEMENT'S RESPONSE

Agree with the issue/observation and recommendation as written. The VDOE Budget Office will be given priority for consideration of future agency staffing requests. Increased training opportunities of existing staff will be explored. Retention tools such as

²⁹ VDOE. About VDOE. Finance & Operations. Office of Budget. URL: <http://www.doe.virginia.gov/about/finance/index.shtml>. Accessed on September 11, 2015.

compensation plan actions and flexible scheduling options will be considered as appropriate. An existing Education Finance Analyst position was recently restructured to a line supervisory position that will manage time sensitive day-to-day tasks of the Direct Aid budget component, and a candidate hired for the position. This action was intended to streamline work assignments to more quickly complete tasks, increase internal review, and build staff capacity.

OBSERVATION NO. 8 – PROVIDE ADDITIONAL STAFF RESOURCES IN EIM

EIM does not have adequate time to dedicate to improving automation within DAPE processes due to other demands. Since few EIM employees possess the intricate DAPE knowledge to truly drive change, this further diminishes their ability to substantially improve automation. EIM has a significant backlog of reports and updates to address which are competing for the department’s resources. As a result, the Budget Office has multiple manual processes within the DAPE process including an overreliance on Excel spreadsheets for complex calculations and paper-based documentation. This reduces the efficiency of these key processes and increases the likelihood of errors, which coupled with the loss of key employees, could significantly impact VDOE’s ability to achieve agency goals and accurately oversee DAPE.

OBSERVATION NO. 8 RECOMMENDATION

VDOE should allocate resources within EIM or hire additional staff to advance the current technology used by the Budget Office resulting in a reduction of the reliance on spreadsheets and procedural “workarounds” within the DAPE processes. This will require the Budget Office and EIM to work closely together so that the Budget Office is able to prioritize its needs and work with EIM to test the accuracy of changes.

OBSERVATION NO. 8 MANAGEMENT’S RESPONSE

Agree with the issue/observation and recommendation as written. Additional EIM staffing resources dedicated to supporting Direct Aid budget functions will also be a priority for future agency staffing requests, as well as an increased priority in assigning workload among existing staff.

OBSERVATION NO. 9 – IMPLEMENT FORMAL TRAINING IN THE BUDGET OFFICE

There is no formal training process in place for Budget Office employees. Based on discussions with the Budget Office, new analysts are trained on the job. Budget Office employees do not have sufficient time to perform their day-to-day duties and adequately train new staff. Further, the Budget Office relies on duplication of calculations by two independent analysts as a control to ensure the calculation was completed accurately. However, due to turnover, this often results in the most senior analyst directing the other analyst how to perform the calculation, which weakens the overall purpose of the control. Therefore, inadequate training could potentially lead to procedural inefficiencies, increased errors, and potential loss of new hires due to inability to complete the complex duties.

OBSERVATION NO. 9 RECOMMENDATION

A formal training program should be developed that could decrease the significant learning curve associated with the complex DAPE processes. This, together with detailed procedural documentation (see Observation No. 11 below), will increase the department's ability to detect errors in the manual DAPE processes.

OBSERVATION NO. 9 MANAGEMENT'S RESPONSE

Agree with the issue/observation and recommendation as written. Implementation of this recommendation is dependent on additional staffing resources to develop and conduct a formal training process on an on-going basis while at the same time maintain daily operations in the Budget Office.

OBSERVATION NO. 10 — REQUEST FUNDING FOR INCREASED AUTOMATION OF THE SOQ PROCESS

The SOQ calculation and payment processes are manually intensive and dependent on several manual controls and spreadsheets. As the SOQ Model is unable to perform all the necessary calculations, the Budget Office analysts rely heavily on advanced Excel spreadsheets to complete these difficult calculations, which are often performed at the request of the Governor or General Assembly. Depending on the step or calculation, the analysts complete a paper-based change control form that is reviewed and approved by the Budget Director, or the Deputy Superintendent in the absence of a Director. This review is performed after multiple steps are completed. If an error was detected during this review, the analyst would have to correct the error and re-perform multiple steps, as each step builds off the previous step.

Outside of the electronic upload process for SOQ payments, most remaining payment requests are paper-based and hand delivered to each party involved in the review and approval process. Once approved, the payment requests are hand delivered to Fiscal Services for processing. Paper-based documentation can be misplaced or lost resulting in delays in the process.

OBSERVATION NO. 10 RECOMMENDATION

VDOE should request funding for automation of the SOQ calculation and payment process. Increased automation will improve the efficiency and accuracy of the process and will also improve the Budget Office's ability to provide the Governor and General Assembly with more timely responses to requested scenarios when preparing the overall DAPE budget.

OBSERVATION NO. 10 MANAGEMENT'S RESPONSE

Agree with the issue/observation and recommendation as written. While the Standards of Quality entitlement payments to school divisions are transferred each year from the Budget Office to Fiscal Services via an Excel spreadsheet and then uploaded into the Oracle Financials system for payment without manual keying, more automation of the SOQ and other Direct Aid account calculations could occur, as well as automating other

payment transfers from Budget to Fiscal Services. Implementing this recommendation is dependent on additional staffing and system resources.

OBSERVATION NO. 11 — UPDATE POLICIES AND PROCEDURES AT VDOE

VDOE has a considerable amount of procedural documents for the DAPE processes; however, the following observations were noted:

- Insufficient desktop procedures to allow for adequate training, backup, or hand-off of tasks
- Outdated documentation that does not reflect procedural changes
- Unorganized/hard-to-locate information due to volume and version control
- Lack of evidence of management’s review and approval
- No formal process to review, update, or approve

The current condition of the policies and procedures can negatively impact the efficiency and effectiveness of the DAPE processes.

OBSERVATION NO. 11 RECOMMENDATION

VDOE should allocate resources to ensure policies and procedures are monitored and updated to reflect current practices and that they are accessible, detailed, and easy to understand. Additionally, a formalized process should be established to ensure the policies and procedures are reviewed, updated, and approved by management on a recurring basis.

An employee manual containing desktop procedures capturing the entire budget development process from start to finish would benefit the Budget Office. New employees could utilize the employee manual to familiarize themselves with the complex processes and how to complete the required steps in the budget development process. Having a detailed manual may limit the need for additional training.

OBSERVATION NO. 11 MANAGEMENT’S RESPONSE

Agree with the issue/observation and recommendation as written. Implementation of this recommendation will require additional staffing resources to make the suggested improvements while at the same time maintain daily operations in the Budget Office.

OBSERVATION NO. 12 — IMPROVE COMMUNICATIONS

Communication between VDOE and external parties such as DPB and the LEAs needs improvement. Official communications (e.g. Superintendent memos and grant award notifications) go to the school division Superintendents and they distribute the information to the applicable individuals throughout the school district. There can be a delay in the information reaching the applicable parties.

Additionally, survey results indicated users find VDOE’s website difficult and cumbersome to navigate. Users of the website become overwhelmed by the amount of information presented and

perceive the information available to be disorganized. The search engine does not always display results in chronological order, which adds time to the searches.

Also, the communication between VDOE and DPB throughout the budget development process is very informal ranging from phone calls to request the execution of scenarios to the confirmation of final budget changes via email. A permanent record of decision points is not always retained for each individual step. However, all scenarios are confirmed with DPB via a final email and the incremental DABS, which show the impact of each scenario executed by the Budget Office.

OBSERVATION NO. 12 RECOMMENDATION

VDOE should implement the following communication improvements:

- Increase the distribution list of school division recipients for official communications to ensure the correct individuals receive applicable information timely. As localities may have different titles or roles within their Finance and Administrative offices, school districts should be contacted to ensure all relevant parties are included. This list should be reviewed by VDOE and the LEAs on a periodic basis (e.g. annually) to update any changes in personnel.
- Offer additional deadline notifications such as a downloadable calendar with due dates and automatic calendar reminders (e.g. through Microsoft Office Outlook).
- Improve VDOE website's layout, content, and search engine to allow for easy and quick navigation to the desired information.
- Formalize the budget development communication with DPB and other legislative bodies to ensure critical changes and decisions are properly executed, documented, and retained.

OBSERVATION NO. 12 MANAGEMENT'S RESPONSE

Agree with the issue/observation and recommendation as written. Various offices in VDOE make use of targeted e-mail communications to pertinent school division staff on key issues and data collections. Implementation of all components of this recommendation will require additional resources and staffing, at least on a short-term basis. Improvement to the agency Web site would be a longer-term process.

State Grants

Approximately 40 programs fall into the category of state grants under DAPE, excluding SOQ accounts, representing 10 percent (\$700 million³⁰) of the DAPE – State Education Assistance Program. Each state grant program has a unique purpose while providing additional funding to the LEAs beyond the SOQ amounts.

³⁰ While this is immaterial to DAPE, it is almost eight times greater than the Central Operations budget (\$90M) and just 20% less than federal grants total (\$870M).

Due to the varying requirements, each program could potentially have different documentation requirements, application and award procedures, reimbursement forms, approval guidelines, and payment schedules (see Observation 13 below). Further, not all grants are processed through the VDOE's OMEGA online grant management software, resulting in multiple grants that are processed via hard-copy (see Observation 14 below). Therefore, grantees do not have a place where they can see all grant awards available to them. Grants that are processed through OMEGA do not require grantees to submit actual evidence of expenditures. LEAs submit expenditures by object code and provide a written explanation of what was purchased. However, direct evidence, such as invoice support or payroll records, was not obtained. It was noted that many grants are for additional or specific instruction, which would result in a significant portion of the grant being salary and wages. However, grantees enter what was purchased into object codes (e.g. Salaries or Transportation) within OMEGA and provide a description of what was purchased. The approval process goes through multiple levels at the LEA and multiple levels at VDOE.

Timing was determined to be another challenge for LEAs. All reimbursement requests have to be submitted by the end of May to ensure payment by the end of June. However, the programs themselves may not be completed until the end of the school year (i.e. mid-June). This results in grantees estimating total program expenditures or not seeking reimbursement for expenditures after the May processing date. There was no grace or reconciliation period to allow grantees to notify VDOE of the differences noted.

Reimbursement requests from three state grant programs were selected for review. Those grants were: Individual Student Alternative Education Plan (ISAEP), Project Graduation, and Virginia Public School Authority (VPSA). If any of the school divisions visited received grant funds related to these programs, OSIG tested the LEA's compliance with program guidelines established by VDOE.

The results of the compliance program indicated that LEAs received funds for the ISAEP program, but were not required to submit any year-end report detailing program results or actual expenditures. For several programs tested, LEAs were not accurately tracking all program expenditures in their financial systems, which could result in duplicate payments across multiple grant programs. Additionally, while all localities were able to provide evidence to support program expenditures for VPSA programs, localities were not keeping adequate supporting documentation of all program expenditures for the other programs tested. Lastly, we noted some immaterial expenditures in the supporting documentation received for certain grant programs which were unallowable, according to the grant requirements.

OBSERVATION NO. 13 — IMPROVE THE GRANT MANAGEMENT PROCESS

There is no centralized grant management process within VDOE. Each Program Office is responsible for managing their grants, which has resulted in varying levels of transparency, documentation requirements, program evaluation, and support. Further, there is no consistent

compliance monitoring process. Reimbursement requests are approved by individuals in the Program Offices and Fiscal Services. LEA's must describe how the grant funds were expended; however, actual supporting evidence of expenditures (even on a sample basis) is not obtained during their review.

OBSERVATION NO. 13 RECOMMENDATION

VDOE should develop and implement a Grant Management Policy including documentation of Fiscal Procedures, Program Reporting Requirements, and a Grant Monitoring Plan. This policy should consider the timing differences between the reimbursement request due date and program end dates, such as offering a 30-60 day grace period, requiring grantees to submit actual expenditures within the grace period and reconcile the differences. Another option is to allow the grantees to submit certain expenditures based on another "fiscal year," such as April 1 to March 31 or May 1 to April 30.

The Grant Monitoring Plan should include the following:

- On-site reviews: On-site reviews should be conducted at a sample of school divisions on a rotating basis, so that all school divisions have been reviewed by the end of the cycle. A risk-based approach can be utilized to determine which LEAs to include and how often. This approach identifies "red flags" such as inadequate separation of duties, internal controls, and financial systems, or prior grant mismanagement or prior fraud.
- Reporting: The grant monitoring plan should include a review of reports generated from LEA systems. Financial and progress reports can be reviewed to ensure accuracy, completeness, and compliance with state program objectives. Budget vs. Actual reports can be reviewed to verify program expenditures are expended according to approved grant applications and awards.
- Supporting documentation review: For a sample of school divisions, including those identified as "high risk," Program Offices should periodically require the submission of documentation of expenditures and achievements to ensure compliance with grant requirements.
- Self-monitoring checklists: VDOE should create self-monitoring checklists of state grant requirements for the LEAs to fill out on a recurring basis. These checklists should include evidence of preparer and approver review and approval.

OBSERVATION NO. 13 MANAGEMENT'S RESPONSE

Agree with the issue/observation but with an alternative to the recommendation. Not all Direct Aid payments outside the SOQ are paid on a reimbursement basis and processed through OMEGA; several programs are paid as formula entitlements once school division eligibility is determined through existing processes. Implementation of a comprehensive Grant Management Plan for non-SOQ state programs would require

additional staffing and possibly system enhancements, particularly for on-site reviews and for large-scale supporting documentation review. An alternative would be to conduct supporting documentation reviews and on-site reviews on a sample basis or on the basis of local risk factors.

OBSERVATION NO. 14— IMPROVE OMEGA FUNCTIONALITY

All grants funds are not managed through a single system. Although most payments are processed through OMEGA, grants involving few payments are not, due to the timing and effort to set up necessary grant information within the system. Therefore, these grants are processed manually using paper-based documentation. The results of our open-ended questions on the survey indicated that the localities would like to see improvements made to OMEGA, such as improving the processing time and including all grants so there is a consistent platform to know what the grant budgets and balances are.

OBSERVATION NO. 14 RECOMMENDATION

All grants should be input and processed through grant management software to increase automation and allow a central place for grantees to view all awarded grants. Further, improvements should be made to the capacity and functionality of OMEGA to increase automation and overall grant administration efficiency.

OBSERVATION NO. 14 MANAGEMENT'S RESPONSE

Agree with the issue/observation and recommendation as written. VDOE continues to transition more state reimbursement grants to the OMEGA system and anticipates upgrading and enhancing OMEGA to increase processing speed and functionality beginning in fiscal year 2017 or 2018. Including state grants not paid on a reimbursement basis in OMEGA or similar grant management system would require additional resources for systems development and management of the system.

Fraud, Waste, and Abuse Controls

As a part of this performance review, OSIG considered the risk of fraud, waste, and abuse. Based on areas focused upon, Data Collections, DAPE Resources, and State Grants, the risk of fraud within the agency is considered to be low. VDOE has no access to DAPE funds, as all funds pass through directly to the LEAs. While VDOE determines the amounts of payments and is responsible for approving payments to LEAs, the actual payment of DAPE funds is executed through Virginia's Treasury department. However, it was noted that the individual Program Offices decide and allocate funding to the LEAs which could result in favorable treatment of certain LEAs. If a fraud were to occur, funds would have to be inappropriately allocated and paid to an LEA, and the LEA would have to perpetrate the fraud on their end by fraudulently moving the funds. Further, due to the lack of a monitoring function of DAPE funds by VDOE of LEAs, there are no controls in place to monitor whether LEAs are fraudulently using, wasting, or abusing state funds received.

Exhibit I – 2012-2014 Biennium DAPE Funding

State Education Assistance Programs ³¹		
	FY2013	FY2014
Standards of Quality for Public Education	\$5,178,177,305	\$5,199,078,786
Financial Incentive Programs for Public Education	72,087,786	137,851,224
Financial Assistance for Categorical Programs	55,483,629	55,420,482
Distribution of Lottery Funds	499,460,000	517,200,000
Fund Sources		
General	\$5,162,194,292	\$5,228,943,919
Special	895,000	895,000
Commonwealth Transportation	2,173,000	2,173,000
Trust and Agency	639,946,428	677,538,573

³¹ Virginia General Assembly Legislative Information System. Virginia 2014 Appropriation Act. Item 139. URL: <http://leg1.state.va.us/cgi-bin/legp504.exe?142+bud+B1-139>. Accessed September 2, 2015.

Exhibit II – SOQ Funding Process

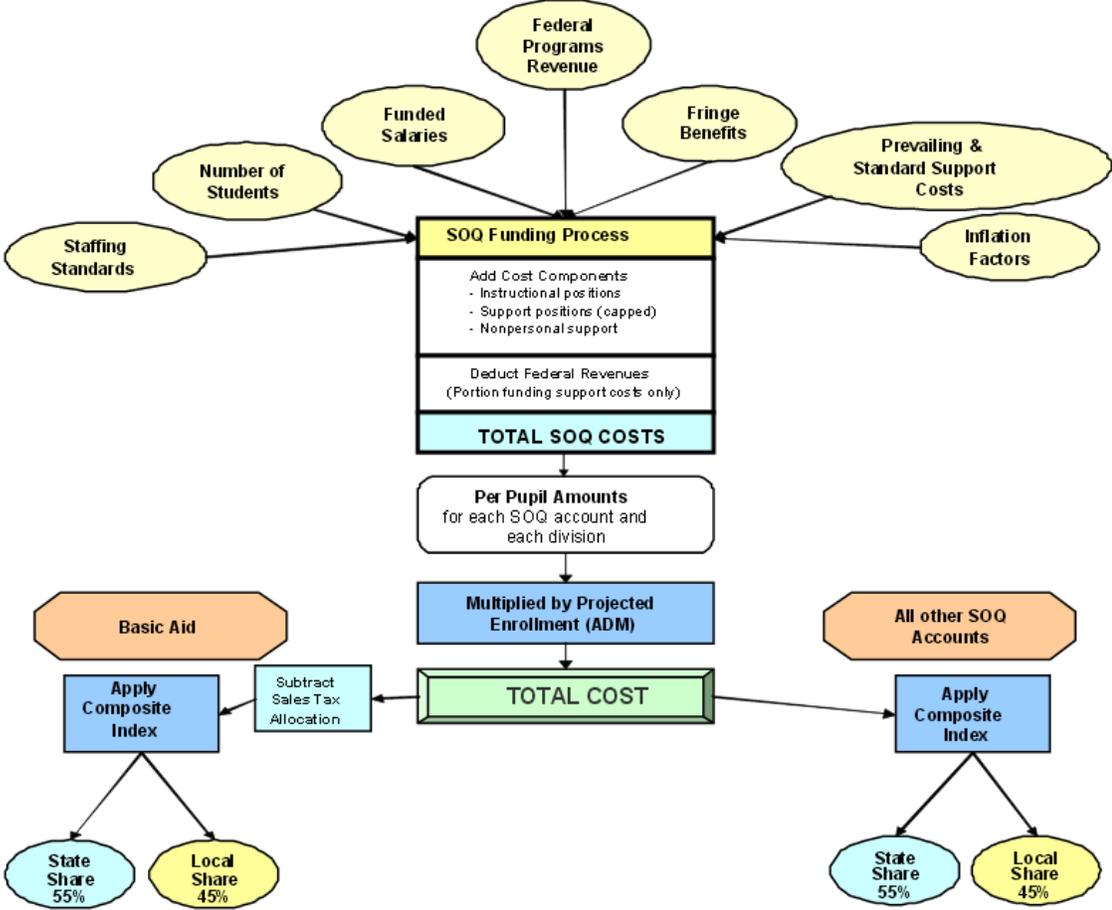


Exhibit III – FY14 Incentive, Categorical, and Lottery Funded Programs

Incentive Programs	
Program Name	FY2014
Governor’s School	\$14,626,609
Governor’s School Planning and Startup/Expansion Grants	100,000
Clinical Faculty	318,750
Career Switcher Mentoring Grants	279,983
Special Education Endorsement Program	600,000
Special Education – Vocational Education	200,089
Virginia Workplace Readiness Skills Assessment	308,655
Additional Assistance with Retirement, Inflation and Preschool Costs (split funded)	51,212,111
Compensation Supplement	60,963,418
Early Reading Specialists Initiative	956,068
Strategic Compensation Grants Initiative	4,497,651
Technology – VPSA	64,316,100
Security Equipment – VPSA	6,000,000
Total Incentive Programs	\$204,379,434
Categorical Programs	
Program Name	FY2014
Adult Education	\$1,051,800
Adult Literacy	2,480,000
Virtual Virginia	4,347,808
American Indian Treaty Commitment	45,094
School Lunch Program	5,801,932
Special Education – Homebound	5,372,903
Special Education – Jails	3,414,375
Special Education – State Operated Programs	32,906,570
Total Categorical Programs	\$55,420,482
Lottery Programs	
Program Name	FY2014
Foster Care	\$8,962,411
At-Risk Add-On	78,687,071
Virginia Preschool Initiative	67,424,295
Early Reading Intervention	17,482,065
Mentor Teacher	1,000,000
K-3 Primary Class Size Reduction	103,971,881
School Breakfast Program	3,612,556
SOL Algebra Readiness	11,394,145

OFFICE OF THE STATE INSPECTOR GENERAL
PERFORMANCE REVIEW OF DIRECT AID TO PUBLIC EDUCATION

Regional Alternative Education	8,048,710
ISAEP	2,247,581
Special Education – Regional Tuition	77,774,168
Career and Technical Education - Categorical	10,400,829
Project Graduation	2,774,478
Virginia Teacher Corps (NCLB/EFAL)	415,000
Race to GED (NCLB/EFAL)	2,410,988
Path to Industry Certification (NCLB/EFAL)	1,331,464
Supplemental Basic Aid	903,152
English as a Second Language	45,258,661
Textbooks	61,660,423
Remedial Summer School (split funded)	23,152,232
Additional Assistance with Retirement, Inflation and Preschool Costs (split funded)	3,787,890
Total	\$532,700,000