

R00A01
Headquarters
Maryland State Department of Education

Operating Budget Data

(\$ in Thousands)

	FY 05	FY 06	FY 07	FY 06-07	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$90,888	\$112,504	\$120,176	\$7,672	6.8%
Special Fund	4,758	6,241	5,215	-1,026	-16.4%
Federal Fund	119,599	136,493	135,455	-1,038	-0.8%
Non-budgeted Fund	9,299	6,704	6,554	-150	-2.2%
Reimbursable Fund	<u>909</u>	<u>458</u>	<u>446</u>	<u>-12</u>	<u>-2.5%</u>
Total Funds	\$225,453	\$262,399	\$267,845	\$5,447	2.1%

- General funds increase by \$7.7 million, a 6.8% increase over the fiscal 2006 working appropriation. All other categories of funds decrease from fiscal 2006 levels, resulting in an overall 2.1% increase in the Governor's allowance.
- The newly created Early Childhood Development Division, which has incorporated functions transferred from the Department of Human Resources (DHR), receives increased funding of \$3.4 million.
- Federal funding decreases by 0.8%, with the largest reduction in Title I Grants to local education agencies (\$7.3 million). The Maryland State Department of Education (MSDE) has moved the funds to the Aid to Education budget in fiscal 2007.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>
Regular Positions	1,386.80	1,589.30	1,637.30	48.00
Contractual FTEs	<u>148.99</u>	<u>136.62</u>	<u>138.60</u>	<u>1.98</u>
Total Personnel	1,535.79	1,725.92	1,775.90	49.98

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	106.92	6.53%
Positions Vacant as of 12/31/05	88.5	5.6%

- MSDE had 88.5 vacancies as of December 31, 2005. Of these, 62.3 have been vacant 0 to 6 months. The vacancy rate is 5.6%. Budgeted turnover for fiscal 2007 is 6.53% or 107 positions, approximately 20 more than are currently vacant.
- The allowance includes funding for 48 new positions. Thirty are federally funded positions connected to the administration of federal grant programs. Eight are federally funded positions approved by the Board of Public Works in fiscal 2006 to support the transfer of the Child Care Administration (CCA) from DHR. Ten are general fund positions primarily connected with Correctional Education programs.
- A total of 202.5 positions transferred to MSDE in fiscal 2006, with all but 4 of these positions attributed to transfers from CCA in DHR. Four transfers are from the Department of Juvenile Services (DJS) in connection with the educational responsibilities assumed by MSDE for the Lower Eastern Shore Children's Center.

Analysis in Brief

Issues

The Office of Legislative Audits Finds MSDE in Non-compliance in Fiscal 2005 Closeout Audit: In January 2006, the Office of Legislative Audits (OLA) reported the results of its fiscal 2005 closeout audit to the General Assembly's Joint Audit Committee. OLA concluded that MSDE did not follow State procedures governing yearly budget closing. OLA reported that MSDE encumbered \$5.8 million in purchase orders that did not represent actual commitments by the State for goods or services. Therefore, the purchase orders did not qualify as valid encumbrances and should have been cancelled, rather than encumbered. **The Superintendent should discuss the \$5.8 million in purchase orders that OLA identified as improperly encumbered and discuss why they were not cancelled at the close of fiscal 2005.**

Transfer of Child Care Administration to MSDE from the Department of Human Resources: Effective July 1, 2005, CCA was transferred from DHR to MSDE. While the child care licensing and program improvement components of CCA were transferred, the Purchase of Care (POC) program remained with DHR. However, in February 2006, the Governor issued an executive order transferring the POC program to MSDE as well. A new Child Care Coordinating Council will have general oversight responsibility for the POC program. **MSDE should comment on the transfer of the POC program from DHR to MSDE, as well as the new contract for the child care resource and referral network.**

MSDE Adjusts Use of Correctional Education Funds After Closing of Hickey School Programs: In October 2005, the budget committees requested information from MSDE about plans for the fiscal 2006 funding for the Hickey School. Two of the three programs at the school were closed after funding was appropriated. MSDE and DJS have jointly decided on changes in the juvenile education programs for which MSDE will assume responsibility. **MSDE should be prepared to provide a time-line for the takeover of education at DJS facilities. That time-line should incorporate new proposed facilities. MSDE should also be prepared to discuss what resources will be required to accomplish this takeover beyond that currently included in the MSDE and DJS budgets.**

Testing Costs of No Child Left Behind: Maryland has implemented the student testing required by No Child Left Behind through the Maryland School Assessment for grades 3 through 8 and the High School Assessment (HSA) for grades 9 through 12. New testing requirements continue to be phased in for different grades. Because the testing cycle does not coincide with the State budget cycle, large encumbrances of testing funds result each year. **MSDE should discuss the costs associated with assessments, including the encumbered funds that result in the process. MSDE also should address the timeliness and accuracy of reporting test results, especially regarding the HSAs that will be required for high school graduation beginning in 2009.**

Federal Grants: In its report to the budget committees in December 2005, MSDE reported on the status of federal grants as of October 2005. The report highlighted that \$41 million in federal funding was available and unappropriated. **Budget bill language requesting a similar report in fiscal 2007 is recommended.**

Recommended Actions

	<u>Funds</u>
1. Reduce funds based on the availability of prior year encumbrances	\$ 4,349,804
2. Add budget bill language permitting use of prior year encumbrances in fiscal 2007.	
3. Reduce funding for assessment testing.	2,000,000
4. Reduce funding for the Maryland Mentoring Partnership.	75,000
5. Add budget bill language to require report on federal funds.	
Total Reductions	\$ 6,424,804

Updates

Redesigned Correctional Education Program at Patuxent Institution: Acting on inadequacies found in the educational program at Patuxent Institution, MSDE decided to scale back the program, effective July 1, 2005. The 2005 *Joint Chairmen's Report* required MSDE to report on the changes in the program and the cost savings that would result. MSDE worked in cooperation with the Department of Public Safety and Correctional Services in developing the new program and reported on the changes in July 2005.

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Headquarters
Maryland State Department of Education

Operating Budget Analysis

Program Description

The Maryland State Department of Education (MSDE) focuses its efforts in the following three program areas: public education, including correctional education; library development and services; and rehabilitation services.

Public education consists of the Office of the State Superintendent; Division of Business Services; Division for Leadership Development; Division of Accountability and Assessment; Office of Information Technology; Division of Early Childhood Development; Division of Instruction; Division of Student and School Services; Division of Special Education/Early Intervention Services; Division of Career Technology and Adult Learning; Division of Certification and Accreditation; Division of Correctional Education, and the Home and Community Based Waiver for Children with Autism. The Division of Early Childhood Development was formed in fiscal 2006 to consolidate existing MSDE early childhood programs and incorporate the Child Care Administration (CCA) transferred from the Department of Human Resources (DHR) in July 2005. Chapter 585, Acts of 2005, mandated the transfer.

The divisions within the public education program work together toward achieving the following goals:

- improving achievement for each student;
- better aligning and making more understandable programs of instruction, curriculum, and assessment;
- ensuring that all educators have the skills to improve student achievement;
- making all schools safe, drug-free, and conducive to learning; and
- involving parents in education.

The Library Development and Services division is divided into two branches, the Public Library State Network Branch and the Library for the Blind and Physically Handicapped (LBPH). The division is responsible for developing statewide library services, the statewide library network, and regional libraries. Regional libraries provide support to public libraries in southern, western, and eastern Maryland. The Enoch Pratt Free Library, which is designated as the State Library Resource Center, runs the SAILOR network, provides statewide training, and assumes other statewide responsibilities. LBPH provides specialized services through its facility in Baltimore to the blind and handicapped communities.

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The library division works toward achieving the following goals:

- meeting the changing information needs of local communities;
- anticipating and meeting digital and electronic needs of Maryland communities; and
- increasing access to materials in appropriate formats for registered readers and institutions at the Maryland LBPH.

The Division of Rehabilitation Services (DORS) program consists of the Division Headquarters, Client Services, the Workforce and Technology Center, the Disability Determination Service, and the newly created Office of Blindness and Vision Services. These programs provide vocational rehabilitation services and determine eligibility for federal disability benefits. The primary purpose of client services is to plan and provide vocational rehabilitation services for individuals with disabilities so that they can maintain or achieve economic self-sufficiency through productive employment. The primary purpose of the disability determination unit is to adjudicate claims for Social Security Disability Insurance and Supplemental Security Income based on medical evidence, vocational factors, and federal rules promulgated by the Social Security Administration. The Office of Blindness and Vision Services was formed by transferring positions from existing DORS programs and consolidating them into one program encompassing all rehabilitation services for blind and vision-impaired individuals.

The rehabilitation services division works toward achieving the following goals:

- promoting employment and independent living for individuals with disabilities; and
- maximizing independence and self-sufficiency by administering the State's disability determination services program.

Governor's Proposed Budget

As shown in **Exhibit 1**, the Governor's allowance increases \$5,446,556, a 2.1% increase over the fiscal 2006 working appropriation. All of the increase occurs in general funds.

Exhibit 1
Governor's Proposed Budget
MSDE Headquarters
(\$ in Thousands)

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Nonbudgeted Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
2006 Working Appropriation	\$112,504	\$6,241	\$136,493	\$6,704	\$458	\$262,399
2007 Governor's Allowance	<u>120,176</u>	<u>5,215</u>	<u>135,455</u>	<u>6,554</u>	<u>446</u>	<u>267,845</u>
Amount Change	\$7,672	-\$1,026	-\$1,038	-\$150	-\$12	\$5,447
Percent Change	6.8%	-16.4%	-0.8%	-2.2%	-2.5%	2.1%
Where It Goes:						
Personnel Expenses						
Employee and retiree health insurance						\$4,543
Forty-eight new positions						2,601
Increments and other compensation						2,425
Employee retirement system						797
Turnover at 6.53%						537
Workers' compensation premium assessment						207
Deferred compensation.....						193
Other Changes						
Expansion of early childhood mental health pilot program.....						1,875
Autism Waiver.....						1,000
Management Contract – Baltimore City and Prince George's County Review.....						848
Maryland Child Care Resource and Referral Network.....						750
Autism pilot program.....						455
Charter School – technical support – General Funds						150
Maryland Mentoring Partnership.....						155
Title I grants to local education agencies						-7,320
Federal Teacher Technology Grant						-1,409
Education funding from DPSCS program						-1,056
Headquarters building renovation – funded by fiscal 2006 budget amendment						-1,000
Non-budgeted clearing account.....						-150
Rent.....						-150
Postage.....						-38
Other.....						34
Total						\$5,447

Note: Numbers may not sum to total due to rounding.

Personnel Changes

Personnel expenses increase by \$11.3 million in the fiscal 2007 allowance, including \$2.6 million for 48 new positions. Thirty-eight are federally funded positions, thirty connected with federal grant programs, and eight related to the transfer of CCA responsibilities.

- Ten are found in DORS – Disability Determination Services, including eight vocational rehabilitation specialists in claims adjudication, one staff specialist in quality assurance, and a physician program specialist. These positions will address staffing shortages and facilitate timely disability benefit determinations. Currently there is a backlog of 4,000 claims.
- Five positions, including four education program specialists and one programmer, are added to assist in developing the new science assessment required by No Child Left Behind (NCLB) and the modified Maryland School Assessment (MSA) that will be available to 2% of the most disabled students in the State.
- Five positions are related to monitoring various federal grants.
- Two positions provide increased support to recruitment efforts in the Troops to Teachers program.
- Two positions provide complaint investigators to assist with complaints filed with MSDE under the Individuals with Disabilities Education Act.
- Six positions include an educational program specialist for Title I schools, a fiscal integrity specialist, two administrative specialists, one administrative aide, and one executive associate.

Another eight federally funded positions were approved by the Board of Public Works in January 2006 to support the Division of Early Childhood Development's new responsibilities connected with the transfer of CCA positions from DHR in July 2005.

Ten of the new positions are funded with general funds.

- Seven positions are located at the North Branch Correctional Facility, including six teachers and one librarian. Due to the addition of prisoners from a maximum security facility, the population will need to be divided, requiring separate education and library services and additional personnel.
- Two special education teacher positions at the Baltimore City Detention Center provide mandated special education services to students over 18 years old.
- A new program director position for the charter school administration will enable MSDE to provide more technical support and oversight to charter school applicants.

Operating Budget Changes

Additions to the Early Childhood Development Division

Budgetary changes in fiscal 2006 accompanied the transfer of CCA from DHR. Through budget amendments, \$20,366,729 in funding was transferred from DHR to MSDE, and MSDE reallocated \$1,000,000 in excess Compensatory Education funding to renovate the State Education building to accommodate the new personnel transferred from DHR. In connection with the program transfer, 197.5 positions were moved to MSDE, including both central administration and field office positions.

Increases in the fiscal 2007 allowance reflect the new early childhood responsibilities transferred from DHR. A \$1.9 million increase is allocated to the Early Childhood Mental Health program. The increase provides \$150,000 grants to 12 jurisdictions, supporting the expansion of two pilot programs in Baltimore City and the Eastern Shore. These programs, established by Chapter 148, Acts of 2003, provide on-site consultation by early childhood specialists and, at the Eastern Shore site, home visits in various child care programs. The programs received a positive evaluation by the Center for Child and Human Development at Georgetown University in December 2005.

The allowance also includes a \$750,000 increase in the Division of Early Childhood Development for the Maryland Child Care Resource and Referral Network (MCCRNRN). This is in addition to \$1 million re-allocated to the network in fiscal 2006 from excess Compensatory Education funding. The total grant for MCCRNRN is \$4,557,823, providing funds for operating 12 regional resource and referral centers that help parents locate child care services. Other services include parenting education and technical and training assistance for childcare providers.

Other Changes

A \$1.0 million increase is provided for the Autism Waiver program. The number of children in the program appears to have leveled off at approximately 875. The increased funding is appropriated for the 50% State match that is required to cover Medicaid costs.

Funds totaling \$455,393 are included in the allowance for an autism pilot program, which was mandated in Chapter 340, Acts of 2005. The law requires that MSDE establish a three-year pilot program to provide early identification of children with autism by screening children between the ages of 12 and 36 months. While the fiscal 2006 costs of the pilot program will be absorbed by the Division of Special Education/Early Intervention Services, the funding in the allowance will support the costs associated with the second year of the pilot program, including one contractual position, the cost of establishing a database, and administrative support.

A decrease of \$1,056,266 in special funds is attributable to a decrease in Correctional Education funds that were transferred from the Department of Public Safety and Correctional Services pursuant to 2005 budget bill language.

Reorganization of Division of Rehabilitation Services

In fiscal 2006 DORS was reorganized to create the Office of Blindness and Vision Services. The purpose of the change is to consolidate all rehabilitation services for blind and vision-impaired people into one program. Creating the new program involved the transfer of 44.5 positions from other DORS programs within MSDE. Thirty positions have been moved from the Workforce and Technology Center, with the remainder from the DORS headquarters division field offices. Federal Vocational Rehabilitation Grants of \$3,381,536 and special funds of \$3,005,422 for the Blind Vendors program comprise the majority of the program's funding.

Issues

1. The Office of Legislative Audits Finds MSDE in Non-compliance in Fiscal 2005 Closeout Audit

In January 2006, the Office of Legislative Audits (OLA) reported the results of its review of the State's budget closeout transactions for fiscal 2005 to the General Assembly's Joint Audit Committee. The primary purpose of the report was to alert the General Assembly to significant closeout practices that did not comply with applicable laws and regulations.

OLA found that MSDE did not cancel approximately \$5.8 million in excess general fund appropriations at the end of fiscal 2005. Rather than canceling the unused appropriations, OLA found that MSDE created improper purchase orders on the State's accounting system that automatically encumbered general funds at the end of the fiscal year. These open purchase orders were made to the "State of Maryland." Of the \$5.8 million total, \$2.7 million applied to general fund appropriations for fiscal 2001 – 2004. An example of the purchase orders under scrutiny is one created June 30, 2004, that encumbered \$500,000 of fiscal 2004 general fund appropriations for State assessment tests, which were again encumbered in June 2005. Although the Department of General Services (DGS) was identified as the State agency providing high school assessment tests for delivery by August 2004, DGS had no knowledge of the purchase order and provided no testing services or materials.

OLA found that MSDE's purchase orders would not qualify as valid encumbrances under State regulations and should have been canceled. State agencies may not encumber purchase orders that do not represent actual commitments by the State for goods or services.

MSDE has advised the Department of Legislative Services (DLS) that since OLA identified the \$5.8 million in encumbrances in the fiscal 2005 closeout, \$4,349,804 of that amount has been closed or cancelled, leaving only two contracts open. One contract for \$1,250,196 is the balance of a 2003 multi-phased contract for consulting work on the development of the Educator Information System scheduled to be completed in 2007. Upon completion, any unexpended funds will be cancelled. The second contract for \$200,000 covers software to repair the Integrated Library Management System at the Library for the Blind and Physically Handicapped. After a delay in issuing a Request for Bid, the contract is expected to be awarded in May 2006. The General Accounting Division in the Comptroller's office advises DLS that any cancelled encumbrances will not revert to the general fund until the end of fiscal 2006.

The Superintendent should discuss the \$5.8 million in purchase orders that OLA identified as improperly encumbered and discuss why they were not cancelled at the close of fiscal 2005. DLS recommends that MSDE's fiscal 2007 funding be reduced by \$4,349,804 million based on the availability of the unnecessary fiscal 2005 encumbrances.

2. Transfer of Child Care Administration to MSDE from the Department of Human Resources

CCA transferred from DHR to MSDE, effective July 1, 2005, as mandated by Chapter 585, Acts of 2005. As part of that transfer, MSDE has added the Office of Child Care to the newly created Early Childhood Development Division, which consists of three branches, the Licensing Branch, the Program Development Branch, and the Credentialing Branch. The Licensing Branch licenses and monitors regulated child care programs in the State. The Program Development Branch administers the federal Child Care and Development Fund, which provides child-care access for low-income working families. The Credentialing Branch administers a voluntary program that provides incentives to child care providers to pursue professional development beyond the minimum requirements. Concurrent with the CCA transfer, MSDE also transferred its Early Learning Branch from the Division of Instruction to the Early Childhood Development Division. This branch is responsible for the grant management, program support, and outreach of the Judith P. Hoyer Early Care and Education Enhancement Program.

When CCA was transferred from DHR in July 2005, all of its functions did not follow. While the responsibility for the child care licensing and program improvement components of CCA was shifted, the child care subsidy program remained at DHR. With the change in the administration of child care programs, the 2005 *Joint Chairmen's Report* required MSDE to submit reports on the transition of MCCRRN and the status of the purchase of care (POC) program, which MSDE provided in July 2005, and November 2005, respectively.

MSDE reported that a six-month extension of the existing contract with the Maryland Committee for Children for the child care resource and referral network was being negotiated. The extension was approved and granted in August 2005. In conjunction with that process, MSDE was developing a competitive request for proposal (RFP) for a new contract to begin no later than March 1, 2006. The report concludes with the statement that MSDE will update the budget committees on the RFP during the 2006 session.

Changes in the POC program are still evolving. The *Joint Chairmen's Report* asked MSDE to respond to the question of whether the POC program should be transferred from DHR to MSDE in conjunction with the other CCA licensing and program improvement functions. In November 2005, MSDE and DHR proposed that the Governor establish, by executive order, a policy group responsible for developing a POC reform program, and that the Governor designate the lead agency in that effort. Both agencies also recommended that an independent evaluation of the POC reform program be conducted, to begin by July 2007.

In February 2006, the Governor issued an executive order transferring the POC program from DHR to MSDE. The eligibility screening and payment processing will continue in local social service departments. The executive order also creates a new Child Care Coordinating Council with general oversight of the POC program, made up of the Executive Director of the Governor's Office for Children as chairman, the Superintendent of MSDE, and the Secretary of DHR.

MSDE should comment on the new contract for the child care resource and referral network and plans for implementing the Governor's executive order transferring the POC program to MSDE.

3. MSDE Adjusts Use of Correctional Education Funds After Closing of Hickey School Programs

The fiscal 2006 appropriation for educational services at the Hickey School was \$5.2 million. As shown in **Exhibit 2**, the funding was intended to serve the average daily population of 153 youth at that facility. However, in June 2005, Governor Ehrlich announced plans to close down committed programs at Hickey, leaving only the secure detention program at that site until a new detention facility is built.

Exhibit 2
MSDE – Provided Education at DJS Facilities as
Planned in Fiscal 2006 and 2007
(Average Daily Population Served)

<u>Facility</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>
Hickey School	153	59
Baltimore City Juvenile Justice Center		105
Lower Eastern Shore Center		23
Total	153	187

Note: Current populations at the Baltimore City Juvenile Justice Center and the Hickey School are higher than projected in fiscal 2007. However, DJS's fiscal 2007 allowance includes funding to develop programming that is expected to reduce populations at those two facilities.

Source: Department of Juvenile Services

With the closure of committed programs at Hickey, MSDE will be providing services to a smaller population. However:

- Beginning in July 2005, MSDE assumed responsibility for the educational program at the Lower Eastern Shore Children's Center. Four Department of Juvenile Services (DJS) positions were transferred to MSDE for this function, and DJS is also planning to transfer associated funds.
- In January 2006, education at the Baltimore City Juvenile Justice Center was also added to MSDE's responsibilities. According to DJS, no DJS positions will be transferred to MSDE for this program. Rather, DJS has transferred positions to other DJS facilities.

All together, MSDE will provide services to an average of 187 youth in fiscal 2007.

The Governor's allowance provides \$5.3 million for the reconfigured Hickey School program (including the Baltimore City Juvenile Justice Center and the Lower Eastern Shore Center), a 2.6% increase over the fiscal 2006 working appropriation. However, according to MSDE, this funding is expected to support enrollment of approximately 216 students, rather than the 187 DJS plans to serve at these facilities. This may present MSDE with the opportunity to further expand its educational responsibilities to other DJS facilities.

It should also be noted that DJS has recently completed a facilities master plan. That plan calls for the addition of four new DJS-run committed facilities by fiscal 2014. Ultimately, as required by Chapter 431, Acts of 2004, MSDE will assume responsibility for education at all DJS-operated facilities. **MSDE should be prepared to provide the committees with a time-line for the takeover of education at DJS facilities. That time-line should incorporate new proposed facilities. MSDE should also be prepared to discuss what resources will be required to accomplish this takeover beyond that currently included in the MSDE and DJS budgets.**

4. Testing Costs of No Child Left Behind

Maryland has implemented the student testing required by NCLB through MSAs for grades 3 through 8 and the High School Assessment (HSA) for grades 9 through 12. **Exhibit 3** shows MSDE's projected fiscal 2007 costs associated with administering the assessment tests required by NCLB. The figures shown include the costs of developing new tests being phased in under NCLB, generating tests for each test cycle, scoring, reporting results, and maintaining records. The highest cost, \$13.35 million, is for HSAs, which students will be required to pass in order to graduate from high school beginning in 2009. The cost reflects the transition of students to the new English II test. Expenditures for MSAs given to students in grades 3 through 8, are \$10.3 million. Other MSA costs in fiscal 2007 include the development of two new tests; \$2 million for a science test to be administered in grades 3 through 8, beginning in 2008, and an estimated \$900,000 for the Alternate MSA to be available to no more than 2% of the State's most significantly disabled students. MSDE also received \$2 million in fiscal 2006 to develop the science test. The cost of scoring and reporting all test results is \$3.4 million, making the total assessment costs \$29.95 million in fiscal 2007. Federal funds comprise \$6.7 million of the total funding.

Exhibit 3
MSDE Assessment Costs
Fiscal 2007
(\$ in Thousands)

High School Assessment	\$13,350
Maryland School Assessment	10,300
Reading and Math	
Grades 3 – 8	
Alternate Maryland School Assessment	900
Reading and Math	
New Maryland School Assessment	2,000
Science	
Scoring and Reporting	3,400
Total	\$29,950

Source: Maryland State Department of Education

Because the testing cycle does not coincide with the State budget cycle, large encumbrances result in funds allocated to testing. Students take MSAs in March and HSAs in May at the conclusion of courses. After students take the tests, vendors score them and return the test data to MSDE, which occurs in June for MSAs and in August for HSAs. Meanwhile, encumbrances accrue until MSDE evaluates the validity of the test data. Once MSDE determines that the data is valid, funds are released to the vendors. This process usually is completed by early fall. In late January 2006, encumbrances totaled approximately \$14.4 million and are expected to increase until payments are made later in the year. Thus, much of the funding provided in fiscal 2006 will not actually be spent until fiscal 2007, and much of the funding provided in fiscal 2007 will not be spent until fiscal 2008.

MSDE should discuss the costs associated with assessments, including the large amount of encumbered funds that result in the process. MSDE also should address the timeliness and accuracy of reporting test results, especially regarding the HSAs that will be required for high school graduation in 2009.

5. Federal Grants

Chapter 443, Acts of 2005 required MSDE to submit a report to the General Assembly of federal grants in effect on October 1, 2005. In its report submitted in December 2005, MSDE identified grant amounts in four categories: amounts awarded; amounts expended prior to fiscal 2006; amounts appropriated in the budget bill; and amounts unexpended, unappropriated, and available in fiscal 2006.

MSDE explains that projected program funding targets often differ significantly from actual federal grant awards for two reasons. First, MSDE's federal grant projections for State budget requests must be based on federal budgetary decisions that often change after the State budget is determined. Second, federal grants are available at the State level for as long as 27 months, which does not correspond to the State budget cycle.

The total amount of federal grants awarded to MSDE as of October 1, 2005, was \$1,299,148,790. Of that amount, \$41,038,421, or 3% of the total grant amount awarded, was unexpended, unappropriated, and available.

The information submitted by MSDE fulfilled the budget bill request. However, a portion of the federal funds may only be spent by local education agencies (LEAs), with the remaining amount available to be spent by MSDE. In order to evaluate the remaining federal funds that are unencumbered and available to be spent by MSDE, this information is critical. **Therefore, DLS recommends budget bill language requiring MSDE to report on the status of federal grants and the proportion of funds available to be spent by MSDE and the LEAs.**

Recommended Actions

- | | <u>Amount
Reduction</u> | |
|---|------------------------------------|----|
| 1. Reduce funding based on the availability of prior year encumbrances. The Statewide Review of Budget Closeout Transactions for fiscal 2005 identified \$5.8 million in encumbrances that should have been canceled. Although the Maryland State Department of Education (MSDE) has canceled or closed \$4,349,804 of the purchase orders in question, the funds will not revert until the end of fiscal 2006. These funds may be used by MSDE to offset fiscal 2007 expenses. | \$ 4,349,804 | GF |

2. Add the following language:

Further provided that the Maryland State Department of Education is hereby authorized to retain \$4,349,804 of funds unused in fiscal 2005 to pay fiscal 2007 bills.

Explanation: The language authorizes the department to retain unused funds from fiscal 2005 to pay fiscal 2007 bills.

- | | <u>Amount
Reduction</u> | |
|---|------------------------------------|----|
| 3. Reduce funding for assessment testing. The allowance contains \$30.1 million for testing. However, based on historical experience, it appears that a significant portion of this funding will not actually be spent until fiscal 2008. | 2,000,000 | GF |
| 4. Reduce funding for the Maryland Mentoring Partnership. This program provides assistance to private corporations in establishing mentoring programs. The remaining funds support expanded training opportunities. | 75,000 | GF |

5. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the Maryland State Department of Education (MSDE) shall submit a report no later than December 15, 2006 listing for each federal grant in effect on October 1, 2006, the total amount:

- (A) Awarded;
- (B) Expended prior to fiscal year 2007;
- (C) Appropriated in the fiscal 2007 budget as approved by the General Assembly;
- (D) Appropriated by approved budget amendment after the fiscal 2007 budget was approved by the General Assembly;
- (E) Unexpended and unappropriated and available in fiscal year 2007; and
- (F) Eligible to be spent by MSDE and eligible to be spent by local education agencies.

Explanation: Due to the extensive federal grants received by the Maryland State Department of Education and the variation in grant periods, the General Assembly should be updated on the status of the department’s grants. This report shall be submitted by December 15, 2006.

Information Request	Author	Due Date
Report on federal grants	MSDE	December 15, 2006
Total General Fund Reductions		\$ 6,424,804

Updates

1. Redesigned Correctional Education Program at Patuxent Institution

The 2005 *Joint Chairmen's Report* required MSDE to submit a report to the budget committees on the changes adopted for the educational program at Patuxent Institution. Following its analysis of correctional education schools for its fiscal 2006 budget submission, MSDE decided to make changes to address inadequacies at Patuxent. MSDE scaled back the program to improve the delivery of services. Effective July 1, 2005, MSDE worked in cooperation with the Maryland Department of Public Safety and Correctional Services (DPSCS) in developing the new comprehensive educational program. Academic classes were scheduled to begin in July 2005 and occupational classes in September 2005. Enrollment capacity is projected at 290 students.

One feature of the redesigned program at Patuxent is a shift from MSDE employees to contractual employees. The new plan includes four PINs for teachers and a librarian, with a \$166,251 contract with Anne Arundel Community College. Contractual positions replace 5 regular teaching positions.

The reconfigured program is intended to improve the performance measures of the population at Patuxent. The Educational Coordinating Council for Correctional Institutions sets the performance standards for each Correctional Educational program that MSDE administers. The new educational program continues the current major programs, which include academic, occupational, special education, postsecondary, and library services. Offerings that have been added include evening classes, classes in information technology skills, and distance learning opportunities, as well as increased student hours overall. To improve the administration of the program, leadership staff from MSDE and DPSCS will have increased involvement in the site's School Improvement Team, which reviews performance levels.

Current and Prior Year Budgets

Current and Prior Year Budgets MSDE Headquarters (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2005					
Legislative Appropriation	\$87,542	\$5,021	\$113,536	\$181	\$206,280
Deficiency Appropriation	2,691	0	0	0	2,691
Budget Amendments	665	1,283	13,125	763	15,836
Reversions and Cancellations	-10	-1,546	-7,063	-35	-8,654
Actual Expenditures	\$90,888	\$4,758	\$119,598	\$909	\$216,153
Fiscal 2006					
Legislative Appropriation	\$101,616	\$5,184	\$122,928	\$458	\$230,186
Budget Amendments	10,888	1,057	13,565		25,510
Working Appropriation	\$112,504	\$6,241	\$136,493	\$458	\$255,696

Note: Numbers may not sum to total due to rounding.

Fiscal 2005

MSDE received a fiscal 2005 deficiency of \$2,690,632 to cover the State matching fund requirement for the Autism Waiver program.

The total fiscal 2005 appropriation increased primarily due to federal fund changes, which totaled \$13,125,304. The major increases included the following:

- \$2.5 million increase in Reading First grants;
- \$2.3 million available from a prior year balance in Title II Improving Teacher Quality grants;
- \$2.4 million in Special Education and Infants and Families with Disabilities grants; and
- \$1 million available from a prior year balance in Vocational Education Grants, the Tech-Prep Education program, and the Fund for the Improvement of Education.

Federal fund cancellations totaled \$7,063,870. Major changes included:

- \$1,215,785 in Title II – Improving Teacher Quality State Grants;
- \$2,427,123 in Reading First Grants;
- \$975,405 in Vocational Education Grants;
- \$662,052 in Gaining Early Awareness and Readiness for Undergraduate Programs; and
- \$626,704 in Library Services and Technology Act funds.

Special fund cancellations totaled \$1,545,524, most significantly \$890,252 from the Gates Foundation, \$205,801 from the High School Improvement Fund, \$143,472 from the Business Enterprise Program for the Blind, and \$102,320 from fees for Adult Education.

General fund cancellations totaled \$9,821 with \$3,170 in the Accountability and Assessment Division and \$2,017 in the Library Development and Services Division. All others were less than \$1,000.

Fiscal 2006

The fiscal 2006 legislative appropriation has increased by \$25,508,848, through budget amendments. Most of the increase has been due to the transfer to MSDE of \$6,937,422 in general funds and \$13,429,307 in federal funds from DHR. The funds accompanied the transfer of CCA to MSDE's Division of Early Childhood Development, which was mandated by Chapter 585, Acts of 2005.

Audit Findings

Audit Period for Last Audit:	August 1, 1999- January 31, 2002
Issue Date:	February 2003
Number of Findings:	19
Number of Repeat Findings:	6
% of Repeat Findings:	32%
Rating: (if applicable)	n/a

- Finding 1:** There was a lack of adequate procedures and controls for ensuring compliance with certain student transportation safety requirements.
- Finding 2:** The department lacked sufficient procedures and controls, to ensure compliance with certain teacher certification requirements.
- Finding 3:** Audit procedures for examining student enrollment data, were not comprehensive.
- Finding 4:** Procedures for auditing compliance with requirements of the State’s dedicated compensatory education and limited English proficiency programs lacked certain critical verifications.
- Finding 5:** The department did not adequately monitor nonpublic education programs, or local school systems’ maintenance of effort for these programs.
- Finding 6:** State aid reporting requirements were not adequately monitored.
- Finding 7:** Indirect costs were not recovered in a timely manner, resulting in lost interest income of approximately \$350,000.
- Finding 8:** Compliance with federal regulations related to school based health services was not adequately monitored.
- Finding 9:** Retirement and pension costs totaling \$1.1 million, were improperly retained.
- Finding 10:** Allegations of improprieties, were not adequately investigated.
- Finding 11:** Disability determination services files, were not adequately protected.
- Finding 12:** Headquarters production program change controls, were not adequate.
- Finding 13:** Headquarters minicomputer account and password policies, logging, monitoring and access rules need improvement.

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Finding 14: Disaster recovery and contingency plans either did not exist, could not be located or were not current.

Finding 15: Security measures to protect critical network resources, were insufficient.

Finding 16: Adequate support was not received for certain contract billings.

Finding 17: **Controls over cash receipts, were not sufficient.**

Finding 18: **Proper internal controls were not established over purchasing and disbursement transactions.**

Finding 19: **Physical inventories were not reconciled on a timely basis, and records were not properly maintained.**

* Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
MSDE Headquarters**

<u>Object/Fund</u>	<u>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	1,386.80	1,589.30	1,637.30	48.00	3.0%
02 Contractual	148.99	136.62	138.60	1.98	1.4%
Total Positions	1535.79	1725.92	1775.90	49.98	2.9%
Objects					
01 Salaries and Wages	\$ 87,303,277	\$ 100,198,727	\$ 111,506,495	\$ 11,307,768	11.3%
02 Technical & Spec Fees	34,747,598	37,509,606	37,539,908	30,302	0.1%
03 Communication	1,896,275	2,300,729	2,490,613	189,884	8.3%
04 Travel	1,276,054	1,267,746	1,362,969	95,223	7.5%
06 Fuel & Utilities	827,970	986,860	992,203	5,343	0.5%
07 Motor Vehicles	716,582	593,567	755,241	161,674	27.2%
08 Contractual Services	56,579,932	75,715,958	74,469,501	-1,246,457	-1.6%
09 Supplies & Materials	2,819,183	2,763,278	2,771,243	7,965	0.3%
10 Equip - Replacement	1,406,335	694,649	727,791	33,142	4.8%
11 Equip - Additional	2,365,206	944,167	1,000,695	56,528	6.0%
12 Grants, Subsidies, and Contributions	31,829,336	33,670,230	29,596,221	-4,074,009	-12.1%
13 Fixed Charges	3,598,680	4,579,360	4,467,056	-112,304	-2.5%
14 Land & Structures	86,939	1,174,037	165,534	-1,008,503	-85.9%
Total Objects	\$ 225,453,367	\$ 262,398,914	\$ 267,845,470	\$ 5,446,556	2.1%
Funds					
01 General Fund	\$ 90,888,055	\$ 112,503,772	\$ 120,175,523	\$ 7,671,751	6.8%
03 Special Fund	4,758,135	6,240,726	5,214,584	-1,026,142	-16.4%
05 Federal Fund	119,598,588	136,492,688	135,455,147	-1,037,541	-0.8%
07 Non-budgeted Fund	9,299,321	6,703,728	6,553,728	-150,000	-2.2%
09 Reimbursable Fund	909,268	458,000	446,488	-11,512	-2.5%
Total Funds	\$ 225,453,367	\$ 262,398,914	\$ 267,845,470	\$ 5,446,556	2.1%

**Fiscal Summary
MSDE Headquarters**

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
01 Office of the Superintendent	\$ 11,761,120	\$ 12,852,249	\$ 13,440,542	\$ 588,293	4.6%
02 Div. of Business Services	9,295,248	8,383,392	9,531,250	1,147,858	13.7%
03 Div. of Professional and Strategic Development	3,239,509	2,921,895	1,843,810	-1,078,085	-36.9%
04 Div. of Planning, Results, and Information	35,315,659	37,613,020	37,966,143	353,123	0.9%
05 Office of Information Technology	2,485,299	2,273,796	2,514,533	240,737	10.6%
10 Div. of Early Childhood Development	0	30,835,174	34,262,485	3,427,311	11.1%
11 Div. of Instruction and Staff Development	11,088,832	10,118,543	10,941,022	822,479	8.1%
12 Div. of Student and School Services	14,618,654	15,085,320	8,097,689	-6,987,631	-46.3%
13 Div. of Special Education	10,918,267	8,799,572	10,331,491	1,531,919	17.4%
14 Div. of Career Technology and Adult Learning	6,041,745	5,831,736	5,803,025	-28,711	-0.5%
15 Div. of Correctional Education	20,835,541	21,922,167	21,976,375	54,208	0.2%
17 Div. of Library Development and Services	1,900,512	2,521,020	2,607,739	86,719	3.4%
18 Div. of Certification and Accreditation	4,272,238	5,596,683	4,262,798	-1,333,885	-23.8%
19 Autism Waiver Program	2,690,632	6,717,928	7,717,928	1,000,000	14.9%
20 Div of Rehab Serv. - Program and Admin Support	11,737,684	11,593,395	9,102,493	-2,490,902	-21.5%
21 Div of Rehab Serv. - Client Services	35,867,809	37,242,808	36,320,665	-922,143	-2.5%
22 Div. of Rehab Serv. Workforce and Tech Ctr.	11,167,201	11,486,539	10,554,731	-931,808	-8.1%
23 Div of Rehab Serv. - Disability Determination Svcs	22,918,096	23,899,949	26,382,385	2,482,436	10.4%
24 Child Care Administration	0	0	7,634,638	7,634,638	
25 Ordinary Clearing Account-Non-Budgeted Funds – Headquarters	9,299,321	6,703,728	6,553,728	-150,000	-2.2%
Total Expenditures	\$ 225,453,367	\$ 262,398,914	\$ 267,845,470	\$ 5,446,556	2.1%
General Fund	\$ 90,888,055	\$ 112,503,772	\$ 120,175,523	\$ 7,671,751	6.8%
Special Fund	4,758,135	6,240,726	5,214,584	-1,026,142	-16.4%
Federal Fund	119,598,588	136,492,688	135,455,147	-1,037,541	-0.8%
Non-budgeted Fund	9,299,321	6,703,728	6,553,728	-150,000	-2.2%
Total Appropriations	\$ 224,544,099	\$ 261,940,914	\$ 267,398,982	\$ 5,458,068	2.1%
Reimbursable Fund	\$ 909,268	\$ 458,000	\$ 446,488	-\$ 11,512	-2.5%
Total Funds	\$ 225,453,367	\$ 262,398,914	\$ 267,845,470	\$ 5,446,556	2.1%

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Appendix 4